



## Movie Gallery Inc. March Operating Results Show Significant Decreases in Assets and Revenue

*Originally posted on May 4, 2010*

<http://www.netdocketsblog.com/2010/05/movie-gallery-inc-march-operating.html#axzzon6MVwnkA>

On May 4th, [Movie Gallery Inc.](#) and its affiliates filed their consolidated monthly operating report for the most recent monthly period (which covered March 8, 2010 to April 4, 2010). The monthly operating report, which is required to be filed with the bankruptcy court, follows the Wall Street Journal's report over the weekend that the companies had decided to close all of their store locations in the United States ([that article can be found here](#)). [Movie Gallery](#) filed for chapter 11 protection for the second time in four years on February 2, 2010.

### ***Balance Sheet Highlights***

[Movie Gallery's](#) April 4th balance sheet shows consolidated total assets of \$498.9 million, a decline of approximately 12% from the companies' consolidated assets as of March 7th. Asset categories showing large decreases over the past month include cash (\$18.9 million), merchandise inventory (\$9.4 million), and net rental inventory (\$25.9 million). Total liabilities increased slightly to \$989.7 million (from \$984.2 million). Current liabilities decreased by over \$43 million to \$166.7 million due to a \$45 million repayment on the companies' DIP credit facility, but that was more than offset by a \$51.9 million increase in liabilities subject to compromise.

### ***Income Statement Highlights***

The companies reported an operating loss of over \$115 million during the current monthly period, a dramatic increase from the \$9.5 million operating loss during the earlier monthly period (February 8, 2010 to March 7, 2010). The change appears to be attributable primarily to three factors. First, store operating expenses increased significantly, from \$55.7 million to \$144.9 million. Second, revenues decreased by approximately \$13.7 million to \$92.6 million. Finally, the companies saw their gross margin drop precipitously (from 49.6% to only 39.3%). Gross margins dropped on both of the companies' reported product segments, with rental margin dropping to 46.7% (from 59.8%) and product margin dropping from 11.2% to 10.6%. For the most recent monthly period, the companies reported a net loss of \$70.8 million, which reflects a \$45.6 million net gain from reorganization items.

### ***Statement of Cash Flows Highlights***

As noted above, the companies' cash balance decreased by \$18.9 million during the most recent monthly period. The decrease was primarily due to a \$45 million repayment on Movie Gallery's DIP financing facility. Operating activities generated net cash of slightly more than \$25 million during the month.

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### **Other Notable Items**

An accounts receivable aging report included in the monthly operating report reflects that accounts receivable that have been outstanding 91 days or more have increased by more than 19% during the month. Accounts receivable outstanding by 61-90 days increased by more than 53%, while other accounts receivable balances decreased slightly. However, the amount of its outstanding accounts receivable that [Movie Gallery](#) considers uncollectible is nearly unchanged, which may reflect that vendors are withholding payment of outstanding accounts receivable in an attempt to preserve rights of setoff.

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