

**UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re: : Chapter 11
HANCOCK FABRICS INC¹, *et al.*, : Case No. 16-10296 (BLS)
Debtors. : (Jointly Administered)

CONSUMER PRIVACY OMBUDSMAN

REPORT TO THE COURT

July 31, 2016

Lucy L. Thomson
Consumer Privacy Ombudsman

The Willard; Suite 400
1455 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(703) 798-1001
lucythomson1@mindspring.com

¹ The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are Hancock Fabrics, Inc. (0905), Hancock Fabrics, LLC (9837), Hancock Fabrics of MI, Inc. (5878), hancockfabrics.com, Inc. (9698), HF Enterprises, Inc. (7249), HF Merchandising, Inc. (8522) and HF Resources, Inc. (9563). The Debtors' corporate headquarters is located at One Fashion Way, Baldwin, MS 38824.



I. Consumer Privacy Ombudsman Report to the Court

Pursuant to Bankruptcy Code section 332(b), Lucy L. Thomson, the Consumer Privacy Ombudsman (“CPO” or “Ombudsman”) appointed in this case,² submits this Report to advise the Court on the issues related to the protection of the privacy of personally identifiable information (PII) of the customers of Hancock Fabrics Inc. (“Debtors” or “Hancock”).

The Debtors collected PII from individuals who shopped in their stores or online and enrolled in the Preferred Card or other loyalty programs. Hancock published a privacy policy on its website to ensure the confidentiality of personal consumer records. With a strict privacy policy in which Hancock Fabrics represented that the company “will not share any personally identifiable information with any third party without your consent,” it is necessary to obtain consumer consent before the records are sold in a bankruptcy proceeding.

The Bankruptcy Code provides a framework in sections 332 and 363 for evaluating the sale of personally identifiable consumer records in the context of a bankruptcy case. 11 U.S.C. §§ 101 *et. seq.* This Report addresses each of the requirements and outlines the considerations the Court would need to evaluate in making a decision to approve the Debtors’ asset sales of PII.

The CPO recommends that the Court approve the sale of the Hancock Fabrics customer data to the proposed Buyer ADMACO Inc., d/b/a Michaels Stores, Inc. (“Michaels”) of Irving, Texas, after the Hancock customers have been provided an opportunity to Opt-Out of the sale as provided in the Hancock Fabrics Privacy Policy.

² Pursuant to the Court’s Order of March 14, 2016 Directing the Appointment of a Consumer Privacy Ombudsman [Dkt. No. 329], the United States Trustee appointed Lucy L. Thomson as the Consumer Privacy Ombudsman in this case (Dkt. No. 347).

II. Request to Sell Personally Identifiable Consumer Information³

Founded in 1957, Hancock Fabrics was a large national fabric and specialty retailer offering an extensive selection of high-quality fashion and home decorating textiles, sewing accessories, needlecraft supplies and sewing machines, along with in-store sewing advice. The company operated 263 stores in 37 states, as well as an online store. The Debtors' corporate headquarters and national distribution center are located in Baldwin, Mississippi. The company maintained a website at <http://www.hancockfabrics.com>. On February 2, 2016, each of the Debtors filed voluntary petitions with the Court under chapter 11 of the Bankruptcy Code. No trustee or examiner has been appointed in the Debtors' cases.

The Debtors' inventory is being liquidated through store closing sales that are expected to conclude on or before July 31, 2016. The Debtors are also in the process of selling their remaining assets. On June 21, 2016, an auction was conducted for the sale of the intellectual property, including trademarks (22), domain names (50), Google Analytics (since 2009), financial information, and approximately 10 million customer records. Michaels was determined to have made the highest and best offer [Dkt. No. 762].

³ Section 101 (41A) of the Bankruptcy Code defines the term "personally identifiable information" to mean –

(A) if provided by an individual to the debtor in connection with obtaining a product or a service from the debtor primarily for personal, family, or household purposes –

- (i) the first name (or initial) and last name of such individual, whether given at birth or time of adoption, or resulting from a lawful change of name;
- (ii) the geographical address of a physical place of residence of such individual;
- (iii) an electronic address (including an e-mail address) of such individual;
- (iv) a telephone number dedicated to contacting such individual at such physical place of residence;
- (v) a social security account number issued to such individual; or
- (vi) the account number of a credit card issued to such individual; or

(B) if identified in connection with 1 or more of the items of information specified in subparagraph (A) –

- (i) a birth date, the number of a certificate of birth or adoption, or a place of birth; or
- (ii) any other information concerning an identified individual that, if disclosed, will result in contacting or identifying such individual physically or electronically.

Proposed Purchaser – ADMACO, d/b/a Michaels

Founded in Dallas in 1973, Michaels (Nasdaq: MIK) is the largest arts and crafts specialty retailer in North America. Based in Irving, Texas, Michaels operates 1,288 stores (consisting of 1,168 Michaels stores in the 49 states and Canada and 120 Aaron Brothers stores) as of January 2015. The company sells arts, crafts, scrapbooking supplies, knitting accessories, frames and home furnishings, floral, wall decor and seasonal merchandise for the hobbyist and do-it-yourself home decorator.

Intellectual Property for Sale—Individual Consumer Records

The Debtors collected PII from more than 10 million individuals who shopped in their stores or online and enrolled in the Preferred Card program. These data include customer name, postal address, telephone number, and e-mail address. Hancock also maintained a Text List of more than 162,000 phone numbers of customers who Opted-in to the Mobile Club. About 200,000 customers participated in Designer Deals, an affiliate marketing program.

Records Not Included in the Sale

To process Hancock customer purchases, American Express and Discover handled the merchant processing for their respective payment cards and Elavon was the merchant processor for Mastercard and Visa. Each merchant processor will continue to retain the customer financial data for their respective transactions through the completion of the sales at Hancock's retail locations and thereafter for reconciliation and as required.

The Debtors have advised the CPO that customer financial records, including payment (credit and debit) card and bank account numbers and other financial information will not be sold.

III. Debtors' Privacy Policy

Hancock Fabrics maintained a privacy policy on its website. It was updated most recently as of March 12, 2014 and was in effect on the bankruptcy petition date. (The Hancock Fabrics privacy policy is attached to this CPO Report as Appendix A).

The privacy policy provides, in pertinent part:

We will not share any personally identifiable information with any third party without your consent.

Thus, this privacy statement clearly restricts the circumstances under which the personally identifiable consumer records may be sold. These restrictions must be honored if the sale is to be approved. In order to obtain customer consent, the parties have agreed to the Opt-Out process described in section V. B. of this CPO Report.

IV. The CPO Process and Applicable Non-Bankruptcy Laws

Section 332 of the Bankruptcy Code makes the protection of consumer privacy an important focus of all bankruptcy proceedings in which personally identifiable consumer records are to be sold. The statute provides a broad mandate for the Ombudsman – to investigate and provide the Court with information relating to:

- The Debtors' Privacy Policy;
- Potential losses or gains of privacy to consumers if the sale is approved;
- Potential costs or benefits to consumers if the sale is approved; and
- Possible alternatives that would mitigate potential privacy losses or costs to consumers.

11 U.S.C. § 332.

A. Analytical Framework

Section 363(b)(1) of the Bankruptcy Code provides that the Court must make a number of determinations before the Debtors are authorized to sell the personally identifiable Hancock Fabrics consumer records. More specifically:

- If the Debtors' Privacy Policy prohibits the transfer of personally identifiable information about individuals to persons that are not affiliated with the Debtors; and
- If the policy is in effect on the date of the commencement of the case;
- Then the Trustee may not sell personally identifiable information to any person unless—
 - (A) such sale is consistent with such policy; or
 - (B) after appointment of a consumer privacy ombudsman in accordance with section 332, and after notice and a hearing, the court approves such sale or such lease —
 - (i) giving due consideration to the facts, circumstances, and conditions of such sale; and
 - (ii) finding that no showing was made that such sale would violate applicable non bankruptcy law.

B. Core Issues

Initially the analysis should focus on Hancock Fabrics privacy policy and its legal ramifications. The Court must determine if selling the customer information would violate the privacy policy. If the privacy policy would be violated, the sale may proceed only if no applicable non-bankruptcy law has been violated. The operative language in the privacy policy is the following:

We will not share any personally identifiable information with any third party without your consent.

Thus, the Hancock Fabrics privacy policy restricts the sale of personally identifiable consumer records without first obtaining customer consent.

C. Non-Bankruptcy Laws

If Hancock Fabrics privacy policy would be violated, the sale may proceed only if no applicable non-bankruptcy law has been violated. In this case, the Hancock Fabrics privacy policy would not be violated by the sale if consumer consent were obtained before the Buyer is permitted to take possession of the personal customer records. Furthermore, as the analysis set forth below demonstrates, if consumer consent is obtained, no applicable non-bankruptcy laws would be violated.

1. Unfair or Deceptive Practices

Section 5 of the Federal Trade Commission Act (FTCA), which prohibits “unfair or deceptive practices in or affecting commerce [.]”, the Children’s Online Privacy Protection Act (COPPA), and the Gramm-Leach-Bliley (GLB) Act, provide privacy protections for the PII of consumers in the U.S. Cases brought by the FTC define the approach to privacy that is analogous to the issues that arise in this case.⁴ In this sale, the question may be posed as to whether the transfer of the records to the Buyer constitutes an unfair or deceptive business practice.

Section 5 of the FTCA prohibits “unfair or deceptive practices in or affecting commerce [.]” 15 U.S.C. § 45(a). “Unfair” practices are defined by the FTC as those that “cause[] or [are] likely to cause *substantial injury* to consumers which *is not reasonably avoidable* by consumers

⁴ See generally FTC, Privacy Initiatives, available at <http://www.ftc.gov/privacy/index.html>. An analogous case to this one is *In re Toysmart.com* in which the FTC and the Debtor filed a Stipulation and Order Establishing Conditions on the Sale of Customer Information with the U.S. Bankruptcy Court for the District of Massachusetts. *In re Toysmart.com*, available at <http://www.ftc.gov/os/2000/07/toysmartbankruptcy.1.htm>. The State Attorneys General objected, arguing that because sensitive records about children and credit card numbers were being sold, consumers should be permitted to consent to the sale through an Opt-in procedure. Ultimately, however, because the records were not sold within a specified period of time, they were destroyed.

themselves and *not outweighed by countervailing benefits* to consumers or to competition" (15 U.S.C. Sec. 45(n)).⁵

"Unfair business practices" is an evolving concept reflecting the ingenuity of unscrupulous business persons in concocting new schemes to gain advantage at someone else's expense. The FTC has identified several factors to be considered in determining whether a practice is unfair. The injury must be substantial, outweigh any countervailing benefit to the consumer, and be one the consumer cannot reasonably avoid.

In this case, it appears there is no injury to consumers. Even if the Hancock Fabrics privacy policy is read as "precluding" the transfer, the injury cannot meet the test for unfairness established by the FTC because any such perceived injury cannot be viewed as "substantial." The Debtors and the Buyer have agreed to follow an Opt-out process by advising consumers they may choose not to have ownership of their personal information transferred to the Buyer or to receive promotional or marketing material. If they do not choose to become a customer of the Buyer, there will be no further contact.

The second prong of the test focuses on countervailing benefits to the consumer or competition. Because the sale would enable the Buyer to provide special offers to Hancock Fabrics customers for their sewing and crafts projects, the sale could provide a valuable service to them. Consumers may avoid contact with Michaels by initially or later opting out of any contact with the company. " 'Consumers may act to avoid injury before it occurs if they have reason to anticipate the impending harm and the means to avoid it, or they may seek to mitigate the damage afterward if they are aware of potential avenues toward that end.' " *Orkin* at 1365 (quoting *FTC v. Orkin Exterminating Co.*, 108 F.T.C. 341, 366 (1986)). Here, all consumers

⁵ *A Brief Overview of the Federal Trade Commission's Investigative and Law Enforcement Authority, Enforcement Authority, Consumer Protection*, available at <http://www.ftc.gov/ogc/brfovrvw.shtm>.

have the power to avoid contact with the Buyer by opting-out of the sales of their personal information and its transfer to the Buyer. Customers may unsubscribe from receiving future Michaels e-mails or mailings at any time by following the unsubscribe link at the bottom of the e-mail or following the Opt-out process in the mailing.

2. Financial Information and Payment Card Numbers

Federal law protects financial information, including payment (credit and debit) card numbers, and provides certain requirements for providing notice of an organization's privacy policy and an opportunity for consumers to Opt-out of changes to that policy. In this case there are no changes to the Hancock privacy policy.

Hancock Fabrics did not collect or process customer financial data. Third party service providers handled payment card transactions. Since this case does not involve the sale of customer payment card or financial information, any changes to the Hancock privacy policy, if they were to occur, are not an issue under GLB.

3. Children's Online Privacy Protection Act (COPPA)

COPPA prohibits unfair or deceptive acts or practices in connection with the collection, use, or disclosure of PII from or about children under age 13 obtained on the Internet. The Hancock Fabrics privacy policy affirms that the company did not knowingly collect information from children on the Internet:

We believe it is important to provide added protection for children online. We encourage parents and guardians to spend time online with their children to participate in and monitor their online activity.

We do not knowingly collect personal information from children under 13 online.

There is no evidence that Hancock Fabrics was not in compliance with the requirements of COPPA.

4. State Laws

Nearly all states have enacted "little FTC" statutes that appear to predicate standing to maintain a private action on actual injury resulting from the alleged offending business practice. In general, harm is a core requirement of these statutes. Since the sale of consumer records to the Buyer after completion of the Opt-out process will not result in harm to consumers, these laws cannot act as a bar to this sale.

5. Data Breach Notification Laws and Data Protection Provisions

Forty seven (47) states as well as the District of Columbia, Puerto Rico, and the U.S. Virgin Islands have enacted data breach notification laws that require any business in possession of certain sensitive personal information about a covered individual to disclose any breach of that information to the person(s) affected.⁶ The sale of personal information about Hancock Fabrics customers is not a "breach" and thus the state data breach notification laws do not apply here.

A number of states require that companies and government entities maintaining certain personal information of state residents take steps to protect against data breaches through data security measures, as well as secure disposal of personal information. For example, Florida requires "reasonable measures to protect and secure data in electronic form containing personal information," as well as "reasonable measures to dispose ... of customer records containing personal information within its custody or control when the records are no longer to be retained."⁷ Examples of other states with specific security requirements include:

- **California** – Data custodians must implement reasonable security procedures and practices.

⁶ State Data Breach Notification Laws, *available at* <http://www.ncsl.org/research/telecommunications-and-information-technology/security-breach-notification-laws.aspx>.

⁷ Florida Information Protection Act of 2014 (SB 1524) (Fla. Stat. § 501.171).

- *Massachusetts* – Businesses must develop a comprehensive information security program.
- *Maryland* – Requires reasonable security procedures.
- *New Jersey* – Limits disclosure and transmission of social security numbers (SSN) over the Internet.
- *Nevada* – Covers any personal customer information and requires businesses to encrypt all transmissions. Mandates PCI DSS compliance for card processors.

The Buyer has agreed to follow applicable state laws in this case.

6. Data Disposal Laws

Many states have passed laws that require persons or entities to destroy, dispose of, or otherwise make personal information unreadable or undecipherable, in order to protect the privacy of the individuals who were Hancock Fabrics customers. At least 29 states have laws that govern the disposal of personal data held by businesses.⁸ The Buyer has agreed to follow applicable state laws in this case. The Debtors will use professionally acceptable means to delete the sensitive personal data of any customer who Opted-out of the sale.

V. Recommendations and Conclusions

A. “Qualified Buyer”

The CPO recommends that the Court make a determination that the proposed Buyer Michael’s is a “Qualified Buyer” because the criteria set forth below have been met.

- A Buyer in materially the same line of business as Hancock Fabrics. Michaels sells arts and crafts and fabrics in its stores and online.

⁸ See <http://www.ncsl.org/research/telecommunications-and-information-technology/data-disposal-laws.aspx>.

- The Buyer agrees to use the personally identifiable consumer records for the same purpose(s) as they were previously, namely, to provide special offers and rewards for Hancock customers. Michaels will provide similar offers for purchases of arts and crafts and sewing supplies in their stores and online in compliance with applicable state and federal laws.
- The Buyer agrees to comply with the Debtor's privacy policy. Michaels has agreed to adopt and comply with the Hancock Fabrics privacy policy for the approximately 10 million Hancock customers.
- The Buyer agrees that prior to making any "material change" to the privacy policy, or using or disclosing personal information in a different manner from that specified in the privacy policy, it will notify consumers and afford them an opportunity to Opt-out of the changes to those policies or the new uses of their personal information. Michaels has agreed to follow this process.
- The Buyer agrees to notify Hancock customers of the change in ownership, and advise them that they will abide by the Hancock privacy policy. Michaels has agreed to provide an appropriate notice on its website. Michaels will continue the Hancock practice of providing consumers with opportunities to Opt-out of receiving e-mail and postal mailings of advertisements and notices of promotions and special product offerings. Customers may unsubscribe from Michaels' promotions at any time online, by e-mail, or by phone by following the instructions provided.
- The Buyer agrees to employ appropriate information security controls (technical, operational and managerial) to protect the personally identifiable customer information, including strong encryption. Michaels outsources the storage and processing of customer

data to a third-party company that maintains the records and sends promotional information to e-mail and mail subscribers. Michaels does not maintain the customer data although company officials will have access to it. Michaels advised the CPO that the company has adopted an enterprise information security policy (ISP) that is applicable to Michaels, as well as to its business partner responsible for Michaels' systems and data. Both Michaels and its third party partner receive security audits on a regular basis from independent firms that specialize in providing risk management and security evaluations.

- The Buyer agrees to abide by all applicable federal, state, and international laws, including laws prohibiting unfair or deceptive practices “UDAP,” data breach, data disposal, privacy and confidentiality of personal information and healthcare records, “do-not-track,” “do-not-call,” and “no spam” laws. Michaels has advised that they will follow these laws as applicable.

B. Opt-out Process

In a case such as this one in which the privacy policy restricts the sale of personally identifiable consumer data, two types of consumer consent regimes should be considered: Opt-in and Opt-out. Opt-in regimes require affirmative steps by the consumer to allow the collection and/or use of his/her information. An Opt-in approach is usually appropriate for the sale or transfer of the most sensitive types of consumer data such as financial, tax, and medical records, and information about children.

The CPO has recommended adoption of an Opt-out process designed to protect the privacy of Hancock customers to the greatest extent possible under the circumstances of this bankruptcy sale. The goal is to ensure that the process is transparent, meaningful, and effective.

In the interests of providing Hancock customers with appropriate notice, the CPO worked with counsel for the Debtors and the Buyer to draft an Opt-out notice informing Hancock customers of their right to Opt-out of the sale and to have their information deleted from the Hancock databases before it is transferred to the Buyer.

Hancock Fabrics maintains e-mail, text, and postal addresses for its customers as follows:

Hancock Fabrics Databases	Total Customers (approximate)	e-mail address	Postal address/ text/ phone
Customer names, customer numbers	10.7 million		
Telephone numbers			8.1 million
Email addresses		2.5 million	
Internet email list (HancockFabrics.com)		1.3 million	
Postal Addresses			9 million
Mobile Club			163,000
Designer Deals (affiliate marketing program)		200,000	
Twitter	3000 followers		
Pinterest	43 boards, 3,400 pins, 8,100 followers		
Instagram	394 posts, 2,500 followers		
Facebook	97,000 likes		

In an effort to provide meaningful notice to Hancock customers, notification of the sale will be made and/or published using every available communications method that is likely to be effective and financially prudent. The Opt-out process will consist of two types of notifications: (1) on available websites and social media, and (2) e-mail to customers with good e-mail addresses. The proposed Opt-out notice is included in Appendix B of this CPO Report.

The Opt-out process will be completed before any personal information is transferred to the Buyer. The proposed timetable should provide sufficient time to complete the Opt-out process, compile the results and file them with the Court, and delete the data of any individual who requested to Opt-out from having their information transferred to the Buyer.

Notice to Customers by e-Mail: Customers with good e-mail addresses will receive an e-

mail notification. Upon entry of the Bankruptcy Court Order approving the sale of the intellectual property assets, Hancock will electronically transmit notification letters to its customers and provide a 10-day notice period for opting-out of the transfer.

Substitute Notice to Consumers: Although Hancock has postal addresses for the individuals in its databases, it does not have e-mail addresses for many of them. Of the approximately 10 million customers in the Hancock databases, the company has good e-mail addresses for only about one third of the customers. Clearly, notice by postal mail would be prohibitively expensive.⁹

The CPO recommends that the customers for whom the company does not have an e-mail address receive what is known as “substitute notice.” This concept is a central aspect of the state data breach notification statutes; it may be accomplished by a clear and conspicuous posting of a notice on the home page of a website, or publication in or broadcast through media. It is justified if the cost of providing written notice is substantial, the affected class to be notified is a large number of people (>500,000), or the organization does not have sufficient contact information to provide notice. All of these criteria apply in this case.

Notice to Consumers on the Hancock Fabrics and KCC Websites: A notice will be posted on the HancockFabrics.com website and on the home page of the site maintained by the claims and noticing agent, Kurtzman Carson Consulting (KCC), appointed by the Bankruptcy Court in the Hancock Fabrics chapter 11 cases (kccllc.net/hancockfabrics).

Notice to Consumers on the Michaels Website: A clear and conspicuous notice will be posted for a period of six months on the front page of the Michaels website. This notice will consist of the Hancock Fabrics logo or other clear and conspicuous notice for “Hancock Fabrics

⁹ Notification by postal mail would not be financially feasible -- bulk mail at \$.40 per piece x 8,000,000 would cost \$4,200,000 or at \$.25 (postcard) would be \$2,900,000.

Customers”. Clicking on the link will direct customers to the Hancock Fabrics and/or the KCC websites where the official notice about the change of corporate ownership and of the right of customers to Opt-out of the transfer of their personally identifiable information and/or of receiving future e-mail communications will be posted.

Notice on Social Media – Facebook and Other Sites

Comparable notices will be placed on the social media sites as identified in the table above. These notices will be posted on the social media sites for a period of six months after the closing date of the sale.

In some prior bankruptcy cases involving the sale of PII, Opt-out notices were published in newspapers in metropolitan areas where large concentrations of customers were located. In this case in which the approximately 10 million customers are dispersed widely throughout 37 states, there are no geographic locations where they are concentrated. Therefore, the CPO has concluded that including the Opt-out notice in print publications would not be an effective notification vehicle.

Opt-Out Processing and Certification – All responses to the Opt-out notices will be reviewed by Hancock. Opt-out requests will be processed on a rolling basis as they are received. When the 10-day notice period has passed and the Opt-out process has been completed, Hancock will provide an accounting of customers who have opted-out.

Hancock will file a certification with the Bankruptcy Court indicating the number of customers who opted-out of the transfer, and stating that their records have been deleted from the Hancock customer lists and databases and will not be transferred to the Buyer. Customer PII will not be included in any Opt-out report. The acquired data (minus information about consumers who have opted-out) will then be transferred to Michaels for its use in accordance

with the Sale Order. Following confirmation by the Buyer that the data have been received, Hancock will delete the customer data and databases from its files.

VI. Conclusions

The issues related to the sale of the personally identifiable Hancock consumer records required under sections 332 and 363 of the Bankruptcy Code have been addressed and presented in this CPO Report for consideration by the Court. The CPO was appointed on March 16, 2016, the Court has been advised of any issues regarding compliance with the Hancock Fabrics privacy policy, and an analysis is provided in this CPO Report of the losses or gains, and costs or benefits to consumers if the sale is approved, and the application of the non-bankruptcy laws.

Michaels, the proposed Buyer of the Hancock personal customer information, meets the criteria for being a “Qualified Buyer.” The Ombudsman believes there is no loss of privacy to Hancock customers as a result of this sale because the Buyer will continue to honor the Hancock Fabrics privacy policy, and the operation of Michaels stores and online is in the best interests of consumers because it will provide a new source of fabric and notions. If any customer wishes not to continue to do business with Michaels, s/he will have received notice of the sale and is free to Opt-out of the sale of his/her personal information and its ownership by the Buyer. In the future, customers may unsubscribe from receiving Michaels’ marketing materials at any time online, by e-mail or by phone by following the instructions provided.

In summary, the Ombudsman believes the Recommendations in this CPO Report strike an appropriate balance between the privacy rights of consumers and practical considerations associated with this bankruptcy sale. The Ombudsman stands ready to provide whatever further analysis or recommendations the Court deems appropriate.

Respectfully submitted,

/s/ Lucy L. Thomson

Lucy L. Thomson
Consumer Privacy Ombudsman

APPENDIX A

Hancock Fabrics

<http://hancockfabrics.com/security-privacy/security-privacy.html>

Security & Privacy Statement

Hancockfabrics.com has created this privacy statement in order to demonstrate our firm commitment to privacy. The following discloses our information gathering and dissemination practices for this website: www.hancockfabrics.com

We use your IP address to help diagnose problems with our server, and to administer our Web site.

Our site uses cookies to keep track of your shopping cart.

Our site uses an order form for customers to request information, products, and services. We collect visitor's contact information (like their email address), unique identifiers and financial information (like their account or credit card numbers). Contact information from the order form is used to send orders to our customers. The customer's contact information is used to get in touch with the visitor when necessary. Users may opt-out of receiving future mailings; see the choice/opt-out section below. Financial information that is collected is used to bill the user for products and services. From time to time, we may present offers to you from third party partners, and we may share certain contact information with those third party partners. We will not share any personally identifiable information with any third party without your consent.

Third Party Advertising

We use third-party advertising companies to serve ads when you visit our Website. These companies may use information (not including your name, address email address or telephone number) about your visits to this and other Web sites in order to provide advertisements about goods and services of interest to you.

Email List

We use third-party email management to send promotional information to email subscribers. The list is opt-in, and the subscriber can unsubscribe at any time by following the unsubscribe link at the bottom of the email.

Choice/Opt-Out

Our site provides users the opportunity to opt-out of receiving communications from us at the point where we request information about the visitor.

This site gives users the following options for removing their information from our database to not receive future communications or to no longer receive our service.

You can send email to consumerdiv@hancockfabrics.com

Correct/Update

This site gives users the following options for changing and modifying information previously provided.

Email consumerdiv@hancockfabrics.com

Contacting the Web Site

If you have any questions about this privacy statement, the practices of this site, or your dealings with this Web site, you can contact:

Attn: Webmaster
HancockFabrics.com
One Fashion Way
Baldwyn, MS 38824

APPENDIX B

[Notice by e-mail, Facebook and online on Hancock Fabrics Inc. website (hancockfabrics.com)]

HANCOCK FABRICS, INC., et al.

Case No. 16-10296 (BLS), U.S. Bankruptcy Court for the District of Delaware

Important Notice Regarding the Sale of Your Personal Information and Your Right to Opt-out

Dear Valued Hancock Fabrics Customer:

As you may be aware, Hancock Fabrics declared bankruptcy in February 2016 and has initiated a liquidation process.

We are excited to share with you that the legacy of Hancock Fabrics will continue, as the Bankruptcy Court has approved the sale of the on-line business of Hancock Fabrics, Inc. and its affiliated entities to Michaels Stores. Today, Michaels operates more than 1,200 stores across the United States and Canada. Michaels also maintains a strong on-line presence and warmly welcomes the customers of HancockFabrics.com to its growing family. With Hancock Fabrics, Michaels now looks to build upon Hancock's great reputation for providing quality fabric and notions to customers across the country. More information about Michaels can be found at <http://www.michaels.com>.

As part of the sale, Michaels is purchasing Hancock Fabrics' customer databases. The Hancock Fabrics Privacy Policy provides that the company "will not share any personally identifiable information with any third party without your consent." Under this Privacy Policy, you have the right to opt-out of the sale and the transfer of your personal information to Michaels, and of receiving future e-mail or mail communications from Michaels.

You may elect to opt out by any of the following methods:

1. Clicking here [*insert embedded "opt-out" link*];
2. Sending an e-mail to the Hancock Fabrics noticing agent at HancockOptOut@kcellc.com, providing in your email the information necessary for Hancock Fabrics to identify you in its database and process your opt-out election (such as (as applicable) your name, email address, street address and telephone number);
3. Calling the Hancock Fabrics noticing agent, Kurtzman Carson Consultants, LLC, at (866) 967-0494 (toll-free) or, if calling from outside the United States or Canada, at (310) 751-2694; or
4. Mailing to Hancock Fabrics, Inc. Opt-Out Processing Center c/o Kurtzman Carson Consultants LLC, 2335 Alaska Ave., El Segundo, CA 90245, providing in your letter the information necessary for Hancock Fabrics to identify you in its database and process your opt-out election (such as (as applicable) your name, email address, street address and telephone number).

If you opted in to receive promotional emails from Hancock Fabrics, you may also receive

promotional emails from Michaels unless you opt out of having your information conveyed to Michaels.

Your request must be received within the next ten (10) calendar days – no later than [date], 2016.

We thank you for your past patronage and join Michaels in welcoming you into the Michaels family.

Sincerely,
Hancock Fabrics, Inc. and its affiliated entities