

Movie Gallery Inc (MOVI)

On September 10, 2007, **Movie Gallery Inc** announced that it did not make the interest payment due on its second lien term loan and had deferred the payment of the interest due to beyond the applicable grace period.

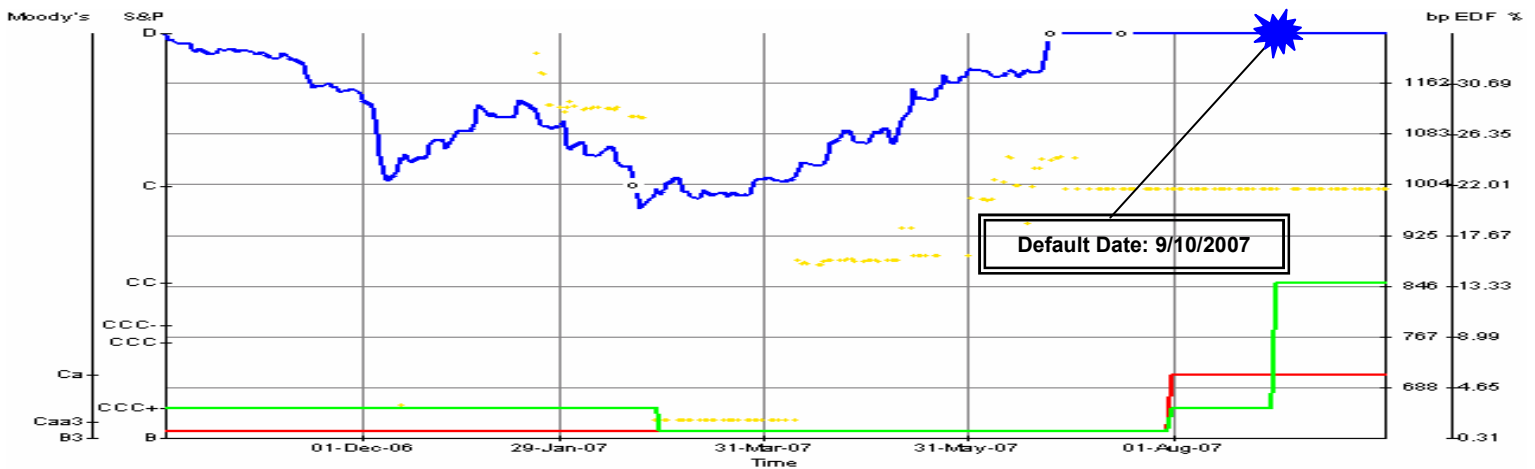
EDF™ as of October 3, 2007: 35%

Credit Category (not an agency rating): C

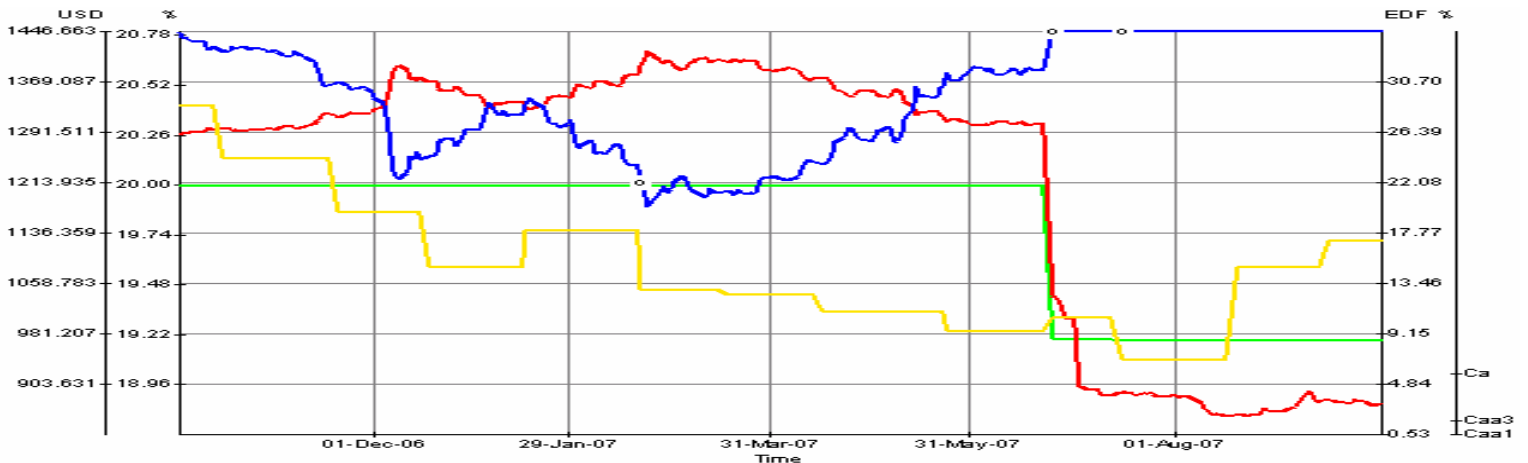
Expected Default Frequency (EDF) is the probability that a firm will default within a given time horizon. Default is defined as failure to make scheduled principal or interest payments. The main drivers of EDF credit measures are the market value of the firm (asset value), the level of its debt obligations (default point), and the volatility of firm value (asset volatility). The EDF credit measures displayed below are 1-year risk measures, although a 10-year term structure of risk is available within CreditEdge.

Company Profile

Movie Gallery likes movie fans who wait for the video. The company, through its Movie Gallery, Hollywood Video, and Game Crazy chains, is the nation's #2 video and game rental company behind Blockbuster. Movie Gallery owns or franchises more than 4,600 rental stores in all 50 states and Canada. Its stores rent and sell up to 15,000 movie titles (VHS and DVD) and 1,500 video games (Nintendo, Sega, and Sony). They also sell blank cassettes, VCR cleaning equipment, movie memorabilia, and concession items. In addition, Movie Gallery sells videos and merchandise on the Internet. The company bought Hollywood Entertainment for \$1.2 billion in 2005.



- MOVIE GALLERY INC [MOVI] EDF
- MOVIE GALLERY INC [MOVI] Moody's Rating
- MOVIE GALLERY INC [MOVI] S&P Rating
- MOVIE GALLERY INC [MOVI] CDS Spread (Market)



- MOVIE GALLERY INC [MOVI] Default Point
- MOVIE GALLERY INC [MOVI] EDF
- MOVIE GALLERY INC [MOVI] Market Value of Assets
- MOVIE GALLERY INC [MOVI] Asset Volatility

This chart displays that Movie Gallery Inc's EDF saturated at 35% before defaulting on 9/10/2007. With its announcement of failure to meet the interest coverage ratio and leverage ratio requirements under the First Lien Credit Agreement on July 2, 2007, its equity price fell abruptly to \$0.68 per share from \$1.89 per share immediately. Consequently, its market value of asset sharply dropped to \$0.9 billion from \$1.3 billion, which is less than its default point, \$1.0 billion at that time. Plus, the asset volatility went up 1% to 20%. The decline of business value, combined with the higher financial risk, led the firm to default.



EDF Information as of: October 3, 2007		mm/dd/yy			
Financial Statement Date: March 30, 2007		Define Current: 10/3/07		Define Previous: One Day	
MOVI 11.000 05/01/12 '08 USD 11.00					
Amounts in: USD Millions (except Share Price)	Current	Previous	Amt Change	% Change	
EDF	35.00%	35.00%			
Credit Category A	C	C			
Asset Volatility B	19.71%	19.71%			
Instantaneous Equity Volatility	373.26%	366.89%	+6.37%	+1.74%	
Market Leverage C	111.23%	111.11%	+0.12%	+0.11%	
Market Value of Assets D	872.734	873.677	-0.943	-0.11%	
Market Capitalization	15.630	15.950	-0.320	-2.01%	
Share Price	0.490	0.500	-0.010	-2.00%	
Shares Outstanding	31.898	31.900	-0.002	-0.01%	
Default Point E	970.742	970.742			
Short-Term Liabilities	261.556	261.556			
Long-Term Liabilities	1,125.218	1,125.218			
Total Adjusted Liabilities	1,386.774	1,386.774			
Other					
Common Dividends	0.000	0.000			
Preferred Dividends	0.000	0.000			
Dilution	1.000	1.000			

Credit Category **A**

Traditional ratings such as the ones used by the major rating agencies are currently more commonplace than default probabilities. Therefore, to help facilitate users' understanding, we translated the EDF credit measure into an equivalent credit category.

Note that this may bear no relationship to the actual agency rating. This is because Moody's KMV employs a different approach to measuring credit risk than the rating agencies. For a more detailed discussion of Moody's KMV's approach to measuring credit risk, please visit the Quick Tour on our Web site.



Comparison of Company to US & Canada Large Corporates

Asset Volatility & Market Leverage **B & C**

The two main drivers of EDF credit measures are: asset volatility, a measure of business risk, and market leverage, a measure of financial risk.

Technically, asset volatility is the standard deviation of the annual change in the market value of the assets. This volatility is expressed in percentage terms.

The higher the asset volatility, the less certain investors are about the market value of the firm, and the more likely the firm's value will fall below its default point.

Market leverage is a ratio indicating how much of the market value of the firm's assets is financed by debt. The measure is calculated as follows: default point divided by the market value of assets.

If all else is equal, the higher the asset volatility or market leverage, the higher the EDF credit measure. The asset volatility and market leverage charts in the top right of the "EDF Detail" screen help the user to understand the firm's EDF credit measure and aid in determining the relative risk, both from a business risk and financial risk perspective.

The chart depicts a meter that shows the level of risk on each of the two measures. The levels are relative values computed on a selected group of firms.

Market Value of Assets **D**

The market's view of the enterprise value of the firm as determined by the firm's equity value, equity volatility, and liability structure.

Because the market value of assets is not directly observable, Moody's KMV employs a proprietary option-theoretic model to compute this value, which treats the firm's equity value as a call option on the firm's underlying assets.

The option theoretic approach enables Moody's KMV to determine the market value of a firm's assets from knowing only the market characteristics of its equity value and the book value of its liabilities.

Default Point **E**

The liabilities that matter in case of default. If the market value of assets falls below this value, it is assumed that the firm will be unable to sell assets or raise additional capital to pay its debts. In general, a firm's default point is a value close to its short-term liabilities plus half of long-term liabilities.

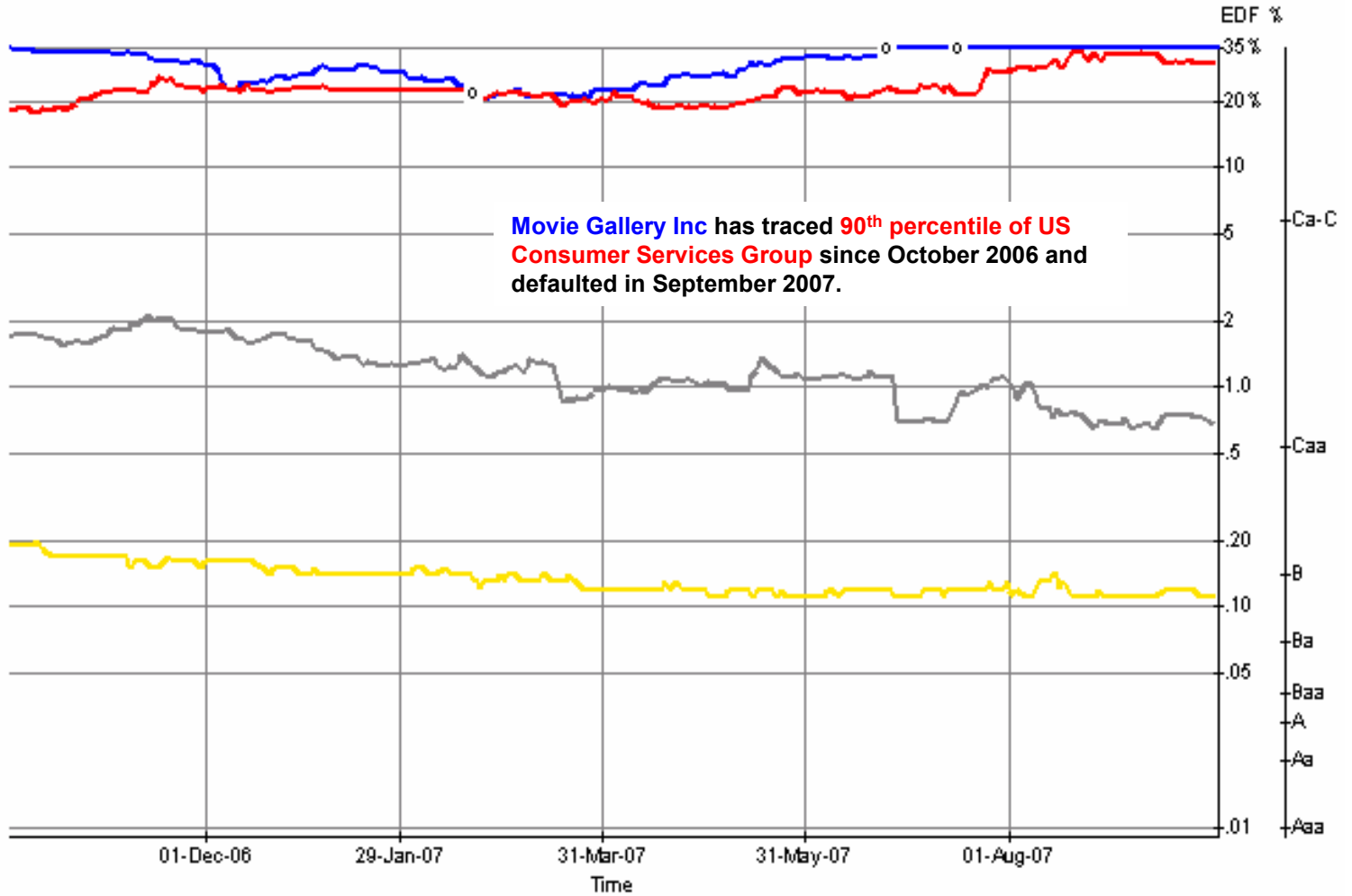


Relative Analysis

The relative analysis feature allows users to chart EDF, fundamental data, and bond values for a selected company or group relative to other companies and/or groups. Users may manually select their own list of peer companies or groups for comparison, or view a Moody's KMV predefined peer list which is based on an automated algorithm. To determine peers for each company:

- MKMV finds all the companies that share the company's Bloomberg Subgroup.

Users can also customize and save their own peer company and peer group choices for future use.



- MOVIE GALLERY INC [MOVI] EDF
- US CONSUMER SERVICES GROUP [USACS] EDF - Median
- US CONSUMER SERVICES GROUP [USACS] EDF - 75th Percentile
- US CONSUMER SERVICES GROUP [USACS] EDF - 90th Percentile

Thank you for your interest in CreditEdge, the revolutionary credit risk management solution provided by MKMV. We look forward to the opportunity of providing you with more information. Please visit www.CreditEdge.com to sign up for an online demonstration. A CreditEdge Team Member will respond to you shortly.