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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. 07-33849 (DOT)
)	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 17, 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 17, 2007

/s/ Michael A. Condyles

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