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and

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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. 07-33849
)	Jointly Administered
MOVIE GALLERY, INC., et al., ¹)	Chapter 11
)	Hon. Douglas O. Tice, Jr.
Debtors.)	
)	

**ORDER AUTHORIZING THE EMPLOYMENT
AND RETENTION OF KIRKLAND & ELLIS LLP
AS ATTORNEYS FOR THE DEBTORS AND DEBTORS IN POSSESSION**

Upon the application (the "Application")² of the above-captioned debtors (collectively, the "Debtors") for the entry of an order (the "Order") authorizing the Debtors to employ and retain Kirkland & Ellis LLP ("K&E") as their attorneys effective as of the date the Debtors filed their chapter 11 petitions, pursuant to section 327(a) of the Bankruptcy Code, 11 U.S.C. §§ 101-1532 (the "Bankruptcy Code"), Rules 2014(a) and 2016 of the Federal Rules of Bankruptcy

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

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



Procedure (the “Bankruptcy Rules”), Rules 2014-1 and 2016-1 of the Local Bankruptcy Rules for the United States Bankruptcy Court for the Eastern District of Virginia (the “Local Bankruptcy Rules”), the Sathy Declaration (as defined below) 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 Application and the relief requested therein pursuant to 28 U.S.C. §§ 157 and 1334; consideration of the Application and the relief requested therein being a core proceeding pursuant to 28 U.S.C. § 157(b); venue being proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409; the Court having reviewed the Application and the declaration of Anup Sathy, P.C. in support thereof (the “Sathy Declaration”); the Court being satisfied based on the representations made in the Application and the Sathy Declaration that (a) K&E does not hold or represent an interest adverse to the Debtors’ estates and (b) K&E is a “disinterested person” as defined in section 101(14) of the Bankruptcy Code and as required by section 327(a) of the Bankruptcy Code; notice of this Application having been adequate and appropriate under the circumstances; and after due deliberation and sufficient cause appearing therefor, it is hereby ORDERED

1. The Application is granted in its entirety.
2. The Debtors are authorized to employ and retain K&E as their attorneys in accordance with the terms and conditions set forth in the Application and in that certain engagement letter attached hereto as Exhibit 1 (the “Engagement Letter”).
3. K&E is authorized to render professional services to the Debtors as described in the Application and the Engagement Letter that may include, but shall not be limited to, the following services:

- a. advising the Debtors with respect to their powers and duties as debtors in possession in the continued management and operation of their business and properties;
- b. advising and consulting on the conduct of the chapter 11 cases, including all of the legal and administrative requirements of operating in chapter 11;
- c. attending meetings and negotiating with representatives of the creditors and other parties in interest;
- d. taking all necessary action to protect and preserve the Debtors' estates, including prosecuting actions on the Debtors' behalf, defending any action commenced against the Debtors and representing the Debtors' interests in negotiations concerning all litigation in which the Debtors are involved, including objections to claims filed against the Debtors' estates;
- e. preparing all pleadings, including motions, applications, answers, orders, reports and papers necessary or otherwise beneficial to the administration of the Debtors' estates;
- f. representing the Debtors in connection with obtaining postpetition financing;
- g. advising the Debtors in connection with any potential sale of assets;
- h. appearing before the Court and any appellate courts to represent the interests of the Debtors' estates before those courts;
- i. consulting with the Debtors regarding tax matters;
- j. taking any necessary action on behalf of the Debtors to negotiate, prepare on behalf of the Debtors and obtain approval of a chapter 11 plan and all documents related thereto; and
- k. performing all other necessary or otherwise beneficial legal services for the Debtors in connection with the prosecution of these chapter 11 cases, including (i) analyzing the Debtors' leases and contracts and the assumptions, rejections or assignment thereof, (ii) analyzing the validity of liens against the Debtors and (iii) advising the Debtors on corporate and litigation matters.

4. K&E shall apply for compensation for professional services rendered and reimbursement of expenses incurred in connection with the Debtors' chapter 11 cases in

compliance with the applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, the Local Bankruptcy Rules, guidelines established by the Office of the United States Trustee for the Eastern District of Virginia and any other applicable procedures and orders of the Court.

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

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

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

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

Richmond, Virginia
Date: October ____, 2007

Oct 18 2007

/s/ Douglas O. Tice Jr.

United States Bankruptcy Judge

Entered on Docket: Oct 19 2007

EXHIBIT 1
[Engagement Letter]

KIRKLAND & ELLIS LLP

AND AFFILIATED PARTNERSHIPS

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www.kirkland.com

Facsimile:
212 446-4900

October 11, 2006

PRIVILEGED & CONFIDENTIAL
FOR ADDRESSEE'S EYES ONLY

Joe T. Malugen
Chief Executive Officer
Movie Gallery, Inc.
900 West Main Street
Dothan, Alabama 36301

S. Page Todd, Esq.
Chief Compliance Officer, Executive Vice
President, Secretary and General Counsel
Movie Gallery, Inc.
900 West Main Street
Dothan, Alabama 36301

Re: Retention to Provide Legal Services

Dear Messrs. Malugen and Todd:

We are very pleased that you have asked us to represent Movie Gallery, Inc. and its subsidiaries and affiliates (collectively, "you" or "your") in connection with a variety of restructuring and related matters. Please note that we do not represent your officers, directors or employees.

General Terms. This retention letter (the "Agreement") sets forth the terms of your retention of Kirkland & Ellis LLP and Kirkland & Ellis International LLP (collectively, "K&E LLP") to provide legal services and constitutes an agreement between us. The Agreement sets forth our entire agreement for rendering professional services for the current matter, as well as for all other existing or future matters, except where we otherwise agree in writing (e.g., by signing a different retention letter).

Personnel. Anup Sathy and I will be primarily responsible for this engagement. Other attorneys and legal assistants also will perform services during the course of this engagement. We will involve such other lawyers and legal assistants in K&E LLP to the extent that your needs make such involvement desirable and acceptable to you.

Fees. Hourly rates vary with the experience and seniority of the individuals assigned, and the type of matter being handled, and may be adjusted by us from time to time. Our attorney billing rates presently range from \$245 to \$520 per hour for certain associates and from \$520 to \$950 per hour and up for our most experienced partners. Other legal billers include legal

Chicago

London

Los Angeles

Munich

San Francisco

Washington, D.C.

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assistants, project assistants, and certain specialized personnel (e.g., investigators, technical specialists, and the like). We reserve the right to change these rates from time to time.

Although we will attempt to estimate fees to assist you in your planning if requested, such estimates are subject to change and are not binding unless otherwise expressly stated in writing.

Expenses. Expenses related to providing services shall be included in our statements as disbursements advanced by us on your behalf. Such expenses include photocopying, printing, scanning, witness fees, travel expenses, filing and recording fees, long distance telephone calls, certain secretarial overtime, and other overtime expenses, postage, express mail, and messenger charges, deposition costs, computerized legal research charges, and other computer services, and miscellaneous other charges. Our clients pay directly (and are solely responsible for) certain larger costs, such as consultant or expert witness fees and expenses, and outside suppliers or contractors' charges. By executing this Agreement below, you agree to pay for all charges in accordance with the K&E LLP's schedule of charges, a copy of which is attached hereto, as revised from time to time.

Billing Procedures. Our statements for fees and expenses are typically rendered monthly and, unless other arrangements are made, payment in full is due upon receipt. We may adjust our billing cycle upon agreement with you. You may have the billing statement in any reasonable format you choose, but we will select an initial format for the statement unless you otherwise request in writing. Depending on the circumstances, however, estimated or summary bills may be provided during certain billing cycles, with supporting time descriptions and expense summaries to follow thereafter.

Retainer. As we have discussed, you have agreed to pay to K&E LLP \$100,000 as an advanced payment retainer. The retainer will be placed into K&E LLP's general cash account, will not be held in a separate account on your behalf, and you will not receive any interest on these monies. The retainer will be replenished (and therefore the amount may increase or decrease) based on the amount of projected activity on the matter such that the amount of the retainer on hand will always exceed the billed and accrued costs and expenses for our services.

Termination. Our retention may be terminated by either of us at any time by written notice by or to you. Our representation will end at the earliest of: (a) your termination of our representation, (b) our withdrawal, or (c) the substantial completion of our substantive work. We normally do not withdraw from a representation unless the client misrepresents or fails to disclose material facts, fails to pay fees or expenses, or makes it unethical or unreasonably

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difficult for us to continue to represent the client, or unless other just cause exists. If permission for withdrawal is required by a court, we shall apply promptly for such permission, and termination shall coincide with the court order for withdrawal. If this Agreement or our services are terminated for any reason, such termination shall be effective only to terminate our services prospectively and all the other terms of this Agreement shall survive any such termination.

Upon cessation of our active involvement in a particular matter (even if we continue active involvement in other matters on your behalf), we will have no further duty to inform you of future developments or changes in law as may be relevant to such matter. Further, unless you and we mutually agree in writing to the contrary, we will have no obligation to monitor renewal or notice dates or similar deadlines that may arise from the matters for which we had been retained.

Cell Phone and E-Mail Communication. K&E LLP hereby informs you and you hereby acknowledge that K&E LLP's attorneys sometimes communicate with their clients and their clients' professionals and agents by cell telephone, that such communications are capable of being intercepted by others and therefore may be deemed no longer protected by the attorney-client privilege, and that you must inform K&E LLP if you do not wish K&E LLP to discuss privileged matters on cell telephones with you or your professionals or agents.

K&E LLP hereby informs you and you hereby acknowledge that K&E LLP's attorneys sometimes communicate with their clients and their clients' professionals and agents by unencrypted e-mail, that such communications are capable of being intercepted by others and therefore may be deemed no longer protected by the attorney-client privilege, and that you must inform K&E LLP if you wish to institute a system to encode all e-mail between K&E LLP and you or your professionals or agents.

File Retention. All records and files will be retained and disposed of in compliance with our policy in effect from time to time. Subject to future changes, it is our current policy generally not to retain records relating to a matter for more than five years. Upon your prior written request, we will return client records to you prior to their destruction. It is not administratively feasible for us to advise you of the closing of a matter or the disposal of records. We recommend, therefore, that you maintain your own files for reference or submit a written request for your client files promptly upon conclusion of a matter.

Conflicts of Interest. As is customary for a law firm of our size, you currently may have relationships with numerous business entities that K&E LLP represents or currently represents in matters related or unrelated to you. We note that K&E LLP represents Musicland Holding Corp.

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("Musicland") in matters substantially unrelated to your restructuring and will continue to do so. We also understand that you may have claims against Musicland.

In any current or future matter not substantially related to our work for you in which K&E LLP represents another client (either an existing client or future client, including Musicland) who is adverse to you, including but not limited to litigation or adversary proceedings directly adverse to you or your related entities, you agree to waive and will waive any such conflict of interest or other objection that may exist; provided, however, that conflicts counsel for Musicland will represent Musicland with respect to your claims against it. Accordingly, our representation of you will be with the understanding that you waive any conflict of interest that is or may be considered adverse to you or your related entities with respect to any current or future clients of K&E LLP in any current or future matter not substantially related to our work for you.

No Guarantee of Success. It is impossible to provide any promise or guarantee about the outcome of your matters. Nothing in this Agreement or any statement by our staff or attorneys constitutes a promise or guarantee. Any comments about the outcome of your matter are simply expressions of judgment and are not binding on us.

Consent to Use of Information. In connection with future materials that, for marketing purposes, describe facets of our law practice and recite examples of matters we handle on behalf of clients, you agree that, if those materials avoid disclosing your confidences and secrets as defined by applicable ethical rules, they may identify you as a client, may contain factual synopses of your matters, and may indicate generally the results achieved.

Reimbursement of Expenses. You agree promptly to reimburse us for all fees and expenses, including the amount of K&E LLP's attorney and paralegal time at normal billing rates, as incurred by us in connection with participating in, preparing for, or responding to any action, claim, suit or proceeding brought by or against any third-party that relates to the legal services provided by us under the Agreement. Without limiting the scope of the foregoing, and by way of example only, this paragraph extends to all such fees and expenses incurred by us in responding to document subpoenas, and preparing for and testifying at depositions and trials.

LLP. Kirkland & Ellis LLP is a limited liability partnership organized under the laws of Illinois, and Kirkland & Ellis International LLP is a limited liability partnership organized under the laws of Delaware. Pursuant to those statutory provisions, an obligation incurred by a limited liability partnership, whether arising in tort, contract or otherwise, is solely the obligation of the limited liability partnership, and partners are not personally liable, directly or indirectly, by way

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of indemnification, contribution, assessment or otherwise, for such obligation solely by reason of being or so acting as a partner.

Miscellaneous. This Agreement sets forth our entire agreement for rendering professional services. It can be amended or modified only in writing and not orally or by course of conduct. Each party signing below is jointly and severally responsible for all obligations due us and represents that each has full authority to execute this Agreement so that it is binding. This Agreement may be signed in one or more counterparts and binds each party countersigning below, whether or not any other proposed signatory ever executes it. If any provision of this Agreement or the application thereof is held invalid or unenforceable, the invalidity or unenforceability shall not affect other provisions or applications of this Agreement which can be given effect without such provisions or application, and to this end the provisions of this Agreement are declared to be severable.

We are not advising you with respect to this Agreement because we would have a conflict of interest in doing so. If you wish advice, you should consult independent counsel of your choice.

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Please confirm your agreement with the arrangements described in this letter by signing below and returning it to me via fax at (312) 861-2200.

Very truly yours,

KIRKLAND & ELLIS LLP

By: Richard Cieri
Rick Cieri
Partner

Agreed to and accepted this 17th day of October, 2006.

Movie Gallery, Inc.

By: [Signature]
S. Page Todd
E.Y.R.

Attachment

KIRKLAND & ELLIS LLP

CLIENT-REIMBURSEABLE EXPENSES

- **Duplicating/Printing:** 10¢ per page (15¢ per page for copies/printing done in the New York office and 20¢ per page for copies/printing done in the London office). Scanned images are 15¢ per page. Color copies and special copying (CDs, videotapes, velobinding, oversized copies, etc.) are charged based upon our approximate costs.
- **Secretarial and Word Processing:** Clients are not charged for secretarial and word processing expenses incurred on their matters during the normal workday.
- **Overtime Charges:** Secretarial and word processing overtime costs are not passed on to clients unless either (i) the client has specifically requested the after-hours work or (ii) the nature of the work being done for the client necessitates the overtime and such work could not have been done during normal working hours. Costs for related overtime meals and transportation are charged to the client only under the same conditions.
- **Travel Expenses:** We charge clients only our out-of-pocket costs for travel expenses. We charge only coach fares unless the client has pre-approved first-class or an upgrade. K&E personnel take advantage, to the extent practical, of any airfare discounts available at the time of ticketing and are instructed to incur only reasonable hotel and meal expenses. K&E negotiates, uses, and passes along volume discount hotel and air rates whenever possible and practical.
- **Telephone:** We do not charge for local telephone calls. We charge clients for long distance telephone calls at the standard rates of our primary long distance provider.
- **Overnight Delivery/Postage:** We charge clients for the actual cost of overnight and special delivery (e.g., Express Mail and FedEx), and U.S. postage for materials mailed on the client's behalf. K&E negotiates, uses, and passes along volume discount rates whenever possible.
- **Messengers:** We charge clients for the actual cost of a third party vendor messenger. Where a K&E in-house messenger is used, we charge clients a standard transaction charge (e.g., \$18 in Chicago).
- **Faxes:** We do not charge clients for inbound faxes or for local telephone charges incurred on either inbound or outbound faxes. For outgoing faxes, we charge 75¢ per page, plus the standard rates of our primary long distance provider for any related long-distance phone calls.

- **Computerized Research Services:** Client charges are limited to K&E's actual third-party costs and do not include any surcharges for related overhead. K&E negotiates, uses, and passes along volume discount rates whenever possible.
- **Off-Site Legal Files Storage:** Clients are not charged for off-site storage of files unless the storage charge is specifically approved in advance.
- **Document Procurement:** Our standard client charge for document retrieval when a K&E library employee obtains a document from outside sources is \$25 per document. There is no client charge for retrieving documents from K&E libraries in other cities or from other collections when the document is part of the K&E collection but unavailable.
- **Calendar Court Services:** Our standard charge is \$25 for a court filing and other court services or transactions.
- **Library and Business/Industry Research Services:** Research specialists perform computerized research services at the request of attorneys, and clients are charged per hour for these services.
- **Supplies:** There is no client charge for standard office supplies. Clients are charged only for special items (e.g., a minute book, exhibit tabs/indexes/dividers, binding, etc.) and then only at K&E's actual cost.
- **Contract Attorneys and Contract Non-attorney Billers:** If there is a need to utilize a contract attorney or contract non-attorney on a client engagement, clients shall be informed when a bill includes charges for such personnel. Such charges are based on the nature of the task performed and the level of experience of the individual providing the services.
- **Other Third Party Expenditures:** Other third party expenditures (e.g., corporate document and lien searches, SEC and regulatory filings, etc.) incurred on behalf of a client, will be passed through to the client at actual cost.