

## Certain Tennessee Dept. of Revenue Claims<sup>1</sup>

Claim No. to be Disallowed and Expunged	Creditor Name	Asserted Claim Amount as Filed	Asserted Priority Amount of Claim	Amount of Claim to be Allowed After Objection (the "Surviving Claim")	Name of Debtor Against Whom Claim was Filed	Nature of Objection
485	Tennessee Dept. of Revenue	\$2,713,739.85	\$2,369,733.56	\$0	Hollywood Entertainment Corp.	<p>\$2,440,451.12 of this claim related to Hollywood Management Company which ceased to exist on December 31, 2005. In its proof of claim, Tennessee assumes it continued in existence and would have paid an amount of taxes comparable to what was paid for calendar year 2005, but that assumption is invalid. The liability for this portion of the claim is \$0.</p> <p>\$29,895.41 of the claim relates to assumed sales and use tax for January and February, 2010 related to the store at 210 Franklin Road, Brentwood, TN. This store was closed on November 9, 2009 and thus no sales and use tax was collected at this store in 2010. The liability for this portion of the claim is \$0.</p> <p>Finally there is a claim for calendar year 2009 in the amount of \$223,212.50 and for calendar year 2010 in the amount of \$20,180.82 related to the 900 West Main Street, Dothan, Alabama location for which returns are not yet due and have not been filed, but will be prepared and filed before the hearing date on this claim objection</p>

<sup>1</sup> Debtors are preparing and will be filing by October, 2010 returns related to part of the taxes claims under Proof of Claim 478 filed the Tennessee Department of Revenue and will address that proof of claim after such returns are filed.

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480	Tennessee Dept. of Revenue	\$68,846.35	\$63,476.78	\$0	Movie Gallery, Inc.	\$50,883.00 of this claim related to estimated assessments for Franchise and Excise taxes and is invalid and should be disallowed. This claim was filed for Movie Gallery US LLC, which is a disregarded entity and is not liable for Tennessee Franchise and Excise tax. The remaining portions of the claim related to estimated sales and use taxes for the stores in Arlington, TN (store closed 12/12/09), Cookeville, TN (store closed 12/29/09), Waverly, TN (store closed 10/26/09) and Union City, TN (Store closed 12/10.09) for periods after the stores were closed and thus are invalid and should be disallowed in their entirety.
483	Tennessee Dept. of Revenue	\$59,555.93	\$54,555.93	\$0	MG Real Estate, LLC	This proof of claim relates to two disregarded pass through entities (MG Digital LLC, which was dissolved on May 19, 2008 and MG Real Estate LLC). Any taxable income for these entities was reported by Movie Gallery, Inc. as part of its returns and are not separately taxable. Part of the claim related to MG Digital LLC for periods after it dissolved and no longer was in existence.

**Sale, Use or Franchise Taxes:**

Claim No. to be Reclassified, Reduced and/or Disallowed	Creditor Name	Asserted Claim Amount as Filed	Asserted Amount of Priority Claim	Amount of Claim to be Allowed After Objection (the "Surviving Claim")	Name of Debtor Against Whom Claim was Filed	Nature of Objection
4860	New York State Dep't of Tax.	\$2,406,717.41	\$2,218,279.21	\$217,890.80 Priority  \$469,242.48 Unsecured non-priority	Hollywood Entertainment Corp.	<p>Most of this proof of claim relates to two separate sales tax audits. \$1,724,139.93 of the claim relates to the audit for the period ending February 29, 2004. This audit was begun before the first bankruptcy case. Debtors have reserved an unsecured claim in the amount of \$192,000 and propose to allow this portion of the claim in this amount solely as an unsecured claim. Given these claims arose more than three years before the petition date in these cases, they are not priority claims in this bankruptcy under 11 U.S.C. § 507(a)(8).</p> <p>The second audit relates to the period March 1, 2004 through November 30, 2007 in the amount of \$276,242.48. Debtors propose to allow this portion of the claim in this amount solely as an unsecured claim. Most of these claims arose more than three years before the petition date in these cases, they are not priority claims in this bankruptcy under 11 U.S.C. § 507(a)(8).</p> <p>In the amended claim, the State of New York added an additional sales tax claim for the</p>

						<p>period December 1,2007 through January 31,2010 in the amount of \$217,672.27 as an estimate for a proposed audit. Debtors propose to allow this amount. The final portion of the claim in the amount of \$218.53 relates to sales taxes for the period ending May 31, 2009 and given the small amount involved, Debtors propose to allow the claim as a priority claim in that amount.</p> <p>The amended claim also adds \$188,439.20 of unsecured non-priority penalties which the Debtors are not addressing at this time and reserve all rights and defenses with respect to.</p>
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272	New York State Dep't of Tax.	\$2,189,045.14	\$2,000,606.94	\$0	Hollywood Entertainment Corp.	This claims has been amended and superseded by Claim 4860 discussed above.
419	State of Florida Dep't of Rev.	\$953,569.11	\$923,171.33	\$0 Priority \$368,060 Unsecured non-priority	Hollywood Entertainment Corp.	Debtors' books and records show a reserve of \$239,000 for these taxes related to period prior to the priority window in this bankruptcy case and Debtors propose to allow this claim as a general unsecured claim in the amount of \$239,000 plus any interest and penalties owing as of the petition date. The Debtors calculate \$117,110 in interest and \$11,950 in penalties on the \$239,000 reserve.
4387	Fulton County, Georgia	Unliquidated	Unliquidated (Estimated at \$133,544.56)	\$0	Hollywood Management LLC	Hollywood Management LLC is not one of the Debtors in these bankruptcy cases, nor is it associated with the Debtors.
587	Comm. Of Mass. Dep't of Rev.	\$179,995.99	\$164,031.81	\$0 Priority \$178,995.99 Unsecured non-priority	Hollywood Entertainment Corp.	The \$1,000 corporate excess tax for December, 2009 will be the subject of a filed return and paid by September 15, 2010.  The other excess and sales tax amounts asserted in this proof of claim relate to August 2005 or earlier and are not priority claims in this bankruptcy under 11 U.S.C. § 507(a)(8).

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4279	State of New Jersey	\$116,238.32	\$116,238.32	\$0 Priority  \$45,200.96 Unsecured non-priority	Movie Gallery, LLC	<p>\$29,400 of this claim lacks sufficient support.</p> <p>The following claims related to sales and use taxes from 2005 or earlier and thus are not entitled to priority under 11 U.S.C. § 507(a)(8): Bayville, NJ (\$21,000), Lawrenceville, NY (\$21,000) and \$3,200.96 of the amount claims relating to the Salem, NJ store.</p> <p>The remaining portion of the claim related to alleged underpayment of \$41,617.36 of sales and use taxes in 2007 related to the Salem, NJ store at this time. The Debtors object to this portion of the claim as returns and taxes were timely filed and paid. No notices were received by the Debtors for underpayment of taxes.</p>
2393	Indiana Dep't of Rev.	\$117,826.46	\$105,406.23	\$0 Priority  \$48,677.57 Unsecured non-priority	Movie Gallery, LLC	<p>Returns have been filed for the sales tax returns (RST taxes) for 2009 and nothing remains owed for those returns.</p> <p>The other RST taxes related to 2003 and are not entitled to priority in this bankruptcy case under 11 U.S.C. § 507(a)(8).</p>

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3071	West Virginia State Tax Division	\$136,092.26	\$135,894.96	\$0	Movie Gallery Inc.  Hollywood Entertainment Corp.  Movie Gallery, LLC	The appropriate amount of taxes owed to West Virginia have been paid and no more taxes are owed.
1908	City of New York Dept. of Finance	\$102,251.00 plus interest and penalties through petition date	\$102,251.00	\$0	Movie Gallery, Inc.	All taxes due through the date of closing of stores in New York City were paid. Some of the taxes sought related to periods after the stores were closed and no tax is due.
449	Kentucky Department of Revenue	\$98,865.72	\$73,301.70	\$0	Movie Gallery, Inc.	\$92,592.22 of the claim relates to sale and use tax for the period ending August 31, 2009 which sales and use tax was paid and a return was filed. The balance of the claim related to tangible personal property tax for 2005 and sales and use tax for the period ending June 30, 2006 which are not owed.
1583	Texas Comptroller of Public Accounts	\$77,173.63	\$77,173.63	\$0 Priority  \$77,173.63 Unsecured non-priority	Movie Gallery, LLC	All or nearly all of this claim amount appears to relate to tax periods outside the priority period and should be reclassified as general unsecured claims.
449	Texas Comptroller of Public Accounts	\$17,609.17	\$17,609.17	\$0	Movie Gallery, LLC	There is no separate franchise tax for Movie Gallery, LLC and is covered by the franchise tax claim 4479 filed by Texas against Movie Gallery, Inc.

**Claims Previously Paid:**

<b>Claim No. to be Reclassified, Reduced and/or Disallowed</b>	<b>Creditor Name</b>	<b>Asserted Claim Amount as Filed</b>	<b>Asserted Amount of Priority Claim</b>	<b>Amount of Claim to be Allowed After Objection (the "Surviving Claim")</b>	<b>Name of Debtor Against Whom Claim was Filed</b>	<b>Nature of Objection</b>
429	Dep't of the Treasury/IRS	\$512,999.69	\$512,999.69	\$0	Hollywood Entertainment Corp.	This claim relates to FICA taxes which have been fully paid post-petition.
403	Dep't of the Treasury/IRS	\$349,659.88	\$349,659.88	\$0	Movie Gallery, Inc.	This claim relates to FICA taxes which have been fully paid post-petition.