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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.)	
)	

**MOTION OF THE DEBTORS FOR AN ORDER (A) AUTHORIZING THE DEBTORS
TO CONDUCT STORE CLOSING SALES, (B) APPROVING PROCEDURES WITH
RESPECT TO STORE CLOSING SALES AND (C) AUTHORIZING THE DEBTORS TO
PAY LIMITED LIQUIDATION AND CLOSURE PERFORMANCE BONUSES AND
SEVERANCE PAYMENTS IN CONNECTION WITH STORE CLOSING SALES**

The above-captioned debtors (collectively, the “Debtors”) hereby move the Court, pursuant to this motion (the “Motion”), for the entry of an order, substantially in the form of Exhibit A, (a) authorizing the Debtors to conduct store closing sales, (b) approving procedures with respect to store closing sales and (c) authorizing the Debtors to pay limited liquidation and

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.



closure performance bonuses and severance payments in connection with store closing sales. In support of this Motion, 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 bases for the relief requested herein are sections 105(a) and 363 of the Bankruptcy Code, 11 U.S.C. §§ 101-1532 (the “Bankruptcy Code”), and Rule 6006 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”).

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. 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 Motion, 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

² The facts and circumstances supporting this Motion 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.

states. They rent and sell DVDs, videocassettes and video games through three distinct brands — Movie Gallery, Hollywood Video and Game Crazy.

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.

8. As of the Commencement Date the Debtors operate approximately 4,200 store locations across all 50 states. Prior to the Commencement Date, the Debtors conducted an extensive review of their store portfolio with the objective of identifying and closing unprofitable

store locations. In August, 2007, the Debtors commenced store closing sales at approximately 73 locations, which were closed upon completion of the store closing sales. On September 25, 2007, the Debtors announced their decision to close approximately 520 additional store locations (the “Phase I Locations”) and, immediately thereafter, the Debtors began the process of winding down operations and liquidating inventory at those store locations. Additionally, the Debtors will continue to evaluate stores and will make decisions whether to close such other stores on a continuing basis throughout these chapter 11 cases.

9. Historically, the Debtors have closed underperforming or unprofitable store locations in the ordinary course of business. With well over 4,000 store locations, opening and closing stores is a routine, ordinary course activity for the Debtors. However, out of an abundance of caution, the Debtors seek authority to conduct, in their sole discretion, store closing sales to effectuate the liquidation of inventory, fixtures and equipment at the Phase I Locations that are already closed and at store locations that may be closed during these chapter 11 cases (the “Store Closing Sales”).

10. Moreover, to ensure that the Store Closing Sales proceed in an orderly and efficient manner, the Debtors seek approval of certain store closing procedures, as set forth on Exhibit 1 annexed to Exhibit A attached hereto (the “Store Closing Procedures”). The Debtors submit that the Store Closing Procedures are necessary to permit the Debtors to conduct the Store Closing Sales in an orderly and efficient manner without undue interruption.

11. Finally, to ensure that the Debtors retain sufficient personnel to conduct the Store Closing Sales, the Debtors also request the authority, in their sole discretion, to pay limited liquidation and closure performance bonuses to various district and store-level employees to

incentivize them to continue work during Store Closing Sales (the “Liquidation and Closure Performance Bonuses”). While the Debtors request considerable discretion in determining who will receive a Liquidation and Closure Performance Bonus and the amount of any Liquidation and Closure Performance Bonus, in no event will a Liquidation and Closure Performance Bonus exceed \$1.00 per hour worked per store-level employee for the duration of the Store Closing Sales, \$1.00 per week per store director or store manager for the duration of the Store Closing Sales and \$2,000 in total per district manager. The Store Closing Sales are anticipated to last between three and seven weeks, on average, and the Liquidation and Closure Performance Bonuses will be paid subsequent to the completion of each Store Closing Sale for affected store-level employees, store directors and store managers and the completion of all Store Closing Sales within a particular district for each district manager. The Debtors estimate that the aggregate amount of Liquidation and Closure Performance Bonuses are not expected to exceed \$670,000 for the Phase I Locations.

12. In addition, although the Debtors do not offer a formal severance plan, the Debtors have offered severance benefits (the “Severance Payments”) to approximately 11 district managers whose positions will be eliminated as a result of the Debtors’ closure of the Phase I Locations. The Severance Payments are not expected to exceed \$130,000.

13. There are no officers of the Debtors that are eligible for either the Liquidation and Closure Performance Bonuses or the Severance Payments.³

³ Moreover, the Debtors submit that no “insiders” of the Debtors, within the meaning of section 503(c) of the Bankruptcy Code, will be eligible for either the Liquidation and Closure Performance Bonuses or the Severance Payments.

Relief Requested

14. By this Motion, the Debtors seek the entry of an order (a) authorizing the Debtors to conduct Store Closing Sales, (b) approving the Store Closing Procedures and (c) authorizing the Debtors, in their sole discretion, to pay Liquidation and Closure Performance Bonuses and Severance Payments in connection with Store Closing Sales.

Basis for Relief

A. Sound Business Reasons Exist to Conduct Store Closing Sales

15. Section 363(b) of the Bankruptcy Code provides that a debtor “after notice and a hearing, may use, sell or lease, other than in the ordinary course of business, property of the estate.” To approve a use, sale or lease of property other than in the ordinary course of business, the court must find “some sound business purpose.” See, e.g., In re WBQ P’ship, 189 B.R. 97, 102 (Bankr. E.D. Va. 1995) (“pre-confirmation sales are permissible ‘when a sound business purpose dictates such action’”) (citation omitted); In re Lionel Corp., 722 F. 2d 1063, 1070 (2d Cir. 1983) (sales permitted prior to plan approval when there is some articulated business justification). As set forth herein, sound business reasons exist to justify the Debtors conducting Store Closing Sales in the ordinary course of business.

16. Any inability to conduct Store Closing Sales or any interruption in ongoing Store Closing Sales would have serious negative consequences for the Debtors. First, with respect to the more than 500 Store Closing Sales that are already well underway, any interruption in the sale process would delay the date by which the Debtors are able to vacate and reject the leases for the Phase I Locations, thereby potentially saddling the Debtors’ estates with unnecessary administrative obligations. Moreover, where the Debtors have already commenced the

liquidation of inventory, the Debtors cannot, as a practical matter, re-commence non-store closing business operations. With respect to stores that may be closed in the future, the Debtors seek the authority to conduct Store Closing Sales if the Debtors determine, in their business judgment, that such sales represent the most profitable means for disposing of the inventory, fixtures and equipment at such store locations. Indeed, if the Debtors close any material number of stores at the same time, the Debtors will generally be unable to absorb the excess inventory, fixtures and equipment into the Debtors' remaining store locations. Therefore, the best option for disposing of excess inventory, fixtures and equipment will often be to conduct a Store Closing Sale.

17. The Court and bankruptcy courts in other jurisdictions have approved similar requests by debtors to conduct store closing sales, finding that such relief is entirely consistent with the applicable provisions of the Bankruptcy Code. See, e.g., In re Rowe Furniture, Inc., Case No. 06-11143 (SSM) (Bankr. E.D. Va. Oct. 5, 2006) (order authorizing store closing sales pursuant to section 363(b) of the Bankruptcy Code); In re Mazur & Myer Inc., Case No. 05-15613 (RGM) (Bankr. E.D. Va. Dec. 9, 2005) (order authorizing, among other things, store closing sales seven day a week at all sale locations); see also In re Musicland Holding Corp., Case No. 06-10064 (Bankr. S.D.N.Y. Mar. 27, 2006) (order authorizing, among other things, agent to conduct store closing sales and approving procedures for rejection of leases); In re Ames Dept. Stores, Inc., 136 B.R. 357, 359 (Bankr. S.D.N.Y. 1992) (same); In re Zany Brainy, Inc., Case No. 01-1749 (Bankr. D. Del. Oct. 11, 2001) (same).

B. The Store Closing Procedures are Appropriate and Should Be Approved

18. As a necessary part of their business and reorganization strategy, the Debtors seek approval of the Store Closing Procedures, which are designed to streamline the store closing process and maximize the value of the Debtors' estates. Among other things, the Store Closing Procedures will permit the Debtors to conduct Store Closing Sales without complying with applicable state and local laws, statutes, rules or ordinances governing store closing or liquidation sales. The Debtors will comply with state and local health and safety laws and consumer protection laws in conducting the Store Closing Sales. However, many state and local laws, statutes, rules and ordinances require special and cumbersome licenses, waiting periods, time limits, creditor notification or other procedures for store closing sales not authorized by a bankruptcy court. To eliminate the time, delay and expense associated with the administrative procedures necessary for non-bankruptcy sales, the Debtors request that the Court approve the Store Closing Procedures pursuant to section 105(a) of the Bankruptcy Code or otherwise. Additionally, the Debtors request that the Court provide that the automatic stay and its injunctive powers apply to any actions taken by any parties or persons pursuant to such state and local laws. See Missouri v. U.S. Bankr. Court for E.D. of Ark., 647 F. 2d 768, 776 (8th Cir. 1981), cert. denied, 454 U.S. 1162 (1982) (stating that the automatic stay permits bankruptcy courts to enjoin enforcement of state regulatory laws that directly conflict with the control of the res or property by the bankruptcy court).

19. Federal bankruptcy law preempts state and local laws that conflict with the underlying policies of the Bankruptcy Code. See In re Shenango Group, Inc., 186 B.R 623, 628 (Bankr. W.D. Pa. 1995), aff'd sub nom. Belcufine v. Aloe, 112 F.3d 633 (3d Cir. 1997).

Although preemption of state law is inappropriate when such law relates to the protection of public health and safety, preemption is appropriate when the state law involved concerns economic regulation rather than the protection of public health and safety. See In re Baker & Drake, Inc., 35 F.3d 1348, 1353-54 (9th Cir. 1994). The Debtors submit that the ability to sell assets as contemplated herein lies at the heart of the bankruptcy power in the United States Constitution; the supremacy of a bankruptcy court's power over such sales is recognized by states and localities. See Missouri, 647 F.2d at 776 (holding that state regulations directly conflicting with bankruptcy court's control over the property of the debtors' estate fell outside section 362(b)(4)'s exception to the automatic stay); see also In re Cash Currency Exch., Inc., 762 F.2d 542, 555 (7th Cir. 1985), cert. denied sub nom. Fryzel v. Cash Currency Exch., Inc., 474 U.S. 904 (1985) (same); In re St. Louis South Park II, Inc., 111 B.R. 260, 263 (Bankr. W.D. Mo. 1990) (regulations against estate affecting pecuniary interest rather than matters of public safety and health matters not excepted by section 362). Accordingly, this Court should approve the Store Closing Procedures and authorize the Debtors to conduct the Store Closing Sales without complying with these non-bankruptcy law requirements.

20. Similarly, certain of the Debtors' store leases may contain provisions that purport to restrict the conduct of store closing sales. Such provisions have been held to be unenforceable in chapter 11 cases as they constitute an impermissible restraint on a debtors' ability to maximize the value of its assets under section 363 of the Bankruptcy Code. See, e.g., In re R.H. Macy & Co., Inc., 170 B.R. 69, 77 (Bankr. S.D.N.Y. 1994) (application of lease covenant to stay open was unenforceable because it would vitiate the store closing sale's purpose and function; namely the maximization of estate assets for the benefit of all creditors); Ames, 136 B.R. at 359

(enforcement of anti-store closing sale clause in lease “would contravene overriding federal policy requiring [d]ebtor to maximize estate assets”); In re Tobago Bay Trading Co., 112 B.R. 463, 467 (Bankr. N.D. Ga. 1990) (finding that a debtor’s efforts to reorganize would be significantly impaired to the detriment of creditors if lease provisions prohibiting a debtor from liquidating its inventory were enforced); In re Libson Shops, Inc., 24 B.R. 693, 695 (Bankr. E.D. Mo. 1982) (holding restrictive lease provisions unenforceable in chapter 11 case when debtor sought to conduct going-out-of-business sale). The court in Ames explained that a store closing sale is governed by, and is appropriate under, section 363, notwithstanding contrary lease terms:

One of the policies fundamental to the bankruptcy process is that of the trustee to marshal and maximize estate assets. Section 363(b) fosters that policy by allowing the sale of all, or substantially all, of the debtor’s assets outside the context of a plan of reorganization. [Here] [d]ebtor obtained court approval to conduct a [store closing] sale as a means of maximizing its assets while winding down its operations at [one of its stores]. This court believes that to enforce the anti-[going-out-of-business] sale clause of the Lease would contravene overriding federal policy requiring [d]ebtor to maximize estate assets by imposing additional constraints never envisioned by Congress.

Ames, 136 BR at 359. Therefore, to the extent any lease contains provisions that might restrict the Debtors’ ability to continue conducting the Store Closing Sales, the Debtors request the authority to proceed with the Store Closing Sales notwithstanding such provisions. Moreover, the Debtors respectfully request that this Court enjoin lessors and other counterparties to such leases from interfering with or restricting in any way the Debtors’ ability to conduct Store Closing Sales.

C. The Court Should Authorize the Liquidation and Closure Performance Bonuses and Severance Payments

21. Similarly, the Debtors respectfully request authority, in their sole discretion, to pay Liquidation and Closure Performance Bonuses and Severance Payments. The Liquidation and Closure Performance Bonuses and Severance Payments will ensure that employees, many of whom may be faced with increased responsibility and the imminent threat of termination, continue to fulfill their employment obligations prior to, and throughout, the Store Closing Sales. Without the Liquidation and Closure Performance Bonuses and the Severance Payments, the Debtors believe that many employees in the field would lack sufficient incentive to continue their employment with the Debtors. If too many employees leave, the Debtors would be faced with the possibility of conducting Store Closing Sales without adequate staffing, thereby diminishing the value that could be realized through the Store Closing Sales. Furthermore, if the Debtors are able to conduct Store Closing Sales more efficiently through the use of Liquidation and Closure Performance Bonuses and Severance Payments, the Debtors can minimize any accrual of administrative expenses by rejecting unnecessary unexpired leases pursuant to section 365 of the Bankruptcy Code as early as possible. The Debtors further submit that no Liquidation and Closure Performance Bonuses and Severance Payments will be paid to an “insider” of the Debtors within the meaning of section 503(c) of the Bankruptcy Code.

D. Procedures for Notice and a Hearing

22. Because the Debtors filed this Motion on the Commencement Date, they were unable to give interested parties, including the landlords for the Debtors’ various store locations, notice of the relief requested herein. To satisfy any due process concerns, the Debtors respectfully request that this Court enter a conditional order approving the following procedures:

- a. no later than two business days after the entry of such conditional order, the Debtors will serve a copy of this Motion and the order granting the Motion (the “Order”) by overnight delivery upon parties in interest, including each of the Debtors’ landlords, along with a notice informing such parties that they have 10 days from the date of service of this Motion and the Order to object; and
- b. if no objection is timely filed and served in accordance with these procedures, the Court shall grant the relief requested by the Debtors in this Motion without further notice or hearing on a final basis. If any objection(s) to the Order is timely and properly filed and served, the Debtors shall attempt to reach a consensual resolution of the objection. If the parties are unable to so resolve any objection, the Debtors shall schedule such objections for a hearing before this Court.

23. Other courts have previously approved the conditional order procedure proposed herein. See A.H. Robins Co., Inc. v. Piccinin, 788 F.2d 994, 1015 (4th Cir. 1986), cert. denied, 479 U.S. 876 (1986) (approving conditional order procedure in context of contested matters); In re N-Ren Corp., 79 B.R. 730, 732 (Bankr. S.D. Ohio 1987) (explaining function and purpose of conditional orders in contested matters and overruling objection to conditional order approving distribution of proceeds of asset sale); see also 11 U.S.C. § 105(a) (authorizing court to enter “any order, process, or judgment that is necessary or appropriate to carry out the provisions of [the Bankruptcy Code]”).

Waiver of Memorandum of Points and Authorities

24. The Debtors respectfully request that this Court treat this Motion as a written memorandum of points and authorities or waive any requirement that this Motion 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

25. The Debtors have provided notice of this Motion 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; and (k) the Securities and Exchange Commission. As described above, the Debtors shall serve a copy of this Motion and the Order on the landlords and each of the United States Attorneys Offices. 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 conduct Store Closing Sales, (b) approving the Store Closing Procedures, (c) authorizing the Debtors to pay Liquidation and Closure Performance Bonuses and Severance Payments to certain employees in connection with Store Closing Sales and (d) granting such other and further relief as is just and proper.

Richmond, Virginia

Dated: October 16, 2007

/s/ Michael A. Condyles

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EXHIBIT A

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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.)	
)	

**ORDER (A) AUTHORIZING THE DEBTORS TO CONDUCT STORE
CLOSING SALES, (B) APPROVING PROCEDURES WITH RESPECT TO STORE
CLOSING SALES AND (C) AUTHORIZING THE DEBTORS TO PAY LIMITED
LIQUIDATION AND CLOSURE PERFORMANCE BONUSES AND SEVERANCE
PAYMENTS IN CONNECTION WITH STORE CLOSING SALES**

Upon the motion (the “Motion”)² of the above-captioned debtors (collectively, the “Debtors”) for the entry of an order (the “Order”) (a) authorizing the Debtors to conduct store closing sales to effectuate the liquidation of inventory, fixtures and equipment at any store

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 Motion.

locations that have either already been closed or that may be closed during these chapter 11 cases (the “Store Closing Sales”), (b) approving certain store closing procedures as set forth on Exhibit 1 attached hereto (the “Store Closing Procedures”) and (c) authorizing the Debtors to pay limited liquidation and closure performance bonuses (the “Liquidation and Closure Performance Bonuses”) and payments pursuant to a severance plan (the “Severance Payments”) in connection with the Store Closing Sales and the First Day 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 Motion and the relief requested therein pursuant to 28 U.S.C. §§ 157 and 1334; consideration of the Motion 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; notice of the Motion having been adequate and appropriate under the circumstances; and after due deliberation and sufficient cause appearing therefor, it is hereby ORDERED

1. The Motion is granted in its entirety.
2. The Debtors are authorized to conduct Store Closing Sales, in their sole discretion.
3. The Store Closing Procedures are approved.
4. Subject to the Debtors’ compliance with the Store Closing Procedures and subject to the right of parties to object to the Store Closing Procedures, absent further order of this Court, landlords at or lessors of the Debtors’ store locations are hereby enjoined from interfering with or restricting in any way the Debtors’ ability to conduct Store Closing Sales.

5. The Debtors are authorized, in their sole discretion, to pay Liquidation and Closure Performance Bonuses in connection with the Store Closing Sales; provided, that the Liquidation and Closure Performance Bonuses shall not exceed \$1.00 per hour worked per store-level employee for the duration of the Store Closing Sales, \$100 per week per store director or store manager for the duration of the Store Closing Sales and \$2,000 in total per district manager; provided, further that no Liquidation and Closure Performance Bonuses will be paid to an “insider” of the Debtors within the meaning of section 503(c) of the Bankruptcy Code.

6. The Debtors are authorized, in their sole discretion, to provide Severance Payments to eligible store managers; provided, that no Severance Payments will be paid to an “insider” of the Debtors within the meaning of section 503(c) of the Bankruptcy Code.

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. Notwithstanding the foregoing, an objection filed by a party with respect to an individual store location shall only affect the finality of this Order with respect to such individual store location; this Order shall be final for all purposes. 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 Motion.

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

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**IN THE UNITED STATES BANKRUPTCY COURT
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In re:)	Case No. 07-_____
)	Jointly Administered
MOVIE GALLERY, INC., et al., ¹)	Chapter 11
)	
Debtors.)	
)	

STORE CLOSING SALE PROCEDURES

On October 16, 2007, the above-captioned debtors (collectively, the “Debtors”) filed petitions commencing cases under the Bankruptcy Code, 11 U.S.C. §§ 101-1532 (the “Bankruptcy Code”), in the United States Bankruptcy Court for the Eastern District of Virginia (the “Bankruptcy Court”).²

On October __, 2007, the Bankruptcy Court entered that certain Order (A) Authorizing the Debtors to Conduct Store Closing Sales, (B) Approving Procedures with Respect to Store

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 Order or the Store Closing Procedures (each as defined herein), where applicable.

Closing Sales and (C) Authorizing the Debtors to Pay Limited Liquidation and Closure Performance Bonuses and Severance Payments in Connection with Store Closing Sales (the “Order”). Pursuant to the Order, the Debtors may utilize the following store closing procedures (the “Store Closing Procedures”) in connection with the in-store liquidation of inventory, fixtures and equipment at closed store locations (the “Store Closing Sales”) during the pendency of these chapter 11 cases.

The following guidelines and procedures shall apply to Store Closing Sales:

1. The Debtors are authorized, on their own or through one or more agents, to liquidate inventory, fixtures and equipment by any commercially reasonable means, including, but not necessarily limited to, in-store liquidations using either the Debtors’ employees or a third-party agent (provided, to the extent applicable, the Debtors’ engagement of such an agent has been authorized and approved by the Bankruptcy Court), without the necessity of complying with applicable state or local laws, statutes, rules or ordinances and notwithstanding contrary provisions in any of the leases restricting such sales, and without further order of the Court.

2. The Store Closing Sales shall be conducted during hours that are deemed appropriate by the Debtors (irrespective of any operating hours restriction provision contained in any applicable lease); provided that the Debtors shall abide by any applicable mall guidelines regarding maintenance, security and trash removal.

3. The Store Closing Sales shall be conducted in accordance with applicable state and local “Blue Laws,” and thus, where applicable, no Store Closing Sales shall be conducted on Sunday unless the Debtors had been operating such stores prepetition on Sundays.

4. The Debtors shall not distribute handbills, leaflets or other written materials to customers outside of any stores’ premises unless permitted by the applicable lease or if

distribution is customary in the shopping center in which such store is located. The Debtors may solicit customers in the stores themselves. The Debtors shall not use flashing lights or any type of amplified sound to advertise the Store Closing Sales.

5. All display and hanging signs used by the Debtors in connection with Store Closing Sales shall be professionally lettered and all hanging signs shall be hung in a professional manner. Nothing contained herein shall be construed to create or impose upon the Debtors any additional restrictions not contained in the applicable lease. In addition, the Debtors shall be permitted to utilize exterior banners. The Debtors also may hang signage indicating the availability of the store's lease for potential assignment.

6. Unless the print media requires the bankruptcy case number, the Debtors may use the terms "Total Liquidation Sale," "Store Closing Sale" or such similar language, as applicable, to advertise the Store Closing Sales.

7. If Store Closing Sales are to be considered "final," conspicuous signs shall be posted in each of the affected stores to the effect that all sales are "final."

8. The Debtors shall not make any alterations to interior or exterior store lighting. No property of any landlord of a store shall be removed or sold during the Store Closing Sales.

9. The Debtors shall keep store premises and surrounding areas clear and orderly consistent with present practices.

10. The landlords of the stores shall have reasonable access to the store premises upon conclusion of the Store Closing Sales for the purpose of dressing store windows to minimize the appearance of a dark store.

11. Counsel for the Debtors, Kirkland & Ellis LLP, 200 East Randolph Drive, Chicago, Illinois 60601, (312) 861-2000, Attn: Ross Kwasteniet and Arun Kurichety, shall be

the designated contact for landlords should an issue arise concerning the conduct of a Store Closing Sale.