

EXHIBIT C TO PLAN
RIGHTS OFFERING TERM SHEET



MOVIE GALLERY, INC. ET AL.
RIGHTS OFFERING TERM SHEET¹

Term	Description
Plan Sponsor	The Debtors in <i>In re Movie Gallery, Inc.</i> , ² Case No. 07-33849, in the United States Bankruptcy Court for the Eastern District of Virginia, Richmond Division (the “ <u>Bankruptcy Court</u> ”).
Backstop Party	The “ <u>Backstop Party</u> ” means investment Entities affiliated with Sopris Capital Advisors LLC (collectively, “ <u>Sopris</u> ”). The Backstop Party shall fund the Rights Offering Amount to the extent the Rights Offering is not fully subscribed on the terms set forth in this rights offering term sheet (this “ <u>Rights Offering Term Sheet</u> ”). One hundred percent (100%) of the Backstop Commitment shall be undertaken by the Backstop Party.
Rights Offering	<p>A Rights Offering shall be made pursuant to, and in accordance with the terms set forth in this Rights Offering Term Sheet, the <i>Joint Plan of Reorganization of Movie Gallery, Inc. and Its Debtor Subsidiaries Under Chapter 11 of the Bankruptcy Code</i> (the “<u>Plan</u>”) and the Plan Support Agreement dated as of December 21, 2007, by and among the Debtors, Sopris, the Consenting First Lien Holders, the Consenting Second Lien Holders and the Consenting 11% Senior Note Holders (the “<u>Plan Support Agreement</u>”).</p> <p>“<u>Rights Offering</u>” means the equity rights offering for the Rights Offering Amount backstopped by Sopris as contemplated by this Rights Offering Term Sheet and the Plan, and on terms reasonably acceptable to the Backstop Party.</p>
Rights Offering Amount	The amount of the Rights Offering shall be \$50 million (the “ <u>Rights Offering Amount</u> ”) as set forth in the Plan, which amount shall be deposited in an escrow account in accordance with the escrow agreement contemplated by the Plan Support Agreement. The number of shares of New Common Stock to be sold pursuant to the Rights Offering (the “ <u>Rights Offering Shares</u> ”) shall be calculated according to the Rights Offering Equity Allocation as set forth in the Plan.
Effective Date	The “ <u>Effective Date</u> ” shall have the meaning set forth in the Plan.
Participation in Rights Offering	Each eligible Holder of 11% Senior Notes (each, a “ <u>Rights Offering Participant</u> ”) may participate in the Rights Offering by purchasing that number of Rights Offering Shares equal to its proportionate ownership of

¹ Capitalized terms not defined herein shall have the meaning ascribed to them in the Plan. In the event of any contradiction, the Plan shall apply.

² The Debtors in these proceedings are: Movie Gallery, Inc.; Hollywood Entertainment Corporation; M.G. Digital, LLC; M.G.A. Realty I, LLC; MG Automation LLC; and Movie Gallery US, LLC.

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	the 11% Senior Notes. Sopris irrevocably commits to participate in the Rights Offering by purchasing that number of Rights Offering Shares equal to its current proportionate ownership of the 11% Senior Notes (currently estimated to be \$175.3 million in principal amount) (the “ <u>Sopris Senior Notes Commitment</u> ”).
Exercise Price	The purchase price per share of the Rights Offering Shares will be determined by dividing the Rights Offering Amount by the number of Rights Offering Shares (the “ <u>Exercise Price</u> ”).
Dilution	All shares of New Common Stock issued as of the Effective Date shall be subject to dilution by the Management and Director Equity Incentive Program and any other subsequent issuances of shares of New Common Stock.
Transferability	The right to participate in the Rights Offering shall be non-detachable from the 11% Senior Notes. Accordingly, Rights Offering Participants may not separately transfer their right to participate in the Rights Offering.
Backstop Commitment	<p>The Backstop Party will purchase all Rights Offering Shares in excess of the Sopris Senior Notes Commitment, at the Exercise Price, that are not purchased by the Rights Offering Participants as part of the Rights Offering (the “<u>Backstop Commitment</u>”).</p> <p>The “<u>Backstop Rights Purchase Agreement</u>” means an agreement setting forth the terms and conditions of the Rights Offering and the Backstop Commitment of the Backstop Party, reasonably acceptable to the Backstop Party and consistent with the terms set forth in this Rights Offering Term Sheet. The form of the Backstop Rights Purchase Agreement shall be filed in advance of the deadline for filing objections to the disclosure statement for the Plan.</p>
Registration Rights	<p>On the Effective Date, the Debtors will provide demand and piggy-back registration rights (together, the “<u>Registration Rights</u>”) with respect to the Rights Offering Shares.</p> <p>The “<u>Registration Rights Agreement</u>” means an agreement setting forth the terms and conditions of the Registration Rights, acceptable to the Backstop Party and consistent with the terms set forth in this Rights Offering Term Sheet. The form of the Registration Rights Agreement shall be filed in advance of the deadline for filing objections to the approval of the disclosure statement for the Plan.</p>
Treatment Under Section 1145	Rights Offering Shares will be exempt from registration under the Securities Act of 1933 by virtue of Section 4(2) thereof or Regulation D promulgated thereunder. Those shares will be exempted under section 1145 of the Bankruptcy Code to the extent applicable.
Commitment Fee	The Debtors will pay the Backstop Party a Commitment Fee equal to 2.3% of the Rights Offering Amount on the Effective Date (the “ <u>Commitment Fee</u> ”). The Commitment Fee shall be paid in the form of New Common

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	Stock and the number of shares issued in connection therewith shall be a percentage of the New Common Stock to be issued on the Effective Date in a percentage equal to the amount of the Commitment Fee divided by the Adjusted Equity Value.
Debtors' Representations and Warranties	<p>The Backstop Rights Purchase Agreement shall contain the following representations and warranties of the Debtors:</p> <ul style="list-style-type: none"> • corporate good standing; • requisite corporate power and authority; • delivery of documents; • due issuance and authorization of New Common Stock; • no governmental consents; • no conflicts; and • other customary representations and warranties.
Backstop Party's Representations and Warranties	<p>The Backstop Rights Purchase Agreement shall contain the following representations and warranties of the Backstop Party:</p> <ul style="list-style-type: none"> • corporate good standing; • requisite corporate power and authority; • acknowledgement of obligations under the Backstop Rights Purchase Agreement; • acknowledgement of no registration under the Securities Act of 1933; • acquiring Rights Offering Shares for investment purposes, and not with a view to distribution in violation of the Securities Act of 1933; • delivery of documents; • accredited investor; • due diligence has been performed; and • other customary representations and warranties.
Expense Reimbursements	<p>The "<u>Expense Reimbursements</u>" means all reasonable and documented fees and expenses of the Backstop Party associated with the Rights Offering and the transactions contemplated by the Plan, including but not limited to the fees of Sonnenschein Nath & Rosenthal LLP, Jeffries & Co., Inc. and Tavenner & Beran, P.C., and shall not include any amounts incurred after termination of the Backstop Rights Purchase Agreement or the Lock Up, Voting and Consent Agreement dated as of October 14, 2007 (the "<u>Lock Up Agreement</u>"), by and among the Debtors, the Consenting Second Lien Holders and the Consenting 11% Senior Note Holders (as each such term is defined in the Lock Up Agreement).</p>

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Conditions to Backstop Commitment	<p>The Backstop Commitment will be subject to the following conditions precedent (the “<u>Conditions Precedent</u>”):</p> <ul style="list-style-type: none"> • the disclosure statement accompanying the Plan and the Plan shall be materially consistent with the terms of the Backstop Rights Purchase Agreement, and must be reasonably acceptable to the Backstop Party; • an order of the Bankruptcy Court confirming the Plan pursuant to section 1129 of the Bankruptcy Code (the “<u>Confirmation Order</u>”) that is reasonably acceptable to the Backstop Party must have been entered by the Bankruptcy Court and no order staying the Confirmation Order may be in effect; • the waiting period (and any extension thereof) applicable to the Plan under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the “<u>HSR Act</u>”) shall have been terminated or shall have expired; • the Debtors shall have timely paid all Expense Reimbursements on a continuing basis or within thirty (30) days after the Backstop Party notifies the Debtors of their failure to pay such Expense Reimbursements; <u>provided</u> that in the event the parties in good faith dispute whether the amount of such Expense Reimbursements is “reasonable,” the Debtors shall separate the disputed amount (each, a “<u>Disputed Expense Reimbursement Amount</u>”) and pay the remainder pursuant to the terms hereof; • execution of all documents arising from or related to the Rights Offering and the Restructuring (as defined in the Plan Support Agreement) (including, without limitation, if requested by the Backstop Party, a stockholders agreement), which documents must be reasonably satisfactory to the Backstop Party; and • the Plan Support Agreement has not been terminated, whether by occurrence of a Termination Event (as defined in the Plan Support Agreement) or otherwise. <p>The Backstop Commitment will not be conditioned on any of the following:</p> <ul style="list-style-type: none"> • due diligence; • any cap or restriction on the amount of allowed unsecured claims against the Debtors; • any Disputed Expense Reimbursement Amounts; and • occurrence of any event that is reasonably likely to be materially adverse to the business, operations, assets, liabilities, financial condition or results of operation of the Debtors, taken as a whole.
Expiration of Backstop Rights Purchase Agreement	<p>The Backstop Rights Purchase Agreement shall expire upon termination of the DIP Credit Agreement, as it may be extended from time to time.</p>

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Termination of Backstop Rights Purchase Agreement	<p>The Backstop Party will have the right, but not the obligation, to terminate the Backstop Rights Purchase Agreement (the “<u>Backstop Party Termination Rights</u>”) if:</p> <ul style="list-style-type: none"> • the Debtors file any pleading or document with the Bankruptcy Court with respect to a Topping Proposal (as defined in the Plan Support Agreement); • the Debtors fails to pay any requested Expense Reimbursement to the Backstop Party within thirty days after the Backstop Party notifies the Debtors of their failure to pay such Expense Reimbursement; <i>provided</i> that, in the event that the parties dispute whether amounts are “reasonable,” the Debtors shall separate the disputed amount and pay the remainder pursuant to the terms hereof; or • the Plan Support Agreement has been terminated by reason of the occurrence of a Termination Event (as defined in the Plan Support Agreement, other than with respect to a Termination Event arising under section 8.1(k) of the Plan Support Agreement due to a breach by Sopris) or otherwise.

The Debtors will have the right, but not the obligation, to terminate the Backstop Rights Purchase Agreement (the “Debtors Termination Rights”) if the Backstop Party materially breaches the Backstop Rights Purchase Agreement, and that breach is not cured after a notice period of five (5) business days (which may be extended by the Debtors) during which the breaching Backstop Party may negotiate in good faith regarding any such cure.

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