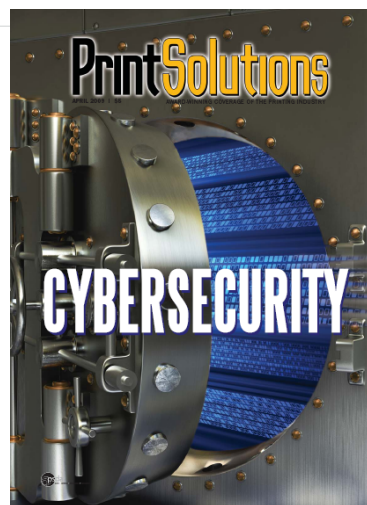


# A Place to Share Safely

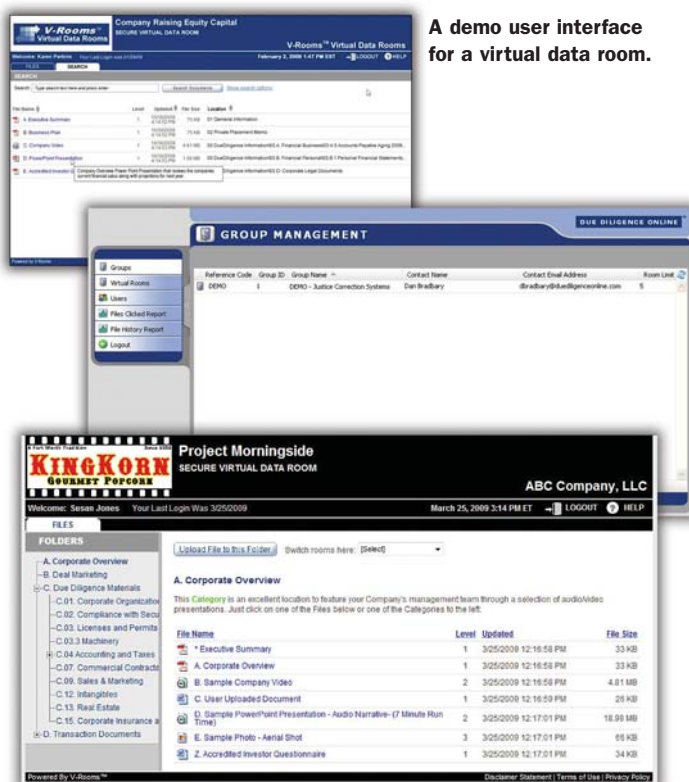
Virtual data rooms are the newest addition in building a secure document solution.

By Rebecca Trela

This week, when a group of 50 teachers from 16 schools sits down with Karen Perkins to share best practices, they'll be testing out a new form of educational collaboration. The group plans to exchange lesson plans, curricula, classroom games and administrative ideas. But instead of passing around paper synopses or explaining the methods in a seminar, Perkins, who is vice president of V-Rooms, Atlanta, will be helping the educators upload the documents to a virtual data room. The information will then be available to a credentialed group of teachers all over the state in just a few hours.



Virtual document rooms, also known as virtual data rooms or VDRs, are custom websites with access controlled by a username and password. The sites function as online file repositories and are generally available through a technology provider on a subscription basis. They can support multi-user collaboration in almost any market, but their high security and permission-based access rules mean that VDRs are popular for mergers, acquisitions and contract deals. In the past few years, VDRs have become cheaper and simpler to use, making them a popular upsell for institutional use and other secure document solutions.



Source: V-Rooms

## Virtual Opportunities

Credit markets are slow right now, which has put a damper on business deals and itinerant business printing and services. However, execs who are doing deals are looking for the fastest and cheapest ways to get them done.

“A lot of the drive for this technology is coming from customers,” says Dan Bradbary, CEO of technology provider V-Rooms, which has about 500 active rooms. “It’s an increasingly popular topic in the business world.”

Traditionally, when a merger or acquisition was in the works, a company would set up a data room at the firm’s headquarters, housing the vast piles of due diligence documents. Prospective buyers would come through in disparate groups to inspect the materials, and the documents would change as the deal progressed. The process was time-consuming and costly for both parties: staffing and maintaining the data room, printing and binding the documents,

and paying for executives to travel. The alternative solution, where a selling company sends the CEO and documents on the road to generate buyers' interests, is similarly expensive.

As email became a more common communication tool in business, people began sending important information

as attachments. "And then they saw how horrifying that was," Perkins says. "The information was then basically available to anyone who could hack into an email account." For executives in the banking, pharmaceutical and health care industries, this was a disaster, and they began the search for a secure means of transmission and collaboration.

A typical data room buyer is a high-level executive, such as a general counsel or a CEO, says Mike McCarthy, financial printing, R.R. Donnelley, Alexandria, Va. About 10 to 20 percent of the company's financial clients are interested in setting up a VDR, he says. R.R. Donnelley originally partnered with IntraLinks to offer the data room solutions, but has since created its own offering, called Venue. It competes with about six other major VDR providers, attacking adjacent opportunities in the financial sector, says Nigell Lovell, who works in R.R. Donnelley's e-solutions group. ➔

In a typical setup, a technology company will contract with a reseller to offer the virtual data rooms. "We prefer to work through resellers, actually. The technology company will host the site, store the information, and troubleshoot with the end user when something goes wrong."

Karen Perkins, Vice President  
V-Rooms, Atlanta

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# CYBERSECURITY virtual data rooms

Virtual data rooms also afford flexibility and efficiency, says David McGuire, a partner at PublicEase, a San Diego-based financial printing broker. The company represents about 330 clients and specializes in EDGARization, meaning they digitize financial documents to SEC standards. Since adding the VDR capability about a year ago, McGuire says, it has grown to account for about a quarter of the firm's revenue. PublicEase offers VDRs as part of an overall financial services package. "Because we're privy to the company's data, we know when they're about to start a deal," McGuire says. "That's when we'll go in and offer a VDR solution." During a deal, the end user will retain the room for an average of two to six months.

## Tech Specs

Today's virtual data rooms are cheaper than they were five years ago, due to competition in the marketplace and the falling cost of data storage. They also come with a multitude of options and features and can accommodate virtually any type of file—Adobe documents, spreadsheets, PowerPoints, Microsoft Word files, and even video and pictures.

In a typical setup, a technology company will con-

tract with a reseller to offer the VDR capability. "We prefer to work through resellers, actually," Perkins says. The technology company will host the site, store the information, and troubleshoot with the end user when something goes wrong. The distributor sets up a portal on his or her website where end users can log in with provided usernames and passwords. Those credentials are managed on the fly, meaning they can be added, upgraded, downgraded or revoked by the technology company or the end user designee at any time. One person at the end user company, usually the CEO or general counsel, is designated as the room's administrator.

A more modern M&A transaction scenario would go like this, Perkins says:

Prospective buyers start out at permission level 1. They're unable to see others who've logged in, and they're unable to see anything but documents designated "level 1," which might be very simple information. Buyers who become more interested might sign an NDA and move to level 2 and begin to examine due diligence documents. As they become more interested, they send a strong letter of intent to the seller, and the administrator moves the interested parties to level 3, where executive resumes might be housed.



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The selling company can upload all of the information to the site in the beginning, but the users will be none the wiser unless their permissions indicate they can see the documents. The administrator may also control the ability to upload files, and can section off parts of the room. So there might be level 1, 2 and 3 documents for a legal team, and 1, 2 and 3 documents for an HR team. The administrator controls access by tagging each user with a section. An untagged, generic level 4 user would be able to see everything at level 4 and under, regardless of section.

In our hypothetical situation, the administrator may then choose to use the remaining permission levels (4 through 9) for term sheets, agreements, draft documents and internal memos. During a deal, the administrator is very busy changing permissions and usages.

“With the virtual document room, you’re not trotting potential buyers through the company headquarters and causing a potential mass employee exodus/HR nightmare,” Perkins says. “Plus, you can have all the prospects looking at the documents at the same time.”

The administrator also has access to a reporting function, indicating who clicked on which documents and when. This functions as a way to pinpoint a decision maker on a buying team, a way

to legally prove due diligence was done, and a security function: if someone logs in from an unfamiliar, remote IP address, it’s likely the password has been shared or compromised.

In the coming months, Perkins says, V-Rooms plans to roll out additional features, which will seem familiar to modern business users: a search function (that can be turned on and off), document tags, alt text, segmented administrative duties, batch user creation and batch upload, and a question-and-answer/comments capability.

### Security Issues

Dynamic online collaboration is a new internet capability, but it’s not an exclusive one. In 2007, Google launched a free, collaborative tool called Google Docs, which allows Google users to share and work on documents in real time. Later, the company followed up with Google Apps for businesses, which is a more robust, for-fee version of the service. Google did not return requests for comment about its collaboration tool security.

“Google documents are great, and we use them in-house here at V-Rooms to work on task lists and similar items,” Perkins says. However, the technology isn’t protected by a Secure Socket Layer, or SSL. That means each collaborative document gets an open URL. While it may be a long, random series of letters and numbers that users are unlikely to stumble upon, it could be cut and pasted anywhere. “With an SSL solution, even if someone got a hold of that URL, the system would still require a secure login and password.”

One market, however, that almost no VDR company has broached yet is health care. “Everybody is so gun-shy about HIPAA rulings,” Perkins says, “that no one is quite sure what it’s okay to do with patient information.” “But I would say that there’s a lot of room for the technology to grow.”

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### VDR: Defined

Virtual Document Rooms (or virtual data rooms) are secure online repositories, like very sophisticated FTP sites, where electronic files can be posted and controlled with digital rights management. Users will have a set of permissions governing their ability to read, copy, forward or print the information. An audit log is kept of the data access and use.

Traditionally, a data room was a physically secure location where a company would keep large volumes of confidential information that was reviewed in person during due diligence by potential buyers or partners. These rooms were used during property or share sales, mergers and acquisitions, fundraising, insolvency, corporate restructuring or joint ventures—and they were very expensive to maintain, monitor and staff.