

MOVIE GALLERY, INC.
FAQ for Web Site

1) What is Chapter 11?

Chapter 11 is the section of the United States Bankruptcy Code that regulates corporate reorganizations. It provides an opportunity for a company to gain relief from its creditors while it attempts to stabilize its business and improve its financial health. During Chapter 11, the company, or “debtor,” continues to operate its business in the same way it did before the filing and continues to pay its post-filing debts and obligations.

In our case, we are focusing on reorganizing business operations while our financial situation is being restructured under court supervision. This allows us to continue the normal, day-to-day operations of the company. Along with the Chapter 11 filing, we filed motions with the Court to ensure that we have the resources to continue to pay employees and vendors and serve our customers. We expect these motions will be accepted by the Court.

2) What happens during the Chapter 11 process?

The Bankruptcy Court issues an “automatic stay,” which prevents anyone from collecting debts owed by the company, such as loan payments the company would ordinarily make to the bank, or payments to vendors and suppliers for goods and services received before the filing. The “automatic stay” also prevents all lawsuits against the company from moving forward until the Chapter 11 case is completed.

Movie Gallery, Inc. (MGI) expects to continue to operate the business throughout the restructuring process. We are committed to continuing to deliver value to all of our important stakeholders.

Additionally, MGI will work with its creditors and other interested parties to develop a long-range business plan, as well as a plan for restructuring the company’s debt. The goal is to develop a Plan of Reorganization that incorporates these two components. Essentially, the Plan of Reorganization provides a road map for the company’s emergence from Chapter 11 as a stronger, sustainable business with a restructured balance sheet.

3) How is Chapter 11 different from Chapter 7?

Chapter 11 deals with corporate reorganizations, while Chapter 7 deals with liquidations or going out of business. We have filed for Chapter 11. We intend to emerge from the restructuring process with a new and sustainable business model centered on a smaller base of profitable stores.

4) Why did MGI file for Chapter 11 protection?

Our voluntary Chapter 11 filing was a difficult, but necessary, decision that resulted in large part from changes in the economic and competitive realities we face.

Over the past two years, we took a number of steps to respond to these business challenges and position MGI for future success, including closing several hundred underperforming stores across the country; however, these actions simply weren't sufficient. After careful consideration of all available alternatives, the company determined that a Chapter 11 filing was the appropriate next step in our ongoing restructuring process.

Chapter 11 is a proven process that will enable us to realign our cost structure in a controlled, court-supervised environment. We intend to emerge from this process with a new and sustainable business model centered on a smaller base of profitable stores.

5) Will MGI continue to close stores throughout the Chapter 11 process?

There will be further store closures, but we cannot speculate on the exact number. It will be based on each store's performance and economic realities, including rent costs. Our stores fall into three groups:

- Group one consists of stores we are closing right away. This group includes approximately 760 Movie Gallery, Hollywood Video and Game Crazy stores that are cash flow negative. Closing them provides us with funds for the future.
- Group two consists of a core group of approximately 900 stores. These are cash flow positive and will form the core of our ongoing business.
- Group three consists of stores whose status is not yet clear. For these, factors such as performance with "True \$" and our ability to reduce costs - for example, through rent reductions - will affect whether or not these stores are part of our business going forward.

6) Is MGI going out of business?

No. We filed for Chapter 11 protection to realign our cost structure in a controlled, court-supervised environment. We intend to emerge from the reorganization process with a new and sustainable business model centered on a smaller base of profitable stores.

7) How will the Chapter 11 restructuring process affect day-to-day operations?

MGI will continue to operate our business during the restructuring process. We are committed to continuing to deliver value to all of our important stakeholders.

8) How will MGI's Chapter 11 filing in the U.S. impact its Canadian operations?

The Chapter 11 filing in the U.S. does not include the company's Canadian operations, which will continue business as normal.

9) Does MGI currently have enough cash to operate its business?

Yes. We have asked the Court for permission to utilize our cash on hand to maintain ongoing business operations throughout the restructuring process, and expect this permission will be granted.

10) What does MGI hope to accomplish through this Chapter 11 reorganization?

Chapter 11 is a proven process that will enable us to realign our cost structure in a controlled, court-supervised environment. We intend to emerge from the restructuring process with a new and sustainable business model centered on a smaller base of profitable stores.

11) How long will the company be in Chapter 11?

It is impossible to predict exactly how long the reorganization process will take. We intend to emerge from this process with a new and sustainable business model.

12) What is MGI's business strategy going forward?

As part of the Chapter 11 process, we will be developing a Plan of Reorganization that will outline our business strategies going forward. We intend to emerge from the restructuring process with a new and sustainable business model centered on a smaller base of profitable stores.

We strongly believe we can continue to play a productive role in connecting consumers with content. We remain focused on continuing to provide value and service to our millions of customers across North America. As part of that effort, we launched our "True \$" discount program, which enables PowerPlay members to rent movies in our Core Collection for \$1.