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Proposed Co-Counsel to the Debtors

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
RICHMOND DIVISION**

In re:)	Case No. 07-_____
)	Jointly Administered
MOVIE GALLERY, INC., et al., ¹)	Chapter 11
)	
Debtors.)	
)	

**APPLICATION OF THE DEBTORS FOR AN ORDER AUTHORIZING THE
EMPLOYMENT AND RETENTION OF KURTZMAN CARSON CONSULTANTS LLC
AS NOTICE, CLAIMS AND BALLOTING AGENT FOR THE DEBTORS AND
DEBTORS IN POSSESSION**

The above-captioned debtors (collectively, the “Debtors”) hereby file this application (the “Application”), for the entry of an order, substantially in the form of Exhibit A, authorizing the Debtors’ employment and retention of Kurtzman Carson Consultants LLC (“KCC”) as their notice, claims and balloting agent in connection with their chapter 11 cases. In support of this Application, the Debtors submit the Declaration of Jonathan Carson, the President of KCC (the

¹ The Debtors in the cases include: Movie Gallery, Inc.; Hollywood Entertainment Corporation; M.G. Digital, LLC; M.G.A. Realty I, LLC; MG Automation LLC; and Movie Gallery US, LLC.



“Carson Declaration”), which is attached hereto as Exhibit B. In further support of this Application, the Debtors respectfully state as follows:²

Jurisdiction

1. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This matter is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2).
2. Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409.
3. The statutory basis for the relief requested herein is 28 U.S.C. § 156(c).

Background

4. On the date hereof (the “Commencement Date”), each of the Debtors filed a petition with the Court under chapter 11 of the Bankruptcy Code, 11 U.S.C. §§ 101-1532 (the “Bankruptcy Code”). The Debtors are operating their businesses and managing their property as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. No request for the appointment of a trustee or examiner has been made in these chapter 11 cases, and no committees have been appointed or designated. Concurrently with the filing of this Application, the Debtors have sought procedural consolidation and joint administration of these chapter 11 cases.

5. The Debtors are the second largest North American home entertainment specialty retailer. They currently operate approximately 4,200 retail stores located throughout all 50 states. They rent and sell DVDs, videocassettes and video games through three distinct brands — Movie Gallery, Hollywood Video and Game Crazy.

² To the extent not set forth in the Carson Declaration, the facts and circumstances supporting this Application are set forth in the Affidavit of William C. Kosturos, Chief Restructuring Officer of Movie Gallery, Inc., in Support of First Day Motions (the “First Day Affidavit”), filed contemporaneously herewith.

6. In 2006, the aggregate annual revenues of the Debtors and their non-Debtor affiliates, including rental revenue and product sales, exceeded \$2.5 billion. Of this amount, approximately 56% was attributed to DVD rentals, 15% to the sale of previously-rented DVDs, VHS cassettes and video games, 13% to the sale of new and used gaming products, 7% to game rentals, 4% to the sale of concessions and other miscellaneous products, 3% to the sale of movie-related products and merchandise and 2% to VHS cassette rentals. As of September 2, 2007, the Debtors and their non-Debtor affiliates employed approximately 38,800 employees, including approximately 7,500 full-time employees and 31,300 part-time employees.

7. Several factors have led to the filing of these chapter 11 cases. First, the video rental industry is highly competitive. The Debtors face direct competition from competitors such as Blockbuster and Netflix and indirect competition from pay-per-view, cable television and big-box retailers who sell DVDs at increasingly lower prices. Furthermore, recent box office receipts of rental releases have declined over the previous year, contributing to an industry-wide decline in demand for video rentals. Finally, as the Debtors' financial performance has deteriorated, they have experienced contracting trade terms, which have had a negative impact on the Debtors' liquidity, which, in turn, has contributed to the Debtors' inability to comply with certain financial covenants under their credit agreements.

Relief Requested

8. By this Application, the Debtors seek entry of an order pursuant to 28 U.S.C. § 156(c) authorizing the employment and retention of KCC as their notice, claims and balloting agent in accordance with the terms and conditions set forth in that certain engagement

letter between the Debtors and KCC dated as of September 28, 2007 (the “Engagement Letter”), which is annexed as Exhibit 1 to Exhibit A attached hereto and incorporated herein by reference.

9. The Debtors may have more than 100,000 potential creditors. Upon information and belief, the office of the Clerk of the United States Bankruptcy Court for the Eastern District of Virginia (the “Clerk’s Office”) may not be equipped to efficiently and effectively serve notice on the large number of creditors and parties in interest and administer claims during these chapter 11 cases. Indeed, the sheer size and magnitude of the Debtors’ creditor body may make it impracticable for the Clerk’s Office to undertake that task.

10. Section 156(c) of title 28 of the United States Code, which governs the staffing and expenses of a bankruptcy court, authorizes the Court to use “facilities” or “services” other than the Clerk’s Office for administration of bankruptcy cases. It states:

Any court may utilize facilities or services, either on or off the court’s premises, which pertain to the provision of notices, dockets, calendars, and other administrative information to parties in cases filed under the provisions of title 11, United States Code, where the costs of such facilities or services are paid for out of the assets of the estate and are not charged to the United States. The utilization of such facilities or services shall be subject to such conditions and limitations as the pertinent circuit council may prescribe.

28 U.S.C. § 156(c).

11. The Debtors respectfully submit that the most effective and efficient manner of noticing creditors and parties in interest of the filing of the Debtors’ chapter 11 cases and other activities during the chapter 11 cases, transmitting, receiving, docketing and maintaining proofs of claim filed in connection with these cases and soliciting ballots in favor of the Debtors’ chapter 11 plan or plans, is for the Debtors to engage an independent third party to act as the Debtors’ notice, claims and balloting agent. Accordingly, the Debtors respectfully request that

KCC be appointed as agent for the Clerk's Office and, as such, be designated as the authorized repository for all proofs of claims filed in these chapter 11 cases and authorized and directed to maintain official claims registers for each of the Debtors and to provide the Clerk's Office with a certified duplicate thereof as directed by the Clerk's Office.

KCC's Qualifications

12. As specialists in legal administration services, KCC provides comprehensive solutions to design legal notice programs and manage claims issues for chapter 11 cases. With respect to chapter 11 case management, KCC specializes in noticing, claims processing, balloting and other administrative tasks necessary to operate chapter 11 cases effectively. Indeed, KCC has provided or currently provides identical or substantially similar services as those services proposed to be provided pursuant to the Engagement Letter in other chapter 11 cases in a variety of jurisdictions. See, e.g., In re HomeBanc Mortgage Corp., Case No. 07-11079 (Bankr. D. Del. Aug. 14, 2007); In re Dura Auto. Sys., Inc., Case No. 06-11202 (Bankr. D. Del. Oct. 31, 2006); In re Calpine Corp., Case No. 05-60200 (Bankr. S.D.N.Y. Dec. 22, 2005); In re Delphi Corp., Case No. 05-44481 (Bankr. S.D.N.Y. Dec. 1, 2005); In re Collins & Aikman Corp., Case No. 05-55927 (Bankr. E.D. Mich. May 26, 2005); In re Ultimate Elecs., Case No. 05-10104 (Bankr. D. Del. Jan. 13, 2005); In re Interstate Bakeries Corp., Case No. 04-45814 (Bankr. W.D. Mo. Oct. 25, 2004); In re NRG Energy, Inc., Case No. 03-13024 (Bankr. S.D.N.Y. May 16, 2003).

Services to Be Provided

13. Subject to further order of the Court and consistent with the Engagement Letter, the Debtors request the employment and retention of KCC to render noticing, claims processing

and balloting services. The nature and extent of the administrative services that KCC proposes to render to the Debtors are as follows.

I. Noticing

- a. Prepare and serve a variety of documents on behalf of the Debtors in these chapter 11 cases, including:
 - i. a notice of the commencement of the Debtors' chapter 11 cases and the initial meeting of creditors under section 341(a) of the Bankruptcy Code;
 - ii. a notice of any claims bar date;
 - iii. motions, applications and other requests for relief and related documents;
 - iv. objections, responses and replies with respect to requests for relief;
 - v. hearing agendas;
 - vi. objections to claims;
 - vii. any disclosure statements, chapter 11 plans and all documents related thereto; and
 - viii. all notices of the filing of the documents listed above, hearings and such other miscellaneous notices as the Debtors or the Court may deem necessary or appropriate for orderly administration of these chapter 11 cases.
- b. Maintain the notice lists in conformity with the Debtors' proposed case management procedures.
- c. Prepare for filing and file with the Clerk's Office a certificate or affidavit of service in conformity with Rule 5005-1 of the Local Bankruptcy Rules for the Eastern District of Virginia that includes (i) an organized list of persons on whom a document was served, along with their addresses and (ii) the date and manner of service.

II. Claims Administration

- a. Maintain official claims registers in the each of the Debtors' chapter 11 cases by docketing all proofs of claim and proofs of interest in a database

that includes the following information for each such claim or interest asserted:

- i. the name and address of the claimant or interest holder and any agent thereof, if appropriate;
 - ii. the date the proof of claim or proof of interest was received by KCC or the Court;
 - iii. the claim number assigned to the proof of claim or proof of interest; and
 - iv. the asserted amount and classification of the claim.
- b. Maintain copies of all proofs of claim and proofs of interest filed in these chapter 11 cases.
 - c. Update the official claims registers in accordance with Court orders.
 - d. Implement necessary security measures to ensure the completeness and integrity of the claims registers.
 - e. Transmit to the Clerk's Office a copy of the claims registers as requested.
 - f. Maintain an up-to-date mailing list for all entities that have filed proofs of claim or proofs of interest and make such list available upon request to the Clerk's Office or any party in interest.
 - g. Provide access to the public for examination of copies of the proofs of claim and proofs of interest filed in these chapter 11 cases.
 - h. Record all transfers of claims pursuant to Rule 3001(e) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") and, if directed to do so by the Court, provide notice of such transfers as required by Bankruptcy Rule 3001(e).
 - i. Establish a case website with case information, including key dates, service lists and free access to the case docket within three days of docketing.

III. Balloting Services

- a. Act as balloting agent, which may include some or all of the following services:

- i. printing ballots and coordinating the mailing of solicitation packages (*i.e.*, ballots, disclosure statement and chapter 11 plan) to all voting and non-voting parties and provide a certificate or affidavit of service with respect thereto;
- ii. establishing a toll-free “800” number to receive questions regarding voting with respect to any chapter 11 plan;
- iii. receiving ballots at a post office box, inspecting ballots for conformity to voting procedures, date stamping and numbering ballots consecutively and tabulating and certifying the results; and
- iv. preparing voting reports by plan class, creditor or shareholder and amount for review and approval by the Debtors and their counsel.

In addition to the foregoing services, KCC will provide such other noticing, claims processing, balloting and related administrative services as may be requested from time to time by the Debtors. Moreover, KCC shall be appointed as agent for the Clerk’s Office and, as such, designated as the authorized repository for all proofs of claim filed in these chapter 11 cases and authorized and directed to maintain official claims registers for each of the Debtors and to provide the Clerk’s Office with a certified duplicate thereof as directed by the Clerk’s Office.

Professional Compensation

14. The fees to be charged by KCC in connection with services to be provided to the Debtors in connection with their chapter 11 cases are set forth in the Engagement Letter. The Debtors respectfully submit that the rates to be charged by KCC for its services in connection with the notice, claims processing and balloting services are competitive and comparable to the rates charged by KCC’s competitors for similar services.

15. Furthermore, the Debtors respectfully submit that the fees and expenses incurred by KCC are administrative in nature and, therefore, should not be subject to standard fee application procedures of professionals. Courts in this jurisdiction and other jurisdictions have

approved similar relief in other chapter 11 cases. See, e.g., In re The Rowe Cos., Case No. 06-11142 (SSM) (Bankr. E.D. Va. Oct. 17, 2006); In re U.S. Airways, Inc., Case No. 04-13819 (SSM) (Bankr. E.D. Va. Sept. 14, 2004); In re NTELOS Inc., Case No. 03-32094 (DOT) (Bankr. E.D. Va. Mar. 4, 2003); In re U.S. Airways Group, Inc., Case No. 02-83984 (SSM) (Bankr. E.D. Va. Aug. 12, 2002); In re Motient Corp., Case No. 02-80125 (RGM) (Bankr. E.D. Va. Jan. 11, 2002); In re Heilig-Meyers Co., Case No. 00-34533 (DOT) (Bankr. E.D. Va. Aug. 16, 2000); see also In re Dura Auto. Sys., Inc., Case No. 06-11202 (Bankr. D. Del. Oct. 31, 2006); In re Calpine Corp., Case No. 05-60200 (Bankr. S.D.N.Y. Dec. 22, 2005); In re Tower Auto., Inc., Case No. 05-10578 (Bankr. S.D.N.Y. Feb. 8, 2005); In re NRG Energy, Inc., Case No. 03-13024 (Bankr. S.D.N.Y. May 16, 2003).

16. Thus, the Debtors respectfully request authorization to compensate KCC for services rendered to the Debtors without further order of this Court upon KCC's submission to the Debtors of monthly invoices summarizing in reasonable detail the services and expenses for which compensation is sought.

Waiver of Memorandum of Points and Authorities

17. The Debtors respectfully request that this Court treat this Application as a written memorandum of points and authorities or waive any requirement that this Application be accompanied by a written memorandum of points and authorities as described in Rule 9013-1(G) of the Local Bankruptcy Rules for the Eastern District of Virginia.

Notice

18. The Debtors have provided notice of this Application to: (a) the Office of the United States Trustee for the Eastern District of Virginia; (b) the entities listed on the

Consolidated List of Creditors Holding the 30 Largest Unsecured Claims filed pursuant to Bankruptcy Rule 1007(d); (c) counsel to the agent for the Debtors' proposed postpetition secured lenders; (d) counsel to the agent for the Debtors' prepetition first lien facilities; (e) counsel to the agent for the Debtors' prepetition second lien facility; (f) the trustee for the Debtors' 11% senior unsecured notes; (g) counsel to Sopris Capital Advisors LLC; (h) the trustee for the Debtors' 9.625% senior subordinated unsecured notes; (i) counsel for certain movie studios; (j) the Internal Revenue Service; (k) the Securities and Exchange Commission; and (l) the banks that process disbursements in the Debtors' cash management system (Bank of America, Canadian Imperial Bank of Commerce and Wachovia Bank). No later than two business days after entry of the order granting the relief requested in this Application, the Debtors shall serve this Application on the Debtors' known potential secured creditors who have filed financing statements or their known agents or trustees, if applicable; the Debtors' respectfully suggest that such service shall satisfy any requirements set forth in Local Bankruptcy Rule 2014-1. In light of the nature of the relief requested, the Debtors respectfully submit that no further notice is necessary.

WHEREFORE, for the reasons set forth herein and in the First Day Affidavit, the Debtors respectfully request that the Court enter an order, substantially in the form attached hereto as Exhibit A, (a) authorizing the Debtors to employ and retain KCC as their notice, claims and balloting agent effective as of the Commencement Date, (b) approving the terms of the Engagement Letter and (c) granting such other and further relief as is just and proper.

Richmond, Virginia
Date: October 16, 2007

Movie Gallery, Inc.;
Hollywood Entertainment Corporation;
M.G. Digital, LLC;
M.G.A. Realty I, LLC;
MG Automation LLC; and
Movie Gallery US, LLC

/s/ S. Page Todd

Name: S. Page Todd
Title: Executive Vice President, Secretary and
General Counsel

EXHIBIT A

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**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
RICHMOND DIVISION**

In re:)	Case No. 07-_____
)	Jointly Administered
MOVIE GALLERY, INC., et al., ¹)	Chapter 11
)	
Debtors.)	
)	

**ORDER AUTHORIZING THE EMPLOYMENT AND RETENTION
OF KURTZMAN CARSON CONSULTANTS LLC AS NOTICE, CLAIMS AND
BALLOTING AGENT FOR THE DEBTORS AND DEBTORS IN POSSESSION**

Upon the application (the “Application”)² of the above-captioned debtors (collectively, the “Debtors”) for the entry of an order (the “Order”) authorizing the Debtors to employ and retain Kurtzman Carson Consultants LLC (“KCC”) as their notice, claims and balloting agent, effective as of the date the Debtors filed their chapter 11 petitions (the “Commencement Date”), pursuant to 28 U.S.C. § 156(c), the Carson Declaration (as defined below) and the First Day

¹ The Debtors in the cases include: Movie Gallery, Inc.; Hollywood Entertainment Corporation; M.G. Digital, LLC; M.G.A. Realty I, LLC; MG Automation LLC; and Movie Gallery US, LLC.

² Capitalized terms used but not otherwise defined herein shall have the meanings set forth in the Application.

Affidavit; it appearing that the relief requested is in the best interests of the Debtors' estates, their creditors and other parties in interest; the Court having jurisdiction to consider the Application and the relief requested therein pursuant to 28 U.S.C. §§ 157 and 1334; consideration of the Application and the relief requested therein being a core proceeding pursuant to 28 U.S.C. § 157(b); venue being proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409; the Court having reviewed the Application and the declaration of Jonathan Carson in support thereof (the "Carson Declaration"); the Court being satisfied based on the representations made in the Carson Declaration that KCC does not hold or represent an interest adverse to the Debtors' estates; notice of the Application having been adequate and appropriate under the circumstances; and after due deliberation and sufficient cause appearing therefor, it is hereby ORDERED

1. The Application is granted in its entirety.
2. The Debtors are authorized to employ and retain KCC as their notice, claims and balloting agent in accordance with the terms and conditions set forth in the Application and that certain engagement letter between the Debtors and KCC dated September 28, 2007, which is attached hereto as Exhibit 1 (the "Engagement Letter").
3. KCC is authorized to render the noticing, claims processing and balloting services set forth in the Application, the Engagement Letter and this Order, which include the following:

I. Noticing

- a. Prepare and serve a variety of documents on behalf of the Debtors in these chapter 11 cases, including:
 - i. a notice of the commencement of the Debtors' chapter 11 cases and the initial meeting of creditors under section 341(a) of the Bankruptcy Code;

- ii. a notice of any claims bar date;
 - iii. motions, applications and other requests for relief and related documents;
 - iv. objections, responses and replies with respect to requests for relief;
 - v. hearing agendas;
 - vi. objections to claims;
 - vii. any disclosure statements, chapter 11 plans and all documents related thereto; and
 - viii. all notices of the filing of the documents listed above, hearings and such other miscellaneous notices as the Debtors or the Court may deem necessary or appropriate for orderly administration of these chapter 11 cases.
- b. Maintain the notice lists in conformity with the Debtors' proposed case management procedures.
 - c. Prepare for filing and file with the Clerk's Office a certificate or affidavit of service in conformity with Rule 5005-1 of the Local Bankruptcy Rules for the Eastern District of Virginia that includes (i) an organized list of persons on whom a document was served, along with their addresses and (ii) the date and manner of service.

II. Claims Administration

- a. Maintain official claims registers in the each of the Debtors' chapter 11 cases by docketing all proofs of claim and proofs of interest in a database that includes the following information for each such claim or interest asserted:
 - i. the name and address of the claimant or interest holder and any agent thereof, if appropriate;
 - ii. the date the proof of claim or proof of interest was received by KCC or the Court;
 - iii. the claim number assigned to the proof of claim or proof of interest; and
 - iv. the asserted amount and classification of the claim.

- b. Maintain copies of all proofs of claim and proofs of interest filed in these chapter 11 cases.
- c. Update the official claims registers in accordance with Court orders.
- d. Implement necessary security measures to ensure the completeness and integrity of the claims registers.
- e. Transmit to the Clerk's Office a copy of the claims registers as requested.
- f. Maintain an up-to-date mailing list for all entities that have filed proofs of claim or proofs of interest and make such list available upon request to the Clerk's Office or any party in interest.
- g. Provide access to the public for examination of copies of the proofs of claim and proofs of interest filed in these chapter 11 cases.
- h. Record all transfers of claims pursuant to Rule 3001(e) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") and, if directed to do so by the Court, provide notice of such transfers as required by Bankruptcy Rule 3001(e).
- i. Establish a case website with case information, including key dates, service lists and free access to the case docket within three days of docketing.

III. Balloting Services

- a. Act as balloting agent, which may include some or all of the following services:
 - i. printing ballots and coordinating the mailing of solicitation packages (*i.e.*, ballots, disclosure statement and chapter 11 plan) to all voting and non-voting parties and provide a certificate or affidavit of service with respect thereto;
 - ii. establishing a toll-free "800" number to receive questions regarding voting with respect to any chapter 11 plan;
 - iii. receiving ballots at a post office box, inspecting ballots for conformity to voting procedures, date stamping and numbering ballots consecutively and tabulating and certifying the results; and
 - iv. preparing voting reports by plan class, creditor or shareholder and amount for review and approval by the Debtors and their counsel.

4. In addition to the services set forth in the Application and the Engagement Letter, KCC is authorized to provide such other noticing, claims processing, balloting and related administrative services as may be requested from time to time by the Debtors.

5. KCC is appointed as agent for the office of the Clerk of the United States Bankruptcy Court for the Eastern District of Virginia (the “Clerk’s Office”) and, as such, is designated as the authorized repository for all proofs of claims filed in these chapter 11 cases and is authorized and directed to maintain official claims registers for each of the Debtors and to provide the Clerk’s Office with a certified duplicate thereof as directed by the Clerk’s Office.

6. Without further order of the Court, the Debtors are authorized to compensate KCC on a monthly basis, in accordance with the terms and conditions set forth in the Engagement Letter, upon KCC’s submission to the Debtors of monthly invoices summarizing in reasonable detail the services rendered and expenses incurred in connection with services provided by KCC to the Debtors.

7. The entry of this Order is conditional on the terms set forth herein. Any party in interest may object to the entry of this Order within ten (10) days after the date of entry of this Order (an “Objection”). If an Objection is timely filed and not withdrawn before such hearing, the Objection shall be heard at the next regularly-scheduled omnibus hearing date. At the hearing, the Court may vacate this Order, modify it or make it final. If no timely Objection is filed (or is filed and subsequently withdrawn), this Order shall become final at the conclusion of such objection period without further order of the Court. This Order shall remain in effect until further order of the Court. The modification or vacation of this Order shall not impair any action taken pursuant to it prior to its modification or vacation.

8. The Debtors are authorized to take all actions necessary to effectuate the relief granted pursuant to this Order in accordance with the Application.

9. The terms and conditions of this Order shall be immediately effective and enforceable upon its entry.

10. The Court retains jurisdiction with respect to all matters arising from or related to the implementation of this Order.

Richmond, Virginia

Date: October ____, 2007

United States Bankruptcy Judge

EXHIBIT 1

AGREEMENT FOR SERVICES

This Agreement is entered into as of the 28 day of September, 2007, between Movie Gallery US, LLC and Hollywood Entertainment Corporation (hereinafter referred to as the "Company"), and Kurtzman Carson Consultants LLC (hereinafter referred to as "KCC").

The services rendered by KCC will commence no later than the date of this Agreement and continue until either party shall exercise its rights of suspension or termination as set forth below.

"KCC" shall mean Kurtzman Carson Consultants LLC, its servants, agents, employees, licensees, and subcontractors, and the term "Company" shall include the servants, agents, employees, licensees and subcontractors of the Company.

Terms and Conditions

I. CONSULTATION SERVICES

A. KCC agrees to provide the Company with consulting services regarding Noticing, Claims Management and Reconciliation, Plan Solicitation, Balloting, Disbursements and any other services agreed upon by the parties.

B. KCC further agrees to provide computer software support and to educate and train the Company in the use of the support software, provide KCC's standard reports as well as consulting and programming support for Company requested reports, program modifications, data base modification, and/or other features in accordance with the KCC Fee Structure.

C. KCC may upon request provide a communications plan including but not limited to preparation of communications materials, dissemination of information and a call center staffed by KCC.

II. DOCUMENT MANAGEMENT

KCC agrees to provide copy and notice services consistent with the applicable Local Rules of the United States Bankruptcy Court and as requested by the Company and/or the Court.

III. PRICES, CHARGES AND PAYMENT

A. KCC agrees to charge and the Company agrees to pay KCC for its services, expenses and supplies at the rates or prices set by KCC and in effect on the day such services and/or supplies are provided to the Company, in accordance with the KCC Fee Structure.

B. KCC's prices are adjusted annually on January 1 of each year to reflect changes in the business and economic environment. No price increase of more than 10% shall be effective unless agreed upon in advance by the Company.

C. Company agrees to pay fees set by KCC and costs for expenses related to transportation, lodging, meals, publications, postage and other third-party charges, in addition to the hourly consulting fees set forth in the KCC Fee Structure. Where the fee for these items is expected to exceed \$10,000 in any single month, KCC may require advance payment.

D. KCC agrees to submit its invoice to the Company within fifteen (15) business days of the end of each calendar month. Company agrees that the amount invoiced is due and payable within thirty (30) days of its receipt of the invoice. If any amount is unpaid as of thirty (30) days from the receipt of the invoice, Company further agrees to pay a late charge, calculated as one and one-half percent (1-1/2%) of the amount unpaid every thirty (30) days. In the case of a dispute in the invoice amount, notice shall be given to KCC within thirty (30) days of receipt of the invoice by the Company. Late charges shall not accrue on any amounts in dispute. The undisputed balance of the invoice amount is due and payable in the normal course.

E. The parties intend that KCC shall be employed pursuant to 28 U.S.C. § 156(c) if the Company files for protection pursuant to chapter 11 of the Bankruptcy Code, 11 U.S.C. §§ 101-1532 (the "Bankruptcy Code"). If any such chapter 11 cases convert to cases under chapter 7 of the Bankruptcy Code, KCC will continue to be paid for its services until the claims filed in the chapter 11 cases have been processed completely; to that extent and to the extent that claims agent representation is necessary in the converted chapter 7 case(s), KCC will continue to be paid in accordance with 28 U.S.C. § 156(c) under the terms set out herein.

F. KCC shall receive a retainer in the amount of \$100,000.00 for services to be performed and expenses to be incurred in this matter. This shall be an "evergreen retainer;" invoices shall be drawn down from the retainer and Company's payments shall then be deposited into the retainer to return the retainer

to its original \$100,000.00. Such evergreen retainer shall be returned after the term of this Agreement.

IV. RIGHTS OF OWNERSHIP

A. The parties understand that the software programs and other materials furnished by KCC pursuant to this Agreement and/or developed during the course of this Agreement by KCC are the sole property of KCC. The term "program" shall include, without limitation, data processing programs, specifications, applications, routines and documentation. Company agrees not to copy or permit others to copy the source code from the support software or any other programs or materials furnished pursuant to this Agreement.

B. Company further agrees that any ideas, concepts, know-how or techniques relating to data processing or KCC's performance of its services developed during the course of its Agreement by KCC shall be the exclusive property of KCC.

C. Furthermore, upon Company's request at any time or times while this Agreement is in effect, KCC shall immediately deliver to Company, at Company's sole expense, any or all of the non-proprietary data and records held by KCC pursuant to this Agreement, in the form requested by Company.

V. NON-SOLICITATION

Company agrees that neither it nor its subsidiaries or other affiliated companies shall directly or indirectly solicit for employment, employ or otherwise retain staff of KCC during the term of this Agreement, nor for a period of twelve (12) months after termination of this Agreement unless mutually agreed upon by both parties; provided, however, the foregoing non-solicitation restriction shall not apply to any general solicitation for new employees that is not directed at a specific employee or employees of KCC.

VI. CONFIDENTIALITY

KCC, on behalf of itself and its employees, agrees to keep confidential all records and other information with respect to the Company. Company, on behalf of itself and its employees, agrees to keep all proprietary, non-public information with respect to KCC's system, procedures and software confidential; provided, however, that if either party is required to produce any such information by order of any governmental agency or other regulatory body it may, upon not less than five (5) business days' written notice to the other party, release the required information.

VII. SUSPENSION OF SERVICE AND TERMINATION

A. This Agreement shall remain in force until terminated or suspended by either party upon thirty (30) days' written notice to the other party, or for cause, in which event no notice shall be required. Cause shall mean an act or omission to act by KCC performed with either gross negligence or willful misconduct that causes, or an act or omission with the intent to cause, harm to the Company's reorganization under chapter 11 of the Bankruptcy Code, which harm shall be subject to the sole discretion of the Company. Cause shall also mean failure of the Company to pay the undisputed portions of KCC invoices for more than sixty (60) days from its receipt of an invoice, or the accrual of invoices or unpaid services in excess of the retainer held by KCC where KCC has any commercially reasonable expectation of non-payment.

B. In the event that this contract is terminated, regardless of the reason for such termination; KCC shall cooperate in good faith with the Company to maintain an orderly transfer of record keeping functions and shall provide all necessary staff, services and assistance required for an orderly transfer. Company agrees to pay for such services in accordance with KCC's then existing prices for such services.

VIII. SYSTEM IMPROVEMENTS

KCC will provide continuous improvements in the quality of service to the Company. KCC, therefore, reserves the right to make changes in operating procedure, operating systems, programming languages, general purpose library programs, application programs, time period of accessibility, types of terminal and other equipment and the KCC data center serving the Company, so long as any such changes do not materially interfere with ongoing services provided to the Company in connection with the Company's reorganization under chapter 11 of the Bankruptcy Code.

IX. LIMITATIONS OF LIABILITY AND INDEMNIFICATION

A. Company shall indemnify and hold KCC, its officers, employees and agents harmless against any losses, claims, damages, judgments, liabilities and expense (including reasonable counsel fees and expenses) resulting from action taken or permitted by KCC in good faith with due care and without gross negligence or willful misconduct in reliance upon instructions or orders received from Company as to anything arising in connection with its performance under this Agreement. KCC shall be without liability to Company with respect to any performance or non-performance, in accordance with the terms of this Agreement or instructions

properly received pursuant hereto, if done in good faith and without gross negligence or willful misconduct.

B. Except as provided herein, KCC's liability to the Company or any person claiming through or under the Company for any claim, loss, damages or expense of any kind, even if KCC has been advised of the possibility of such damages, whether direct or indirect and unless due to gross negligence or willful misconduct of KCC shall be limited to the total amount billed or billable to the Company for the portion of the particular work that gave rise to the loss or damage. In no event shall KCC's liability to the Company for any losses or damages, whether direct or indirect, arising out of this Agreement exceed the total amount billed to the Company and paid to KCC for the services contemplated under the Agreement. In no event shall KCC be liable for any indirect, special or consequential damages such as loss of anticipated profits or other economic loss in connection with or arising out of the services provided for in this Agreement.

C. Company is responsible for the accuracy of the programs and data it submits for processing to KCC and for the output. Company agrees to initiate and maintain backup files that would allow the Company to regenerate or duplicate all programs and data submitted by the Company to KCC.

D. Company agrees that except as set forth herein, KCC makes no representations or warranties, express or implied, including, but not limited to, any implied or express warranty of merchantability, fitness or adequacy for a particular purpose or use, quality, productiveness or capacity.

X. INDEPENDENT CONTRACTORS

Company and KCC are and shall be independent contractors of each other and no agency, partnership, joint venture or employment relationship shall arise, directly or indirectly, as a result of this agreement.

XI. NOTICES

All notices and requests in connection with this Agreement shall be given or made upon the respective parties in writing by certified U.S. mail, return receipt requested or by nationally recognized overnight courier and shall be deemed as given as of the third day following the day it is deposited in the U.S. Mail, postage pre-paid or on the day after the day it is sent if sent by nationally recognized overnight courier to the appropriate address set forth below:



Kurtzman Carson Consultants LLC
2335 Alaska Ave.
El Segundo, CA 90245
Attn: Sheryl Betance
Tel: (310) 823-9000
Fax: (310) 823-9133

Kirkland & Ellis LLP
200 E. Randolph Drive
Chicago, IL 60601
Attn: Anup Sathy, P.C.
Marc Carmel
Tel: (312) 861-2000
Fax: (312) 861-2200

Movie Gallery, Inc.
900 West Main Street
Dothan, AL 36301
Attn: General Counsel
Tel: (334) 702-2431
Fax: (334) 836-3626

Or to such other address as the party to receive the notice or request so designates by written notice to the other in accordance with this Section XI.

XII. APPLICABLE LAW

The validity, enforceability, and performance of this Agreement shall be governed by and construed in accordance with the laws of the State of Alabama.

XIII. ENTIRE AGREEMENT/ MODIFICATIONS

Each party acknowledges that it has read this Agreement, understands it, and agrees to be bound by its terms and further agrees that it is the complete and exclusive statement of the agreement between the parties, which supersedes and merges all prior proposals, understandings and other agreements, oral and written between the parties relating to the subject matter of this Agreement. Company represents that it has the authority to enter into this Agreement, and the Agreement is non-dischargeable under any applicable statute or law. If any provision of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall in no way be affected or impaired thereby. This Agreement may be modified only by a written instrument duly executed by an authorized representative of the Company and an officer of KCC.

XIV. ASSIGNMENT

This Agreement and the rights and duties hereunder shall not be assignable by the parties hereto except upon written consent of the other, which consent shall not be unreasonably withheld, with the exception that this Agreement can be assigned by KCC to a wholly-owned subsidiary of KCC.

XV. ARBITRATION

Unless the Company files for protection pursuant to chapter 11 of the Bankruptcy Code, in which case the bankruptcy court with jurisdiction over such cases shall have jurisdiction, any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration in accordance with the rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrator(s) shall be entered in any court having jurisdiction thereof. For that purpose, the parties hereto consent to the jurisdiction and venue of an appropriate court located in Houston County, State of Alabama.

XVI. ATTORNEYS' FEES

In the event that any legal action, including an action for declaratory relief, is brought to enforce the performance or interpret the provisions of this Agreement, the parties agree to reimburse the prevailing party's reasonable attorneys' fees, court costs, and all other expenses, which may be set by the court in the same action or in a separate action brought for that purpose, in addition to any other relief to which the prevailing party may be entitled.

[SIGNATURE PAGE TO IMMEDIATELY FOLLOW]



IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the first date mentioned above.

Kurtzman Carson Consultants LLC

A handwritten signature in dark ink, appearing to read 'Jonathan', is written over a horizontal line.

BY: Jonathan Carson

TITLE: President

Movie Gallery US, LLC and
Hollywood Entertainment Corporation

A handwritten signature in dark ink, appearing to read 'S. Page Todd', is written over a horizontal line.

BY: S. Page Todd

TITLE: Executive Vice President

EXHIBIT B

Richard M. Cieri (NY 4207122)
KIRKLAND & ELLIS LLP
Citigroup Center
153 East 53rd Street
New York, New York 10022-4611
Telephone: (212) 446-4800

Michael A. Condyles (VA 27807)
Peter J. Barrett (VA 46179)
KUTAK ROCK LLP
Bank of America Center
1111 East Main Street, Suite 800
Richmond, Virginia 23219-3500
Telephone: (804) 644-1700

and

Anup Sathy, P.C. (IL 6230191)
Marc J. Carmel (IL 6272032)
KIRKLAND & ELLIS LLP
200 East Randolph Drive
Chicago, Illinois 60601-6636
Telephone: (312) 861-2000

Proposed Co-Counsel to the Debtors

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
RICHMOND DIVISION**

In re:)	Case No. 07-_____
)	Jointly Administered
MOVIE GALLERY, INC., et al., ¹)	Chapter 11
)	
Debtors.)	
)	

**DECLARATION OF JONATHAN CARSON IN SUPPORT OF THE APPLICATION OF
THE DEBTORS FOR AN ORDER AUTHORIZING THE EMPLOYMENT AND
RETENTION OF KURTZMAN CARSON CONSULTANTS LLC AS NOTICE, CLAIMS
AND BALLOTING AGENT FOR THE DEBTORS AND DEBTORS IN POSSESSION**

I, Jonathan Carson, being duly sworn, state the following under penalty of perjury.

1. I am President of Kurtzman Carson Consultants LLC (“KCC”), a company specializing in the administration of large bankruptcy cases.

2. I submit this Declaration in support of the application (the “Application”) of the above-captioned debtors (collectively, the “Debtors”) for authorization pursuant to 28 U.S.C.

¹ The Debtors in the cases include: Movie Gallery, Inc.; Hollywood Entertainment Corporation; M.G. Digital, LLC; M.G.A. Realty I, LLC; MG Automation LLC; and Movie Gallery US, LLC.

§ 156(c) to employ and retain KCC as notice, claims and balloting agent to the Debtors in connection with their chapter 11 cases. Except as otherwise noted, I have personal knowledge of the matters set forth herein.

KCC's Qualifications

3. As specialists in legal administration services, KCC provides comprehensive solutions to design legal notice programs and manage claims issues for chapter 11 cases. With respect to chapter 11 case management, KCC specializes in noticing, claims processing, balloting and other administrative tasks necessary to operate chapter 11 cases effectively. Indeed, KCC has provided or currently provides identical or substantially similar services as those services proposed to be provided pursuant to the Engagement Letter in other chapter 11 cases in a variety of jurisdictions. See, e.g., In re HomeBanc Mortgage Corp., Case No. 07-11079 (Bankr. D. Del. Aug. 14, 2007); In re Dura Auto. Sys., Inc., Case No. 06-11202 (Bankr. D. Del. Oct. 31, 2006); In re Calpine Corp., Case No. 05-60200 (Bankr. S.D.N.Y. Dec. 22, 2005); In re Delphi Corp., Case No. 05-44481 (Bankr. S.D.N.Y. Dec. 1, 2005); In re Collins & Aikman Corp., Case No. 05-55927 (E.D. Mich. May 26, 2005); In re Ultimate Elecs., Case No. 05-10104 (Bankr. D. Del. Jan. 13, 2005); In re Interstate Bakeries Corp., Case No. 04-45814 (Bankr. W.D. Mo. Oct. 25, 2004); In re NRG Energy, Inc., Case No. 03-13024 (Bankr. S.D.N.Y. May 16, 2003).

Services to Be Provided

4. Subject to further order of this Court and consistent with that certain engagement letter between the Debtors and KCC dated as of September 28, 2007 (the "Engagement Letter"), a copy of which is annexed as Exhibit 1 to Exhibit A attached to the Application, the Debtors

request the employment and retention of KCC to render the following noticing, claims processing and balloting services:

I. Noticing

- a. Prepare and serve a variety of documents on behalf of the Debtors in these chapter 11 cases, including:
 - i. a notice of the commencement of the Debtors' chapter 11 cases and the initial meeting of creditors under section 341(a) of the Bankruptcy Code;
 - ii. a notice of any claims bar date;
 - iii. motions, applications and other requests for relief and related documents;
 - iv. objections, responses and replies with respect to requests for relief;
 - v. hearing agendas;
 - vi. objections to claims;
 - vii. any disclosure statements, chapter 11 plans and all documents related thereto; and
 - viii. all notices of the filing of the documents listed above, hearings and such other miscellaneous notices as the Debtors or the Court may deem necessary or appropriate for orderly administration of these chapter 11 cases.
- b. Maintain the notice lists in conformity with the Debtors' proposed case management procedures.
- c. Prepare for filing and file with the Clerk's Office a certificate or affidavit of service in conformity with Rule 5005-1 of the Local Bankruptcy Rules for the Eastern District of Virginia that includes (i) an organized list of persons on whom a document was served, along with their addresses and (ii) the date and manner of service.

II. Claims Administration

- a. Maintain official claims registers in the each of the Debtors' chapter 11 cases by docketing all proofs of claim and proofs of interest in a database

that includes the following information for each such claim or interest asserted:

- i. the name and address of the claimant or interest holder and any agent thereof, if appropriate;
 - ii. the date the proof of claim or proof of interest was received by KCC or the Court;
 - iii. the claim number assigned to the proof of claim or proof of interest; and
 - iv. the asserted amount and classification of the claim.
- b. Maintain copies of all proofs of claim and proofs of interest filed in these chapter 11 cases.
 - c. Update the official claims registers in accordance with Court orders.
 - d. Implement necessary security measures to ensure the completeness and integrity of the claims registers.
 - e. Transmit to the Clerk's Office a copy of the claims registers as requested.
 - f. Maintain an up-to-date mailing list for all entities that have filed proofs of claim or proofs of interest and make such list available upon request to the Clerk's Office or any party in interest.
 - g. Provide access to the public for examination of copies of the proofs of claim and proofs of interest filed in these chapter 11 cases.
 - h. Record all transfers of claims pursuant to Rule 3001(e) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") and, if directed to do so by the Court, provide notice of such transfers as required by Bankruptcy Rule 3001(e).
 - i. Establish a case website with case information, including key dates, service lists and free access to the case docket within three days of docketing.

III. Balloting Services

- a. Act as balloting agent, which may include some or all of the following services:

- i. printing ballots and coordinating the mailing of solicitation packages (*i.e.*, ballots, disclosure statement and chapter 11 plan) to all voting and non-voting parties and provide a certificate or affidavit of service with respect thereto;
- ii. establishing a toll-free “800” number to receive questions regarding voting with respect to any chapter 11 plan;
- iii. receiving ballots at a post office box, inspecting ballots for conformity to voting procedures, date stamping and numbering ballots consecutively and tabulating and certifying the results; and
- iv. preparing voting reports by plan class, creditor or shareholder and amount for review and approval by the Debtors and their counsel.

In addition to the foregoing, KCC will provide such other noticing, claims processing, balloting and related administrative services as may be requested from time to time by the Debtors. Moreover, KCC shall be appointed as agent for the office of the Clerk of the United States Bankruptcy Court for the Eastern District of Virginia (the “Clerk’s Office”) and, as such, designated as the authorized repository for all proofs of claims filed in these chapter 11 cases and authorized and directed to maintain official claims registers for each of the Debtors and to provide the Clerk’s Office with a certified duplicate thereof as directed by the Clerk’s Office.

Professional Compensation

5. The fees to be charged by KCC in connection with services to be provided to the Debtors in connection with their chapter 11 cases are set forth in the Engagement Letter. The compensation arrangement provided for in the Engagement Letter is consistent with and typical of arrangements entered into by KCC and other such firms with respect to rendering similar services for clients such as the Debtors.

6. The Debtors will pay KCC fees and expenses upon the submission of monthly invoices by KCC summarizing, in reasonable detail, the services and expenses for which compensation is sought.

KCC's Disinterestedness

7. KCC and certain of its employees may have in the past assisted, may currently assist and likely in the future will assist parties in interest in these chapter 11 cases in connection with matters unrelated (except as otherwise disclosed herein) to the Debtors and the chapter 11 cases. KCC has searched on its electronic database for its connection to the entities listed on Exhibit A hereto. The information listed on Exhibit A may have changed without our knowledge and may change during the pendency of the chapter 11 cases. Accordingly, KCC will update this Declaration as necessary and when KCC becomes aware of material information. The following is a list of the categories that KCC has searched:

<u>Exhibit</u>	<u>Category</u>
A(i)	Current and Recent Former Entities Affiliated with the Debtors
A(ii)	Significant Current and Recent Former Equity Investors
A(iii)	Current and Recent Former Directors and Officers
A(iv)	Significant Unsecured Creditors
A(v)	Parties to Significant Actual or Known-Potential Litigation
A(vi)	Significant Current and Recent Former Lenders
A(vii)	Banks with Significant Relationships
A(viii)	Significant Vendors
A(ix)	Significant Landlords
A(x)	Current and Former Indenture Trustees
A(xi)	Professionals Known or Expected to Represent and Advise the Debtors and Potential Significant Parties in Interest
A(xii)	Significant Tenants in Subleases
A(xiii)	Insurers and Insurance Brokers
A(xiv)	Significant Bondholders
A(xv)	Significant Utility Providers
A(xvi)	United States Trustee for the Eastern District of Virginia (and Key Staff Members)
A(xvii)	Significant Competitors

Exhibit	Category
A(xviii)	Key Staff for the United States Bankruptcy Court for the Eastern District of Virginia, Richmond Division
A(xix)	Letter of Credit Beneficiaries
A(xx)	Other Potential Parties In Interest

8. KCC's conflicts search of the parties in interest listed on Exhibits A(i) to A(xx) attached hereto (that KCC was able to locate using its reasonable efforts) reveals, to the best of KCC's knowledge, that certain of KCC's employees who previously worked at other claims, noticing and balloting agents that represented certain potential parties in interest in the chapter 11 cases have not worked on matters relating to the Debtors' restructuring efforts while at KCC.

9. Based on the conflicts search conducted to date and described herein, to the best of my knowledge, neither I, KCC, nor any employee thereof, insofar as I have been able to ascertain, have any connection with the Debtors, their creditors or any other parties in interest, their respective attorneys and accountants, the United States Trustee for the Eastern District of Virginia (the "U.S. Trustee"), or any person employed in the office of the U.S. Trustee, except as disclosed or otherwise described herein.

10. Additionally, I was formerly an associate at Kirkland & Ellis LLP, the Debtors' proposed lead counsel, between 1999 and 2001. My work was unrelated to the Debtors and the chapter 11 cases.

11. KCC will periodically review its files during the pendency of these chapter 11 cases to ensure that no conflicts or other disqualifying circumstances exist or arise. If any new relevant facts or relationships are discovered or arise, KCC will use reasonable efforts to identify such further developments and will file promptly a supplemental declaration.

12. I am not related or connected to and, to the best of my knowledge, no other professional of KCC is related or connected to any United States Bankruptcy Judge or the United States trustee for the Eastern District of Virginia or to any employee in the offices thereof.

13. There is no agreement or understanding between KCC and any other person or entity for sharing compensation received or to be received for services rendered by KCC in connection with these chapter 11 cases.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Executed on October 16, 2007

By: /s/ Jonathan Carson
Name: Jonathan Carson