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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 THE ENTRY OF AN ORDER ESTABLISHING
NOTIFICATION AND HEARING PROCEDURES FOR TRANSFERS OF CERTAIN
COMMON STOCK AND FOR RELATED RELIEF**

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 attached hereto as Exhibit A, establishing notification and hearing procedures that must be satisfied before certain transfers of common stock of Movie Gallery, Inc. (“Movie Gallery”) or of any beneficial interest therein (the common stock of Movie Gallery and any beneficial interest

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.



therein, including Options (as defined in Paragraph 13.e hereof) to acquire such stock, the “Common Stock”) are deemed effective. 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, 362 and 541 of the Bankruptcy Code, 11 U.S.C. §§ 101-1532 (the “Bankruptcy Code”), and Rules 3002 and 9014 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.

The Debtors' Net Operating Losses and Tax Credits

8. The Debtors have incurred, and are currently incurring, significant net operating losses ("NOLs"). By this Motion, the Debtors seek authorization to protect and preserve their

valuable tax attributes, including NOL carryforwards and certain other tax and business credits (“Tax Credits” and with the NOLs, the “Tax Attributes”) by establishing notification and hearing procedures regarding the trading of Common Stock that must be complied with before trades or transfers of such securities become effective. If no trading restrictions are imposed by this Court, such trading or transfers could severely limit or even eliminate the Debtors’ ability to use their Tax Attributes (including their NOLs) — a valuable asset of the Debtors’ estates — which could lead to significant negative consequences for the Debtors, their estates and the overall reorganization process.

9. The NOLs are of significant value to the Debtors and their estates because the Debtors can carry forward their NOLs to offset their future taxable income for up to 20 taxable years, thereby reducing their future aggregate tax obligations. See 26 U.S.C. § 172. Such NOLs may also be utilized by the Debtors to offset any taxable income generated by transactions completed during the chapter 11 cases.

10. Unrestricted trading of Common Stock could adversely affect the Debtors’ NOLs if (a) too many 5% or greater blocks of Common Stock are created or (b) too many shares are added to or sold from such blocks such that, together with previous trading by 5% shareholders during the preceding three-year period, an ownership change within the meaning of section 382 of the Internal Revenue Code of 1986 (as amended, the “IRC”) is triggered prior to emergence and outside the context of a confirmed chapter 11 plan.

11. To preserve to the fullest extent possible the flexibility to craft a chapter 11 plan that maximizes the use of their NOLs, the Debtors seek limited relief that will enable them to

closely monitor certain transfers of Common Stock so as to be in a position to act expeditiously to prevent such transfers, if necessary, with the purpose of preserving the NOLs.

Relief Requested

12. The Debtors request that this Court grant relief immediately, thereby preserving the status quo in this regard, ordering that any purchase, sale or other transfer of Common Stock in violation of the procedures set forth below (including the notification procedures set forth in paragraph 13.c hereof) shall be void *ab initio* (the “Order”). Importantly, the relief requested herein directly affects only holders of more than 1.5 million shares of Common Stock (which the Debtors expect is six entities) and parties who are interested in purchasing sufficient Common Stock to result in such party becoming a holder of at least 1.5 million shares.

Procedure for Trading in Common Stock

13. By establishing procedures for continuously monitoring the trading of Common Stock, the Debtors can preserve their ability to seek substantive relief at the appropriate time, particularly if it appears that additional trading may jeopardize the use of their Tax Attributes (including their NOLs). Accordingly, the Debtors request that this Court enter an order establishing the following procedures (collectively, the “Procedures for Trading in Common Stock”):

- a. Any entity (as defined in section 101(15) of the Bankruptcy Code) who currently is or becomes a Substantial Shareholder (as such term is defined in paragraph (e) below) must file with the Court and serve on the Notice Parties (as defined below) a declaration of such status, substantially in the form of Exhibit 1 annexed to Exhibit A attached hereto, on or before the later of (i) 40 days after the date of the Notice of Order (as defined herein) and (ii) ten days after becoming a Substantial Shareholder.
- b. Prior to effectuating any transfer of Common Stock that would result in an increase in the amount of Common Stock of which a Substantial

Shareholder has Beneficial Ownership or would result in an entity becoming a Substantial Shareholder, such Substantial Shareholder must file with the Court and serve on the Notice Parties an advance written declaration of the intended transfer of Common Stock in the form of Exhibit 2 annexed to Exhibit A attached hereto (each, a “Declaration of Intent to Purchase, Acquire or Otherwise Accumulate Common Stock”).

- c. Prior to effectuating any transfer of Common Stock that would result in a decrease in the amount of Common Stock of which a Substantial Shareholder has Beneficial Ownership or would result in an entity ceasing to be a Substantial Shareholder, such Substantial Shareholder must file with the Court and serve on the Notice Parties an advance written declaration of the intended transfer of Common Stock in the form of Exhibit 3 annexed to Exhibit A attached hereto (each, a “Declaration of Intent to Sell, Trade or Otherwise Transfer Common Stock” and with a Declaration of Intent to Purchase, Acquire or Accumulate Common Stock, each, a “Declaration of Proposed Transfer”).
- d. The Debtors shall have 30 calendar days after receipt of a Declaration of Proposed Transfer to file with the Court and serve on such Substantial Shareholder and the Notice Parties an objection to any proposed transfer of Common Stock described in the Declaration of Proposed Transfer on the grounds that such transfer might adversely affect the Debtors’ ability to utilize their Tax Attributes. If the Debtors file an objection, such transaction would not be effective unless such objection is withdrawn by the Debtors or such transaction is approved by a final order of the Court that becomes nonappealable. If the Debtors do not object within such 30-day period, such transaction could proceed solely as set forth in the Declaration of Proposed Transfer. Further transactions within the scope of this paragraph must be the subject of additional notices in accordance with the procedures set forth herein, with an additional 30-day waiting period for each Declaration of Proposed Transfer.
- e. For purposes of these procedures: (i) a “Substantial Shareholder” is any entity that has Beneficial Ownership of at least 1,500,000 shares of Common Stock (representing approximately 4.5% of all issued and outstanding shares³); (ii) “Beneficial Ownership” of Common Stock includes direct and indirect ownership (i.e., a holding company would be considered to beneficially own all shares owned or acquired by its subsidiaries), ownership by such holder’s family members and entities acting in concert with such holder to make a coordinated acquisition of

³ Based on approximately 33,000,000 shares of common stock of Movie Gallery outstanding as of September 30, 2007.

stock and ownership of shares that such holder has an option to acquire; and (iii) an “Option” to acquire stock includes any contingent purchase, warrant, convertible debt, put, stock subject to risk of forfeiture, contract to acquire stock or similar interest, regardless of whether it is contingent or otherwise not currently exercisable.

- f. The “Notice Parties” are: (i) the Debtors, Movie Gallery, Inc., 900 West Main Street, Dothan, Alabama 36301, Attn: S. Page Todd; (ii) counsel to the Debtors, Kirkland & Ellis LLP, 200 East Randolph Drive, Chicago, Illinois 60601, Attn: Anup Sathy, P.C. and Marc J. Carmel and Kutak Rock LLP, Bank of America Center, 1111 East Main Street, Suite 800, Richmond, Virginia 23219, Attn: Michael A. Condyles and Peter J. Barrett; (iii) the Office of the United States Trustee, 600 East Main Street, Suite 301, Richmond, Virginia 23219; (iv) counsel to any statutory committee appointed in these chapter 11 cases; (v) counsel to the agents for the DIP Lenders and the first lien lenders, Skadden Arps Slate Meagher & Flom LLP, Four Times Square, New York, New York 10036, Attn: Jay M. Goffman; and (vi) counsel to the agent for the second lien lenders, Milbank, Tweed, Hadley & McCloy LLP, One Chase Manhattan Plaza, New York, New York 10005, Attn: Matthew S. Barr.
- g. The Debtors may waive in writing, in their sole discretion, any and all restrictions, stays and notification procedures contained in this Motion or in any order entered with respect hereto.

Basis for Relief

A. The Significance of the Debtors’ Tax Attributes

14. As of the Commencement Date, the Debtors had NOLs of approximately \$450 million and total Tax Attributes (including NOLs) of approximately \$485 million. These Tax Attributes could translate into potential future tax savings for the Debtors of approximately \$195 million, based on a combined federal and state income tax rate of approximately 40%.

15. Sections 39(a), 59(e), 172(b) and 904(c) of the IRC permit corporations to carry forward Tax Attributes to offset future taxable income and tax liability, thereby significantly improving such corporations’ liquidity in the future. Thus, the Debtors’ Tax Attributes are a valuable asset of the Debtors’ estates whose availability will facilitate the Debtors’ successful

reorganization and serve to improve creditor recoveries. The Debtors' ability to use their Tax Attributes, however, could be limited severely under sections 382 and 383 of the IRC (without the relief requested herein) as a result of the trading and accumulation of Common Stock prior to the consummation of a chapter 11 plan.

B. The Provisions of Sections 382 and 383 of the IRC

16. Section 382 limits the amount of taxable income that can be offset by a corporation's NOLs in taxable years (or a portion thereof) following an ownership change.⁴ Generally, an "ownership change" occurs if the percentage (by value) of the stock of a corporation owned by one or more 5% shareholders has increased by more than 50 percentage points over the lowest percentage of stock owned by such shareholders at any time during the three-year testing period ending on the date of the ownership change.⁵ For example, an ownership change would occur in the following situation:

An individual ("U") owns 50.1% of the stock of corporation XYZ. U sells her 50.1 % interest to another individual ("B"), who owns 5% of XYZ's stock. Under section 382, an ownership change has occurred because B's interest in XYZ has increased more than 50 percentage points (from 5% to 55.1%) during the testing period. The same result would follow even if B owned no XYZ stock prior to the transaction with U because B both becomes a 5% shareholder and increases his ownership by more than 50% percentage points during the testing period.

⁴ Similarly, section 383 of the IRC limits the amount of tax liability that can be offset by Tax Credits following an ownership change.

⁵ In general, under section 382(g)(4)(A), all stockholders who individually hold less than 5% of the stock of a company are deemed to be a single 5% stockholder throughout the three-year testing period and transfers between such shareholders are disregarded for purposes of determining whether an ownership change has occurred (the "public group rule"). Thus, so long as 50% or more of the stock is owned by less than 5% stockholders throughout the three-year testing period, there will be no change of control under section 382. Accordingly, the Debtors do not seek to impose the requested notice and hearing procedures on trading by stockholders holding less than 4.5% of Movie Gallery stock except if such stockholders have an intent to accumulate a 4.5% or greater block of stock or add or sell shares to or from such a block.

17. If an ownership change occurs, section 382 limits the amount of a corporation's future income that may be offset by its "pre-change losses" to an annual amount equal to the value of the corporation prior to the ownership change multiplied by the long-term tax exempt rate. See 26 U.S.C. § 382(b). "Pre-change losses" would include (a) NOLs and (b) any net unrealized built-in loss (as defined in section 382(h)(3)).

18. At the same time, section 383 of the IRC limits the amount of tax liability that may be offset by "pre-change tax credits" to the liability attributable to the amount of income that could have been offset by pre-change losses but was not so offset. "Pre-change tax credits" would include Tax Credits.

19. The formulaic limitations under sections 382 and 383 of the IRC can severely restrict the ability to use "pre-change losses" and "pre-change tax attributes" because the value of the stock of a distressed company may be quite low. By way of illustration, if the Debtors were to undergo an ownership change today, they would be permitted to offset with pre-change losses no more than approximately \$415,800 of their income in each post-change tax year, which amount is the current market capitalization of Movie Gallery (approximately \$9.24 million, as of October 15, 2007) multiplied by 4.5% (the approximate long-term tax exempt rate for October 12, 2007). Taxable income in excess of this amount would generally be taxable to the Debtors at a combined federal and state income tax rate of approximately 40%.

20. The problem facing the Debtors, which this Motion seeks to resolve, is that if too many equity holders transfer their equity interests prior to the effective date of a chapter 11 plan, such transfers may trigger an ownership change. The Debtors need the ability to monitor, and possibly object to, changes in ownership of Common Stock to preserve flexibility in operating

their business during the pendency of the chapter 11 cases, in crafting a chapter 11 plan and, finally, in maximizing their ability to reduce future federal income taxes by offsetting their post-reorganization income with the NOLs.

21. Approximately \$400 million of the Debtors' NOLs are currently subject to limitation under section 382 of the IRC of approximately \$30 million per year as a result of previous ownership changes that occurred in connection with certain corporate acquisitions. This does not currently pose a meaningful limitation on the amount of taxable income that the Debtors may offset each year, and any portion of the annual limitation that is unused in a given year may be carried forward and applied to increase the amount of taxable income that can be offset in subsequent years. See 26 U.S.C. § 382(b)(2). But, as illustrated above, if the Debtors were to undergo another ownership change today, the amount of the resulting section 382 limitation would be significantly lower than the existing section 382 limitation, and the Debtors would be permitted to offset with pre-change losses a significantly smaller amount of income in each post-change tax year.

C. The Requested Relief is Narrowly Tailored

22. The requested relief does not bar all trading of Common Stock. Moreover, the requested relief does not prohibit the trading in the Debtors' claims. At this early juncture, the Debtors seek to establish procedures only to monitor those types of stock trading that would pose a serious risk under the section 382 ownership change test to preserve the Debtors' ability to seek substantive relief if it appears that a proposed trade will jeopardize the use of their Tax Attributes. The procedures requested by the Debtors in this Motion would permit most stock and all claims trading to continue, subject to applicable law.

D. The Requested Relief Is Necessary to Avoid Irreparable Harm to the Debtors

23. Once a Tax Attribute is limited under section 382, its use is limited forever, and once an equity interest is transferred, it cannot be undone. The relief sought herein is necessary to avoid an irrevocable loss of the Tax Attributes and the irreparable harm that would be caused by unrestricted trading in Common Stock and the Debtors' resulting inability to offset taxable income with their Tax Attributes.

24. Absent granting the relief requested herein on an immediate basis, the Debtors could be irreparably harmed by the mere filing of this Motion. If the Debtors filed this Motion in accordance with the usual notice procedures set forth in the Bankruptcy Rules, the Debtors believe it is likely that a flurry of trading in Common Stock could follow. Parties holding Common Stock could rush to transfer such Common Stock before the restrictions on such trading are imposed by this Court. Such trading would put the Tax Attributes in jeopardy, as described above, and would therefore be counterproductive to the Debtors' objectives in seeking this relief. Accordingly, the Debtors request that the procedures described herein be approved.

E. Provisions of the Proposed Order

25. No later than two business days following entry of the Order, the Debtors shall serve by first class mail, postage prepaid a notice in substantially the form of Exhibit 4 annexed to Exhibit A attached hereto (the "Notice of Order") to (a) the Notice Parties, (b) the entities listed on the Consolidated List of Creditors Holding the 30 Largest Unsecured Claims filed pursuant to Bankruptcy Rule 1007(d), (c) the transfer agents for any Common Stock, (d) the Securities and Exchange Commission, (e) the Internal Revenue Service and (f) those parties who have requested service of papers pursuant to Bankruptcy Rule 2002.

26. All transfer agents for any Common Stock shall be required to serve the Notice of Order on all holders of shares of Common Stock in excess of 1,500,000 shares registered with such transfer agent no later than five business days after being served with the Notice of Order; provided that if any transfer agent provides the Debtors' undersigned counsel with the names and addresses of all holders of such shares of Common Stock registered with such transfer agent no later than three business days after being served with the Notice of Order, the Debtors' undersigned counsel shall be required to serve the Notice of Order on such holders.

27. All registered holders described in Paragraph 26 hereof shall be required to serve the Notice of Order on any holder for whose account such registered holder holds such Common Stock in excess of 600,000 shares and so on down the chain of ownership for all such holders of Common Stock in excess of 600,000 shares.

28. Until a Notice of Final Order (as defined below) is served, any entity or broker or agent acting on such entity's behalf who sells in excess of 400,000 shares of Common Stock to another entity shall be required to serve a copy of the Notice of Order on such purchaser of such Common Stock or any broker or agent acting on such purchaser's behalf.

29. Additionally, the Debtors will publish the Notice of Order (modified for publication) in The Wall Street Journal and the Washington Post, will submit the Notice of Order (modified for publication) to Bloomberg Professional Service for potential publication by Bloomberg and submit the Notice of Order (modified for posting) with the Depository Trust Company for potential posting by the Depository Trust Company as soon as practicable after entry of the Order.

30. The Order shall be conditional, on the terms set forth therein. This will allow parties in interest to file an objection pursuant to the procedures set forth in the Order and seek to be heard with respect to the Motion, if necessary. If no objections are timely filed (or if any such timely filed objections are withdrawn before a hearing), the Order shall become final (the “Final Order”). If the Order becomes final, the Debtors shall serve a Notice of Order modified to reflect that the Order has become final (the “Notice of Final Order”) to the same entities that received the Notice of Order, as set forth in Paragraph 25 above.

31. All transfer agents for any Common Stock shall be required to serve the Notice of Final Order on all holders of such Common Stock registered with such transfer agent no later than five business days after being served with the Notice of Final Order; provided that if any transfer agent provides the Debtors’ undersigned counsel with the names and addresses of all holders of such Common Stock registered with such transfer agent no later than three business days after being served with the Notice of Final Order, the Debtors shall be required to serve the Notice of Final Order on such holders.

32. All registered holders described in Paragraph 31 hereof shall be required to serve the Notice of Final Order on any holder for whose account such registered holder holds such Common Stock and so on down the chain of ownership for all such holders of Common Stock.

33. At least on the first business day of each calendar quarter after the date of the entry of the Order during these chapter 11 cases, all transfer agents for any Common Stock shall be required to serve the Notice of Order until the Notice of Final Order has been served, and then the Notice of Final Order, on all holders of shares of Common Stock in excess of 600,000 shares registered with such transfer agent; provided that if any transfer agent provides the Debtors’

undersigned counsel with the names and addresses of all holders of such shares of Common Stock registered with such transfer agent no later than five business days prior to the expiration of an applicable calendar quarter, the Debtors shall be required to serve the Notice of Final Order on such holders.

34. All registered holders described in Paragraph 33 hereof shall be required to serve the Notice of Final Order on any holder for whose account such registered holder holds such Common Stock in excess of 600,000 shares and so on down the chain of ownership for all such holders of Common Stock in excess of 600,000 shares.

35. Additionally, any entity or broker or agent acting on such entity's behalf who sells in excess of 400,000 shares of Common Stock to another entity would be required to serve a copy of the Notice of Final Order on such purchaser of such Common Stock or any broker or agent acting on such purchaser's behalf.

36. The foregoing notice procedures satisfy due process and the strictures of Bankruptcy Rule 9014 by providing the relevant counterparties with a notice and an opportunity to object and attend a hearing. See, e.g., In re Colorado Mountain Cellars, Inc., 226 B.R. 244, 246 (D. Colo. 1998) (noting that hearing is not required to satisfy Bankruptcy Rule 9014). Further, the proposed notice procedures protect the due process rights of the parties-in-interest without unnecessarily exposing the Debtors' estates to unwanted administrative expenses.

F. NOLs Are Property of a Debtor's Estate and Are Entitled to Court Protection

37. Courts have uniformly held that a debtor's NOLs constitute property of the estate under section 541 of the Bankruptcy Code and, as such, courts have the authority to implement certain protective measures to preserve the NOLs. The seminal case articulating this rule is In re

Prudential Lines, Inc., 107 B.R. 832 (Bankr. S.D.N.Y. 1989), aff'd, 119 B.R. 430 (S.D.N.Y. 1990), aff'd, 928 F.2d 565 (2d Cir. 1991), cert. denied 502 U.S. 821 (1991). In Prudential Lines, the Bankruptcy Court for the Southern District of New York enjoined a parent corporation from taking a worthless stock deduction with respect to its wholly-owned debtor subsidiary on the grounds that allowing the parent to do so would destroy its debtor-subsidiary's NOLs. In issuing the injunction, the court held that the "debtor's potential ability to utilize NOLs is property of an estate," 107 B.R. at 839, and that "the taking of a worthless stock deduction is an exercise of control over a debtor's NOLs," 107 B.R. at 842, and thus was properly subject to the automatic stay provisions of section 362 of the Bankruptcy Code. See also In re White Metal Rolling & Stamping Corp., 222 B.R. 417, 424 (Bankr. S.D.N.Y. 1998) ("It is beyond peradventure that NOL carrybacks and carryovers are property of the estate of the loss corporation that generated them"); In re Southeast Banking Corp., Case No. 91-14561-BKC (Bankr. S.D. Fla. July 21, 1994) (debtor's interest in their NOLs "constitutes property of the estate within the scope of 11 U.S.C. Section 541(a)(i) and is entitled to the protection of the automatic stay"); In re Phar-Mor, Inc., 152 B.R. 924, 927 (Bankr. N.D. Ohio 1993) ("the sale of stock is prohibited by § 362(a)(3) as an exercise of control over the NOL, which is property of the estate"); In re Grossman's, Inc., Case No. 97-695 (Bankr. D. Del. Oct. 9, 1997) (debtors' NOL carryforwards are property of debtors' estates protected by the automatic stay provisions of the Bankruptcy Code). Since the Debtors' NOLs are property of their estates, this Court has the authority under section 362 to enforce the automatic stay by restricting the transfer of Common Stock that could jeopardize the existence of this valuable asset.

G. Tax Credits Are Property of a Debtor's Estate and Are Entitled to Court Protection

38. Similar to NOLs, the Tax Credits are valuable assets of the Debtors' estate. The Tax Credits, like NOLs, may be used by the Debtors to offset future income and reduce future federal income taxes. Accordingly, the Tax Credits constitute property of the Debtors' estates under section 541 of the Bankruptcy Code and should be given the same protective treatment as NOLs. As with NOLs, this Court has the authority under section 362 to enforce the automatic stay by restricting the transfer of Common Stock, which transfers could reduce this valuable asset.

39. Courts have granted relief similar to that sought herein with respect to non-NOL tax credits in other cases. See, e.g., In re Delta Air Lines, Inc., Case No. 05-17923 (Bankr. S.D.N.Y. Sept. 16, 2005) (finding that NOL and tax credit carryforwards are property of the Debtors' estate and approving notification procedures and restrictions on certain transfers of claims against and interests in the debtors to protect, among other things, \$346 million in non-NOL tax credits).

H. Bankruptcy Courts Routinely Grant the Relief Requested in the Motion

40. Courts in this jurisdiction and others have routinely restricted or enjoined transfers of common stock or claims, or issued other injunctive relief to protect a debtor against the possible loss of its NOL carryforwards. See, e.g., In re Dura Auto. Sys., Inc., No. 06-11202 (Bankr. D. Del. Nov. 20, 2006) (approving notification procedures and restricting certain transfers of equity interests); In re Calpine Corp., No. 05-60200 (BRL) (Bankr. S.D.N.Y. Dec. 21, 2005) (same); In re the Boyds Collection, Ltd., Case No. 05-43793 (Bankr. E.D. Md. Nov. 1, 2005) (same); In re Delta Air Lines, Inc., Case No. 05-17923 (Bankr. S.D.N.Y. Sept. 16, 2005)

(same); In re US Airways, Inc., Case No. 04-13819 (SSM) (Bankr. E.D. Va. Apr. 1, 2005) (same); In re W.R. Grace & Co., Case No. 01-01139 (Bankr. D. Del. Jan. 24, 2005) (approving notification procedures and restricting certain transfers of equity interests); In re UAL Corp., Case No. 02-B-48191 (Bankr. N.D. Ill. Dec. 30, 2002) (approving, on an interim basis, notification procedures and restricting certain transfers of equity interests); In re US Airways Group, Inc., Case No. 02-83984 (SSM) (Bankr. E.D. Va. Oct. 2, 2002) (approving notification procedures and restricting certain transfers of claims against and equity interests).

41. Courts granting such relief generally have done so by imposing notice and hearing requirements on any proposed transfer of stock to or by an entity whose holdings of such stock exceeds, or would exceed as a result of the proposed transfer, a certain threshold amount. To accomplish this, the court and the debtor are given notice of any proposed transfers of stock by entities whose aggregate stock holdings exceed a certain dollar or share threshold, giving the debtor an opportunity to object to such transfer at a hearing. The order in First Merchants Acceptance was typical in this regard. See 1998 Bankr. LEXIS 1816 (Bankr. D. Del. 1998). In that case, the court entered an order imposing on any entity intending to (a) acquire, accumulate or sell more than a prescribed number of shares of the debtor, or to add additional shares to such a block, or (b) acquire or sell any subordinated reset notes or unsecured claims against the debtors, a duty to provide notice to the court and to the debtor's counsel, after which the debtor was afforded 30 days to object to such transaction with a hearing to be held so that the court could decide whether to allow any such transfer to be consummated. See also In re Dura Auto. Sys., Inc., No. 06-11202 (Bankr. D. Del. Nov. 20, 2006) (stock trading restrictions applied to persons who were, or would become as a result of the proposed transfer, a 4.5% stockholder); In

re Calpine Corp., No. 05-60200 (Bankr. S.D.N.Y. Dec. 21, 2005) (same); In re the Boyds Collection, Ltd., Case. No. 05-43793 (Bankr. E.D. Md. Nov. 1, 2005) (claims trading restrictions applied to claimholders expected to fall outside a *de minimis* amount); In re US Airways, Inc., Case No. 04-13819 (SSM) (Bankr. E.D. Va. Apr. 1, 2005) (same); In re US Airways Group, Inc., Case No. 02-83984 (SSM) (Bankr. E.D. Va. Oct. 2, 2002) (same). Although the relief that the Debtors request in this Motion is similar to that granted in First Merchants Acceptance, it excludes transfers by claimholders from the scope of the notice and hearing procedures, thus making the requested relief significantly less burdensome than the relief granted in First Merchants Acceptance.

42. The Debtors' Tax Attributes are valuable assets of their estates that will inure to the benefit of their stakeholders and facilitate the Debtors' reorganization. Unrestricted trading in the Common Stock, with no advance warning of such trades, jeopardizes these assets and impairs their value for the Debtors' stakeholders at large. The requested relief imposes a minimal burden to achieve a substantial benefit for the Debtors and their creditors and other interested parties. Accordingly, this Court should grant the requested relief and establish a notice and hearing procedure governing the trading of Common Stock.

Waiver of Memorandum of Points and Authorities

43. 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

44. 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. No later than two business days after entry of the order granting the relief requested in this Motion, the Debtors shall (a) serve a copy of the Notice of Order on the transfer agents for any Common Stock and entities who have filed a request for service of papers in these chapter 11 cases pursuant to Bankruptcy Rules 2002 and (b) publish or seek to publish and post the Notice of Order (modified for publication and posting, as applicable) as set forth in this Motion. 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 implementation of notification and hearing procedures governing the transfer of Common Stock; (b) ordering that any purchase, sale or other transfer of Common Stock in violation of the procedures set forth in this Motion (including the notification procedures set forth in Paragraph 13.c hereof) shall be void *ab initio* as an act in violation of, among other things, the automatic stay and (c) granting such other and further relief as is just and proper.

Richmond, Virginia

Dated: October 16, 2007

/s/ Michael A. Condyles

Richard M. Cieri (NY 4207122)

KIRKLAND & ELLIS LLP

Citigroup Center

153 East 53rd Street

New York, New York 10022-4611

Telephone: (212) 446-4800

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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

Facsimile: (312) 861-2200

and

Michael A. Condyles (VA 27807)

Peter J. Barrett (VA 46179)

KUTAK ROCK LLP

Bank of America Center

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Proposed Co-Counsel to the Debtors

EXHIBIT A

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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.)	
)	

**ORDER ESTABLISHING NOTIFICATION AND HEARING PROCEDURES FOR
TRANSFERS OF CERTAIN COMMON STOCK AND FOR RELATED RELIEF**

Upon the motion (the “Motion”)² of the above-captioned debtors (collectively, the “Debtors”) for the entry of an order (the “Order”) establishing notification and hearing procedures that must be satisfied before certain transfers of common stock of Movie Gallery, Inc. (“Movie Gallery”) or of any beneficial interest therein are deemed effective and for related relief 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

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.

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. Any purchase, sale or other transfer of common stock of Movie Gallery or of any beneficial interest therein (the common stock of Movie Gallery and any beneficial interest therein, including Options (as defined in Paragraph 3.e hereof) to acquire such stock, the “Common Stock”) in violation of the procedures set forth herein (including the notice requirements set forth in Paragraph 3.c below) shall be null and void *ab initio*.
3. The following procedure shall apply to trading in Common Stock:
 - a. Any entity (as defined in section 101(15) of the Bankruptcy Code, 11 U.S.C. §§ 101-1532 (the “Bankruptcy Code”)) who currently is or becomes a Substantial Shareholder (as defined herein) must file with the Court and serve on the Notice Parties (as defined herein) a declaration of such status, substantially in the form of Exhibit 1 attached hereto, on or before the later of (i) 40 days after the date of the Notice of Order (as defined herein) and (ii) ten days after becoming a Substantial Shareholder.
 - b. Prior to effectuating any transfer of Common Stock that would result in an increase in the amount of Common Stock of which a Substantial Shareholder has Beneficial Ownership or would result in an entity becoming a Substantial Shareholder, such Substantial Shareholder must file with the Court and serve on the Notice Parties an advance written declaration of the intended transfer of Common Stock in the form of Exhibit 2 attached hereto (each, a “Declaration of Intent to Purchase, Acquire or Otherwise Accumulate Common Stock”).
 - c. Prior to effectuating any transfer of Common Stock that would result in a decrease in the amount of Common Stock of which a Substantial Shareholder has Beneficial Ownership or would result in an entity ceasing to be a Substantial Shareholder, such Substantial Shareholder must file with the Court and serve on the Notice Parties an advance written

declaration of the intended transfer of Common Stock in the form of Exhibit 3 attached hereto (each, a “Declaration of Intent to Sell, Trade or Otherwise Transfer Common Stock” and with a Declaration of Intent to Purchase, Acquire or Accumulate Common Stock, each, a “Declaration of Proposed Transfer”).

- d. The Debtors shall have 30 calendar days after receipt of a Declaration of Proposed Transfer to file with the Court and serve on such Substantial Shareholder and the Notice Parties an objection to any proposed transfer of Common Stock described in the Declaration of Proposed Transfer on the grounds that such transfer might adversely affect the Debtors’ ability to utilize their net operating losses (“NOLs”) and tax attributes, including NOL carry-forwards and certain other tax and business credits (collectively, the “Tax Attributes”). If the Debtors file an objection, such transaction is not effective unless such objection is withdrawn by the Debtors or such transaction is approved by a final order of the Court that becomes nonappealable. If the Debtors do not object within such 30-day period, such transaction can proceed solely as set forth in the Declaration of Proposed Transfer. Further transactions within the scope of this paragraph must be the subject of additional notices in accordance with the procedures set forth herein, with an additional 30-day waiting period for each Declaration of Proposed Transfer.
- e. For purposes of this Order and the relief granted herein: (i) a “Substantial Shareholder” is any entity that has Beneficial Ownership of at least 1,500,000 shares of Common Stock; (ii) “Beneficial Ownership” of Common Stock includes direct and indirect ownership (i.e., a holding company would be considered to beneficially own all shares owned or acquired by its subsidiaries), ownership by such holder’s family members and entities acting in concert with such holder to make a coordinated acquisition of stock and ownership of shares that such holder has an option to acquire; and (iii) an “Option” to acquire stock includes any contingent purchase, warrant, convertible debt, put, stock subject to risk of forfeiture, contract to acquire stock or similar interest, regardless of whether it is contingent or otherwise not currently exercisable.
- f. The “Notice Parties” are: (i) the Debtors, Movie Gallery, Inc., 900 West Main Street, Dothan, Alabama 36301, Attn: S. Page Todd; (ii) counsel to the Debtors, Kirkland & Ellis LLP, 200 East Randolph Drive, Chicago, Illinois 60601, Attn: Anup Sathy, P.C. and Marc J. Carmel and Kutak Rock LLP, Bank of America Center, 1111 East Main Street, Suite 800, Richmond, Virginia 23219, Attn: Michael A. Condyles and Peter J. Barrett; (iii) the Office of the United States Trustee, 600 East Main Street, Suite 301, Richmond, Virginia 23219; (iv) counsel to any statutory committee appointed in these chapter 11 cases; (v) counsel to the agents for the DIP Lenders and the first lien lenders, Skadden Arps Slate

Meagher & Flom LLP, Four Times Square, New York, New York 10036, Attn: Jay M. Goffman; and (vi) counsel to the agent for the second lien lenders, Milbank, Tweed, Hadley & McCloy LLP, One Chase Manhattan Plaza, New York, New York 10005, Attn: Matthew S. Barr.

4. The Debtors may waive in writing, in their sole discretion, any and all restrictions, stays and notification procedures contained in this Order.

5. The Debtors shall serve by first class mail, postage prepaid, a notice of the entry of this Order substantially in the form of Exhibit 4 attached hereto (the “Notice of Order”) to (a) the Notice Parties, (b) the entities listed on the Consolidated List of Creditors Holding the largest Claims filed pursuant to Bankruptcy Rule 1007(d), (c) the transfer agents for any Common Stock, (d) the Securities and Exchange Commission, (e) the Internal Revenue Service and (f) those parties who have requested service of papers pursuant to Bankruptcy Rule 2002.

6. All transfer agents for any Common Stock shall serve the Notice of Order on all holders of shares of Common Stock in excess of 1,500,000 shares registered with such transfer agent no later than five business days after being served with the Notice of Order; provided that if any transfer agent provides the Debtors’ counsel, at the addresses set forth above, with the names and addresses of all holders of such shares of Common Stock registered with such transfer agent no later than three business days after being served with the Notice of Order, the Debtors’ counsel shall serve the Notice of Order on such holders.

7. All registered holders described in Paragraph 6 of this Order shall serve the Notice of Order on any holder for whose account such registered holder holds such Common Stock in excess of 600,000 shares and so on down the chain of ownership for all such holders of Common Stock in excess of 600,000 shares.

8. Until this Order becomes final as set forth herein, any entity or broker or agent acting on such entity’s behalf who sells in excess of 400,000 shares of Common Stock to another

entity shall serve a copy of the Notice of Order on such purchaser of such Common Stock or any broker or agent acting on such purchaser's behalf.

9. As soon as practicable after entry of this Order, the Debtors shall publish a copy of the Notice of Order (modified for publication) in *The Wall Street Journal* and the *Washington Post*, submit a copy of the Notice of Order (modified for publication) to Bloomberg Professional Service for potential publication by Bloomberg and submit a copy of the Notice of Order (modified for posting) with the Depository Trust Company for potential posting by the Depository Trust Company.

10. 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 (each, an "Objection"). If any such 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.

11. If this Order becomes final, the Debtors shall serve the Notice of Order (modified as appropriate, the "Notice of Final Order") to (a) the Notice Parties, (b) the entities listed on the Consolidated List of Creditors Holding the 30 Largest Claims filed pursuant to Bankruptcy Rule 1007(d); (c) the transfer agents for any Common Stock, (d) the Securities and Exchange Commission, (e) the Internal Revenue Service and (f) those parties who have requested service of papers pursuant to Bankruptcy Rule 2002.

12. All transfer agents for any Common Stock shall serve the Notice of Final Order on all holders of such Common Stock registered with such transfer agent no later than five business days after being served with the Notice of Final Order; provided that if any transfer agent provides the Debtors' undersigned counsel with the names and addresses of all holders of such Common Stock registered with such transfer agent no later than three business days after being served with the Notice of Final Order, the Debtors shall serve the Notice of Final Order on such holders.

13. All registered holders described in Paragraph 12 of this Order shall serve the Notice of Final Order on any holder for whose account such registered holder holds such Common Stock and so on down the chain of ownership for all such holders of Common Stock.

14. At least on the first business day of each calendar quarter after the date of the entry of the Order during the chapter 11 cases, all transfer agents for any Common Stock shall serve the Notice of Order until a Notice of Final Order has been served, and then the Notice of Final Order, on all holders of shares of Common Stock in excess of 600,000 shares registered with such transfer agent; provided that if any transfer agent provides the Debtors' counsel, at the addresses set forth above, with the names and addresses of all holders of such shares of Common Stock registered with such transfer agent no later than five business days prior to the expiration of an applicable calendar quarter, the Debtors shall serve the Notice of Final Order on such holders.

15. All registered holders described in Paragraph 14 of this Order shall serve the Notice of Final Order on any holder for whose account such registered holder holds such Common Stock in excess of 600,000 shares and so on down the chain of ownership for all such holders of Common Stock in excess of 600,000 shares.

16. After this Order becomes final as set forth herein, any entity or broker or agent acting on such entity's behalf who sells in excess of 400,000 shares of Common Stock to another entity shall serve a copy of the Notice of Final Order on such purchaser of such Common Stock or any broker or agent acting on such purchaser's behalf.

17. The requirements set forth in this Order are in addition to the requirements of all applicable law and do not excuse compliance therewith.

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

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

20. 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

**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 STATUS AS A SUBSTANTIAL SHAREHOLDER²

PLEASE TAKE NOTICE that _____ is/has become a Substantial Shareholder with respect to the common stock of Movie Gallery, Inc. or any beneficial interest therein (the common stock of Movie Gallery and any beneficial interest therein, including Options (as defined in the Interim Order) to acquire such stock, the “Common Stock”). Movie Gallery is a debtor and debtor in possession in Case No. 07- pending in the United States Bankruptcy Court for the Eastern District of Virginia.

PLEASE TAKE FURTHER NOTICE that, as of _____, 2007 has Beneficial Ownership of ____ shares of the Common Stock. The following table sets forth the date(s) on which _____ acquired Beneficial Ownership or otherwise has Beneficial Ownership of such Common Stock:

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 For purposes of this Declaration: (a) a “Substantial Shareholder” is any entity (as defined by section 101(15) of the Bankruptcy Code, 11 U.S.C. §§ 101-1532) that has Beneficial Ownership of at least 1,500,000 shares of Common Stock (as defined herein); (b) “Beneficial Ownership” of Common Stock includes direct and indirect ownership (i.e., a holding company would be considered to beneficially own all shares owned or acquired by its subsidiaries), ownership by such holder’s family members and persons acting in concert with such holder to make a coordinated acquisition of stock and ownership of shares that such holder has an option to acquire; and (c) an “Option” to acquire stock includes any contingent purchase, warrant, convertible debt, put, stock subject to risk of forfeiture, contract to acquire stock or similar interest, regardless of whether it is contingent or otherwise not currently exercisable.

Number of Shares of Common Stock	Date Acquired

(Attach additional page or pages if necessary)

PLEASE TAKE FURTHER NOTICE that the last four digits of the taxpayer identification number of _____ are _____.

PLEASE TAKE FURTHER NOTICE that, pursuant to that certain Order Establishing Notification and Hearing Procedures for Transfers of Certain Common Stock, this Declaration is being (a) filed with the United States Bankruptcy Court for the Eastern District of Virginia and (b) served on: (i) the Debtors, Movie Gallery, Inc., 900 West Main Street, Dothan, Alabama 36301, Attn: S. Page Todd; (ii) counsel to the Debtors, Kirkland & Ellis LLP, 200 East Randolph Drive, Chicago, Illinois 60601, Attn: Anup Sathy, P.C. and Marc J. Carmel and Kutak Rock LLP, Bank of America Center, 1111 East Main Street, Suite 800, Richmond, Virginia 23219, Attn: Michael A. Condyles and Peter J. Barrett; (iii) the Office of the United States Trustee, 600 East Main Street, Suite 301, Richmond, Virginia 23219; (iv) counsel to any statutory committee appointed in these chapter 11 cases; (v) counsel to the agents for the DIP Lenders and the first lien lenders, Skadden Arps Slate Meagher & Flom LLP, Four Times Square, New York, New York 10036, Attn: Jay M. Goffman; and (vi) counsel to the agent for the second lien lenders,

Milbank, Tweed, Hadley & McCloy LLP, One Chase Manhattan Plaza, New York, New York
10005, Attn: Matthew S. Barr.

PLEASE TAKE FURTHER NOTICE that, pursuant to 28 U.S.C. § 1746, under penalties
of perjury, _____ hereby declares that he or she has examined this Declaration
and accompanying attachments (if any), and, to the best of his or her knowledge and belief, this
Declaration and any attachments which purport to be part of this Declaration, are true, correct
and complete.

Respectfully submitted,

(Name of Substantial Shareholder)

By: _____

Name: _____

Address: _____

Telephone: _____

Facsimile: _____

_____, _____
Dated: _____

EXHIBIT 2

**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 INTENT TO PURCHASE,
ACQUIRE OR OTHERWISE ACCUMULATE COMMON STOCK**

PLEASE TAKE NOTICE that _____ hereby provides notice of its intention to purchase, acquire or otherwise accumulate one or more shares of the common stock of Movie Gallery or any beneficial interest therein (the common stock of Movie Gallery and any beneficial interest therein, including Options (as defined in the Interim Order) to acquire such stock, the “Common Stock”) (the “Proposed Transfer”).

PLEASE TAKE FURTHER NOTICE that, if applicable, on _____, _____, _____ filed a Declaration of Status as a Substantial Shareholder² with the United States Bankruptcy Court for the Eastern District of Virginia (the “Bankruptcy Court”) and served copies thereof as set forth therein.

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 For purposes of this Declaration: (a) a “Substantial Shareholder” is any entity (as defined by section 101(15) of the Bankruptcy Code, 11 U.S.C. §§ 101-1532) that has Beneficial Ownership of at least 1,500,000 shares of Common Stock (as defined herein); (b) “Beneficial Ownership” of Common Stock includes direct and indirect ownership (i.e., a holding company would be considered to beneficially own all shares owned or acquired by its subsidiaries), ownership by such holder’s family members and persons acting in concert with such holder to make a coordinated acquisition of stock and ownership of shares that such holder has an option to acquire; and (c) an “Option” to acquire stock includes any contingent purchase, warrant, convertible debt, put, stock subject to risk of forfeiture, contract to acquire stock or similar interest, regardless of whether it is contingent or otherwise not currently exercisable.

PLEASE TAKE FURTHER NOTICE that _____ currently has Beneficial Ownership of _____ shares of Common Stock.

PLEASE TAKE FURTHER NOTICE that, pursuant to the Proposed Transfer, _____ proposes to purchase, acquire or otherwise accumulate _____ shares of Common Stock or an Option with respect to _____ shares of Common Stock. If the Proposed Transfer is permitted to occur, _____ will have beneficial ownership of _____ shares of Common Stock after such transfer becomes effective.

PLEASE TAKE FURTHER NOTICE that the last four digits of the taxpayer identification number of _____ are _____.

PLEASE TAKE FURTHER NOTICE that, pursuant to that certain Order Establishing Notification and Hearing Procedures for Transfers of Certain Common Stock, this Declaration is being (a) filed with the United States Bankruptcy Court for the Eastern District of Virginia, and (b) served on: (i) the Debtors, Movie Gallery, Inc., 900 West Main Street, Dothan, Alabama 36301, Attn: S. Page Todd; (ii) counsel to the Debtors, Kirkland & Ellis LLP, 200 East Randolph Drive, Chicago, Illinois 60601, Attn: Anup Sathy, P.C. and Marc J. Carmel and Kutak Rock LLP, Bank of America Center, 1111 East Main Street, Suite 800, Richmond, Virginia 23219, Attn: Michael A. Condyles and Peter J. Barrett; (iii) the Office of the United States Trustee, 600 East Main Street, Suite 301, Richmond, Virginia 23219; (iv) counsel to any statutory committee appointed in these chapter 11 cases; (v) counsel to the agents for the DIP Lenders and the first lien lenders, Skadden Arps Slate Meagher & Flom LLP, Four Times Square, New York, New York 10036, Attn: Jay M. Goffman; and (vi) counsel to the agent for the second lien lenders,

Milbank, Tweed, Hadley & McCloy LLP, One Chase Manhattan Plaza, New York, New York 10005, Attn: Matthew S. Barr.

PLEASE TAKE FURTHER NOTICE that the Debtors have 30 calendar days after receipt of this Declaration to object to the Proposed Transfer described herein. If the Debtors file an objection, such Proposed Transfer will not be effective unless approved by a final order of the Bankruptcy Court that becomes nonappealable. If the Debtors do not object within such 30-day period, then after expiration of such period the Proposed Transfer may proceed solely as set forth in this Declaration.

PLEASE TAKE FURTHER NOTICE that any further transactions contemplated by _____ that may result in _____ purchasing, acquiring or otherwise accumulating additional shares of Common Stock or an Option with respect thereto will each require an additional notice filed with the Court to be served in the same manner as this Declaration.

PLEASE TAKE FURTHER NOTICE that, pursuant to 28 U.S.C. § 1746, under penalties of perjury, _____ hereby declares that he or she has examined this Declaration and accompanying attachments (if any), and, to the best of his or her knowledge and belief, this Declaration and any attachments, which purport to be part of this Declaration, are true, correct and complete.

Respectfully submitted,

(Name of Substantial Shareholder)

By: _____

Name: _____

Address: _____

_____, _____
Dated: _____

Telephone: _____
Facsimile: _____

EXHIBIT 3

**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 INTENT TO SELL,
TRADE OR OTHERWISE TRANSFER COMMON STOCK**

PLEASE TAKE NOTICE that _____ hereby provides notice of its intention to sell, trade or otherwise transfer shares of the common stock of Movie Gallery or of any beneficial interest therein (the common stock of Movie Gallery and any beneficial interest therein, including Options (as defined in the Interim Order) to acquire such stock, the “Common Stock”) (the “Proposed Transfer”).

PLEASE TAKE FURTHER NOTICE that, if applicable, on _____, __, _____ filed a Declaration of Status as a Substantial Shareholder² with the United States Bankruptcy Court for the Eastern District of Virginia (the “Bankruptcy Court”) and served copies thereof as set forth therein.

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 For purposes of this Declaration: (a) a “Substantial Shareholder” is any entity (as defined by section 101(15) of the Bankruptcy Code, 11 U.S.C. §§ 101-1532) that has Beneficial Ownership of at least 1,500,000 shares of Common Stock (as defined herein); (b) “Beneficial Ownership” of Common Stock includes direct and indirect ownership (*i.e.*, a holding company would be considered to beneficially own all shares owned or acquired by its subsidiaries), ownership by such holder’s family members and persons acting in concert with such holder to make a coordinated acquisition of stock and ownership of shares that such holder has an option to acquire; and (c) an “Option” to acquire stock includes any contingent purchase, warrant, convertible debt, put, stock subject to risk of forfeiture, contract to acquire stock or similar interest, regardless of whether it is contingent or otherwise not currently exercisable.

PLEASE TAKE FURTHER NOTICE that _____ currently has Beneficial Ownership of _____ shares of Common Stock.

PLEASE TAKE FURTHER NOTICE that, pursuant to the Proposed Transfer, _____ proposes to sell, trade, or otherwise transfer _____ shares of Common Stock or an Option with respect to _____ shares of Common Stock. If the Proposed Transfer is permitted to occur, _____ will have Beneficial Ownership of _____ shares of Common Stock after the transfer becomes effective.

PLEASE TAKE FURTHER NOTICE that the last four digits of the taxpayer identification number of _____ are _____.

PLEASE TAKE FURTHER NOTICE that, pursuant to that certain Order Establishing Notification and Hearing Procedures for Transfers of Certain Common Stock, this Declaration is being (a) filed with the United States Bankruptcy Court for the Eastern District of Virginia, and (b) served on: (i) the Debtors, Movie Gallery, Inc., 900 West Main Street, Dothan, Alabama 36301, Attn: S. Page Todd; (ii) counsel to the Debtors, Kirkland & Ellis LLP, 200 East Randolph Drive, Chicago, Illinois 60601, Attn: Anup Sathy, P.C. and Marc J. Carmel and Kutak Rock LLP, Bank of America Center, 1111 East Main Street, Suite 800, Richmond, Virginia 23219, Attn: Michael A. Condyles and Peter J. Barrett; (iii) the Office of the United States Trustee, 600 East Main Street, Suite 301, Richmond, Virginia 23219; (iv) counsel to any statutory committee appointed in these chapter 11 cases; (v) counsel to the agents for the DIP Lenders and first lien lenders, Skadden Arps Slate Meagher & Flom LLP, Four Times Square, New York, New York 10036, Attn: Jay M. Goffman; and (vi) counsel to the agent for the second lien lenders, Milbank,

Tweed, Hadley & McCloy LLP, One Chase Manhattan Plaza, New York, New York 10005,
Attn: Matthew S. Barr.

PLEASE TAKE FURTHER NOTICE that the Debtors have 30 calendar days after receipt of this Declaration to object to the Proposed Transfer described herein. If the Debtors file an objection, such Proposed Transfer will not be effective unless such objection is withdrawn by the Debtors or such action is approved by a final order of the Bankruptcy Court that becomes nonappealable. If the Debtors do not object within such 30-day period, then after expiration of such period the Proposed Transfer may proceed solely as set forth in this Declaration.

PLEASE TAKE FURTHER NOTICE that any further transactions contemplated by _____ that may result in _____ selling, trading or otherwise transferring shares of Common Stock or an Option with respect thereto will each require an additional notice filed with the Bankruptcy Court to be served in the same manner as this Declaration.

PLEASE TAKE FURTHER NOTICE that, pursuant to 28 U.S.C. § 1746, under penalties of perjury, _____ hereby declares that he or she has examined this Declaration and accompanying attachments (if any), and, to the best of his or her knowledge and belief, this Declaration and any attachments, which purport to be part of this Declaration, are true, correct and complete.

Respectfully submitted,

(Name of Substantial Shareholder)

By: _____

Name: _____

Address: _____

_____, _____
Dated: _____

Telephone: _____
Facsimile: _____

EXHIBIT 4

Richard M. Cieri (NY 4207122)
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Peter J. Barrett (VA 46179)
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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.)	
)	

**NOTICE OF NOTIFICATION AND HEARING PROCEDURES
FOR TRANSFERS OF CERTAIN COMMON STOCK**

TO: ALL ENTITIES (AS DEFINED BY SECTION 101(15) OF THE BANKRUPTCY CODE)
THAT HOLD COMMON STOCK OF MOVIE GALLERY, INC.:

PLEASE TAKE NOTICE THAT on October 16, 2007 (the “Commencement Date”),
Movie Gallery, Inc. (“Movie Gallery”) and its domestic direct and indirect subsidiaries (the
“Subsidiary Debtors” and with Movie Gallery, the “Debtors”), filed petitions with the Court
under chapter 11 of the Bankruptcy Code, 11 U.S.C. §§ 101-1532 (the “Bankruptcy Code”).

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.

Subject to certain exceptions, section 362 of the Bankruptcy Code operates as a stay of any act to obtain possession of property of the Debtors' estates or property from the Debtors' estates or to exercise control over property of the Debtors' estates.

PLEASE TAKE FURTHER NOTICE THAT on October 16, 2007, the Debtors filed the Motion of the Debtors for the Entry of an Order Establishing Notification and Hearing Procedures for Transfers of Certain Common Stock and for Related Relief (the "Motion").

PLEASE TAKE FURTHER NOTICE THAT on October __, 2007, the United States Bankruptcy Court for the Eastern District of Virginia (the "Bankruptcy Court") entered the Order Establishing Notification and Hearing Procedures for Transfers of Certain Common Stock approving the procedures set forth below in order to preserve the Debtors' NOLs and Tax Attributes (each as defined below) (the "Order").

PLEASE TAKE FURTHER NOTICE THAT pursuant to the Order, the following procedures shall apply to holding and trading in Common Stock of Movie Gallery:

- a. Any entity (as defined in section 101(15) of the Bankruptcy Code) who currently is or becomes a Substantial Shareholder (as such term is defined in paragraph (e) below) must file with the Court and serve on the Notice Parties (as defined below) a declaration of such status, substantially in the form of Exhibit 1 attached to the Order, on or before the later of (i) 40 days after the date of this Notice and (ii) ten days after becoming a Substantial Shareholder.
- b. Prior to effectuating any transfer of Common Stock that would result in an increase in the amount of Common Stock of which a Substantial Shareholder has Beneficial Ownership or would result in an entity becoming a Substantial Shareholder, such Substantial Shareholder must file with the Court and serve on the Notice Parties an advance written declaration of the intended transfer of Common Stock in the form of Exhibit 2 attached to the Order (each, a "Declaration of Intent to Purchase, Acquire or Otherwise Accumulate Common Stock").

- c. Prior to effectuating any transfer of Common Stock that would result in a decrease in the amount of Common Stock of which a Substantial Shareholder has Beneficial Ownership or would result in an entity ceasing to be a Substantial Shareholder, such Substantial Shareholder must file with the Court and serve on the Notice Parties an advance written declaration of the intended transfer of Common Stock in the form of Exhibit 3 attached to the Order (each, a “Declaration of Intent to Sell, Trade or Otherwise Transfer Common Stock” and with a Declaration of Intent to Purchase, Acquire or Accumulate Common Stock, each, a “Declaration of Proposed Transfer”).
- d. The Debtors shall have 30 calendar days after receipt of a Declaration of Proposed Transfer to file with the Court and serve on such Substantial Shareholder and the Notice Parties an objection to any proposed transfer of Common Stock described in the Declaration of Proposed Transfer on the grounds that such transfer might adversely affect the Debtors’ ability to utilize their net operating losses (“NOLs”) and tax attributes, including NOL carry-forwards and certain other tax and business credits (collectively, the “Tax Attributes”). If the Debtors file an objection, such transaction is not effective unless such objection is withdrawn by the Debtors or such transaction is approved by a final order of the Court that becomes nonappealable. If the Debtors do not object within such 30-day period, such transaction can proceed solely as set forth in the Declaration of Proposed Transfer. Further transactions within the scope of this paragraph must be the subject of additional notices in accordance with the procedures set forth herein, with an additional 30-day waiting period for each Declaration of Proposed Transfer.
- e. For purposes of this Order and the relief granted therein: (i) a “Substantial Shareholder” is any entity that has Beneficial Ownership of at least 1,500,000 shares of Common Stock; (ii) “Beneficial Ownership” of Common Stock includes direct and indirect ownership (i.e., a holding company would be considered to beneficially own all shares owned or acquired by its subsidiaries), ownership by such holder’s family members and entities acting in concert with such holder to make a coordinated acquisition of stock and ownership of shares that such holder has an option to acquire; and (iii) an “Option” to acquire stock includes any contingent purchase, warrant, convertible debt, put, stock subject to risk of forfeiture, contract to acquire stock or similar interest, regardless of whether it is contingent or otherwise not currently exercisable.
- f. The “Notice Parties” are: (i) the Debtors, Movie Gallery, Inc., 900 West Main Street, Dothan, Alabama 36301, Attn: S. Page Todd; (ii) counsel to the Debtors, Kirkland & Ellis LLP, 200 East Randolph Drive, Chicago,

Illinois 60601, Attn: Anup Sathy, P.C. and Marc J. Carmel and Kutak Rock LLP, Bank of America Center, 1111 East Main Street, Suite 800, Richmond, Virginia 23219, Attn: Michael A. Condyles and Peter J. Barrett; (iii) the Office of the United States Trustee, 600 East Main Street, Suite 301, Richmond, Virginia 23219; (iv) counsel to any statutory committee appointed in these chapter 11 cases; (v) counsel to the agents for the DIP Lenders and the first lien lenders, Skadden Arps Slate Meagher & Flom LLP, Four Times Square, New York, New York 10036, Attn: Jay M. Goffman; and (vi) counsel to the agent for the second lien lenders, Milbank, Tweed, Hadley & McCloy LLP, One Chase Manhattan Plaza, New York, New York 10005, Attn: Matthew S. Barr.

PLEASE TAKE FURTHER NOTICE THAT, upon the request of any entity, the notice, claims and balloting agent for the Debtors, (the “Notice, Claims and Balloting Agent”) Kurtzman Carson Consultants LLC, (866) 381-9100 (telephone), (310) 823-9133 (facsimile), will provide a form of each of the required declarations described above and a copy of the Order in a reasonable period of time. Such declarations are also available at www.kccllc.net/moviegallery.

FAILURE TO FOLLOW THE PROCEDURES SET FORTH IN THIS NOTICE SHALL CONSTITUTE A VIOLATION OF, AMONG OTHER THINGS, THE AUTOMATIC STAY PROVISIONS OF SECTION 362 OF THE BANKRUPTCY CODE.

ANY PROHIBITED PURCHASE, SALE, TRADE OR OTHER TRANSFER OF COMMON STOCK IN THE DEBTORS OR OPTION WITH RESPECT THERETO IN VIOLATION OF THE INTERIM ORDER SHALL BE NULL AND VOID *AB INITIO* AND MAY BE PUNISHED BY CONTEMPT OR OTHER SANCTIONS IMPOSED BY THE BANKRUPTCY COURT.

PLEASE TAKE FURTHER NOTICE THAT the requirements set forth in this Notice are in addition to the requirements of applicable law and do not excuse compliance therewith.

Richmond, Virginia

Dated: October __, 2007

/s/ Michael A. Condyles

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Proposed Co-Counsel to the Debtors