

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	)	Chapter 11
)	
HANCOCK FABRICS, INC., <u>et al.</u> , ¹	)	Case No. 07-10353 (BLS)
)	
Debtors.	)	(Jointly Administered)
_____)	
)	
KATHY ALIANO,	)	Adv. Proc. No. 08-_____ (BLS)
Plaintiff,)	
	)	Class Action
v.)	
)	
HANCOCK FABRICS, INC., <u>et al.</u> ,)	
Defendants.)	
_____)	

CLASS ACTION SETTLEMENT AGREEMENT AND RELEASE

This class action settlement agreement and release is made and entered into this 7th day of January, 2008, by and between Kathy Aliano, on behalf of herself and all of the Settlement Class Members and with the assistance and approval of Thomas A. Zimmerman, Jr., Esq. of Zimmerman and Associates, P.C., on the one hand, and Hancock Fabrics, Inc., on the other hand. The Settlement Agreement is intended by the Settling Parties to fully, finally and

¹ The Debtors are the following entities: Hancock Fabrics, Inc. (Tax ID No. XX-XXX0905), One Fashion Way, Baldwin, Mississippi 38824; Hancock Fabrics of MI, Inc. (Tax ID No. XX-XXX5878), One Fashion Way, Baldwin, Mississippi 38824; HF Resources, Inc. (Tax ID No. XX-XXX9563), 103 Foulk Road, Suite 202, Wilmington, Delaware 19803-3742; Hancockfabrics.com, Inc. (Tax ID No. XX-XXX9698), One Fashion Way, Baldwin, Mississippi 38824; HF Merchandising, Inc. (Tax ID No. XX-XXX8522), One Fashion Way, Baldwin, Mississippi 38824; HF Enterprises, Inc. (Tax ID No. XX-XXX7249), 103 Foulk Road, Suite 202, Wilmington, Delaware 19803-3742; and Hancock Fabrics, LLC (Tax ID No. XX-XXX9837), One Fashion Way, Baldwin, Mississippi 38824.

forever resolve, discharge and settle the Released Claims upon and subject to the terms and conditions hereof.

I. DEFINITIONS

As used in all parts of this Settlement Agreement, the following terms shall have the meanings set forth in this Section I of the Settlement Agreement:

“Affiliated Debtors” means Hancock’s affiliated debtors and debtors-in-possession, Hancock Fabrics of MI, Inc., HF Resources, Inc., Hancockfabrics.com, Inc., HF Merchandising, Inc., HF Enterprises, Inc., and Hancock Fabrics, LLC, which Affiliated Debtors also commenced their respective bankruptcy cases by filing voluntary petitions for relief under chapter 11 of the Bankruptcy Code, which bankruptcy cases are being jointly administered as the Chapter 11 Case in the Bankruptcy Court before the Honorable Brendan L. Shannon, United States Bankruptcy Judge.

“Approval Order” means the order described further herein to be entered and filed by the Court granting final approval of the terms and conditions of the settlement set forth in the Settlement Agreement pursuant to Bankruptcy Rules 7023 and 9019 and in a form mutually agreeable to the Settling Parties.

“Bankruptcy Code” means title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.*

“Bankruptcy Court” means the United States Bankruptcy Court for the District of Delaware.

“Bankruptcy Rules” means the Federal Rules of Bankruptcy Procedure.

“CAFA Notice” means the notice of the proposed settlement set forth in the Settlement Agreement provided to appropriate federal and state officials under 28 U.S.C. § 1715.

“CAFA Deadline” means the date that is ninety (90) days after the date of service of the CAFA Notice.

“Chapter 11 Case” means the Debtors’ respective bankruptcy cases, which are being jointly administered in the lead case styled *In re Hancock Fabrics, Inc., et al.*, Case No. 07-10353 (BLS), in the Bankruptcy Court before the Honorable Brendan L. Shannon, United States Bankruptcy Judge.

“Complaint” means the Class Action Complaint filed on July 20, 2007, by the Settlement Class Representative in the District Court to commence the Litigation, as amended by the Amended Class Action Complaint filed by the Settlement Class Representative in the District Court on or about January 7, 2008.

“Debtors” means, collectively, Hancock and the Affiliated Debtors.

“District Court” means the United States District Court for the Northern District of Illinois, Eastern Division.

“Effective Date” means the date on which the Approval Order becomes Final.

“FACTA” means the Fair and Accurate Credit Transaction Act, 15 U.S.C. § 1681 *et seq.*

“Final” with respect to an order or judgment described herein means an order or judgment of the Bankruptcy Court, as entered on the docket of the Bankruptcy Court, that has not been reversed, stayed, modified, or amended, and as to which: (i) the time to appeal, seek review or rehearing or petition for certiorari has expired and no timely filed appeal or petition for review, rehearing, remand or certiorari is pending or (ii) any appeal taken or petition for certiorari filed has been resolved by the highest court to which the order or judgment was appealed or from which certiorari was sought, provided, however, that the possibility that a

motion under Rule 59 or Rule 60, or any analogous Bankruptcy Rule or other rules governing procedure in cases before the Bankruptcy Court, may be filed with respect to such order shall not cause such order not to be a Final order. Notwithstanding the foregoing, any proceeding or order, or any appeal or petition for a writ, pertaining solely to the award of attorneys' fees shall not, by itself, in any way delay or preclude the Approval Order from becoming Final.

“Final Approval Hearing” means a hearing set by the Bankruptcy Court to take place after the Settlement Class Response Deadline and the CAFA Deadline for the purpose of (i) determining the fairness, adequacy and reasonableness of the settlement set forth in the Settlement Agreement under Bankruptcy Rules 7023 and 9019 and (ii) entering the Approval Order.

“Hancock” means Hancock Fabrics, Inc., a Delaware corporation and the named defendant in the Litigation.

“Hancock Releasees” means Hancock and the Affiliated Debtors and each of their past or present directors, officers, employees, partners, members, principals, agents, representatives, underwriters, insurers, co-insurers, re-insurers, shareholders, attorneys, accountants, auditors, banks, investment banks, predecessors and successors in interest, and permitted assigns.

“Litigation” means the putative class action lawsuit entitled KATHY ALIANO v. HANCOCK FABRICS, INC., a Delaware corporation, individually, and d/b/a HANCOCK FABRICS; and DOES 1-10, United States District Court for the Northern District of Illinois, Eastern Division, Civil Action No. 07-C-4109, commenced on July 20, 2007 upon the filing of the Complaint by the Settlement Class Representative.

“Preliminary Approval Date” means the date on which the Bankruptcy Court enters the Preliminary Approval Order.

"Preliminary Approval Order" means the order further described herein to be entered and filed by the Court granting preliminary approval of the terms and conditions of the settlement set forth in the Settlement Agreement pursuant to Bankruptcy Rules 7023 and 9019 and in a form mutually agreeable to the Settling Parties.

"Receipt" means an electronically printed receipt received from Hancock at the point of sale or transaction, in a transaction occurring on or after January 1, 2005 through August 8, 2007, and 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 card or debit card number.

"Released Claims" means, collectively, any and all claims, including Unknown Claims as defined herein, 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 credit card's or debit card's expiration date, upon an electronic receipt provided to the person, at the point of sale or transaction.

“Sale Event” means the sale event to be held by Hancock at all of its regularly operating retail store locations on a date to be mutually agreed upon by the Settling Parties and identified in the Settlement Class Notice and the Settlement Class Publication Notice, for the benefit of the Settlement Class Members, at which any person (except employees of Hancock) making a purchase transaction shall receive an automatic discount of ten percent (10%) from the total purchase price.

“Settlement Agreement” means this settlement agreement and release and all of its attachments and exhibits, which the Settling Parties understand and agree sets forth all material terms and conditions of the settlement between them and which is subject to Bankruptcy Court approval. It is understood and agreed that Hancock's obligations under this Settlement Agreement are conditioned on, among other things, the occurrence of the Effective Date.

“Settlement Class” means the conditional nationwide settlement class for purposes of effectuating this Settlement Agreement only, which shall be comprised of the collective group of those individuals defined as follows:

All persons who received electronically printed receipts from Hancock at the point of sale or transaction, in a transaction occurring on or after January 1, 2005 through August 8, 2007, and 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 card or debit card.

“Settlement Class Counsel” means for purposes of effectuating this Settlement Agreement only Thomas A. Zimmerman, Jr. of the law firm of Zimmerman and Associates, P.C.

“Settlement Class Member” or “Member of the Settlement Class” means a person who is a member of the Settlement Class and who does not properly opt-out of the Settlement Class pursuant to the opt-out procedures set forth in the Settlement Agreement.

“Settlement Class Notice” means the notice described herein to be approved by the Bankruptcy Court substantially in the form attached hereto as **Exhibit 1**.

“Settlement Class Publication Notice” means the notice described herein to be approved by the Bankruptcy Court substantially in the form attached hereto as **Exhibit 2**.

“Settlement Class Publication Notice Deadline” means the deadline for publication of the Settlement Class Publication Notice, which deadline shall be on or prior to ten (10) business days after the Preliminary Approval Date or such other date set by the Bankruptcy Court.

“Settlement Class Representative” means Kathy Aliano for purposes of effectuating this Settlement Agreement only.

“Settlement Class Response Deadline” means a date at least forty-five (45) days after the date of publication of the Settlement Class Publication Notice or such other date set by the Bankruptcy Court.

“Settling Parties” means Hancock and the Settlement Class Representative on behalf of herself and all Settlement Class Members.

“Unknown Claims” means any Released Claims which the Settlement Class Representative or any Settlement Class Member does not know or suspect to exist in his, her or its favor at the time of the Effective Date, and which, if known by him, her or it, might have affected his, her or its settlement with and release of the Hancock Releasees.

II. RECITALS

A. The Chapter 11 Case

WHEREAS, on March 21, 2007, the Debtors commenced their respective bankruptcy cases by filing voluntary petitions for relief under chapter 11 of the Bankruptcy Code, which bankruptcy cases are being jointly administered as the Chapter 11 Case in the

Bankruptcy Court before the Honorable Brendan L. Shannon, United States Bankruptcy Judge;
and

WHEREAS, no trustee or examiner has been appointed in the Chapter 11 Case and the Debtors are operating their respective business as debtors-in-possession pursuant to sections 1107 and 1108 of the Bankruptcy Code; and

B. The Litigation

WHEREAS, on July 20, 2007, the Settlement Class Representative commenced the Litigation by filing the Complaint in the District Court, which Complaint the Settlement Class Representative subsequently amended on or about January 7, 2008; and

WHEREAS, by the Complaint, the Settlement Class Representative, on behalf of herself and other putative class members, alleges that Hancock and “Does 1 – 10” violated Section 1681c(g)(1) of FACTA and seeks, *inter alia*, statutory damages, attorneys’ fees, litigation expenses and costs; and

WHEREAS, on or about August 17, 2007, Hancock filed the Notice of Suggestion of Bankruptcy and Applicability of the Automatic Stay under 11 U.S.C. § 362 in the District Court with respect to the Litigation; and

WHEREAS, the Litigation is currently stayed by operation of the automatic stay under section 362 of the Bankruptcy Code; and

WHEREAS, Hancock and the Hancock Releasees deny all of the claims and contentions alleged by the Settlement Class Representative in the Complaint and the Litigation;
and

WHEREAS, in order to avoid the cost and risk inherent in any litigation, after arm’s-length negotiations, the Settling Parties have agreed, under the terms and conditions set

forth herein and subject to Bankruptcy Court approval, to compromise, settle and release fully and finally the Released Claims and the Litigation for the mutual promises and undertakings set forth in this Settlement Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged.

III. THE SETTLEMENT

NOW, THEREFORE, after arm's-length negotiations and in consideration of the foregoing, as well as the terms, conditions and mutual agreements set forth herein, IT IS HEREBY AGREED by and between the Settlement Class Representative (for herself and the Settlement Class Members and upon the advice and approval of Settlement Class Counsel) and Hancock that, as among the Settling Parties, including all Settlement Class Members, the Released Claims and the Litigation shall be fully and finally compromised, settled and released, and the Litigation shall be dismissed with prejudice, as to all Settling Parties, upon and subject to the terms and conditions set forth in the Settlement Agreement.

1. Recitals. The recitals set forth above are expressly incorporated herein and are made an integral part of this Settlement Agreement.

2. Jurisdiction of the Bankruptcy Court. Solely for purposes of this Settlement Agreement and seeking final approval thereof, the Settling Parties hereby agree to cooperate to effectuate the transfer of the Litigation from the District Court to the Bankruptcy Court and stipulate that the Bankruptcy Court shall have jurisdiction to consider and grant preliminary and final approval of the Settlement Agreement.

3. Settlement Agreement Is Conditional and Subject to Bankruptcy Court Approval. This Settlement Agreement is made for the sole purpose of attempting to consummate settlement of the Released Claims and the Litigation on a class-wide basis and is

subject to Bankruptcy Court approval. Because the Litigation was pled as a class action, the settlement embodied in this Settlement Agreement must receive preliminary and final approval by the Bankruptcy Court under Bankruptcy Rules 7023 and 9019. Accordingly, the Settling Parties enter into this Settlement Agreement on a conditional basis. In the event that the transfer of the Litigation from the District Court to the Bankruptcy Court does not occur or the Bankruptcy Court does not execute and enter the Approval Order or that such order does not become Final for any reason or the Effective Date does not occur for any reason, (a) this Settlement Agreement, with the exception of Paragraph 4 hereof, shall (i) be deemed null and void *ab initio*, (ii) be of no force or effect whatsoever and (iii) not be referred to or utilized for any purpose whatsoever, and (b) the negotiation and terms of and entry into the Settlement Agreement shall remain subject to the provisions of Federal Rule of Evidence 408 and any otherwise applicable law.

4. No Waiver by Hancock or the Settlement Class Representative. To the extent this Settlement Agreement is deemed void or the Effective Date does not occur:

(a) Hancock does not waive, but rather expressly reserves, all rights to challenge any and all claims and allegations in the Litigation upon all procedural and factual grounds, including, without limitation, the ability to object to any claim filed or asserted in the Chapter 11 Case by or on behalf of the Settlement Class Representative and the Settlement Class Members and/or challenge class action treatment on any grounds or assert any and all defenses or privileges under the Bankruptcy Code, FACTA or any other applicable law. The Settlement Class Representative and Settlement Class Counsel agree that Hancock retains and reserves these rights, and agree not to take a position to the contrary, and the Settlement Class Representative and Settlement Class Counsel agree not to argue or present any argument, and

hereby waive any argument, that Hancock could not contest any claim asserted by the Settlement Class Representative and the Settlement Class Members in the Chapter 11 Case or class certification on any grounds if this Litigation were to proceed.

(b) The Settlement Class Representative does not waive, but rather expressly reserves, all rights, claims and defenses in the Litigation under the Bankruptcy Code, FACTA or any other applicable law. Hancock agrees that the Settlement Class Representative retains and reserves these rights, and agrees not to take a position to the contrary, and Hancock agrees not to argue or present any argument, and hereby waives any argument, that the Settlement Class Representative could not assert any such right, claim or defense if this Litigation were to proceed.

A. **Proposed Class for Settlement Purposes**

5. Conditional Certification of the Settlement Class. The Settling Parties agree to request that the Bankruptcy Court conditionally certify, for purposes of effectuating this Settlement Agreement only, the Settlement Class pursuant to Bankruptcy Rule 7023. The Settlement Class shall be represented by Settlement Class Counsel.

6. Settlement Purposes Only. Hancock agrees to certification of the Settlement Class as described herein for purposes of effectuating this Settlement Agreement only and reserves all rights to object to the propriety of class certification in the Litigation in all other contexts and on any and all grounds, including, but not limited to, objections concerning the manageability or superiority of any putative class and the propriety of the legal basis for any putative class proceeding and the relief sought with respect thereto.

7. Vacating Certification of Settlement Class and Reservation of Rights. The certification of the Settlement Class shall be binding only with respect to the settlement of the

Litigation as contemplated herein. In the event that the Settlement Agreement is terminated pursuant to its terms or is not approved in all material respects by the Bankruptcy Court, or is reversed, vacated or modified in any material respect by the Bankruptcy Court or any other court, the certification of the Settlement Class shall be deemed to be vacated, the Litigation shall proceed as though the Settlement Class had never been certified, and no reference to the prior Settlement Class or any documents related thereto shall be made for any purpose.

B. Benefits to the Settlement Class

8. Consideration to Settlement Class Members; the Sale Event. In full and final satisfaction, compromise, settlement and release of the Released Claims, Hancock, according to the terms, conditions and procedures set forth in this Settlement Agreement, shall conduct for the benefit of the Settlement Class Members the Sale Event. Hancock shall have no obligation to provide any other benefits or amounts to Settlement Class Members other than the Sale Event.

9. Continued Compliance with FACTA. Hancock agrees to continue to abide by the credit and debit card digit and expiration date truncation requirements of FACTA.

10. Settlement Class Representative Incentive Award. Subject to Bankruptcy Court approval and the occurrence of the Effective Date, the Settlement Class Representative shall be entitled to receive an incentive award in the amount of \$4,000 from Hancock in compensation and consideration of her efforts as the Settlement Class Representative in the Litigation. Subject to Bankruptcy Court approval and the occurrence of the Effective Date, Hancock shall forward a check for the incentive award in the amount of \$4,000 payable to Kathy Aliano, in her personal capacity, to Settlement Class Counsel on or prior to thirty (30) days after the Effective Date.

11. Payment of Fees and Costs to Settlement Class Counsel. Subject to

Bankruptcy Court approval and the occurrence of the Effective Date, Settlement Class Counsel shall be entitled to recover appropriate fees and costs from Hancock pursuant to applicable law. Settlement Class Counsel agrees to make, and Hancock agrees not to oppose, a fee application not to exceed \$75,000 for allowable fees and \$5,000 for allowable costs, and, subject to Bankruptcy Court approval and the occurrence of the Effective Date, Hancock shall pay Settlement Class Counsel such amounts as are approved by the Bankruptcy Court on or prior to thirty (30) days after the later of (a) the Effective Date and (b) the date an order approving Settlement Class Counsel's fees and costs becomes Final. Payments made by Hancock pursuant to Paragraphs 10 and 11 shall constitute full and final satisfaction of any claim for fees and/or costs in connection with the Litigation and the Settlement Class Representative and Settlement Class Counsel, on behalf of themselves and all Settlement Class Members, agree that they shall not seek nor be entitled to any additional fees or costs under any theory of recovery. The Settlement Class Representative and Settlement Class Counsel further agree that they shall be responsible for justifying the amount of this payment to the Bankruptcy Court and submitting the necessary materials to the Bankruptcy Court to justify this payment. Hancock agrees that it will not object to Settlement Class Counsels' submission regarding, or request for approval of, this payment of fees and costs provided any submission or request is consistent with this Settlement Agreement. Hancock shall make this payment pursuant to this Paragraph to Settlement Class Counsel directly and Settlement Class Counsel shall provide counsel for Hancock with the pertinent taxpayer identification number and a Form W-9 for reporting purposes. Other than any reporting of this payment as required by this Settlement Agreement or law, which Hancock shall make, Settlement Class Counsel and the Settlement Class Representative shall alone be responsible for the reporting and payment of any federal, state and/or local income or other form of

tax on any payment made pursuant to this Paragraph.

C. **Release and Waiver**

12. **Release of Released Claims.** Upon the Effective Date, the Settlement Class Representative and each of the Settlement Class Members (and only these persons) shall be deemed to have, and by operation of the Approval Order shall have, fully, finally, and forever released, dismissed with prejudice, relinquished and discharged all Released Claims, including the Unknown Claims.

13. **Waiver.** Without admitting that California law is in any way applicable to this Settlement Agreement, in whole or in part, the Settling Parties stipulate and agree that, upon the Effective Date, the Settlement Class Representative and each Settlement Class Member shall be deemed to have, and by operation of the Approval Order shall have, expressly waived the provisions, rights and benefits of California Civil Code § 1542, which provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

The Settlement Class Representative and each Settlement Class Member shall be deemed to have, and by operation of the Approval Order shall have, expressly waived any and all provisions, rights and benefits conferred by any Federal law, any law of any state or territory of the United States, or principle of common law, which is similar, comparable or equivalent to California Civil Code § 1542. The Settlement Class Representative and/or any Settlement Class Member may hereafter discover facts in addition to or different from those which he or she now knows or believes to be true with respect to the subject matter of the Released Claims, but, upon the Effective Date, the Settlement Class Representative and the Settlement Class Members shall

be deemed to have, and by operation of the Approval Order, shall have fully, finally and forever settled and released any and all Released Claims, including the Unknown Claims, without regard to the subsequent discovery or existence of such different or additional facts.

14. Key Element. The Settlement Class Representative and each Settlement Class Member shall be deemed by operation of the Approval Order to have acknowledged that the foregoing release of the Released Claims, including the Unknown Claims, and waiver were separately bargained for and are a key element of the settlement embodied in this Settlement Agreement.

D. Settlement Class Notice

15. Publication and Internet Notice. The Settling Parties do not possess the names or addresses of the Settlement Class Members and have no means of identifying them through reasonable effort. Accordingly, the Settling Parties believe that the best notice practicable under the circumstances is by publication and internet posting.

16. Settlement Class Publication Notice. By the Settlement Class Publication Notice Deadline and subject to Bankruptcy Court approval of the Settlement Class Publication Notice, Hancock shall cause the publication of the Settlement Class Publication Notice once in the national edition of *USA Today*. Hancock shall be responsible for paying all costs related to the publication of the Settlement Class Publication Notice.

17. Internet Posting of Settlement Class Notice. In addition to publication of the Settlement Class Publication Notice, by the Settlement Class Publication Notice Deadline and subject to Bankruptcy Court approval of the Settlement Class Notice, the Settling Parties shall post the Settlement Class Notice 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. The Settlement Class Publication Notice shall identify the foregoing websites.

18. CAFA Notice. The Settling Parties agree to cooperate to cause service of the CAFA Notice. Hancock shall be responsible for paying all costs related to service of the CAFA Notice.

E. Settlement Approval Process

19. Transfer of the Litigation to the Bankruptcy Court. After execution of this Settlement Agreement, the Settling Parties shall jointly seek the transfer of the Litigation from the District Court to the Bankruptcy Court.

20. Preliminary Approval Order. After execution of this Settlement Agreement, the Settling Parties shall jointly seek the entry of the Preliminary Approval Order by the Bankruptcy Court. The Preliminary Approval Order shall provide, *inter alia*, that:

(a) the settlement proposed in the Settlement Agreement has been negotiated at arm's-length and is preliminarily determined to be fair, reasonable, adequate and in the best interests of the Settlement Class Representative, the Settlement Class, the Debtors and the Debtors' estates, creditors and other stakeholders pursuant to Bankruptcy Rules 7023 and 9019;

(b) the Settlement Class Notice, the Settlement Class Publication Notice and the notice procedures set forth herein comply fully with the requirements of Bankruptcy Rule 7023 and constitutional due process, constitute the best notice practicable under

the circumstances and is due and sufficient notice to all persons entitled to notice of the settlement of the Litigation;

(c) the CAFA Notice is sufficient and satisfies the requirements of 28 U.S.C. § 1715;

(d) the Settlement Class be certified and the Settlement Class Representative and Settlement Class Counsel be appointed subject to the terms and conditions set forth herein;

(e) the Final Approval Hearing be held before the Bankruptcy Court to determine whether the proposed settlement is fair, reasonable and adequate and should be approved by the Bankruptcy Court pursuant to Bankruptcy Rules 7023 and 9019; and

(f) in aid of the Bankruptcy Court's jurisdiction to implement and enforce the proposed settlement set forth in this Settlement Agreement, the Settlement Class Representative and the Settlement Class Members shall be preliminarily enjoined and barred from commencing or prosecuting any action or filing any claim in the Chapter 11 Case asserting any of the Released Claims, either directly, representatively, derivatively, or in any other capacity, whether by a proof of claim, motion, complaint, counterclaim, defense or otherwise, in any local, state or Federal court, or in any agency or other authority or forum wherever located; and any person or entity who knowingly violates such injunction shall pay the fees and costs incurred by the Settling Parties as a result of any violation of the foregoing; provided that the foregoing shall not be construed to prevent a Settlement Class Member from filing an objection to the settlement with the Bankruptcy Court as set forth herein.

21. Rights of Exclusion. Settlement Class Members shall have until the Settlement Class Response Deadline to “opt out” of the Settlement Class. All Settlement Class Members who properly file a written request for exclusion from the Settlement Class as described below shall: (a) be excluded from the Settlement Class, (b) have no rights as Settlement Class Members pursuant to this Settlement Agreement and (c) receive no benefits as provided herein. The Settlement Class Notice and the Settlement Class Publication Notice will advise Settlement Class Members of this option.

22. Opt-Out Procedures. Settlement Class Members who wish to opt out of the settlement set forth in this Settlement Agreement must submit a written request for exclusion that: (a) states the name, address and phone number of the person(s) seeking exclusion; (b) includes a copy of a Receipt attributable to the credit card(s) or debit card(s) of that person(s) or other documentation evidencing the receipt of a Receipt by such person(s); and (c) 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 Settlement Class Counsel and Hancock Counsel at the addresses provided in the Settlement Class Publication Notice and the Settlement Class Notice and must be received on or by the Settlement Class Response Deadline. No Settlement Class Member may opt-out through an actual or purported agent or attorney acting on behalf of the Settlement 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.

23. Failure to Comply with Opt-Out Procedures. A request for exclusion that (a) does not include all of the foregoing information, (b) is sent to any address other than the

ones designated in the Settlement Class Publication Notice and the Settlement Class Notice, (c) is sent by electronic means rather than by mail, (d) is not received on or by the Settlement Class Response Deadline or (e) fails to comply in some other way with the opt-out procedures set forth herein, shall be invalid and the person(s) serving such a request shall be a Member(s) of the Settlement Class and shall be bound as a Settlement Class Member(s) by the settlement set forth in this Settlement Agreement if approved by the Bankruptcy Court.

24. Objection Procedures. Settlement Class Members shall have until the Settlement Class Response Deadline to object to the settlement set forth in this Settlement Agreement. Any Settlement 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 Settlement Class Member shall be heard and no papers, briefs, pleadings or other documents submitted by any Settlement Class Member shall be received and considered by the Bankruptcy Court unless, prior to the Settlement Class Response Deadline, the Settlement Class Member files with the Bankruptcy Court and serves upon Settlement Class Counsel and counsel for Hancock, a written objection that includes: (a) a notice of intention to appear at the Final Approval Hearing; (b) a statement of membership in the Settlement Class; (c) a copy of a Receipt attributable to the credit card or debit card of the objecting Settlement Class Member or other documentation evidencing the receipt of a Receipt by such objecting Settlement Class Member; (d) the specific legal and/or factual grounds for the objection; and (e) all documents or writings that such Settlement Class Member intends to rely upon at the Final Approval Hearing and/or submit to the Bankruptcy Court for consideration. Any Settlement Class Member who fails to object in the manner prescribed herein shall be deemed to have waived his or her objection to entry of the Approval

Order and forever be barred from making any such objections in the Litigation or in any other action or proceeding. The Settlement Class Notice and the Settlement Class Publication Notice will advise Settlement Class Members of this option.

25. Final Approval Hearing. At or prior to the Final Approval Hearing, the Settling Parties shall jointly request that the Bankruptcy Court enter the Approval Order. The Approval Order shall provide, *inter alia*, that:

(a) the settlement set forth in the Settlement Agreement is fair, reasonable, adequate and in the best interests of the Settlement Class, the Debtors and the Debtors' estates, creditors and other stakeholders pursuant to Bankruptcy Rules 7023 and 9019;

(b) the Settlement Class meets the requirements for certification under Bankruptcy Rule 7023 in that: (i) the proposed Settlement Class is ascertainable and so numerous that joinder of all members of the class is impracticable; (ii) there are questions of law or fact common to the proposed Settlement Class and there is a well-defined community of interest among Settlement Class Members with respect to the subject matter of the Litigation; (iii) the claims of the Settlement Class Representative are typical of the claims of the members of the proposed Settlement Class; (iv) the Settlement Class Representative has fairly and adequately protected the interests of the Settlement Class Members; (v) a class action is superior to other available methods for an efficient adjudication of this controversy; (vi) the proposed Settlement Class Counsel is qualified to serve as counsel for the Settlement Class Representative and has fairly and adequately represented the Settlement Class; and (vii) common issues predominate over individual issues;

(c) the Settlement Class Notice, the Settlement Class Publication Notice and the notice procedures set forth herein comply fully with the requirements of

Bankruptcy Rule 7023 and due process, constitute the best notice practicable under the circumstances and is due and sufficient notice to all persons entitled to notice of the settlement of the Litigation;

(d) the Litigation be dismissed with prejudice, without fees or costs except as provided for in this Settlement Agreement;

(e) The Settlement Class Representative and all Settlement Class Members (other than those persons who opt out of the settlement as provided for in this Settlement Agreement) are permanently enjoined and barred from commencing or prosecuting any action or filing any claim in the Chapter 11 Case asserting any of the Released Claims, either directly, representatively, derivatively, or in any other capacity, whether by a proof of claim, motion, complaint, counterclaim, defense or otherwise, in any local, state or Federal court, or in any agency or other authority or forum wherever located; and any person or entity who knowingly violates such injunction shall pay the fees and costs incurred by the Settling Parties as a result of any violation of the foregoing; and

(f) for a reasonable amount of legal fees and expenses for Settlement Class Counsel and an incentive payment to the Settlement Class Representative in accordance with the terms and conditions set forth herein;

(g) the Bankruptcy Court shall retain continuing jurisdiction over the Litigation, the Settling Parties and all Settlement Class Members to determine all matters relating in any way to the Settlement Agreement, the Preliminary Approval Order and the Approval Order, including, but not limited to, their administration, implementation, interpretation or enforcement.

26. Settling Party's Option to Withdraw. A Settling Party shall have the

option to withdraw from the Settlement Agreement, and thereby render this settlement void, if:

- (a) the other Settlement Party breaches any provision of the Settlement Agreement or the Preliminary Approval Order, or fails to fulfill any material obligation hereunder or thereunder; or
- (b) the attorney general or other authorized officer of the United States or any state, or any representative of any local, state, or federal agency or branch of government, intervenes in the Litigation, or advises the Court in writing of opposition to the terms of the Settlement Agreement, and in the good-faith view of either of the Settling Parties, renders the Settlement Agreement ineffective as a practical matter to conclude all significant controversy against the Hancock Releasees. Hancock shall also have the option to withdraw from the Settlement Agreement, and thereby render this settlement void, if valid and timely requests for exclusion received from Settlement Class members seeking to opt out of the Settlement Class are received from twenty (20) or more persons.

27. Effect of Withdrawal or Non-approval. In the event that (a) either of the Settling Parties withdraws from the Settlement Agreement, (b) the Settlement Agreement, the Preliminary Approval Order and/or the Approval Order are not approved in all material respects by the Bankruptcy Court, (c) the Settlement Agreement, the Preliminary Approval Order and/or the Approval Order are reversed, vacated or modified in any material respect by the Bankruptcy Court or any other court or (d) the Effective Date does not occur for any reason, then (x) the Settlement Agreement, with the exception of Paragraph 4 hereof, shall be void and the terms and provisions thereof shall have no further force and effect with respect to the Settling Parties and shall not be used in this Litigation or in any other proceeding for any purpose, (y) the Settling Parties shall resume the Litigation as if no Settlement Agreement had been entered and (z) any and all orders entered pursuant to the Settlement Agreement shall be deemed vacated, including,

without limitation, any order certifying or approving certification of a class for settlement purposes; provided, however, that, if the Settling Parties agree to jointly appeal an adverse ruling and the Settlement Agreement and the Approval Order are upheld on appeal, then the Settlement Agreement and Approval Order shall be given full force and effect according to their terms. Notwithstanding the foregoing or any other provisions of the Settlement Agreement, an award to Settlement Class Counsel of fees and costs by the Bankruptcy Court in an amount less than \$75,000 and \$5,000, respectively, shall not be ground for a withdrawal from the Settlement Agreement by any of the Settling Parties and any appeal from such award shall not constitute an appeal of the settlement approved by the Bankruptcy Court.

F. Miscellaneous Provisions

28. Intent. The Settling Parties (a) acknowledge that it is their intent to consummate this Settlement Agreement and (b) agree to cooperate to the extent reasonably necessary to obtain Bankruptcy Court approval and implement all terms and conditions of the Settlement Agreement and to exercise their best efforts to accomplish the foregoing terms and conditions of the Settlement Agreement.

29. Complete Defense. This Settlement Agreement may be plead as a full and complete defense to, and may be used as the basis for an injunction against, any action, suit or other proceeding that may be instituted, prosecuted or attempted in breach of or contrary to this Settlement Agreement.

30. No Admission. Neither the Settlement Agreement, nor any act performed or document executed pursuant to, or in furtherance of, the Settlement Agreement: (a) is or may be deemed to be or may be used as an admission of, or evidence of, the validity of any Released Claim, or of any wrongdoing or liability of the Hancock Releasees, or any of

them; or (b) is or may be deemed to be or may be used as an admission of, or evidence of, any fault or omission of the Hancock Releasees, or any of them, in any civil, criminal or administrative proceeding in any court, administrative agency or other tribunal.

31. Limited Modification of the Automatic Stay. The automatic stay under section 362 of the Bankruptcy Code shall be modified only to the extent necessary to effectuate the terms of this Settlement Agreement.

32. Entire Agreement. The Settlement Agreement constitutes the entire agreement among the Settling Parties hereto and supersedes any prior negotiations, agreements or understandings among them. No representations, warranties or inducements have been made to any party concerning the Settlement Agreement or its exhibits other than as set forth herein.

33. Integration of Exhibits. All of the exhibits to the Settlement Agreement are material and integral parts hereof and are fully incorporated herein by this reference.

34. Headings. The headings contained herein are for reference purposes only and shall not affect in any way the meaning or interpretation of this Settlement Agreement

35. Amendment. The Settlement Agreement may be amended or modified only by a written instrument signed by or on behalf of all Settling Parties or their respective successors-in-interest.

36. Jointly Drafted. This Settlement Agreement shall be deemed to have been jointly drafted by the Settling Parties, and in construing and interpreting this Settlement Agreement, no provision shall be construed and interpreted for or against any of the Settling Parties because such provision or any other provision of the Settlement Agreement as a whole is purportedly prepared or requested by such Settling Party.

37. Governing Law. This Settlement Agreement shall be governed by and construed in accordance with the internal laws of the State of Delaware, without giving effect to applicable principles of conflicts of law to the extent that the application of the laws of another jurisdiction would be required thereby. The Settling Parties irrevocably consent to the jurisdiction of the courts of the State of Delaware and of any federal court located within the State of Delaware for all purposes in connection with any action or proceeding that arises out of or relates to this Settlement Agreement.

38. Jurisdiction. The Bankruptcy Court shall retain jurisdiction with respect to implementation and enforcement of the terms of the Settlement Agreement, and all Settling Parties submit to the jurisdiction of the Bankruptcy Court for purposes of implementing and enforcing the settlement embodied in the Settlement Agreement.

39. Notices. Except as otherwise provided herein, notice to the Settlement Class Representative, Settlement Class Counsel, Hancock and counsel for Hancock under this Settlement Agreement shall be sent to the following addresses:

Notice to Settlement Class Representative and Settlement Class Counsel:

Thomas A. Zimmerman, Jr., Esq.
ZIMMERMAN AND ASSOCIATES, P.C.
100 W. Monroe Street
Suite 1300
Chicago, IL 60603
(312) 440-4180 (facsimile)

Notice to Hancock and counsel for Hancock:

Robert J. Dehney, Esq.
Gregory T. Donilon, Esq.
MORRIS, NICHOLS, ARSHT & TUNNELL LLP
1201 N. Market Street
P.O. Box 1347
Wilmington, DE 19899-1347
(302) 658-3989 (facsimile)

40. Benefit of Agreement. The Settlement Agreement shall be binding upon, and inure to the benefit of, the successors and assigns of the Settling Parties; provided, however, that this Settlement Agreement is not intended to and does not create any type of third-party beneficiaries.

41. Acknowledgement. Each of the Settling Parties acknowledges that it has read all of the terms of this Settlement Agreement, has had an opportunity to consult with counsel of its own choosing or voluntarily waived such right and enters into those terms voluntarily and without duress.

42. Authorization. Settlement Class Counsel, on behalf of the Settlement Class, is expressly authorized by the Settlement Class Representative to take all appropriate action required or permitted to be taken by the Settlement Class pursuant to the Settlement Agreement to effect its terms, and also is expressly authorized to enter into any modifications or amendments to the Settlement Agreement on behalf of the Settlement Class which he deems appropriate. Each counsel or other person executing the Settlement Agreement or any of its exhibits on behalf of any Settling Party hereby warrants that such person has the full authority to do so.

43. Counterparts; Facsimile. The Settlement Agreement may be executed in one or more counterparts and by facsimile or electronic mail, all of which shall be deemed to be one and the same agreement.

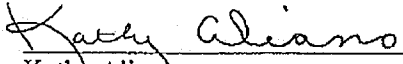
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IN WITNESS WHEREOF, the Settling Parties, intending to be legally bound hereby, have cause the Settlement Agreement to be executed as set forth below:

Dated: January 7, 2008

Dated: January 7, 2008

SETTLEMENT CLASS REPRESENTATIVE HANCOCK FABRICS, INC.

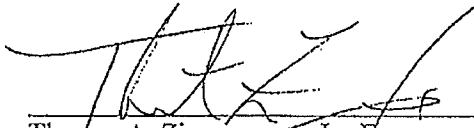


Kathy Aliano

By: Jeff Nerland
Title: Interim Chief Financial Officer

ZIMMERMAN AND ASSOCIATES, P.C.

MORRIS, NICHOLS, ARSHT
& TUNNELL LLP



Thomas A. Zimmerman, Jr., Esq.
100 W. Monroe Street
Suite 1300
Chicago, Illinois 60603
(312) 440-0020

Robert J. Dehney (No. 3578)
Gregory T. Donilon (No. 4244)
1201 North Market Street
P.O. Box 1347
Wilmington, Delaware 19899-1347
(302) 658-9200

*Counsel for Settlement Class Representative and
the Settlement Class*

Counsel for Hancock Fabrics, Inc.

1302857

IN WITNESS WHEREOF, the Settling Parties, intending to be legally bound hereby, have cause the Settlement Agreement to be executed as set forth below:

Dated: January 7, 2008

Dated: January 7, 2008

SETTLEMENT CLASS REPRESENTATIVE

HANCOCK FABRICS, INC.

Kathy Aliano



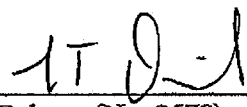
By: Jeff Nerland
Title: Interim Chief Financial Officer

ZIMMERMAN AND ASSOCIATES, P.C.

**MORRIS, NICHOLS, ARSHT
& TUNNELL LLP**

Thomas A. Zimmerman, Jr., Esq.
100 W. Monroe Street
Suite 1300
Chicago, Illinois 60603
(312) 440-0020

*Counsel for Settlement Class Representative and
the Settlement Class*



Robert J. Dehney (No. 3578)
Gregory T. Donilon (No. 4244)
1201 North Market Street
P.O. Box 1347
Wilmington, Delaware 19899-1347
(302) 658-9200

Counsel for Hancock Fabrics, Inc.

1302857

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

In re:	)	Chapter 11
)	
HANCOCK FABRICS, INC., <u>et al.</u>,	)	Case No. 07-10353 (BLS)
)	
Debtors.	)	(Jointly Administered)
_____)	
)	
KATHY ALIANO,	)	Adv. Proc. No. 08-_____ (BLS)
Plaintiff,)	
)	
v.	)	Class Action
)	
HANCOCK FABRICS, INC., <u>et al.</u> ,)	
Defendants.)	
_____)	

EXHIBITS

to

CLASS ACTION SETTLEMENT AGREEMENT AND RELEASE

- Exhibit 1** Settlement Class Notice
- Exhibit 2** Settlement Class Publication Notice

EXHIBIT 1

Settlement Class Notice

EXHIBIT 1

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

IN RE: KATHY ALIANO V. HANCOCK
FABRICS, INC., et al., CASE NO.: 08-_____

**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 __, 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 __, 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, Arsh & 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 _____, 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 _____, 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 _____, 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 __, 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 ____, 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.

1308288.5

EXHIBIT 2

Settlement Class Publication Notice

EXHIBIT 2

[PUBLISHED NOTICE OF CLASS ACTION SETTLEMENT]

This notice may affect your rights. Please read carefully.

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

IN RE: KATHY ALIANO V. HANCOCK FABRICS,
INC., et al., CASE NO.: 08-_____

SUMMARY NOTICE OF CERTIFIED CLASS ACTION SETTLEMENT

To: All persons who used a credit or debit card at any
HANCOCK FABRICS, INC. location on or after January
1, 2005 through August 8, 2007.

Your rights may be affected by the settlement of the above-captioned class action lawsuit. 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 United States Bankruptcy Court for the District of Delaware. For purposes of this settlement, the parties have submitted to the jurisdiction of the Bankruptcy Court.

Under the terms of the settlement, Hancock will hold a Sale Event at all of its regularly operating retail store locations on May __, 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. The Bankruptcy Court has appointed Thomas A. Zimmerman, Jr., Esq. as class counsel to represent the named plaintiff and the interests of the absent class members. The Bankruptcy Court will hold a final approval hearing in this case on April 17, 2008 at 10:00 a.m. (ET) at the United States Bankruptcy Court for the District of Delaware, 824 N. Market St., Sixth Floor, Courtroom 2, Wilmington, DE 19801 to consider

whether to approve the settlement and a request by class counsel for fees not to exceed \$75,000 and costs not to exceed \$5,000 and a \$4,000 incentive award for the class representative.

This is only a summary of the circumstances surrounding the litigation, the claims asserted, the class, the settlement and related matters. A full notice describing the settlement in more detail, the Complaint, the Settlement Agreement, the motion for preliminary and final approval of the settlement and the preliminary approval order are available online at (a) www.hancockfabrics.com; (b) www.hancockcreditorscommittee.com; (c) www.donlinrecano.com; and (d) www.attorneyzim.com. The full notice contains important information regarding the rights, obligations, requirements, and deadlines for class members to exclude themselves from the settlement or to object. Should you choose to exclude yourself from the class, any claim you assert against Hancock under FACTA may be barred by the claims bar date established in the bankruptcy case.

If you believe you are a member of the class, you may view these documents online at the addresses listed above, or you can request copies by sending a written request to class counsel at the following address: Thomas A. Zimmerman, Jr., Esq., Zimmerman and Associates, P.C., 100 W. Monroe St., Suite 1300, Chicago, IL 60603. Include your name and current address. You may also request copies by calling Class Counsel at (312) 440-0020.

IF YOU WOULD LIKE TO PARTICIPATE IN THE SETTLEMENT, YOU ARE NOT REQUIRED TO DO ANYTHING. If you wish to exclude yourself from or object to this settlement, you must file your written submission with the Bankruptcy Court and serve it on counsel to the parties by _____, 2008.

For more detailed information, you may review the pleadings, records, and other papers on file in this litigation, which may be inspected during regular business hours at the Court or online at the website addresses above.

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.

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

IF YOU HAVE ANY QUESTIONS OR CONCERNS, ADDRESS ALL INQUIRIES 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.