

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

IN RE: KATHY ALIANO V. HANCOCK
FABRICS, INC., et al., CASE NO.: 07-10353

**NOTICE OF CERTIFIED
CLASS ACTION SETTLEMENT**

To: All persons who received electronically printed receipts from Hancock Fabrics, Inc. at the point of sale or transaction, in a transaction occurring on or after January 1, 2005 through August 8, 2007, wherein the receipt displayed (i) more than the last five digits of the person's credit card or debit card number, and/or (ii) the expiration date of the person's credit or debit card.

This notice is intended to inform you about litigation that may affect your legal rights. Please read it carefully.

On behalf of the named plaintiff and all members of the class, the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") has preliminarily approved a settlement. This notice is not to be construed as an expression of any opinion by the Bankruptcy Court with respect to the merits of the respective claims or defenses of the parties. Rather, this notice is being posted merely to inform you of legal rights you may have with respect to the settlement. Capitalized terms used, but not defined herein, shall have the meanings set forth in the Settlement Agreement.

I. BACKGROUND OF THE LITIGATION

Kathy Aliano, as the named plaintiff and class representative on behalf of all members of the class, has asserted that **HANCOCK FABRICS, INC.** violated certain requirements imposed by the Fair and Accurate Credit Transactions Act ("FACTA"). Specifically, Plaintiff claims that Hancock printed more than the last five digits of its customers' credit or debit card numbers and/or the expiration date of its customers' credit or debit cards on receipts presented to them at its retail stores, in violation of FACTA, as specifically set forth in the Complaint filed on July 20, 2007, as subsequently amended on or about January 7, 2008.

NEITHER PLAINTIFF NOR HANCOCK IS PRESENTLY AWARE OF ANY CLASS MEMBER WHO HAS SUSTAINED ANY ACTUAL MONETARY INJURY AS A RESULT OF THE ISSUES IN DISPUTE IN THIS LITIGATION. HOWEVER, FACTA REQUIRES THAT MERCHANTS PRINT NO MORE THAN THE LAST FIVE DIGITS OF CREDIT AND DEBIT CARD NUMBERS AND DELETE THE CARD EXPIRATION DATE WITH RESPECT TO CREDIT AND DEBIT CARD RECEIPTS PRESENTED TO CUSTOMERS AT THE POINT OF SALE.

Hancock is currently a debtor and debtor-in-possession under Chapter 11 of Title 11 of the United States Code. The bankruptcy case of HANCOCK FABRICS, INC. and its affiliated debtors and debtors-in-possession is currently pending before the Bankruptcy Court. For purposes of this settlement, the parties have submitted to the jurisdiction of the Bankruptcy Court.

II. CURRENT STATUS

On January 22, 2008, the Bankruptcy Court preliminarily approved the settlement for the class as fair, adequate and reasonable. If finally approved, the settlement will certify a class that will bind plaintiff and all class members who do not exclude themselves from the class.

Under the terms of the settlement, Hancock will hold a Sale Event at all of its regularly operating retail store locations on May 26, 2008, for the benefit of class members, at which any person making a purchase transaction will receive an automatic discount of ten percent (10%) off the total purchase price. The settlement also imposes certain other requirements, which are set forth in detail in the Settlement Agreement.

Pursuant to the Settlement Agreement Hancock also agrees to abide by the truncation requirements of FACTA and, if approved, pay to Plaintiff's counsel fees not to exceed \$75,000 and costs not to exceed \$5,000 and also pay an incentive award to the class representative in the amount of \$4,000.

This settlement reflects an evaluation of the claims and potential recovery, considering the facts as known to counsel after investigation,

the likelihood of prevailing at trial, and the likelihood that this litigation, if not settled now, would be further protracted and involve complex issues of fact and law. The settlement is also based upon an evaluation of the potential recovery available under FACTA. Class counsel believes that the settlement is fair and reasonable and that the class members should accept this settlement. In light of the risks and expenses of litigation and Hancock's potential defenses, class counsel believes it is in the best interests of the class that the case be settled and that the settlement terms are fair and reasonable.

III. EFFECT OF SETTLEMENT ON CLASS MEMBERS

If you elect to be excluded from the class, you will not be bound by the terms and releases of the settlement or judgments of dismissal and orders in this action, but you will not be entitled to share in the benefits or receive any relief from this settlement. Any class member who does not request to be excluded will automatically be included in this action as members of the class represented by the named plaintiff, will be subject to and deemed to consent to the jurisdiction of the Bankruptcy Court and its orders, and will be deemed to have released and thereafter be forever barred from asserting any claims against the released parties with respect to any credit card or debit card account information that was printed on a receipt presented to such class member at the point of sale during the class period. A complete description of the released claims is contained in the Settlement Agreement.

More specifically, "Released Claims" means, collectively, any and all claims, including Unknown Claims as defined in the Settlement Agreement, demands, rights, liabilities and causes of action of every nature and description whatsoever including, without limitation, statutory, constitutional, contractual or common law claims, under FACTA or any other applicable law, whether or not set forth in the Complaint, whether known or unknown, whether or not concealed or hidden, against the Hancock Releasees, or any of them, that accrued at any time on or prior to the Preliminary Approval Date for any type of relief, including, without limitation, damages, statutory damages, liquidated damages, punitive damages, unpaid costs, penalties, interest, attorney's fees, litigation costs, restitution or equitable relief, based on any and all claims in any way related to the

publication of a person's credit card or debit card account information, including but not limited to more than the last five digits of the person's credit card or debit card account number and/or the expiration date, upon an electronic receipt provided to the person, at the point of sale of the transaction.

IV. EXCLUSION FROM THE CLASS

If you do not wish to participate in this settlement, you must notify class counsel and counsel for Hancock in writing of your intention to be excluded. In order to opt out of the class, you must submit a written request for exclusion that: (i) states your name, address and phone number; (ii) includes a copy of an electronically printed receipt attributable to your credit card or debit card that was received from Hancock at the point of sale or transaction, in a transaction occurring between January 1, 2005 and August 8, 2008, and wherein the receipt displayed more than the last five digits of your credit card or debit card number and/or the expiration date of your credit card or debit card or other documentation evidencing that you received such a receipt; and (iii) contains a signed statement that: "I/we hereby request that I/we be excluded from the proposed Settlement Class in the Hancock Fabrics, Inc. FACTA Litigation." The request for exclusion must be mailed to class counsel (Thomas A. Zimmerman, Jr., Esq., Zimmerman and Associates, P.C., 100 W. Monroe Street, Suite 1300, Chicago, IL 60603) and Hancock Counsel (Robert J. Dehney, Esq. and Gregory T. Donilon, Esq., Morris, Nichols, Arsht & Tunnell LLP, 1201 N. Market Street, P.O. Box 1347, Wilmington, DE 19899-1347) and **must be received on or by the Settlement Class Response Deadline of March 21, 2008.**

No class member may opt-out through an actual or purported agent or attorney acting on behalf of the class member unless a fully lawful power of attorney, letters testamentary or other comparable documentation or court order accompanies the request. Requests for exclusion will not be accepted if sent by electronic mail, facsimile or other electronic means. Failure to opt-out by the deadline, or to follow the above procedures, will result in a class member being bound by any judgments and orders in this case.

A claims bar date has been established in Hancock's bankruptcy case. Should you choose to exclude yourself from the class, any claim you

may have against Hancock under FACTA may be barred by such claims bar date. You should consult the docket of the bankruptcy case for further information regarding the bar date. The docket can be found at the following websites: (i) www.donlinrecano.com and (ii) www.deb.uscourts.gov.

V. OBJECTIONS TO THE SETTLEMENT AND RIGHT TO INTERVENE

Only class members may object to the settlement, and persons who opt-out of the class may not object to the settlement agreement. You may also seek to intervene (provided you do not opt out) if at any time you believe your interests are not being fairly and adequately represented by the class representative and class counsel.

Class members shall have until the Settlement Class Response Deadline of **March 21, 2008**, to object to the settlement. Any class member who objects to the settlement may appear in person or through counsel, at his or her own expense, at the Final Approval Hearing to present any evidence or argument that may be proper or relevant.

No class member shall be heard and no papers, briefs, pleadings or other documents submitted by any class member shall be received and considered by the Bankruptcy Court unless, prior to the Settlement Class Response Deadline of March 21, 2008, the class member files with the Clerk of the Bankruptcy Court (United States Bankruptcy Court for the District of Delaware, 824 N. Market Street, Third Floor, Wilmington, DE 19801) and serves upon class counsel (Thomas A. Zimmerman, Jr., Esq., Zimmerman and Associates, P.C., 100 W. Monroe, Suite 1300, Chicago, IL 60603) and Hancock Counsel (Robert J. Dehney, Esq. and Gregory T. Donilon, Esq., Morris, Nichols, Arsht & Tunnell LLP, 1201 N. Market Street, P.O. Box 1347, Wilmington, DE 19899-1347), so that it is received by the Settlement Class Response Deadline, a written objection that includes: (i) a notice of intention to appear at the Final Approval Hearing; (ii) a statement of membership in the class; (iii) a copy of a receipt or other documentation as described in Section IV above; (iv) the specific legal and/or factual grounds for the objection; and (v) all documents or writings that such class member intends to rely upon at the Final Approval Hearing and/or submit to the Bankruptcy Court for consideration. Any class member who

fails to object in the manner prescribed herein shall be deemed to have waived his or her objection to entry of an order granting final approval of the settlement and forever be barred from making any such objections in this action or in any other action or proceeding.

VI. FINAL APPROVAL HEARING

The Bankruptcy Court will hold a Final Approval Hearing to decide whether to approve the settlement. You may attend and you may be able to speak, but it is not required. The Final Approval Hearing will be held on **April 17, 2008 at 10:00 a.m. (ET)** at the United States Bankruptcy Court, 824 N. Market Street, Sixth Floor, Courtroom 2, Wilmington, Delaware 19801. At the Final Approval Hearing, the Bankruptcy Court will consider whether the settlement is fair, reasonable and adequate. If there are objections or requests to be heard, the Bankruptcy Court may consider them at the hearing. The Bankruptcy Court may also decide the amount of fees and costs to be paid to class counsel and the incentive award to be paid to the class representative.

QUESTIONS AND ANSWERS

1. WHAT DO I NEED TO DO TO PARTICIPATE IN THE ACTION?

If you believe you are a member of the class and desire to participate in this settlement, you are not required to do anything. If the settlement is approved by the Bankruptcy Court at the Final Approval Hearing, the Sale Event will be held at all of Hancock's regularly operating retail store locations on May 26, 2008, for the benefit of class members, at which any person making a purchase transaction will receive an automatic discount of ten percent (10%) off the total purchase price.

2. WHO REPRESENTS THE CLASS?

- (a) **Class Representative:** Kathy Aliano, the named plaintiff, is a class representative and is a person who received a receipt from Hancock at the point of sale which displayed the expiration date of her credit or debit card. The class representative has assisted class counsel in coordinating the prosecution of this action and in

providing information needed to pursue the claims of all class members. The class representative will be applying for an incentive award of \$4,000, which will be paid by Hancock.

(b) Class Counsel: In its order granting preliminary approval of the settlement and certifying the class for settlement, the Bankruptcy Court appointed Thomas A Zimmerman, Jr., Esq. as class counsel to represent the named plaintiff and to represent the interests of the absent class members.

3. WHERE DO I GET ADDITIONAL INFORMATION?

The foregoing is only a summary of the circumstances surrounding the litigation, the claims asserted, the class, the settlement, and related matters. You may seek the advice and guidance of your own private attorney, at your own expense, if you desire. For more detailed information, you may review the pleadings, records, and other papers on file in this litigation, including copies of the Complaint, the Settlement Agreement, the motion for preliminary and final approval of the settlement and the preliminary approval order, which may be inspected on the following websites: (a) Hancock's website at www.hancockfabrics.com; (b) the website maintained by the Official Committee of Unsecured Creditors appointed in the Chapter 11 case at www.hancockcreditorscommittee.com; (c) the website of Donlin, Recano & Company, Inc., the noticing agent appointed in the Chapter 11 Case, at www.donlinrecano.com; and (d) Settlement Class Counsel's website at www.attorneyzim.com. If you wish to communicate with class counsel identified above, you may do so by writing to Thomas A. Zimmerman, Jr., Esq., Zimmerman and Associates, P.C., 100 W. Monroe Street, Suite 1300, Chicago, IL 60603. Alternatively, you may call the offices of the firm at: (312) 440-0020.

**BY ORDER OF
THE HONORABLE BRENDAN L. SHANNON,
UNITED STATES BANKRUPTCY JUDGE**

January 22, 2008

IF YOU HAVE ANY QUESTIONS OR CONCERNS, ADDRESS ALL INQUIRIES TO CLASS COUNSEL IN THE MANNER SET FORTH ABOVE. THE BANKRUPTCY COURT AND THE CLERK WILL NOT ANSWER LEGAL QUESTIONS FROM INDIVIDUAL CLAIMANTS. BY ISSUING THIS NOTICE, THE BANKRUPTCY COURT EXPRESSES NO OPINION AS TO THE MERITS OF ANY CLAIMS OR DEFENSES ASSERTED IN THIS ACTION. PLEASE DO NOT CONTACT THE BANKRUPTCY COURT.

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