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Proposed Co-Counsel to the Debtors

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
RICHMOND DIVISION

In re:	)	Case No. 07-_____
	)	Jointly Administered
MOVIE GALLERY, INC., et al.,[1]	)	Chapter 11
	)	
Debtors.	)	
	)	

AFFIDAVIT OF WILLIAM C. KOSTUROS, CHIEF RESTRUCTURING OFFICER OF MOVIE GALLERY, INC., IN SUPPORT OF FIRST DAY MOTIONS

STATE OF VIRGINIA	)	
	)	ss:
COUNTY OF HENRICO	)	

William C. Kosturos, being duly sworn, deposes and states:

1. I am the Chief Restructuring Officer of Movie Gallery, Inc. ("Movie Gallery"), a corporation organized under the laws of the State of Delaware and one of the above-captioned

[1] The Debtors in the cases include: Movie Gallery, Inc.; Hollywood Entertainment Corporation; M.G. Digital, LLC; M.G.A. Realty I, LLC; MG Automation LLC; and Movie Gallery US, LLC.

debtors and debtors in possession (collectively, the "Debtors"). In this capacity, I am generally familiar with the Debtors' day-to-day operations, business and financial affairs and books and records.

2. On the date hereof (the "Commencement Date"), each of the Debtors filed a petition with the Court under chapter 11 of the Bankruptcy Code. The Debtors are operating their businesses and managing their property as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code, 11 U.S.C. §§ 101-1532 (the "Bankruptcy Code"). No request for the appointment of a trustee or examiner has been made in these chapter 11 cases, and no committees have been appointed or designated. Concurrently with the filing of this Motion, the Debtors have sought procedural consolidation and joint administration of these chapter 11 cases.

3. To enable the Debtors to minimize the adverse effects of the commencement of these chapter 11 cases on their businesses, the Debtors have requested various types of relief in their "first day" motions and applications (each, a "First Day Motion"). The First Day Motions seek relief intended to allow the Debtors to effectively transition into chapter 11 and minimize disruption of the Debtors' business operations, thereby preserving and maximizing the value of the Debtors' estates. I am familiar with the contents of each First Day Motion (including the exhibits thereto), and I believe that the relief sought in each First Day Motion: (a) is necessary to enable the Debtors to operate in chapter 11 with minimal disruption or loss of productivity and value; (b) constitutes a critical element to achieving a successful reorganization of the Debtors; and (c) best serves the Debtors' estates and creditors' interests.

4. Except as otherwise indicated, all facts set forth herein are based upon my personal knowledge of the Debtors' operations and finances, information learned from my review of relevant documents and information supplied to me by other members of the Debtors' management and the Debtors' advisors. I am authorized to submit this Affidavit on behalf of the Debtors, and, if called upon to testify, I could and would testify competently to the facts set forth herein.

5. Part I of this Affidavit describes the Debtors' business, their capital structure and the circumstances surrounding the commencement of these chapter 11 cases. Part II sets forth the relevant facts in support of each of the First Day Motions.[2] A summary corporate organization and debt structure chart is attached to this Affidavit as Exhibit A.

PART I.

OVERVIEW OF THE DEBTORS' BUSINESS OPERATIONS

A. Description of the Debtors' Businesses

6. Movie Gallery and its Debtor and non-Debtor subsidiaries ("the Company") are the second largest North American home entertainment specialty retailer. The Company currently operates approximately 4,200 retail stores located throughout all 50 states that rent and sell DVDs, videocassettes and video games. Almost all of the Company's retail stores are leased, not owned. The Company operates three distinct brands — Movie Gallery, Hollywood Video and Game Crazy.

[2] Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the relevant First Day Motion.

7. Since Movie Gallery's initial public offering in August 1994, the Company has grown from 97 stores to its present size through a combination of acquisitions and new store openings. In April 2005, the Company completed its acquisition of Hollywood Entertainment Corporation ("Hollywood"), which included the Hollywood Video and Game Crazy branded stores. Movie Gallery's eastern-focused, rural and secondary market presence and Hollywood's western-focused, prime urban and suburban superstore locations combine to form a strong nationwide geographical store footprint.

8. The Movie Gallery branded stores are primarily located in small towns and suburban areas of cities with populations between 3,000 and 20,000, where the primary competitors are independently owned stores and small regional chains. The typical size of a Movie Gallery store is approximately 4,200 square feet and carries a broad selection of between 2,700 and 16,000 movies and video games for rental, as well as new and used movies and games for sale at competitive prices.

9. Hollywood Video branded stores are typically located in high-traffic, high-visibility, urban and suburban locations with convenient access and parking. Hollywood focuses on providing a superior selection of movies and games for rent, as well as new and used movies and video games for sale. The typical Hollywood Video store is approximately 6,600 square feet and carries over 25,000 movies and video games.

10. The Game Crazy branded locations are dedicated game retail stores where game enthusiasts can buy, sell and trade new and used video game hardware, software and accessories. The Game Crazy locations are located primarily within Hollywood Video stores. As of December 31, 2006, 634 Hollywood Video stores included an in-store Game Crazy department.

A typical Game Crazy department carries approximately 9,000 new and used video games, as well as hardware and accessories and occupies an area of approximately 700 to 900 square feet within the store. In addition, as of December 31, 2006, the Company operated 17 free-standing Game Crazy stores.

11. In 2006, the Company's annual revenues, including rental revenue and product sales, exceeded $2.5 billion. Of this amount, approximately 56% was attributed to DVD rentals, 15% to the sale of previously rented DVDs, VHS cassettes and video games, 13% to the sale of new and used gaming products, 7% to game rentals, 4% to the sale of concessions and other miscellaneous products, 3% to the sale of movie-related products and merchandise and 2% to VHS cassette rentals.

The Exclusive Rental Window

12. The movie studios' current movie distribution strategy provides an exclusive window for movie rental channels before a movie is available to pay-per-view, video-on-demand and other distribution channels. Home video rental serves an important role for the studios as a key risk mitigation tool. On average, box office receipts do not cover a movie's production and marketing costs. This period of exclusivity has been in place since the mid-1980s. The exclusive rental period typically begins after a film finishes its domestic theatrical run (usually three to five months after its debut), or upon its release to video in the case of direct-to-video releases, and lasts for 45 to 60 days thereafter. This period of exclusivity is intended to maximize revenue to the movie studio prior to a movie being released to other less profitable distribution channels, including pay-per-view, video-on-demand, premium or pay cable and other television distribution. Exclusive windows have historically been used to protect each

distribution channel from downstream channels, principally protecting theaters from home video, home video from pay-per-view and video-on-demand, and pay-per-view or video-on-demand from premium cable and other television channels.

New Release Movie Pricing to Home Video Retailers

13. In 1998, the major studios and the larger home video retailers, including Movie Gallery and Hollywood, began entering into revenue-sharing arrangements as an alternative to the historical rental pricing structures, which had required home video retailers to pay a pre-determined lump-sum purchase price for movie titles.

14. Generally, the Debtors can acquire movies in one of three ways. First, the Debtors can acquire movies for a single up-front lump sum payment (referred to as a "Fixed Buy"). Second, the Debtors can acquire movies for a lower up-front payment coupled with an obligation to return or destroy some percentage of the movies at the end of a specified term (a "Copy Depth Program"). Third, the Debtors can acquire movies for a significantly lower up-front payment coupled with an agreement by the Debtors to share with the studios an agreed-upon percentage of the proceeds of future rentals and sales of previously-viewed videos (referred to as a "Revenue Sharing Agreement").

15. While Fixed Buy transactions and Copy Depth Programs are relatively straightforward, Revenue Sharing Agreements are somewhat more complicated. Generally, a Revenue Sharing Agreement requires the Debtors to pay an up-front amount (the "Up-Front Charge") upon delivery of or within a certain time period following delivery of new movies. Additionally, for a specific period of time, often approximately six months (the "Revenue Share Term"), the Debtors are obligated to pay the studio a fixed percentage of the proceeds of any

rentals or sales of the movie (the "Revenue Share Percentage").[3] The Debtors' obligation to make payments to the studio is not triggered until the Debtors' Revenue Share Percentage amount owing for a particular movie exceeds the Up-Front Charge previously paid for that particular movie. These payment obligations, once triggered, are referred to as "Overage Obligations."

16. For example, if the Up-Front Charge for a particular movie is $5 per copy and the Debtors purchase 100,000 copies of that movie, the Debtors will pay $500,000 in Up-Front Charges.[4] Next, assume that the agreed-upon Revenue Share Percentage is 25% and that the Debtors charge $4 per rental. Under this scenario, the Revenue Share Payment would equal $1 per rental but, because the Debtors had paid the $500,000 Up-Front Charge, the Debtors would not owe any Overage Obligations for the first 500,000 rentals. However, for each rental after 500,000 the Debtors would owe $1 per rental on account of Overage Obligations.

17. The Debtors prefer acquiring new movies through Revenue Sharing Agreements as opposed to Fixed Buy transactions. Because the Debtors' per-copy cost under Revenue Share Agreements is much lower than under Fixed Buy and the amounts the Debtors pay are tied to the revenue generated by the title, the Debtors can typically afford to order significantly more copies of any given movie under a Revenue Sharing Agreement than they can under a Fixed Buy transaction. Correspondingly, because the per-copy cost under a Fixed Buy is higher than under

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3 Revenue Sharing Agreements often require the payment of a guaranteed minimum amount per rental or per sale transaction, effectively setting a floor on the per-transaction amount payable to the studios.

4 Currently, many Studios require cash-in-advance for Up-Front Charges. Historically, the Debtors received significantly better payment terms for Up-Front Charges.

a Revenue Share Agreement and a Fixed Buy provides no downside protection in the event that the movie is not as popular expected, the Debtors must purchase more conservatively and order fewer titles under Fixed Buy than they would under a Revenue Sharing Agreement. This, in turn, means that fewer copies of Fixed Buy titles will be available for rental in the Debtors' stores, increasingly the likelihood that a title may be "sold out" and be unavailable to the Debtors' customers. Under this scenario, the Debtors are more likely to miss out on potential rental revenue on desirable movies due to the lower number of copies available, and the Debtors' customers are more likely to be disappointed and may seek the title for rentals or purchase elsewhere.

18. In 2006, more than two-thirds of the Company's new release movie rental revenue was generated under Revenue Sharing Agreements. Maintaining good relations with their studio suppliers, including ongoing access to Revenue Sharing Agreements for new movie releases, is critical to the Debtors' business operations and ability to successfully reorganize.

New Initiatives

19. The Company is currently testing movie kiosks, which are completely automated movie vending machines located in supermarkets, malls and other high traffic areas. These units provide around-the-clock availability of movies with relatively low overhead and fixed costs. As of December 31, 2006, there were approximately 74 kiosk units in operation. The Company is also exploring other alternative delivery channels to improve revenue growth, profitability and customer satisfaction.

B. Corporate History and Structure

20. The Company was co-founded in 1985 by J.T. Malugen, current Chairman of the Board, President and Chief Executive Officer, and H. Harrison Parrish, current Vice Chairman of the Board and Senior Vice President - Concessions. While the Company grew steadily larger through a series of acquisitions and new store openings, the Company virtually doubled in size in 2005 with its acquisition of Hollywood.

Hollywood Acquisition

21. On April 27, 2005, the Company completed a cash acquisition of Hollywood. At the time of the acquisition, the Company's combined pro-forma annual revenue was in excess of $2.6 billion and the combined enterprise included approximately 4,800 stores located in all 50 states, Canada and Mexico. The acquisition substantially increased the Company's presence on the West Coast and in urban areas. Hollywood's predominantly West Coast urban superstore locations did not overlap significantly with Movie Gallery's rural and suburban store locations concentrated in the eastern half of the United States. In the fourth quarter of 2005, the Company closed 64 stores in overlapping market areas. An additional 46 overlapping stores were closed in fiscal 2006.

22. Integration efforts initially focused on consolidating the leadership functions in the brands. To that end, the Company has completed the integration of its human resources and benefits, legal, real estate, construction and lease administration, accounting and finance, payroll, loss prevention and collections, distribution and product purchasing functions. However, the Company has maintained the Hollywood Video and Game Crazy store formats and brands separately from its Movie Gallery business given the highly competitive nature of the Hollywood

markets and to ensure customer continuity. The Company has not integrated the field management organizations at Movie Gallery and Hollywood to ensure they remain focused on supporting their respective markets and customer bases.

Employees

23. As of September 2, 2007, the Company employed approximately 38,800 employees, including approximately 7,500 full-time employees and 31,300 part-time employees. None of the Company's employees are represented by a labor union.

C. Summary of Prepetition Indebtedness

Financing the Hollywood Acquisition: 2005 Credit Facility and Issuance of Unsecured Notes

24. As part of the Hollywood acquisition in April, 2005, the Company refinanced substantially all of the existing indebtedness of Hollywood and replaced the Company's then-existing revolving credit facility. The Company paid $862.1 million to purchase all of Hollywood's outstanding common stock and refinanced approximately $384.7 million of Hollywood's debt.

25. The Hollywood acquisition was financed using Hollywood's cash on-hand of approximately $180.0 million, the issuance of new senior secured credit facilities guaranteed by all of the Company's domestic subsidiaries in an aggregate principal amount of $870.0 million (the "2005 Credit Facilities"), and the issuance of $325.0 million of 11% senior unsecured notes in the principal amount of $325 million (the "11% Senior Notes"). The 11% Senior Notes are governed by that certain Indenture, dated as of April 27, 2005, by and among Movie Gallery, Inc., the domestic subsidiaries of Movie Gallery, Inc., as guarantors, and Sun Trust Bank as

trustee (the "11% Senior Note Indenture"). The maturity date of the 11% Senior Notes is May 1, 2012.

26. As part of the refinancing of Hollywood's debt, Hollywood executed a tender offer for its $225.0 million principal amount 9.625% Senior Subordinated Notes due 2011 (the "9.625% Senior Subordinated Notes"), pursuant to which $224.6 million of the notes were tendered. Approximately $450,000 of the 9.625% Senior Subordinated Notes were not tendered and remain outstanding. The maturity date of the 9.625% Senior Notes is March 15, 2011.

The March 2007 Credit Facility

27. Prior to the commencement of the Debtors' chapter 11 cases, the Debtors obtained approximately $725 million in secured loans, advances and other credit accommodations pursuant to the terms and conditions set forth in the First Lien Credit and Guaranty Agreement, dated as of March 8, 2007, among the respective Debtors as borrower and the guarantors party thereto, the banks, financial institutions and other lenders parties thereto (the "Existing First Lien Lenders"), Goldman Sachs Credit Partners L.P. ("GSCP") as lead arranger and syndication agent, and Wachovia Bank, National Association, as collateral agent and documentation agent (such agents, the "Existing First Lien Agents," and together with the Existing First Lien Lenders, the "Existing First Lien Loan Parties")[5] (as the same has been amended, modified, restated, renewed, replaced and/or supplemented from time to time through the Commencement Date, the "Existing First Lien Credit Agreement"), together with other

[5] The collective term "Existing First Lien Loan Parties" may mean one or more Existing First Lien Lenders, one or more Existing First Lien Agents or all of the Existing First Lien Lenders and the Existing First Lien Agents, depending on the context. To the extent that the Existing First Lien Loan Documents specify the rights and responsibilities of the respective Existing First Lien Lenders and Existing First Lien Agents as between such parties, the terms of the Existing First Lien Loan Documents shall be determinative and shall not be deemed modified by the use of the collective term "Existing First Lien Loan Parties."

credit, guarantee and security agreements executed and/or delivered by the Debtors in favor of the Existing First Lien Loan Parties and all other agreements, documents and instruments at any time executed and/or delivered in connection with or related to the Existing First Lien Credit Agreement (as all of the same have been amended, modified, restated, renewed, replaced and/or supplemented from time to time prior to the Commencement Date, and together with the Existing First Lien Credit Agreement, the "Existing First Lien Loan Documents").

28. In addition, the Debtors obtained an additional $175 million in secured term loans pursuant to the terms and conditions set forth in the Second Lien Credit and Guaranty Agreement, dated as of March 8, 2007, among the respective Debtors as borrower and the guarantors party thereto, the banks, financial institutions and other lenders parties thereto (the "Existing Second Lien Lenders"), GSCP as lead arranger and syndication agent, and Wells Fargo Bank, National Association, as successor administrative agent and collateral agent (such agents, the "Existing Second Lien Agents," and together with the Existing Second Lien Lenders, the "Existing Second Lien Loan Parties,"[6] and together with the Existing First Lien Loan Parties, the "Existing Lenders") (as the same has been amended, modified, restated, renewed, replaced and/or supplemented from time to time through the Commencement Date, the "Existing Second Lien Credit Agreement"), together with other credit, guarantee and security agreements executed and/or delivered by the Debtors in favor of Existing Second Lien Loan Parties and all other agreements, documents and instruments at any time executed and/or delivered in connection with

[6] The collective term "Existing Second Lien Loan Parties" may mean one or more Existing Second Lien Lenders, one or more Existing Second Lien Agents or all of the Existing Second Lien Lenders and the Existing Second Lien Agents, depending on the context. To the extent that the Existing Second Lien Loan Documents specify the rights and responsibilities of the respective Existing Second Lien Lenders and Existing Second Lien Agents as between such parties, the terms of the Existing Second Lien Loan Documents shall be determinative and shall not be deemed modified by the use of collective term "Existing Second Lien Loan Parties."

or related to the Existing Second Lien Credit Agreement (as all of the same have been amended, modified, restated, renewed, replaced and/or supplemented from time to time prior to the Commencement Date, and together with the Existing Second Lien Credit Agreement, the "Existing Second Lien Loan Documents," and together with the Existing First Lien Loan Documents, the "Existing Loan Documents").

29. The aggregate $900 million obtained under the Existing Loan Documents was used by the Debtors to refinance an $829.9 million credit facility entered into in 2005 in connection with Movie Gallery, Inc.'s acquisition of Hollywood Video (the "2005 Credit Facility"), which had $754.9 million outstanding at the time. The Debtors fully drew $600 million under the term loan component of the Existing First Lien Loan Documents and $175 million under the Existing Second Lien Loan Documents and, together with approximately $18.7 million of cash-on-hand, (a) repaid approximately $754.9 million of indebtedness under the 2005 Credit Facility, (b) paid approximately $23.2 million in fees and expenses and (c) paid approximately $15.6 million in accrued interest and fees.

30. The Debtors are indebted to the Existing First Lien Loan Parties in respect of all outstanding obligations under the Existing First Lien Loan Documents, which as of September 30, 2007 were in the aggregate principal amount of not less than $720.6 million, consisting of, among other things: (a) revolving exposure in the form of (i) revolving loans, (ii) swing line loans and (iii) reimbursement obligations in respect of letters of credit in an aggregate outstanding principal amount of not less than $100 million (items (i), (ii) and (iii) of this subpart (a) collectively, the "Existing Revolver Indebtedness"); (b) term loans of approximately $597 million, (c) reimbursement obligations in respect of synthetic letters of

credit of approximately $23.6 million and (d) all interest, fees and charges accrued and accruing thereon and chargeable with respect thereto, and as to the extent provided for in the Existing First Lien Loan Documents, all costs and expenses of the Existing First Lien Loan Parties (including, without limitation, attorneys' fees and legal expenses) (items (a), (b), (c) and (d), collectively, the "Existing First Lien Indebtedness"). As of the Commencement Date, the Existing First Lien Indebtedness was bearing interest at a daily rate, payable monthly, equal to the "Base Rate" plus 3.75% per annum for the revolving exposure, the "Base Rate" plus 4.75%, for term loans, and the "Adjusted Eurodollar Rate" plus 5.75% per annum, for synthetic letters of credit.

31. The Debtors are indebted to Existing Second Lien Loan Parties in respect of all outstanding obligations under the Existing Second Lien Loan Documents, which as of September 30, 2007 were in the aggregate principal amount of not less than $175 million, consisting of (a) term loans ($175 million) and (b) all interest, fees and charges accrued and accruing thereon and chargeable with respect thereto, and as to the extent provided for in the Existing Second Lien Loan Documents, all costs and expenses of the Existing Second Lien Loan Parties (including, without limitation, attorneys' fees and legal expenses) (items (a) and (b) together, the "Existing Second Lien Indebtedness"). As of the Commencement Date, the Existing Second Lien Indebtedness was in default and bearing interest at the "Base Rate" plus the "Applicable Margin," plus the applicable "PIK Margin Increase" (as defined in the Existing Second Lien Loan Documents) plus the applicable default margin. On August 20, 2007, Movie Gallery, Inc. elected to pay-in-kind 100% of the interest on the entire principal amount of the Existing Second Lien Indebtedness commencing with the interest period following such date.

D. Events Leading to These Chapter 11 Cases

32. Several factors have led to the filing of these chapter 11 cases. First, the video rental industry is highly competitive. The Company faces direct competition from competitors such as Blockbuster and Netflix and indirect competition from pay-per-view, cable television and big-box retailers who sell DVDs at increasingly cheaper prices. Furthermore, recent box office receipts of rental releases have declined over the previous year, contributing to an industry-wide decline in demand for video rentals. Finally, as the Company's financial performance has deteriorated, the Company has experienced contracting trade terms, which have had a negative impact on the Company's liquidity, which, in turn, has contributed to the Company's inability to comply with certain financial covenants under their credit agreements.

Challenging Industry Conditions

33. The video retail industry is highly competitive. The Company competes with national, regional and local video retail operations, including: "brick and mortar" operations of Blockbuster and a disparate group of smaller local and regional operations; mail-delivery video rental subscription services, such as Netflix and Blockbuster Online; mass merchants, downloading services, supermarkets, pharmacies, convenience stores, bookstores and other retailers; and non-commercial sources such as libraries. Substantially all of the Company's Hollywood brand stores compete with stores operated by Blockbuster, most in very close proximity. The Company's Movie Gallery brand stores generally operate in smaller, less competitive markets against regional and local competitors.

34. The Company also competes with cable, satellite and pay-per-view television systems. Digital cable and digital satellite services have continued to increase household

penetration. The Company estimates that cable or satellite television is available in over 90 million households. These systems offer multiple channels dedicated to pay-per-view and, in some cases, video-on-demand, and allow some of the Company's competitors to transmit a significant number of movies to consumers' homes at frequent intervals.

35. The home video retail industry includes the sale and rental of movies by traditional video store retailers, online retailers, subscription rental retailers, mass merchants and other retailers. A number of industry-wide factors have combined to negatively impact the store-based rental market in recent years: weak title lineup; weak box office revenues and declining attendance at movie theaters; cannibalization of rentals by low-priced movies available for sale; growth of the online rental segment; the standard DVD format nearing the end of its life cycle; competing high definition DVD formats delaying content release and consumer acceptance; and the proliferation of alternative consumer entertainment options including movies available through video-on-demand, TIVO/DVR, digital cable, satellite TV, broadband, internet and broadcast television.

36. While these negative industry trends have been apparent for some time, they have been more pronounced during the first half of 2007. In addition, the Company experienced significantly greater than expected declines in revenue during the second quarter of 2007, primarily resulting from competitive pricing between Blockbuster and Netflix over their competing on-line subscription rental services and a greater than expected customer acceptance of Blockbuster's "Total Access" program, which combines elements of in-store and online movie rentals. These factors, along with the trends discussed above, have had a negative impact

on the Company's business during the first half of 2007 and are expected to continue to have a negative impact on the Company and the overall video rental market.

37. During the second quarter of 2007, the Company incurred significant losses from operations as a result of the current industry conditions and increased competition described above. The Company's operating results caused it to breach certain of the financial covenants contained in the Existing First Lien Loan Documents as of the end of the second quarter, the consequences of which are described more fully below. Subsequent to the end of the second quarter, the Company has experienced a severe contraction in trade terms, including decisions by many of the Company's significant vendors, including many of the movie studios, to cease extending the Company trade credit and, instead, require cash-in-advance for new deliveries. Consequently, the Company's liquidity has been adversely affected. Absent the filing of these chapter 11 cases and access to new liquidity through the Company's proposed DIP facility, the Company likely would not have been able to continue as a going concern.

Forbearance Agreement Related to First Lien Facilities

38. The Existing First Lien Loan Documents require the Company to meet certain financial covenants, including a secured leverage test, a total leverage test and an interest coverage test. Each of these covenants is calculated based on trailing four quarter results based on specific formulas that are contained in the Existing First Lien Credit Agreement. In general terms, the secured leverage test is a measurement of leverage of secured debt, which includes indebtedness under the Existing First Lien Loan Documents, the Existing Second Lien Loan Documents, amounts drawn under letters of credit and any other secured indebtedness, relative to operating cash flow. Generally, the leverage test is a measurement of leverage of all debt, which

includes all of the Company's indebtedness, including the 11% Senior Notes and amounts drawn under letters of credit, relative to operating cash flow. The interest coverage test is a measurement of operating cash flow relative to interest expense. Unlike the Existing First Lien Credit Agreement, the Existing Second Lien Credit Agreement contains no financial covenants, but contains cross-defaults to the Existing First Lien Credit Agreement.

39. On July 2, 2007, the Company notified GSCP that certain events of default had occurred and were continuing under the Existing First Lien Credit Agreement, including certain events of default arising out of (a) the failure of the Company to satisfy the applicable secured leverage, total leverage and interest coverage ratio tests and (b) the failure to give certain required notices to the administrative agent.

40. On July 20, 2007, the Company entered into a forbearance agreement (the "First Lien Forbearance Agreement") with GSCP, Wachovia and certain lenders party thereto, relating to the Existing First Lien Credit Agreement. A copy of the First Lien Forbearance Agreement was filed with the Securities and Exchange Commission on a Form 8-K dated July 20, 2007.

41. In the First Lien Forbearance Agreement, the Existing First Lien Agents and the lenders party thereto agreed to, among other things, forbear from exercising their default-related rights and remedies as a result of the existing defaults identified in the First Lien Forbearance Agreement (the "Existing Defaults") until the earlier to occur of (a) the occurrence of any default or event of default under the Existing First Lien Credit Agreement or the First Lien Forbearance Agreement other than the Existing Defaults and (b) August 14, 2007. In exchange, the Company agreed to, among other things, (w) increase the interest rate margin applicable to borrowings under the revolving loan component of the Existing First Lien Loan Documents by 1.0% per year

and the interest rate margin applicable to borrowings under the term loan and letter of credit facility components of the Existing First Lien Loan Documents by 2.0% per year, (x) provide certain additional information to GSCP, (y) modify the "Applicable Loan to Value" financial covenant in the Existing First Lien Credit Agreement and (z) further restrictions of the Company's use and application of proceeds of certain assets sales, all as more fully described in the First Lien Forbearance Agreement.

42. On July 31, 2007, the parties agreed to amend the First Lien Forbearance Agreement to make certain technical modifications. A copy of this amendment was filed with the Securities and Exchange Commission on a Form 8-K dated July 31, 2007.

43. On August 15, 2007, the parties entered into a second amendment to the First Lien Forbearance Agreement, pursuant to which the Existing First Lien Agents and the lenders party thereto agreed to, among other things, extend the forbearance period to the earlier to occur of (a) the occurrence of any default or event of default under the Existing First Lien Credit Agreement or the First Lien Forbearance Agreement other than the Existing Defaults and (b) August 27, 2007. A copy of the second amendment to the First Lien Forbearance Agreement was filed with the Securities and Exchange Commission on a Form 8-K dated August 16, 2007.

44. On August 27, 2007, the parties entered into a third amendment to the First Lien Forbearance Agreement, pursuant to which the Existing First Lien Agents and the lenders party thereto agreed to, among other things, further extend the forbearance period to the earlier to occur of (a) the occurrence of any default or event of default under the Existing First Lien Credit Agreement or the First Lien Forbearance Agreement other than the Existing Defaults and (b) September 30, 2007. The parties also added an additional covenant to the First Lien Forbearance

Agreement requiring the Company to obtain an amendment, forbearance or waiver from certain other holders of the Company's indebtedness. A copy of the third amendment to the First Lien Forbearance Agreement was filed with the Securities and Exchange Commission on a Form 8-K dated August 28, 2007.

Announcement of Event of Default under Second Lien Credit Agreement

45. On September 4, 2007, the Company delivered a notice to GSCP as required by Section 5.1(e) of the Existing First Lien Credit Agreement and to the Existing Second Lien Agents as required by Section 5.1(e) of the Existing Second Lien Credit Agreement to notify such parties that an event of default under the Existing Second Lien Credit Agreement occurred on the 60th day following the previously reported defaults and events of default under the Existing First Lien Credit Agreement. As a result of the "cross default" under the Existing Second Lien Credit Agreement, a further event of default under Section 8.1(b)(ii) of the Existing First Lien Credit Agreement occurred.

Forbearance Agreement Related to 11% Senior Notes

46. On August 31, 2007, the Company entered into a Forbearance Agreement (the "11% Senior Note Forbearance Agreement") with Sopris Capital Advisors LLC ("Sopris"), the holder of the majority of the indebtedness under the 11% Senior Notes. The 11% Senior Note Forbearance Agreement provides that, among other things, Sopris will forbear, and direct the trustee under the 11% Senior Note Indenture to forbear, from exercising default-related rights and remedies as a result of any existing and future defaults and events of default under the 11% Senior Note Indenture until the earliest to occur of (a) the occurrence of any default under the 11% Senior Note Forbearance Agreement, (b) a "Bankruptcy Law Event of Default" (as defined

in the 11% Senior Note Indenture), (c) two business days after the date on which the First Lien Forbearance Agreement (as amended) has been terminated in accordance with its terms and (d) September 30, 2007. A copy of the 11% Senior Note Forbearance Amendment was filed with the Securities and Exchange Commission on a Form 8-K dated September 4, 2007.

47. The 11% Senior Note Forbearance Agreement further provides that if the trustee under the 11% Senior Notes Indenture or the holders of at least 25% in principal amount of outstanding 11% Senior Notes declares the unpaid principal of (and premium, if any) and accrued and unpaid interest on all of the 11% Senior Notes to be due and payable pursuant to Section 6.2(a) of the 11% Senior Note Indenture, Sopris (a) in satisfaction of the condition set forth in Section 6.2(b)(2) of the 11% Senior Note Indenture, waives any default or event of default that at any time during such period may occur and be existing in accordance with Section 6.4 of the 11% Senior Note Indenture and (b) rescinds and cancels any declaration and its consequences as contemplated by Section 6.2(b) of the 11% Senior Note Indenture.

Notice of Non-Compliance from NASDAQ

48. On August 17, 2007, the Company received a NASDAQ Staff Determination indicating that Movie Gallery was not in compliance with Marketplace Rule 4450(a)(5), which requires a minimum bid price of $1.00 per share for the Company's common stock, and was not in compliance with NASDAQ Marketplace Rule 4450(b)(3), which requires Movie Gallery to maintain a minimum market value of publicly held shares of $15 million.

49. Movie Gallery has 180 calendar days, or until February 11, 2008, to regain compliance with Marketplace Rule 4450(a)(5). Movie Gallery has 90 calendar days, or until November 15, 2007, to regain compliance with Marketplace Rule 4450(b)(3). The Company is

considering various alternatives to address compliance with Marketplace Rules 4450(a)(5) and 4450(b)(3).

Restructuring Negotiations and Agreements

50. On October 14, 2007, the Debtors entered into a Lock Up, Voting and Consent Agreement (the "Lock Up Agreement") with Sopris and certain Existing Second Lien Lenders signatories thereto (collectively, the "Consenting Holders").[7] The Lock Up Agreement obligates the Consenting Holders to, among other things, vote to support a plan of reorganization (the "Plan") consistent with the terms set forth in the Lock Up Agreement and that certain term sheet annexed to the Lock Up Agreement as Exhibit A (the "Plan Term Sheet").[8]

51. Through the Lock Up Agreement, holders of a majority of the 11% Senior Notes and lenders holding a majority of the debt under the Existing Second Lien Credit Agreement have committed to vote in favor of the Plan, consistent with the terms of the Plan Term Sheet. The Debtors are in negotiations with the Existing First Lien Lenders regarding the terms of the amended and restated first lien credit agreement, and the Debtors hope to reach an agreement with the Existing First Lien Lenders in the short term.

52. The Plan Term Sheet provides, among things, that: (a) the Debtors will enter into an amended and restated first lien credit agreement, (b) the Existing Second Lien Credit Agreement will be amended to reset interest rates and modify PIK interest options and conditions

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7 A copy of the Lock Up Agreement is attached hereto as Exhibit B. All references to and descriptions of the Lock Up Agreement contained herein shall be qualified entirely by reference to the Lock Up Agreement and any conflict between the terms of the Lock Up Agreement and the descriptions of the Lock Up Agreement contained herein shall be resolved in favor of the Lock Up Agreement.

8 A copy of the Plan Term Sheet is annexed as Exhibit A to the Lock Up Agreement. All references to and descriptions of the Plan Term Sheet contained herein shall be qualified entirely by reference to the Plan Term Sheet and any conflict between the terms of the Plan Term Sheet and the descriptions of the Plan Term Sheet contained herein shall be resolved in favor of the Plan Term Sheet.

according to the terms and conditions set forth on Exhibit A-3 to the Plan Term Sheet, (c) Sopris will convert approximately $72 million (plus accrued interest) in claims under the Existing Second Lien Credit Agreement into equity in the reorganized Company, (d) the Debtors' $325 million 11% Senior Notes will be converted into equity in the reorganized Company and (e) Sopris will backstop a $50 million rights offering to be made available pro rata to the holders of the 11% Senior Notes, the terms of which backstop commitment are set forth in that certain Rights Offering Term Sheet attached as Exhibit A-4 to the Plan Term Sheet.

53. Overall, the proposed Plan would (a) reduce the Debtors' total indebtedness by approximately $400 million, (b) be expected to improve cash flows by significantly reducing on-going interest expense and (c) provide additional capital to facilitate the implementation of the Debtors' business plan.

54. The Debtors have committed, as a condition to the Lock Up Agreement, to file the Plan and a disclosure statement within thirty days after the Commencement Date.

Recent Store Closing Initiatives

55. Prior to the Commencement Date, the Debtors conducted an extensive review of their store portfolio with the objective of identifying and closing unprofitable store locations. In August and September, 2007, the Debtors conducted liquidation sales and subsequently closed approximately 73 store locations. On September 25, 2007, the Debtors announced their decision to close approximately 520 additional store locations and, immediately thereafter, the Debtors began the process of liquidating inventory and winding down operations at those store locations. As part of their First Day Motions, the Debtors filed a motion for authority to continue store closing sales currently in process and approval of procedures to govern ongoing and future store

closings and store closing sales. The Debtors will continue to evaluate stores and will make decisions whether to close such other stores on a rolling basis throughout these chapter 11 cases.

PART II.

FIRST DAY MOTIONS

A. Motion of the Debtors for an Order Directing Joint Administration of their Related Chapter 11 Cases (the "Joint Administration Motion")

56. Many of the motions, hearings and orders in these chapter 11 cases will jointly affect each and every Debtor. By jointly administering these chapter 11 cases, I believe that the Debtors will be able to reduce fees and costs in connection with the administration of these cases by avoiding the duplication of effort associated with, for example, filing multiple duplicative documents in the Debtors' various individual cases, monitoring each of the Debtors' individual dockets and maintaining individual case files for each of the Debtors that will largely duplicate one another. In addition, I believe that the ability of parties in interest to monitor these cases will be facilitated by having all pleadings grouped together on one docket. Joint administration also will relieve the Court of the burden of entering duplicative orders and maintaining duplicative files. Finally, supervision of the administrative aspects of the chapter 11 cases by the U.S. Trustee will be simplified.

B. Motion of the Debtors for Authority to (A) Prepare a List of Creditors in Lieu of Submitting a Formatted Mailing Matrix and (B) File a Consolidated List of the Debtors' 30 Largest Unsecured Creditors (the "Consolidated Matrix Motion")

57. After consultation with the proposed notice, claims and balloting agent for the Debtors, I believe that preparing the consolidated list of all of the Debtors' creditors in the format or formats currently maintained by the Debtors in the ordinary course of their business

will be sufficient to permit the notice, claims and balloting agent to provide prompt notice to all applicable parties.

58. Many creditors are shared among certain of the Debtors, and the Debtors would expend significant resources and effort to reconcile their accounts to accurately attribute each creditor's claim against each Debtor.

59. The Debtors are complex enterprises with operations throughout the United States and abroad and consequently have tens of thousands of potential unsecured creditors. I believe that requiring each of the Debtors to file a separate top twenty in each of their respective cases would generate hundreds of names, addresses and claim amounts. It is my understanding that the consolidated list of creditors would facilitate the review of claims by the U.S. Trustee or any party in interest in a voluminous filing like these chapter 11 cases. Moreover, compiling separate top twenty lists would consume an excessive amount of the Debtors' scarce time and resources.

60. It is my understanding that the Debtors have already prepared a single, consolidated list of all of the Debtors' creditors and, with the assistance of the notice, claims and balloting agent, are prepared to make such list available upon request and will be capable of undertaking all necessary mailings.

C. Motion of the Debtors for an Order (A) Granting an Extension of Time to File Statements of Financial Affairs and Schedules of Assets and Liabilities, Current Income and Expenditures and Executory Contracts and Unexpired Leases and (B) Authorizing the Scheduling of the Meeting of Creditors as Set Forth Herein (the "Schedules and Statements Motion")

61. The Debtors have more than 100,000 creditors. Further, the conduct and operation of the Debtors' business operations require the Debtors to maintain voluminous books

and records and complex accounting systems. Given the size and complexity of their business operations, the number of creditors, and the fact that certain prepetition invoices have not yet been received or entered into the Debtors' financial accounting system, the Debtors have begun, but have not yet finished, compiling the information required to complete the Statements and Schedules.

62. Accordingly, I believe it is in the Debtors' best interest to obtain an extension of 30 days from the time period provided for under Local Bankruptcy Rule 1007-1(c) to file the Schedules and Statements, which would provide the Debtors with a total of 45 days after the Commencement Date to file the Schedules and Statements.

63. Moreover, to the extent such relief is necessary, I believe it is necessary for the U.S. Trustee to schedule the meeting with creditors under section 341 of the Bankruptcy Code more than 40 days following the Commencement Date in light of the proposed extension of time to file the Schedules and Statements.

D. Motion of the Debtors for an Order (A) Establishing Bar Dates and (B) Approving the Form and Manner of Notice of Commencement of Cases and Notice of Bar Dates for Creditors to File Proofs of Claim (the "Form of Notice of Commencement/ Bar Date Motion")

64. I believe that the claims bar dates proposed by the Debtors through the Form of Notice of Commencement / Bar Date Motion will facilitate an expeditious reorganization of the Debtors.

65. In addition, it is my understanding that the forms of notice provided by the Form of Notice of Commencement / Bar Date Motion will provide sufficient notice of these chapter 11 cases.

E. Motion of the Debtors for an Order Establishing Certain Notice, Case Management and Administrative Procedures (the "Case Management Motion")

66. It is my understanding that hundreds of creditors and other parties in interest will file requests for service of filings. I expect that numerous motions and applications will be filed. It is my understanding that the requested Case Management Procedures will assist in the administration in these chapter 11 cases.

Retention Related Motions

A. Application of the Debtors for an Order Authorizing the Employment and Retention of Kirkland & Ellis LLP as Attorneys for the Debtors and Debtors in Possession (the "Kirkland & Ellis LLP Retention Application")

67. The Debtors seek to retain K&E as their attorneys because K&E has extensive experience and knowledge in the field of debtors' and creditors' rights and business reorganizations under chapter 11 of the Bankruptcy Code. In addition, K&E possesses extensive experience and knowledge practicing before bankruptcy courts.

68. I am aware that K&E has been actively involved in major chapter 11 cases and has represented debtors in many cases. Additionally, K&E represented the Debtors prior to the Commencement Date and, therefore, will be able to quickly respond to any and all issues that may arise during these chapter 11 cases. During its prior representation of the Debtors and in preparation for these chapter 11 cases, K&E has become familiar with the Debtors' business and affairs and many of the potential legal issues that may arise in the context of these chapter 11 cases. Accordingly, the I believe that K&E is both well-qualified and uniquely able to represent the Debtors in these chapter 11 cases in an efficient and timely manner.

B. Application of the Debtors for an Order Authorizing the Employment and Retention of Kutak Rock LLP as Attorneys for the Debtors and Debtors in Possession (the "Kutak Rock LLP Retention Application")

69. The Debtors seek to retain Kutak Rock as their local counsel and conflicts counsel because Kutak Rock has extensive experience and knowledge in the field of debtors' and creditors' rights and business reorganizations under chapter 11 of the Bankruptcy Code. In addition, Kutak Rock possesses extensive expertise and knowledge practicing before this Court.

C. Application of the Debtors for an Order Authorizing the Employment and Retention of Lazard Frères & Co. LLC as Investment Banker and Financial Advisor for the Debtors and Debtors in Possession (the "Lazard Frères & Co. LLC Retention Application")

70. The Debtors seek to retain Lazard as their financial advisor and investment banker because, among other things, Lazard has extensive experience and an excellent reputation in providing high quality financial advisory and investment banking services to debtors and creditors in bankruptcy reorganizations and other restructurings.

71. Lazard is the U.S. operating subsidiary of a preeminent international financial advisory and asset management firm. Lazard, together with its predecessors and affiliates, has been advising clients around the world for over 150 years. Lazard has dedicated professionals who provide restructuring services to its clients.

72. The current managing directors, directors, vice presidents and associates of Lazard have extensive experience working with financially troubled companies in complex financial restructurings out-of-court and in chapter 11 proceedings. Lazard and its principals have been involved as advisors to debtor, creditor and equity constituencies and government agencies in many reorganization cases. Since 1990, Lazard's professionals have been involved in over 250 restructurings, representing over $350 billion in debtor assets.

73. Moreover, the professionals of Lazard have been retained as financial advisors and investment bankers in a number of troubled company situations.

74. I believe that the resources, capabilities and experience of Lazard in advising the Debtors are crucial to the Debtors' successful restructuring. An experienced investment bank and financial advisor such as Lazard fulfills a critical need that complements the services offered by the Debtors' other restructuring professionals. Broadly speaking, Lazard will assist in the evaluation of strategic alternatives and render financial advisory services to the Debtors in connection with their ongoing restructuring efforts. For these reasons, the Debtors require the services of a capable and experienced investment bank and financial advisory firm such as Lazard.

75. Furthermore, as a result of the prepetition work performed on behalf of the Debtors, I believe that Lazard acquired significant knowledge of the Debtors and their business and is now intimately familiar with the Debtors' financial affairs, debt structure, operations and related matters. Likewise, in providing prepetition services to the Debtors, Lazard's professionals have worked closely with the Debtors' management and their other advisors. Accordingly, I believe that Lazard has developed relevant experience and expertise regarding the Debtors that will assist it in providing effective and efficient services in these chapter 11 cases.

D. Application of the Debtors for an Order Authorizing the Employment and Retention of Keen Consultants, the Real Estate Division of KPMG Corporate Finance LLC as Real Estate Consultant for the Debtors and Debtors in Possession (the "Keen Consultants Retention Application")

76. The Debtors seek to retain Keen because of Keen's significant qualifications and experience in real estate restructuring matters. For over 25 years, Keen has had extensive experience solving complex problems and evaluating and selling real estate, leases and

businesses. Keen has an excellent reputation as a leader in identifying strategic investors and partners for businesses and has consulted with hundreds of clients nationwide in connection with the evaluation and disposition of more than 20,300 properties representing approximately two billion square feet of real estate across the country. I believe that Keen will assist the Debtors in the evaluation of its real estate holdings and facilitate the efficient disposition of such assets. Moreover, Keen has served as real estate broker and real estate consultant in many complex bankruptcy cases. Accordingly, I believe that Keen is both well qualified and uniquely able to provide real estate services in these chapter 11 cases in an efficient and timely manner.

E. Motion of the Debtors for an Order Authorizing the Assumption by the Debtors of the Store Closing Consulting Agreement with Great American Group, LLC (the "Store Closing Agency Agreement Assumption Motion")

77. The Debtors seek to assume the store closing consulting agreement (the "Consulting Agreement") with Great American Group.

78. It is my understanding that the Consulting Agreement is an executory contract within the meaning of section 365 of the Bankruptcy Code — the failure of the Debtors to perform under the Consulting Agreement would constitute a breach of the Consulting Agreement, excusing the performance of the other party. Great American is in the process of and will continue to conduct ongoing Store Closing Sales of the Debtors' Merchandise. I believe Great American's efforts could potentially result in the recognition of approximately $18 million in value resulting from the sale of the Merchandise. As a result, the Debtors have committed to compensating Great American in accordance with the fee structure set forth more fully in the Store Closing Agency Agreement Assumption Motion. Accordingly, I believe assumption of the Consulting Agreement is in the best interests of the Debtors and their estates.

F. Application of the Debtors for an Order Authorizing the Employment and Retention of Kurtzman Carson Consultants LLC as Notice, Claims and Balloting Agent for the Debtors and Debtors in Possession (the "Kurtzman Carson Consultants LLC Retention Application Motion")

79. KCC is well-qualified to serve in this capacity because of its experience and the competitiveness of its fees.

80. The notice, claims and balloting services provided by KCC will not duplicate the services that the Debtors' retained professionals would provide in these chapter 11 cases. It is my understanding that KCC will carry out unique functions and will use reasonable efforts to coordinate with the Debtors' retained professionals to avoid unnecessary duplication of services. I believe that the rates to be charged by KCC for its services in connection with the notice, claims and balloting services are competitive and comparable to the rates charged by its competitors for similar services.

G. Motion of the Debtors for an Order Authorizing the Retention and Compensation of Certain Professionals Utilized in the Ordinary Course of Business (the "OCP Motion")

81. The Debtors retain various attorneys, accountants and other professionals in the ordinary course of their business (each, an "OCP"). The OCPs provide services for the Debtors in a variety of matters unrelated to these chapter 11 cases, including legal services with regard to specialized areas of the law, accounting services, auditing and tax services and certain consulting services. A list of the Debtors' current OCPs is attached to the OCP Motion as Exhibit B.

82. The Debtors seek authorization to continue, in their sole discretion, to retain and compensate the OCPs on a postpetition basis in accordance with the procedures for retention and compensation of OCPs, as reflected on Exhibit 1 annexed to Exhibit A attached to the OCP Motion, without the need for each OCP to file formal applications for retention and

compensation (collectively, the "OCP Procedures"). Additionally, the Debtors seek to reserve the right to retain additional OCPs from time to time during these cases.

83. I believe that without the background knowledge, expertise and familiarity that the OCPs have relative to the Debtors and their operations, the Debtors undoubtedly would incur additional and unnecessary expenses in educating replacement professionals about the Debtors' business and financial operations. Moreover, I believe that the Debtors' estates and their creditors are best served by avoiding any disruption in the professional services that are required for the day-to-day operation of the Debtors' business. Additionally, in light of the substantial number of OCPs and the significant costs associated with the preparation of retention applications for professionals who will receive relatively modest fees, I believe that it would be impractical, inefficient and extremely costly for the Debtors and their legal advisors to prepare and submit individual applications and proposed retention orders for each OCP.

Operational Motions

A. Motion of the Debtors for an Order (A) Authorizing, but not Directing, the Debtors to Pay Certain Prepetition (I) Wages, Salaries, Bonuses and Other Compensation, (II) Reimbursable Employee Expenses and (III) Employee Medical and Similar Benefits and (B) Authorizing and Directing Banks and Other Financial Institutions to Honor All Related Checks and Electronic Payment Requests (the "Wages Motion")

84. As of the Commencement Date, the Debtors and their non-Debtor affiliates employ approximately 38,800 Employees of whom approximately 7,500 are full-time employees (the "Full-Time Employees") and approximately 31,300 are part-time employees (the "Part-Time Employees"). Approximately 33,600 Employees are paid on an hourly basis and approximately 5,200 Employees are paid salary. As of October 3, 2007, the Debtors' Movie Gallery business unit employed approximately 17,200 Employees and the Debtors' Hollywood Video business unit employed approximately 20,100 Employees. Movie Gallery Canada, Inc., a non-Debtor entity, operates the Debtors' Canadian operations and employs approximately 1,500 Employees, each of whom are paid directly by Movie Gallery Canada, Inc.

85. The Employees perform a variety of critical functions, including customer service, inventory control, management, marketing, purchasing and sales, shipping, tax, technical services and other tasks. I believe that the Employees' skills and their knowledge and understanding of the Debtors' operations, customer relations and infrastructure are essential to the effective reorganization of the Debtors' business.

a. Employee Obligations

i. Unpaid Compensation

86. In the ordinary course of business, the Debtors incur payroll obligations to the Employees. Such obligations generally comprise wages and salaries, but may also include incentive bonuses and commissions awarded for sales productivity and goal attainment. The Debtors pay their Employees periodic payments for wages and salaries, no less frequently than twice a month. Approximately half of the Debtors' payroll is made by direct deposit through electronic transfer of funds directly to Employees with the other half of Employees receiving checks. Of those Employees receiving payroll through electronic transfer of funds, approximately half receive their payroll at a bank account and half receive their payroll on an electronic pay card. On average, the Debtors have payroll expenses of $41 million per month.

87. Because all of the Employees are paid in arrears, as of the Commencement Date, some of the Employees have not been paid all of their prepetition wages. Additionally, some Employees may be entitled to compensation because (a) discrepancies may exist between the amounts paid and the amounts that should have been paid and (b) some payroll checks issued to Employees prior to the Commencement Date may not have been presented for payment or may not have cleared the banking system and, accordingly, have not been honored and paid as of the Commencement Date.

88. The Debtors believe that, as of the Commencement Date, approximately $18 million in accrued wages, salaries and other compensation (but excluding reimbursable expenses, commissions and vacation pay) earned prior to the Commencement Date remains unpaid to Employees (the "Unpaid Compensation"). I am unaware of any Employee being owed more

than $10,950 for Unpaid Compensation, commissions or cash for vacation pay in those states that require accrued vacation benefits to be paid to employees at the time of termination. Nevertheless, to the extent that the Debtors determine that any Employee holds claims greater than $10,950 against the Debtors for Unpaid Compensation, vacation pay or commissions, the Debtors seek to pay such Employees the amount of any prepetition Unpaid Compensation, vacation pay or commissions that exceeds the $10,950 cap imposed by sections 507(a)(4) and 507(a)(5). The Debtors believe that such payments are justified by the critical nature of the services provided by such Employees.

89. In addition, the Debtors procure the services of temporary workers and consultants who work on an hourly basis and whose services are procured through employment agencies. The Debtors remit compensation for the temporary workers' services directly to the applicable employment agencies, which in turn pay the temporary workers (the "Temporary Compensation"). The Debtors incur approximately $350,000 in Temporary Compensation obligations per month. I am unaware of any temporary worker or consultant being owed more than $10,950.

ii. Deductions and Withholdings

90. During each applicable pay period, the Debtors routinely deduct certain amounts from paychecks, including, without limitation, (a) garnishments, child support and similar deductions and (b) other pre-tax and after-tax deductions payable pursuant to certain of the Employee benefit plans discussed herein (such as an Employee's share of health care benefits and insurance premiums, contributions under flexible spending plans, 401(k) contributions, legally ordered deductions and miscellaneous deductions) (collectively, the "Deductions"). The

Debtors forward the amount of the Deductions to the appropriate third-party recipients. On average, the Debtors have deducted approximately $19.5 million from the Employees' paychecks per month. Due to the commencement of these chapter 11 cases, however, certain Deductions that were deducted from Employees' earnings may not have been forwarded to the appropriate third-party recipients prior to the Commencement Date.

91. Further, the Debtors are required by law to withhold from an Employee's wages amounts related to federal, state and local income taxes, social security and Medicare taxes for remittance to the appropriate federal, state or local taxing authority (collectively, the "Withheld Amounts"). The Withheld Amounts are approximately $7.5 million per month. The Debtors must then match from their own funds for social security and Medicare taxes and pay, based on a percentage of gross payroll, additional amounts for federal and state unemployment insurance (the "Employer Payroll Taxes," and together with the Withheld Amounts, the "Payroll Taxes"). The Payroll Taxes, including both the employee and employer portions, for 2006 were approximately $11 million per month. Prior to the Commencement Date, the Debtors withheld the appropriate amounts from Employees' earnings for the Payroll Taxes but such funds may not yet have been forwarded to the appropriate taxing authorities.

iii. Honoring Checks for, and Payment of, Reimbursable Expenses

92. Prior to the Commencement Date and in the ordinary course of their business, the Debtors reimbursed Employees for certain expenses incurred on behalf of the Debtors in the scope of their employment (the "Reimbursable Expenses"). The Reimbursable Expenses include, without limitation, certain expenses for (a) car allowances, (b) business relocation expenses and (c) travel expenses for meals, hotels and rental cars.

93. The Debtors provide car allowances to certain Employees whose responsibilities require them to travel extensively (each, a "Car Allowance"). As of the Commencement Date, approximately 76 Employees receive a monthly Car Allowance at an aggregate cost to the Debtors of $40,000 per month.

94. Moreover, the Debtors offer certain Employees reimbursement for relocation expenses to incentivize desirable candidates to accept positions with the Debtors (the "Relocation Expenses"). The Debtors spend approximately $39,000 per month to compensate Employees for such Relocation Expenses. As of the Commencement Date, approximately $160,000 in total Reimbursable Expenses remain unpaid.

95. The Reimbursable Expenses were all incurred on the Debtors' behalf and with the understanding that they would be reimbursed.

iv. Prepetition Employee Bonus Plans and Sales Commission Programs

96. In the ordinary course of business, certain of the Debtors' Employees participate in quarterly or annual incentive-based bonus plans depending on their position and department. Salaried Employees who work at the Debtors' headquarters or the Debtors' distribution centers may be eligible for bonuses if the Debtors attain certain EBITDA targets. Full-Time hourly Employees in the Debtors' distribution centers who have been employed for at least 90 days may also be eligible to receive bonuses based on productivity, quality and safety. Further, retail managers, including store managers, district managers and regional managers responsible for overseeing operations at the Debtors' store locations may be eligible for certain bonuses based on maintaining certain behaviors that maximize revenue earned by their store, district or region.

97. As a result of lower than expected EBITDA in 2007, the Debtors revised their bonus plan for salaried Employees holding positions at the vice president level and below at the Debtors' headquarters and the Debtors' distribution centers. The amended 2007 bonus plan, which restates EBITDA targets for the fourth quarter, relates entirely to performance during the fourth quarter of the 2007 fiscal year. Additionally, the Debtors implemented a special one-time bonus plan for non-officer restricted stock recipients to cover any withholding tax liabilities related to the decrease in the value of the Debtors' stock in the period between the time the restricted stock vested in June 2007 and the time the restricted stock recipients were able to sell their shares. The Debtors refer collectively to the bonus plans described in the Wages Motion as the "Bonus Plans."

98. As of the Commencement Date, the Debtors' obligations for the Bonus Plans are approximately $5.0 million for all Employees at the retail and corporate level, which is approximately 1% of the Debtors' total annual payroll. This includes an approximately $1.0 million bonus payout under the amended 2007 bonus plan, payable to supervisors, managers, directors and vice presidents (and excluding senior vice presidents, executive vice presidents and presidents). Under all Bonus Plans, more than 5,000 Employees are entitled to receive bonuses and the maximum expected payout for any individual is $10,500.

99. Prior to the Commencement Date, to incentivize store managers and Employees in their retail video, game and tanning stores to maximize sales, the Debtors offered various commissions programs (the "Commissions"). The Debtors' obligations as of the Commencement Date for the Commissions are approximately $215,000.

b. Employee Benefits

i. Medical, Dental and Vision Plans

100. The Debtors offer their Employees the ability to participate in a number of insurance and benefits programs, including health care and dental plans, vacation time and other paid leaves of absence, retirement savings plans, flexible benefit plans, life insurance, accidental death and dismemberment insurance, short-term and long-term disability insurance and accident insurance (collectively, the "Employee Benefit Programs").

101. The Debtors' primary medical, dental, vision and prescription drug plan for Full-Time Employees is the Movie Gallery/Hollywood Group Health Care and Dental Plan (the "Medical and Dental Insurance Plan"). The Medical and Dental Insurance Plan is a self-insured plan that provides health care coverage to approximately 4,500 Employees and 4,000 dependents and dental care to approximately 4,500 Employees and 4,200 dependents. The Medical and Dental Insurance Plan is a self-funded welfare plan that costs the Debtors approximately $1.5 million per month in gross claims and approximately $150,000 per month in administrative fees to the third party administrator. Prior to the Commencement Date, the Debtors incurred certain administrative obligations to the third party administrator, which have not yet been paid. In addition, prior to the Commencement Date, certain Employees filed claims under the Medical and Dental Insurance Plan, which have not yet been paid.

102. The Debtors also offer a fully-insured plan, HMSA Blue Cross Blue Shield Plan of Hawaii, to cover approximately six Employees located in Hawaii (the "Hawaii Plan"). This coverage costs the Debtors approximately $1,500 in premiums per month.

103. The Debtors provide a separate health care plan to the Part-Time Employees, the Aetna Affordable Health Choices Insurance Plan (the "Aetna Plan"), which includes medical, dental, term life and accidental death and short-term disability insurance. Premium contributions for the Aetna Plan are paid fully by the Part-Time Employees who participate in the program. The Debtors believe that they do not have any prepetition obligations under the Aetna Plan.

104. The Debtors maintain excess insurance through Hilb, Rogal & Hobbs Company to cover any medical expenses under the Debtors' Medical and Dental Insurance Plan that exceed $150,000 per year per Employee up to a maximum payment of $5.0 million per Employee per year (the "Stop Loss Insurance"). The Debtors pay a monthly premium of $45,000 per month for the Stop Loss Insurance.

ii. Workers' Compensation

105. The Debtors provide workers' compensation insurance for their Employees at the statutorily-required level for each state (the "Workers' Compensation Program"). These benefits are currently provided for Employees through Liberty Insurance Corporation and Liberty Mutual Insurance Company (collectively, "Liberty"). Liberty administers and pays the Debtors' workers' compensation claims, subject to the Debtors' deductible of $500,000 per incident. The Debtors expect to pay annual insurance premiums and fees to Liberty in an aggregate amount of approximately $1.1 million for the policy period April 1, 2007 through April 1, 2008 (the "Policy Period"). The Debtors expect to pay additional claims handling fees of approximately $250,000 for the Policy Period. The Debtors project that their deductible payments will be $5.1 million for the Policy Period.

106. Certain benefits under the Workers' Compensation Program have been incurred prepetition but have yet to be fully paid, and certain other claims were filed prepetition but have yet to be resolved. As of the Commencement Date, the Debtors estimate that outstanding workers' compensation claims are approximately $13.3 million. A letter of credit covers virtually all exposure for such claims. For the claims administration process to operate in an efficient manner and to ensure that the Debtors comply with their state law requirements, claim assessment, determination and adjudication must continue.

iii. Vacation, Sick Leave and Other Leaves of Absence

107. The Debtors provide vacation time to their Full-Time Employees as a paid time-off benefit (the "Vacation Time"). The amount of Vacation Time available to a particular Employee and the rate at which such Vacation Time accrues is generally determined by the Employee's position and the length of full-time employment. When a Full-Time Employee elects to take Vacation Time, that Employee is paid his or her regular hourly or salaried rate. Employees generally may not cash out their unused Vacation Time at the time of termination, unless the applicable state law requires the Debtors to cash out Vacation Time for such Employees. For Employees in those states that require employers to cash out Vacation Time, the Debtors estimate that approximately $5 million of earned but unused Vacation Time will have accrued as of the Commencement Date.

108. In addition, in the ordinary course of business, the Employees are eligible for sick leave due to illness or injury up to five days per year for Hollywood Employees and up to four days per year for Movie Gallery Employees ("Sick Leave"). The Employees may not cash out their unused Sick Leave upon termination.

109. The Debtors also allow their Employees to take certain other leaves of absence for personal reasons, many of which are required by law ("Leaves of Absence"). Leaves of Absence include family medical leaves, pregnancy, adoption and foster care leaves, military leaves, jury duty, voting leaves, personal leaves and bereavement leaves.

iv. Employee Savings and Retirement Plans

110. The Debtors maintain a retirement savings plan meeting the requirements of Section 401(k) of the Internal Revenue Code for the benefit of all Full-Time Employees (the "401(k) Plan"). Full-Time Employees who are over the age of 21 and who have completed 90 days of employment are eligible to participate in the 401(k) Plan (the "Participants"). Temporary workers and highly compensated Employees are not eligible to participate in the 401(k) Plan. The 401(k) Plan allows for automatic pre-tax salary deductions of eligible compensation up to the limits set by the Internal Revenue Code. Approximately 850 Full-Time Employees currently participate in the 401(k) Plan, and the approximate monthly amount withheld from the Participants' paychecks for 401(k) contributions is $175,000. The Debtors, in their discretion, may make matching contributions under the 401(k) Plan at the end of the plan year.

c. Additional Employee Benefits

i. Life Insurance, Accidental Death and Dismemberment Insurance, Short and Long-Term Disability Benefits and Accident Insurance

111. The Debtors provide all Full-Time Employees with primary life insurance coverage and primary accidental death and dismemberment insurance through Reliance Standard, a third-party insurer (the "Life and AD&D Insurance"). This coverage costs the Debtors approximately $26,000 per month. Full-Time Employees are also offered the

opportunity to purchase supplemental life insurance through the Movie Gallery/Hollywood Group Supplemental Life and Accidental Death and Dismemberment Insurance Programs (the "Supplemental Life and AD&D Insurance"), the premiums for which are paid entirely by the electing Employee. The Debtors estimate that approximately 4,000 Employees have elected to purchase Supplemental Life and AD&D Insurance. The Debtors estimate that they have withheld approximately $14,000 in Employee contributions for Supplemental Life and AD&D Insurance prior to the Commencement Date, which amount has not yet been transferred to Reliance Standard.

112. In addition, the Debtors provide Full-Time Employees with short- and long-term disability benefits through Reliance Standard (the "Short-Term Disability Benefits" and the "Long-Term Disability Benefits," respectively). The Debtors pay for basic disability coverage for all Full-Time Employees. This coverage costs the Debtors approximately $81,500 per month. Full-Time Employees may purchase additional Short-Term Disability Benefits and Long-Term Disability Benefits at their own cost. The Debtors estimate that approximately 900 Employees have elected to pay for additional disability benefits, and, prior to the Commencement Date, the Debtors withheld approximately $12,000 in Employee contributions for such additional disability benefits, which amount has not yet been transferred to Reliance Standard.

113. The Debtors also offer Full-Time Employees the opportunity to purchase discount accident benefits through the Movie Gallery/Hollywood Group Accident Insurance Program (the "Accident Insurance") from UNUM Provident, the premiums of which are paid entirely by the electing Employee. The Debtors estimate that approximately 1,900 Employees have elected to

purchase Accident Insurance. The Debtors estimate that they withheld approximately $45,000 in Employee contributions for Accident Insurance prior to the Commencement Date, which amount has not yet been transferred to UNUM Provident.

ii. Flexible Benefit Plan

114. The Debtors offer their Full-Time Employees the ability to contribute a portion of their pre-tax compensation to flexible spending accounts to pay for eligible out-of-pocket health care and dependent care premiums and expenses (the "Flexible Benefit Plan"). Approximately 270 Employees participate in the health care portion of the Flexible Benefit Plan and approximately 30 Employees participate in the dependent care portion of the Flexible Benefit Plan. The administration of the Flexible Benefit Plan costs the Debtors approximately $250 per month.

iii. Gym Membership

115. The Debtors reimburse certain Full-Time Employees for gym memberships (the "Gym Memberships"). Approximately 41 such Employees currently have Gym Memberships and, as of the Commencement Date, the Debtors' costs for the Gym Memberships are approximately $750 per month.

iv. Tuition Reimbursement Program

116. Certain Full-Time Employees who enroll in an accredited college or university are eligible to participate in the tuition reimbursement program (the "Tuition Reimbursement Program"). Prior to the Commencement Date, 10 such Employees were participants in the Tuition Reimbursement Program at a cost to the Debtors of approximately $1,200 per month.

117. I believe that authorizing and directing banks and other financial institutions to receive, process, honor and pay all checks presented for payment and electronic payment requests made by the Debtors related to (i) Unpaid Compensation and Temporary Compensation, (ii) Deductions and Payroll Taxes, (iii) Reimbursable Expenses, (iv) the Bonus Plans and the Commissions and (v) the Employee Benefit Programs, whether or not such checks were presented or such electronic payment requests were submitted prior to or after the Commencement Date, would be beneficial to the Debtors. It is my understanding that these checks or wire transfer requests are drawn on identifiable payroll and disbursement accounts. Accordingly, checks or wire transfer requests, other than those relating to authorized payments, will not be honored inadvertently. Moreover, it is my understanding that if the Court grants the relief requested at the hearing on the First Day Motions, the Debtors will have sufficient cash reserves, together with anticipated access to debtor in possession financing, to promptly pay all Employee Wages and Benefits, to the extent described herein, on an ongoing basis and in the ordinary course of their business.

B. Motion of the Debtors for an Order Authorizing, but not Directing, the Debtors to Continue Their Customer Programs and Honor Prepetition Commitments Related Thereto (the "Customer Programs Motion")

118. Before the Commencement Date, in the ordinary course of their business, the Debtors engaged in certain practices to develop and sustain positive reputations in the marketplace for their products and services, including, but not limited to, offering gift certificates, membership programs, coupons, service contracts, damage waivers and a return policy for certain goods and participating in charity programs (collectively, the "Customer Programs"). The common goals among the Customer Programs have been to develop customer

loyalty, encourage repeat business and ensure customer satisfaction, thereby retaining current customers, attracting new ones and, ultimately, increasing revenue. I believe that the continuation of these Customer Programs is critical for the Debtors to retain their core customers.

a. Gift Certificates

119. Prior to the Commencement Date, the Debtors sold pre-paid and reloadable gift cards, pre-paid and reloadable electronic discount rental cards and gift certificates for use in the Debtors' stores (collectively, the "Gift Certificates"). These Gift Certificates are available for purchase at the Debtors' stores, through business-to-business sales and at certain third party retail locations. As of the Commencement Date, obligations on account of Gift Certificates remained outstanding as some Gift Certificates sold prepetition have not yet been redeemed. The Debtors estimate that the cash value of outstanding Gift Certificates as of the Commencement Date is approximately $14.6 million, however, customers may only redeem the Gift Certificates for goods or services, not a cash refund (unless required by state law).[9] Moreover, when customers redeem a Gift Certificate, they often purchase goods and services in excess of the amount of the Gift Certificate.

b. Store Credits

120. The Debtors offer several promotions through which their customers can purchase or earn store credits for free or reduced charges for rentals, goods or services (collectively, the "Store Credits"), which Store Credits include the following:

9 All financial information is based on the Debtors' last accounting period, which closed on September 2, 2007.

i. The Debtors offer their customers the option of making an initial deposit toward the purchase of a game console, game or piece of equipment that has not yet been released so that a participating customer is assured that the item will be available to purchase immediately upon its release (the "Pre-Order Program"). Under the Pre-Order Program, when the item arrives and the customer purchases the item, their deposit is deducted from the purchase price.[10]

ii. The Debtors also provide customers with an early return credit (the "Early Return Credit Program") for videos that are returned on the day following their rental. The Early Return Credit Program encourages customers to return their videos early, which contributes to higher inventory levels. Customers may not redeem early return credits for cash.

iii. The Debtors offer their Game Crazy customers the option of purchasing disc refurbishing punch cards (the "Disc Refurbishing Cards"), which entitle the purchaser to refurbish their game discs five times. Disc refurbishing helps maintain discs in their original condition by eliminating scratches. Disc Refurbishing Cards may not be redeemed for cash.

iv. The Debtors also offer their customers a trade-in program through which customers can pay for future purchases by trading in used game consoles, games, pieces of equipment, DVDs or VHS tapes.

121. The Debtors estimate that their total obligations as of the Commencement Date for the Store Credits are approximately $8.6 million.

c. Rental Subscription Programs

122. Prior to the Commencement Date, the Debtors offered their customers monthly and yearly video and gaming membership subscription programs (collectively, the "Rental Subscription Programs"), which programs include the following:

[10] If the customer decides not to purchase the item when it arrives, the customer is entitled to a refund of the deposit.

i. The Debtors' Hollywood Video and Movie Gallery stores run a store-specific monthly rental subscription program, known as the "Movie Value Pass" or the "Member Value Pass" (collectively, the "MVP Program"). The MVP Program has three levels of membership with varying prices corresponding to varying numbers of movies that customers may have outstanding at a time. The MVP Program allows members to rent an unlimited number of titles during the month. There are approximately 600,000 MVP Program members. The Debtors also offer enrollment in Hollywood Access Pass, a store-specific membership program that allows members to rent an unlimited number of select game titles.

ii. The Debtors offer their Game Crazy customers the option of enrolling in an annual membership program, known as the Most Valuable Player program (the "GMVP Program"). Membership in the GMVP Program entitles members to additional credit for trade-ins, discounts on used games and accessories, a magazine subscription and free disc refurbishing. Members of the GMVP Program constitute some of the Debtors' best and most loyal customers. There are approximately 500,000 GMVP Program members.

iii. Also, the Debtors run a pre-paid rental promotion in Hollywood Video stores whereby customers can pay a certain amount entitling them to one free rental with each corresponding paid rental during the month.

123. The Debtors' obligations as of the Commencement Date for the Rental Subscription Programs are approximately $9.5 million, however, members may only receive goods and services for such obligations, not a cash refund.

d. Service Contracts

124. When the Debtors sell new and used game consoles, they offer their customers the option of purchasing service contracts for the consoles (each, a "Game Console Service Contract"). These Game Console Service Contracts obligate the Debtors to either repair a damaged console or provide the customer with a replacement console.

125. The Debtors also give Hollywood Video and Movie Gallery customers the option to purchase damage waivers when they rent a video or game (the "Play Guard Program"). If a customer elects to purchase the Play Guard Program and the rental disc is damaged during the rental period, the Debtors will waive the claim for such damages.

126. The Debtors also offer a disc maintenance service (the "Game Guard Program") for unlimited disc refurbishing of a customer's game discs. The Game Guard Program obligates the Debtors to either repair a damaged disc or provide the customer with a replacement disc. The Debtors refer to the Game Console Service Contracts, the Play Guard Program and the Game Guard Program as the "Service Contracts." The Debtors' obligations as of the Commencement Date for the Service Contracts are approximately $5.0 million.

e. Free and Discounted Rental Coupons

127. The Debtors run various promotions in their stores in conjunction with certain third parties whereby the Debtors provide customers with coupons for free or reduced charges for video or game rentals (the "Coupons"). For instance, the Debtors' Movie Gallery stores maintain a customer loyalty program through which customers can earn points for video or game rentals (the "Reel Player Program"). After members of the Reel Player Program accumulate a certain number of points, they receive Coupons that may be redeemed at the Debtors' stores. I believe that members of programs like the Reel Player Program are generally loyal customers who will likely continue their membership in such programs if the Debtors continue to honor the Coupons. Further, such Coupons may only be redeemed for video or game rentals, not a cash refund.

f. Guarantees and Returns

128. It is my understanding that certain customers may hold contingent claims against the Debtors for refunds, returns, exchanges or free rentals relating to goods sold in the ordinary course of business prior to the Commencement Date (the "Guarantees"). It is difficult to estimate with precision the aggregate amount of potential Guarantee claims for goods purchased prior to the Commencement Date. Based on historical data, however, the Debtors estimate that outstanding obligations as of the Commencement Date for Guarantees are approximately $350,000.

g. Charitable Programs

129. From time to time, the Debtors participate in charitable programs. One such program is the Debtors' commitment to Starlight, a charitable organization that raises money to provide entertainment to children in hospitals. Through contributions that the Debtors solicit from customers and employees and the Debtors' commitment to contribute a portion of their revenues from the Play Guard Program, the Debtors contribute approximately $700,000 annually to Starlight. As of the Commencement Date, the Debtors had outstanding obligations to Starlight of approximately $200,000. I believe that the Debtors participation with Starlight provides the Debtors and the community with significant benefits.

130. I believe that paying prepetition commitments under the Customer Programs will benefit the Debtors and their creditors by allowing the Debtors' operations to continue without interruption. In essence, the Debtors hope to continue during the postpetition period those Customer Programs that they believe were effective prepetition. I also believe that the relief requested in the Customer Programs Motion is necessary to preserve their customer relationships

and goodwill for the benefit of their estates. I believe that the importance of the Debtors' customers to their business should not be underestimated. I believe that the Debtors' Customer Programs have generated valuable goodwill and repeat business and have contributed to the Debtors' overall revenue. If the Debtors do not honor their obligations under the Customer Programs, I believe that the Debtors risk alienating their customers and encouraging customers to procure products from the Debtors' competition, all to the detriment of the Debtors and their business.

C. Motion of the Debtors for an Order Authorizing the Debtors to (A) Continue Insurance Coverage Entered into Prepetition, (B) Enter into New Insurance Policies, (C) Maintain Postpetition Financing of Insurance Premiums and (D) Enter into New Postpetition Financing Agreements (the "Insurance Coverage and Premium Financing Motion")

131. In the ordinary course of business, the Debtors maintain in current effect numerous insurance policies providing coverage for, among other things, general liability, property, media liability, automotive, workers' compensation liability, commercial umbrella and excess liability, fiduciary and criminal liability, aircraft and directors and officers liability (collectively, the "Policies"). A detailed list of the Debtors' current Policies is attached to the Insurance Coverage and Premium Financing Motion as Exhibit B. It is my understanding that the Policies are essential to the preservation of the value of the Debtors' business, property and assets. In many cases, insurance coverage such as that provided by the Policies is required by the diverse regulations, laws and contracts that govern the Debtors' commercial activities.

132. Prior to the Commencement Date, it is my understanding that the Debtors were not in default for any payments due under the Policies.

133. For 2007, the annual premiums for the Policies total approximately $4.1 million. While the majority of the Policies are prepaid, the Debtors have financed a portion of the insurance premiums for the general liability, workers' compensation and automotive policies with a down payment and monthly installments. In addition, the general liability policy requires the Debtors to pay a $500,000 Self Insured Retention payment per occurrence (each, a "SIR Payment").

134. It is my understanding that it is not always economically advantageous for the Debtors to pay the premiums on the Policies at inception. Accordingly, in the ordinary course of the Debtors' business, the Debtors may choose to finance the premiums on some of their policies pursuant to premium financing agreements with third-party lenders (each, a "PFA"). As of the Commencement Date, the Debtors maintain a PFA financed by Siuprem, Inc. with respect to the property insurance policy issued by Zurich American Insurance Company (the "Existing PFA"). A copy of the Existing PFA is attached to the Insurance Coverage and Premium Financing Motion as Exhibit C. The Existing PFA requires eight monthly installments of $72,609.57 beginning May 27, 2007 with a final payment on December 27, 2007 for a policy that provides insurance coverage through May 1, 2008. The Existing PFA bears an interest rate of 6.9% on the total financed amount of $566,130, resulting in a total finance charge of approximately $15,000. The Debtors maintain other insurance policies on which they may pay the insurer periodic payments for coverage; however, that payment schedule does not include finance charges.

135. If the Debtors are unable to continue making payments on the Existing PFA, under the terms of the Existing PFA, I believe that the premium financer will be permitted to terminate the property insurance policy. The Debtors would then be required to obtain

replacement insurance on an expedited basis. I believe that if the Debtors were required to obtain replacement insurance and pay a lump sum premium for such insurance policy in advance, this payment likely would be greater than what the Debtors currently pay. Even if the premium financer was not permitted to terminate the property insurance policy, I believe that any interruption of payment would have a severe, adverse effect on the Debtors' ability to finance premiums for future policies

D. Motion of the Debtors for an Order (A) Authorizing, but not Directing, the Debtors to Remit and Pay Certain Taxes and Fees and (B) Authorizing and Directing Banks and Other Financial Institutions to Honor Related Checks and Electronic Payment Requests (the "Taxes Motion")

136. In the ordinary course of the Debtors' business, the Debtors (a) collect sales taxes from their customers and incur taxes, including, but not limited to, use, franchise, gross receipts, single business, real and personal property and other taxes in operating their business (collectively, the "Taxes") and (b) charge fees and other similar charges and assessments (collectively, the "Fees") on behalf of various taxing, licensing and regulatory authorities (collectively, the "Authorities") and pay Fees to such Authorities for licenses and permits required to conduct the Debtors' business. The Taxes and Fees are paid to the respective Authorities in accordance with all applicable laws and regulations.

137. Each of the Taxes and Fees incurred by the Debtors fall under one of the following categories: (a) sales and use taxes; (b) franchise taxes; (c) real and personal property taxes; and (d) business license fees, annual report taxes and other charges and assessments.

a. Sales and Use Taxes

138. The Debtors collect and remit rental and sales taxes in connection with the rental and sale of goods to their customers. Generally, rental and sales taxes collected from customers

are remitted to the Authorities in the month following their collection. The Debtors also may be responsible for remitting use taxes on account of the purchase of various supplies and fixtures. Use taxes typically arise if a supplier does not have business operations in the state in which it is supplying goods and does not charge state taxes. The Debtors remit approximately $12.4 million per month, on average, in sales and use taxes.

b. Franchise Taxes

139. Certain Debtors pay franchise taxes to Authorities. Franchise taxes may be based on a flat fee, net operating income or capital employed. Certain jurisdictions assess both franchise taxes and income taxes, while others assess either franchise taxes or income taxes depending on which results in a higher tax. Moreover, some jurisdictions require estimated franchise tax payments to be remitted on a quarterly basis if the estimated franchise taxes exceed a certain threshold.

c. Real and Personal Property Taxes

140. In addition, under applicable law, state and local governments in jurisdictions where the Debtors' operations are located are granted the authority to levy property taxes against the Debtors' real and personal property. The Debtors typically pay the property taxes on their real and personal property in the ordinary course of business as such taxes are invoiced, which typically covers taxes for the prior year or quarter, depending on how the applicable tax is assessed.

d. Business License Fees, Annual Report Taxes and Other Taxes

141. The Debtors also are required to obtain business licenses, health permits and second hand dealer permits and pay corresponding fees in many jurisdictions in which they

operate. The criteria to obtain these licenses and permits vary significantly by jurisdiction. Moreover, the method of calculating and the deadlines for making payments vary by jurisdiction. In some states, the Debtors are required to pay annual reporting fees to state governments to remain in good standing for purposes of conducting business within the state. Further, the Debtors are required to pay various business taxes in certain states. These taxes may be based on gross receipts, rental receipts or other bases determined by the taxing jurisdiction.

142. The Debtors operate approximately 4,200 retail stores across all 50 states, and I believe any disputes that could impact the Debtors' ability to conduct business in a particular jurisdiction could have a wide-ranging and adverse effect on the Debtors' operations as a whole. In fact, the Debtors' failure to pay the Taxes and Fees could have a material adverse impact on the Debtors' business operations in several ways: (a) the Authorities may initiate audits of the Debtors, which would divert unnecessarily their attention away from the reorganization process; (b) the Authorities may attempt to suspend the Debtors' operations, file liens, seek to lift the automatic stay and pursue other remedies that will harm the estates; and (c) certain directors and officers might be subject to personal liability, which would likely distract those key employees from their duties related to the Debtors' restructuring.

143. The Debtors estimate that the total amount of prepetition Taxes and Fees owing to the various Authorities will not exceed approximately $20 million. The Debtors believe that payment of such Taxes and Fees is appropriate in these chapter 11 cases. Some of these outstanding tax liabilities are for trust fund taxes that the Debtors have collected and hold in trust for the benefit of the Authorities. Therefore, the Debtors understand that these funds do not

constitute property of their estates and could not otherwise be used by them. In addition, unpaid taxes may result in penalties, the accrual of interest, or both.

E. Motion of the Debtors for an Order (A) Authorizing, but not Directing, the Debtors to Pay Prepetition Claims of Shippers, Warehousemen and Other Lien Claimants and (B) Authorizing and Directing Banks and Other Financial Institutions to Honor Related Checks and Electronic Payment Requests (the "Shippers Motion")

144. The movie and game rental and sale business is shipping intensive. To ensure that the Debtors' stores receive timely deliveries of video titles, video games and other merchandise, the Debtors have developed an intricate distribution system.

145. The Debtors operate four primary distribution centers in the United States (collectively, the "Distribution Centers"). The Debtors use the Distribution Centers to receive bulk deliveries of movies, games, concessions and other related products (the "Retail Goods") from their suppliers, including movie studios, video game manufacturers and concessionaires (the "Vendors"). The Debtors then repackage those bulk deliveries for distribution to the Debtors' individual store locations. The Debtors' supply and delivery system depends upon the use of reputable domestic common carriers, shippers, truckers, shipping auditing services and customs agents (collectively, the "Shippers") to deliver products to and from the Distribution Centers, as well as a network of third-party contractors to store goods while in transit (the "Warehousemen"). The Debtors' pricing policies, marketing strategies and fundamental business operations rely on their ability to receive and rent or sell the Retail Goods in a timely fashion.

146. In many instances, particularly in the case of "new release" video and game titles, the timing of deliveries is absolutely critical. In the Debtors' industry, the date that titles will become available to the public for rent or purchase is known as the "street date." For any given

new release, the Debtors typically announce, sometimes with great fanfare, the street date in their stores. The substantial majority of the Debtors' rental revenues are derived from the rental of new release movies and games. If the Debtors fail to have new release titles available on the applicable street date, I believe that the Debtors will suffer a loss of credibility with their customers. I believe, therefore, that it is critical to the Debtors' business that their supply and delivery system continue to function without interruption.

147. Additionally, because the Debtors operate stores in all 50 states, at any given time the Debtors or their various assets may be subject to a wide variety of lien claims, including, but not limited to, mechanics liens and materialmans liens (collectively, the "Miscellaneous Lien Claims").

a. Description of Shippers' and Warehousemens' Claims

148. As described above, the Debtors utilize the Shippers and Warehouseman throughout every stage of this distribution process. The Debtors' ability to timely receive, distribute and return Retail Goods depends on the maintenance of a successful and efficient supply and delivery network, and I believe that any disruption in the delivery of Retail Goods would have an immediate and devastating impact on the Debtors' operations.

149. It is my understanding that the Debtors pay approximately $21 million annually to the Shippers and Warehousemen. The Debtors expect that, as of the Commencement Date, the outstanding prepetition invoices of the Shippers and Warehousemen will not exceed $1 million (the "Shipping Charges"). However, this balance can fluctuate on a daily basis depending on the timing of large deliveries and invoices. The Debtors do not expect the total prepetition payments on account of the Shipping and Warehousing charges to exceed $1.5 million. Absent payment of

the Shipping Charges, I believe that the Shippers and the Warehousemen will likely refuse to continue to transport goods and make timely delivery or seize the goods in their possession as collateral securing their lien.

b. Description of Miscellaneous Lien Claims

150. The Debtors routinely transact business with a number of third parties who have the potential to assert Miscellaneous Lien Claims against the Debtors and their property if the Debtors fail to pay for the goods or services rendered (the "Lien Claimants"). The Lien Claimants may perform various services for the Debtors, including miscellaneous store repair and maintenance services and outsourced video game console repair services.

151. It is my understanding that the payment of the Shipping Charges are not simply necessary for the continued operations of the Debtors but critical to the survival of the Debtors' business. The sale and rental of the Retail Goods — especially the new releases, which are the lifeblood of the Debtors' operations — depend upon the Debtors' ability to receive the Retail Goods in a timely fashion. Moreover, the Debtors believe in their sound business judgment that continuation of their positive relationship with the Shippers and Warehousemen is imperative to their continued operations and greatly increases the likelihood of a successful reorganization.

152. Furthermore, I also believe that payment of the prepetition Shipping Charges will benefit the Debtors and their creditors by allowing the Debtors to receive the Retail Goods necessary to operate their business, and will not prejudice unsecured creditors since the Debtors will only pay those claimants that they believe in their business judgment to be secured by valid liens, or that they believe are capable of being secured by perfecting liens in the Debtors' property. I believe that payment of the Miscellaneous Lien Claims will save the Debtors the

considerable time and expense of having to negotiate or litigate for the return of or right to use property of the estate that may be subject to these lien claims.

153. I believe that authorizing and directing banks and other financial institutions to receive, process, honor and pay all checks presented for payment and electronic payment requests made by the Debtors related to the prepetition obligations described in the Shippers Motion, whether such checks were presented or electronic payment requests were submitted prior to or after the Commencement Date would be beneficial to the Debtors. It is my understanding that these checks or wire transfer requests are drawn on identifiable payroll and disbursement accounts. Accordingly, I believe checks or wire transfer requests will not be honored inadvertently. Moreover, I believe that if the Court grants the relief requested at the hearing on the First Day Motions, the Debtors will have sufficient cash reserves, together with anticipated access to debtor in possession financing, to promptly pay all prepetition obligations set forth on an ongoing basis and in the ordinary course of their business.

F. Motion of the Debtors for Entry of Interim and Final Orders Determining Adequate Assurance of Payment for Future Utility Services (the "Utilities Motion")

154. While most of the Debtors' stores are leased, the Debtors are responsible for utility expenses at all or nearly all store locations. Specifically, in the operation of their retail operations, the Debtors incur utility expenses for water, sewer service, electricity, gas, telephone service, internet service, cable service and waste management in the ordinary course of business. These utility services are provided by approximately 4,000 utilities (collectively, the "Utility Providers") through more than 16,000 different accounts, including those listed on Exhibit C attached to the Utilities Motion. On average, the Debtors spend approximately $9 million each month on utility costs. It is my understanding that the Debtors believe that they generally were

current on utility payments as of the Commencement Date. Moreover, the Debtors employ an outside vendor, Advantage IQ, Inc. ("Advantage"), to help them generally aggregate and manage the utilities for the approximately 4,200 store locations. I believe that uninterrupted utility services are essential to the Debtors' ongoing operations and, therefore, to the success of their reorganization. Indeed, any interruption of utility services, even for a brief period of time, would negatively impact the Debtors' store operations, customer relationships, revenues and profits, seriously jeopardizing the Debtors' reorganization efforts and, ultimately, value and creditor recoveries. I believe, therefore, it is critical that utility services continue uninterrupted during these chapter 11 cases. Prior to the Commencement Date, the Debtors generally were current in the payment of invoices from the Utility Providers.

G. Motion of the Debtors for an Order (A) Authorizing the Debtors to Conduct Store Closing Sales, (B) Approving Procedures with Respect to Store Closing Sales and (C) Authorizing the Debtors to Pay Limited Liquidation and Closure Performance Bonuses and Severance Payments in Connecting with Store Closing Sales (the "Store Closing Procedures Motion")

155. Prior to the Commencement Date, the Debtors conducted an extensive review of their store portfolio with the objective of identifying and closing unprofitable store locations. In August, 2007, the Debtors commenced Store Closing Sales at approximately 73 store locations, which were closed upon completion of the Store Closing Sales. On September 25, 2007, the Debtors announced their decision to close approximately 520 additional store locations (the "Phase I Locations") and, immediately thereafter, the Debtors began the process of winding down operations and liquidating inventory at those store locations. Additionally, the Debtors will continue to evaluate stores and will make decisions whether to close such other stores on a continuing basis throughout these chapter 11 cases.

156. Historically, the Debtors have closed underperforming or unprofitable store locations in the ordinary course of business. With well over 4,000 store locations, opening and closing stores is a routine, ordinary course activity for the Debtors. However, out of an abundance of caution, the Debtors seek authority to conduct, in their sole discretion, Store Closing Sales to effectuate the liquidation of inventory, fixtures and equipment at the Phase I Locations that are already closed and at store locations that may be closed during these chapter 11 cases.

157. I believe that approval of certain store closing procedures, as set forth on Exhibit 1 annexed to Exhibit A attached the Store Closing Procedures Motion will ensure that the Store Closing Sales proceed in an orderly and efficient manner without undue interruption to the Debtors' business.

158. Moreover, I believe that the payment of Liquidation and Closure Performance Bonuses to various district and store-level employees to incentivize them to continue work during Store Closing Sales will ensure that the Debtors retain sufficient personnel to conduct the Store Closing Sales. It is my understanding that in no event will a Liquidation and Closure Performance Bonus exceed $1.00 per hour worked per store-level employee for the duration of the Store Closing Sales, $1.00 per week per store director or store manager for the duration of the Store Closing Sales and $2,000 in total per district manager. The Store Closing Sales are anticipated to last between three and seven weeks, on average, and the Liquidation and Closure Performance Bonuses will be paid subsequent to the completion of each Store Closing Sale for affected store-level employees, store directors and store managers and the completion of all Store Closing Sales within a particular district for each district manager. The Debtors estimate that the

aggregate amount of Liquidation and Closure Performance Bonuses are not expected to exceed $670,000 for the Phase I Locations.

159. In addition, although the Debtors do not offer a formal severance plan, the Debtors have offered severance benefits (the "Severance Payments") to approximately 11 district managers whose positions will be eliminated as a result of the Debtors' closure of the Phase I Locations. The Severance Payments are not expected to exceed $130,000.

160. It is my understanding that there are no "insiders" of the Debtors, within the meaning of section 503(c) of the Bankruptcy Code, that are eligible for either Liquidation and Closure Performance Bonuses or the Severance Payments.

161. I believe that any inability to conduct Store Closing Sales or any interruption in ongoing Store Closing Sales would have serious negative consequences for the Debtors. First, with respect to the more than 500 Store Closing Sales that are already well underway, any interruption in the sale process would delay the date by which the Debtors are able to vacate and reject the leases for the Phase I Locations, thereby potentially saddling the Debtors' estates with unnecessary administrative obligations. Moreover, where the Debtors have already commenced the liquidation of inventory, the Debtors cannot, as a practical matter, re-commence non-store closing business operations. With respect to stores that may be closed in the future, I believe that such sales represent the most profitable means for disposing of the inventory, fixtures and equipment at such store locations. Indeed, if the Debtors close any material number of stores at the same time, the Debtors will generally be unable to absorb the excess inventory, fixtures and equipment into the Debtors' remaining store locations. Therefore, I believe that the best option

for disposing of excess inventory, fixtures and equipment will often be to conduct a Store Closing Sale.

H. Motion of the Debtors for an Order Authorizing an Auction Process and Approving Bid Procedures for the Disposition of Debtors' Interests in Certain Nonresidential Real Property Leases and Granting Related Relief (the "Lease Auction Procedures Motion")

162. The Debtors have examined the costs associated with their obligation to pay rent at the Phase I Locations. The Debtors estimate that the annual rental cost of the Phase I Locations is approximately $69.4 million per year. In addition to their obligations to pay rent at the Phase I Locations, the Debtors are also obligated to pay certain real estate taxes, utilities, insurance and other related charges associated with such Leases. I believe that such costs, with the concomitant costs of operating these locations, constitute an unnecessary drain on the Debtors' resources.

163. The Debtors therefore propose to conduct an auction (the "Auction") for 508 of the Leases and Designation Rights associated with those Leases in accordance with the procedures set forth in Exhibit 1 annexed to the order attached to the Lease Auction Procedures Motion (collectively, the "Auction Procedures"). The Designation Rights will consist of the right to compel the Debtors to assume and assign one or more of the Leases to a party designated by the holder of a Designation Right. The Debtors further intend to reject (a) any or all of the Leases that, in the Debtors' reasonable business judgment, are unlikely to realize any value at the Auction and (b) those Leases that are not actually sold pursuant to the Auction.

I. Motion of the Debtors for an Order Authorizing the Debtors to Reject Certain Unexpired Leases and Executory Contracts Effective as of the Commencement Date (the "Lease and Contract Rejection Motion")

164. Generally, the Debtors do not own the property on which their stores are or were operated. Instead, the Debtors lease nonresidential real property (each, a "Real Property Lease") from numerous lessors and other counterparties (each, a "Lessor"). In certain instances, the Debtors also sublease nonresidential real property (each, a "Real Property Sublease," and together with each Real Property Lease, collectively, as amended or modified, the "Vacant Store Leases"). The terms of the Vacant Store Leases range from one month to nine years, excluding option periods, and generally the lease payments for the Vacant Store Leases range from $14,400 to $235,000 per year.

165. In considering their options with respect to the Vacant Store Leases prior to the Commencement Date, the Debtors evaluated the possibility of one or more assignments or subleases of the Vacant Store Leases. The Debtors have determined that the transactional costs and prepetition occupancy costs and postpetition occupancy costs associated with marketing the Vacant Store Leases exceeds any marginal benefit received from potential assignments or subleases.

166. Furthermore, in addition to their obligation to pay rent under the Vacant Store Leases, the Debtors also are obligated to pay for certain real estate taxes, utilities, insurance and other related charges associated with such leases. The Debtors have examined the costs associated with their obligation to pay rent under the Vacant Store Leases and estimate that the annual net cost to the Debtors is approximately $15.4 million per year. I believe that such costs, with the concomitant costs of operating these locations, constitute an unnecessary drain on the

Debtors' resources. Accordingly, in an effort to reduce postpetition administrative costs and in the exercise of the Debtors' sound business judgment, it is my understanding that the rejection of the Vacant Store Leases (as set forth on Exhibit 1 annexed to the order attached to the Lease and Contract Rejection Motion) effective as of the Commencement Date is in the best interests of the Debtors, their estates and their creditors.

167. In addition, the Debtors are parties to various Executory Contracts. These Executory Contracts include numerous excess space broker listing, software license and management agreements. The terms of the Executory Contracts range from nine months to three years.

168. I believe that the Executory Contracts no longer provide any significant benefits. Accordingly, I believe that rejection of the Executory Contracts (as set forth on Exhibit 2 annexed to the order attached to the Lease and Contract Rejection Motion) effective as of the Commencement Date also is in the best interests of the Debtors, their estates and their creditors.

169. It is my understanding that the Leases and the Executory Contracts are not a source of potential value for the Debtors' future operations, creditors or interest holders. Even if certain of the Vacant Store Leases constitute below-market leases, the Debtors' obligations to pay, for example, postpetition rent, real estate taxes, utilities, insurance and other related charges diminishes any potential value received from an assignment or sublease, specifically given the relatively short term remaining in each Lease. In addition, I believe that the Executory Contracts provide no further benefit to the Debtors.

J. Motion of the Debtors for the Entry of an Order Establishing Notification and Hearing Procedures for Transfers of Certain Common Stock and for Related Relief (the "Equity Trading Procedures Motion")

170. The Debtors have incurred, and are currently incurring, significant net operating losses ("NOLs"). By the Equity Trading Procedures Motion, the Debtors seek authorization to protect and preserve their valuable tax attributes, including NOL carryforwards and certain other tax and business credits ("Tax Credits" and with the NOLs, the "Tax Attributes") by establishing notification and hearing procedures regarding the trading of Common Stock that must be complied with before trades or transfers of such securities become effective. It is my understanding that if no trading restrictions are imposed by this Court, such trading or transfers could severely limit or even eliminate the Debtors' ability to use their Tax Attributes (including their NOLs) — a valuable asset of the Debtors' estates — which could lead to significant negative consequences for the Debtors, their estates and the overall reorganization process.

K. Motion of the Debtors for Interim and Final Orders Authorizing, but not Directing, the Debtors, in their Discretion, to Enter into Accommodation Agreements with Major Movie Studio Suppliers and to Pay Prepetition Obligations in Connection Therewith (the "Movie Studios Motion")

Overview of Studio Relationships

171. The Debtors' movie rental business relies on supply relationships with the Studios, among others, for the delivery of new movie titles (collectively, the "Movies"). Generally, the Debtors can acquire Movies in one of three ways. First, the Debtors can acquire Movies for a single up-front lump sum payment (referred to as a "Fixed Buy Transaction"). Second, the Debtors can acquire Movies for a lower up-front payment coupled with an obligation to return or destroy some percentage of the Movies at the end of a specified term (referred to as a "Copy Depth Program") rather than selling or continuing to rent the Movies that are delivered

pursuant to these programs. Third, the Debtors can acquire Movies for a significantly lower up-front payment coupled with an agreement by the Debtors to share with the studios an agreed-upon percentage of the proceeds of future rentals and sales of previously-viewed videos (referred to as a "Revenue Sharing Agreement").

172. While Fixed Buy Transactions and Copy Depth Programs are relatively straightforward, Revenue Sharing Agreements are somewhat more complicated. Generally, a Revenue Sharing Agreement requires the Debtors to pay an up-front amount (the "Up-Front Charge") upon delivery of or within a certain time period following delivery of new Movies. Additionally, for a specific period of time, often approximately six months (the "Revenue Share Term"), the Debtors are obligated to pay the applicable Studio a fixed percentage of the proceeds of any rentals or sales of the Movie (the "Revenue Share Percentage").[11] The Debtors' obligation to make payments to the Studios is not triggered until the Debtors' Revenue Share Percentage amount owing for a particular Movie exceeds the Up-Front Charge previously paid for that particular Movie. Put another way, the Debtors are typically allowed to credit the Up-Front Charge against their obligation to share rental and sale revenues. The payment obligations for each Movie title, once triggered, are referred to as "Overage Obligations."

173. For example, if the Up-Front Charge for a particular Movie is $5 per copy and the Debtors purchase 100,000 copies of that Movie, the Debtors will pay $500,000 in Up-Front

[11] Revenue Sharing Agreements often require the payment of a guaranteed minimum amount per rental or per sale transaction, effectively setting a floor on the per-transaction amount payable to the Studios.

Charges. [12] Next, assume that the agreed-upon Revenue Share Percentage is 25% and that the Debtors charge $4 per rental. Under this scenario, the Revenue Share Payment would equal $1 per rental (25% of $4) but, because the Debtors had paid the $500,000 Up-Front Charge, the Debtors would not owe any Overage Obligations for the first 500,000 rentals. However, for each rental after 500,000, the Debtors would owe $1 per rental on account of Overage Obligations.

174. Under Revenue Sharing Agreements, therefore, the Debtors accrue payment obligations over time. Generally, the Revenue Share Term is approximately six months. Moreover, accounting for Revenue Sharing Agreements is complicated and requires extensive auditing of title-by-title rental data, often with the assistance of outside auditing firms. The Debtors currently operate approximately 4,200 retail stores throughout all 50 states and average approximately 40 million rental transactions per month.[13] Overage Obligations are typically calculated on a monthly basis and, given the accounting process, are typically paid four to six weeks in arrears. This means that the Debtors will often accrue Overage Obligations for up to six months following the delivery of a Movie title and will often pay Overage Obligations for up to seven or eight months following the delivery of a Movie title.

175. The Debtors prefer acquiring new Movies through Revenue Sharing Agreements as opposed to Fixed Buy Transactions or Copy Depth Programs for several reasons. Because the Debtors' per-copy costs under Revenue Sharing Agreements are much lower than the cost of

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12 Currently, many Studios require cash-in-advance for Up-Front Charges. Historically, the Debtors typically received significantly better payment terms for Up-Front Charges.

13 The Debtors' rental business is highly seasonal. The Debtors' estimate of approximately 40 million rental transactions per month represents an approximate historical average over the previous 12-month period.

Fixed Buy Transaction and the amounts the Debtors pay are tied to the revenue generated by the title, the Debtors can typically afford to order significantly more copies of any given Movie under a Revenue Sharing Agreement than they can under a Fixed Buy Transaction. Correspondingly, because the per-copy cost under a Fixed Buy Transaction is higher than under a Revenue Sharing Agreement and a Fixed Buy Transaction provides no downside protection in the event that the Movie is not as popular as expected, the Debtors must purchase more conservatively and order fewer copies under Fixed Buy Transaction than they would under a Revenue Sharing Agreement. This, in turn, means that fewer copies of Movies acquired through Fixed Buy Transactions will be available for rental in the Debtors' stores, increasing the likelihood that a title may be "sold out" and be unavailable to the Debtors' customers. Under this scenario, the Debtors are more likely to miss out on potential rental revenue on desirable Movies due to the lower number of copies available, and the Debtors' customers are more likely to be disappointed and, consequently, to seek the title for rental or purchase elsewhere.

Lack of Long-Term Supply Agreements with Studios

176. The Debtors historically had written Revenue Sharing Agreements with various Studios, but the Debtors currently have only one active Revenue Sharing Agreement in place and that agreement expires in January, 2008.[14] Therefore, with the exception of the one Revenue Sharing Agreement currently in place, the Studios are generally under no obligation to make new

[14] The Debtors currently operate under written Revenue Sharing Agreements with the vast majority of their smaller movie studio suppliers (the "B-Studios"). Pending the outcome of various ongoing negotiations, the Debtors anticipate filing one or more motions in the near future seeking assumption of Revenue Sharing Agreements with B-Studios.

Movies available to the Debtors and are under no obligation to extend trade terms or allow the Debtors to participate in Revenue Sharing Agreements or Copy Depth Programs.

177. In addition to the lack of written supply agreements, the Debtors also have recently suffered a severe contraction, and in many cases elimination, of trade credit. As of the Commencement Date, each of the Studios required cash in advance for Fixed Buy Transactions and, to the extent Studios were still willing to provide Movies under a Revenue Sharing Agreement, such Studios required cash in advance for the Up-Front Charges associated with such purchases.

The Debtors Must Ensure an Uninterrupted Supply of Movies on Favorable Terms to Reorganize Successfully

178. To obtain commitments from the Studios to continue to supply Movies and obtain commitments with respect to future trade terms, I believe the Debtors require the authority, but not direction, to be exercised in their discretion, to enter into agreements or term sheets with the Studios setting forth the parameters of the future relationship between the parties, including, but not limited to, the Studio's commitment to continue to supply Movies and the payment terms for future product deliveries and the terms by which the Debtors will repay prepetition obligations owed to such Studios (each, an "Accommodation Agreement" and collectively, the "Accommodation Agreements"). The Debtors began negotiating the terms of Accommodation Agreements with the Studios prior to the Commencement Date.

179. Furthermore, the Debtors seek the entry of a Final Order authorizing them to enter into Accommodation Agreements, and to pay, in their discretion, prepetition Up-Front Charges, Overage Obligations and other similar charges under prepetition Revenue Sharing Agreements,

regardless of whether such obligations accrued before or after the Commencement Date, and to continue to honor contractual Movie return or destruction obligations.

180. The Debtors further propose that if a Studio enters into an Accommodation Agreement and accepts a postpetition payment on account of a prepetition claim, whether an Overage Obligation, Up-Front Charge or otherwise, and then subsequently refuses to honor its commitments under the Accommodation Agreement, the Debtors have the ability, in their discretion and without further order of the Court, to declare that any payment to such Studio made by the Debtors pursuant to the Orders be deemed to be a postpetition advance that the Debtors may apply to any outstanding postpetition obligations owed to the Studio or, in the absence of any outstanding postpetition obligations, that the Studio must refund to the Debtors. Similarly, an Accommodation Agreement or other commercial agreement between the parties may provide remedies for the Studios in the event of a default by the Debtors under such agreement.

181. The Debtors also request authorization, in their discretion, to provide a waiver of all avoidance actions, including causes of action under chapter 5 of the Bankruptcy Code, to any Studio who enters into an Accommodation Agreement conditioned on such studio complying with such Accommodation Agreement, which waiver would be binding on the Debtors, their estates, any committees appointed in these chapter 11 cases, any other party acting on behalf of the Debtors and any successors to the Debtors.

182. It is my understanding that the Studios are owed approximately $28 million on account of prepetition Up-Front Charges and similar claims. Because Overage Obligations depend on rental and sale performance over a specified Revenue Sharing Term, which, for many

Movies delivered prepetition, is still ongoing, the Debtors are not able to estimate effectively the amount of Overage Obligations that may arise with respect to Movies delivered prepetition. As a general rule, however, for any given Movie, the vast majority of the Debtors' total payment obligations are paid through the Up-Front Charge, and the Overage Obligations represent a relatively small percentage of the Debtors' purchase price for new Movies. The Debtors estimate that for the two months preceding the Commencement Date the Debtors accrued an average of approximately $8 million per month on account of Overage Obligations. Going forward, the amount of the Debtors' monthly Overage Obligations attributable to Movies delivered prior to the Commencement Date will grow steadily smaller, as Revenue Share Terms expire, and, by approximately seven months after the Commencement Date, the Debtors generally will owe little or no monthly Overage Obligations on account of Movies delivered prior to the Commencement Date.

183. I believe the relief requested in this Motion is essential to preserving good relationships with the Studios and the Debtors' ability to reorganize successfully. If the Debtors' relationships with the Studios deteriorate, it is my understanding that the Studios might cease supplying new Movies altogether or might agree to supply new Movies only on relatively less favorable trade terms. I believe these developments could have a significant — and possibly devastating — impact on the Debtors' business operations. Needless to say, a movie rental business is highly reliant on its relationships with movie suppliers.

184. I believe that failing to continue to honor Overage Obligations and Up-Front Charges under prepetition Revenue Sharing Agreements would very likely cause a deterioration in the Debtors' relationship with the Studios. While the Studios may not cease dealing with the

Debtors entirely, I believe that the general lack of supply agreements with the Studios means, at a minimum, that the Studios could negatively alter the terms on which the Studios supply Movies. Furthermore, I believe that maintaining positive relationships with the Studios is absolutely essential to the Debtors' ongoing viability and that the value of maintaining good Studio relationships far outweighs the cost of continuing to pay the Overage Obligations and Up-Front Charges at issue in this Motion. I also believe that all creditors, not just the Studios, will be benefited from the Debtors negotiating and entering into Accommodation Agreements and such agreements are a key component of the Debtors' restructuring efforts.

185. Currently, with the exception of the one written, active Revenue Sharing Agreement that remains in place, the Debtors and the Studios operate on a course-of-dealing basis based on agreed terms and conditions. It is my understanding that there may be some ambiguity in how exactly the supply relationship between the Debtors and the Studios should be classified. While I believe that the Debtors are essentially purchasing the Movies delivered by the Studios, whether under a Fixed Buy Transaction, Revenue Sharing Agreement or Copy Depth Program, the Studios may take a different view and may argue that they continue to own the Movies during the Revenue Sharing Term.

186. It is my understanding that if the Debtors suddenly stopped paying Overage Obligations related to prepetition Revenue Sharing Agreements, the Studios might commence litigation under any number of theories, perhaps arguing that, among other things, (a) the Movies remain the property of the Studios and the Movies should be returned to the Studios or (b) the Movies are leased or licensed to the Debtors and, therefore, the Debtors owe "rent" or licensing payments. While I do not believe or admit that any such arguments have any merit, I believe that

a hostile relationship with the Studios—marked by litigation—would be extremely detrimental to the Debtors' operations.

187. I believe that by conditioning payment on the Studios agreeing to continue to supply new Movies on acceptable terms as set forth herein, the Debtors and the Studios essentially will have reached a compromise on what could have been a bitterly contested legal dispute.

188. Here, I believe that any litigation with the Studios regarding who holds title to the Movies and the proper legal characterization of existing supply relationships would likely be costly and time consuming. More importantly, I believe that if the Debtors' relationships with the Studios deteriorate into litigation, the Studios, who generally are not contractually obligated to provide any new Movies to the Debtors and are generally free to set the terms and conditions of any future deliveries, would not deal with the Debtors on favorable terms and may refuse to deal with the Debtors altogether. I believe that any deterioration in trade terms with the Studios would have an immediate and negative impact on the Debtors' operations. Historically, the Debtors have had very strong relationships with the Studios and I believe that ongoing strong Studio relationships are key to the Debtors' long-term success.

189. I believe that the Studios are also critically important to the Debtors' ongoing operations. Because all creditors and parties in interest will benefit if this Court approves the Debtors' request for authority to honor Overage Obligations and Up-Front Charges under prepetition Revenue Sharing Agreements as set forth in this Motion, the Court should exercise its powers to grant the relief requested herein.

L. Motion of the Debtors for an Order (A) Authorizing the Debtors to Continue Using their Existing Cash Management System, Bank Accounts and Business Forms, (B)

Granting Postpetition Intercompany Claims Administrative Expense Priority and (C) Authorizing Continued Intercompany Arrangements and Historical Practices (the "Cash Management Motion")

Description of the Debtors' Cash Management System

190. In the ordinary course of business, the Debtors utilize an integrated, centralized cash management system under which funds are collected by the Debtors, transferred to various concentration accounts and disbursed, through other accounts, to pay operating expenses (collectively, the "Cash Management System").

191. In addition to the Cash Management System maintained by the Debtors in the United States, the Debtors' non-Debtor affiliate, Movie Gallery Canada, Inc. ("MG Canada"), maintains a similar cash management system at the Canadian Imperial Bank of Commerce ("CIBC"). MG Canada's cash management system does not overlap with the Cash Management System other than with respect to (a) transfers of cash for intercompany transactions in the ordinary course of business and (b) intercompany loans, debt repayments, dividends and capital contributions that were undertaken before the Commencement Date from time to time outside the ordinary course of business.

192. The Debtors' Cash Management System is managed primarily by the Debtors' financial personnel at their support center in Wilsonville, Oregon. The Cash Management System enables the Debtors to (a) forecast and report the Debtors' cash position, (b) monitor collection and disbursement of funds and (c) maintain control over the administration of the various bank accounts, which is required to effect collection, disbursement and movement of cash at the Debtors' approximately 4,200 retail stores operated throughout the 50 states, three distribution centers and two corporate offices.

193. The Cash Management System consists of numerous accounts, each of which is described herein. The Debtors maintain multiple concentration accounts, payroll disbursement accounts, accounts payable controlled disbursement accounts (some of which are for payroll expenses), controlled tax disbursement accounts, stand-alone disbursement accounts, merchant collection accounts and one stand-alone depository account (collectively, the "Corporate Accounts").[15] The Corporate Accounts are maintained at two separate banks: Bank of America ("BofA") and Wachovia Bank f/k/a First Union National Bank ("Wachovia").

a. The Debtors' Existing Bank Accounts

194. As of the Commencement Date, in the ordinary course of business, the Debtors maintained approximately 500 bank accounts (collectively, the "Bank Accounts") with certain financial institutions (collectively, the "Banks"). The Debtors' main operating bank accounts are described herein. To supplement that description, each of the Bank Accounts maintained by the Debtors (with the name and contact information of the corresponding Bank) is listed on Exhibit 1 annexed to Exhibit A of the Cash Management Motion. It is my understanding that some of the Bank Accounts are located in banks other than those designated as authorized depositories by the U.S. Trustee pursuant to the U.S. Trustee Guidelines.[16] It is my understanding the Bank Accounts located at banks that are not designated as authorized depositories pursuant to the U.S. Trustee Guidelines, however, hold far less than $100,000 at any given time and, therefore, I do

15 The Debtors do not utilize any investment accounts. All funds remain within depository and disbursement bank accounts.

16 The Debtors estimate that approximately 25 of their Bank Accounts contain deposits in excess of $100,000. Pursuant to the U.S. Trustee Guidelines, the Debtors will identify those Bank Accounts for the U.S. Trustee within 30 days of the date hereof.

not believe represent bank accounts with significant deposits for purposes of the Debtors' Cash Management System.

b. The Flow of Funds in the Debtors' Cash Management System

195. The Debtors' cash receipts and disbursements flow as follows:

196. Store Depository Accounts. Each of the Debtors' stores deposits cash and checks on a daily basis into a variety of store depository accounts maintained with a multitude of banks across the United States (each, a "Store Depository Account"). Because the Debtors have thousands of retail stores across the United States, each Store Depository Account services either a single retail location or a cluster of retail locations concentrated in a single geographic area.

197. Merchant Collection Accounts. Both HEC and MGUS transmit Visa, MasterCard, American Express and Discover credit card and debit card transactions through a third party processor (Paymentech for HEC and First Data for MGUS) on a daily basis. The respective third party processor wires credit card and debit card payments to a HEC BofA merchant collection account and a MGUS Wachovia merchant collection account (the "Merchant Collection Accounts"). In addition, credit card and debit card sales for MovieBeam (an on-demand movie service) transactions operated by Debtor M.G. Digital, LLC are transmitted by Visa, MasterCard, American Express and Discover to First Data via wire transfer on a daily basis into a MGD Wachovia merchant collection account (the "MGD Merchant Collection Account").

198. Standalone Real Estate Sales Depository Account. Funds from sales of the Debtors' owned real estate are deposited in M.G.A. Realty, LLC's standalone account at Wachovia (the "MGA Standalone Account").

199. Concentration Accounts. Funds in the MGUS non-Wachovia and the HEC non-BofA Store Depository Accounts are swept via the Automated Clearing House Network (the "ACH") — which is a reliable and efficient nationwide batch-orientated electronic funds transfer — to the MGUS Wachovia concentration account (the "MGUS Concentration Account") and the HEC Wachovia concentration account (the "HEC Wachovia Concentration Account"), respectively, by an anticipatory ACH.[17] Deposits are reflected in the HEC Wachovia Concentration Account and the MGUS Concentration Account the day after they are made into the Store Depository Accounts.

200. The HEC BofA Store Depository Accounts and the MGUS Wachovia Store Depository Accounts are also swept into the HEC BofA concentration account (the "HEC Corporate Concentration Account") and the MGUS Concentration Account, respectively, on a daily basis. The HEC BofA Store Depository Accounts are swept via "Direct Depository Plus" and the MGUS Wachovia Store Depository Accounts are swept via a zero balance account ("ZBA") relationship.[18] Subsequently, funds within the HEC Corporate Concentration Account are swept via a ZBA relationship to a HEC BofA master concentration account (the "HEC Master Concentration Account"). Finally, most funds in the HEC Master Concentration Account are subsequently transferred via a daily wire to the MGUS Concentration Account and all funds in the MGA Standalone Account are transferred via wire to the MGUS Concentration Account.

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17 The anticipatory function estimates incoming deposits based on a percentage of prior revenue, rather than waiting for a bank account information file from the bank to confirm account balances. It is my understanding that this estimation results in faster movement of deposits into the MGUS Concentration Account. If the ACH is overestimated for any bank balance, that bank's sweep is rejected for the day and a new sweep is initiated the next business day.

18 A ZBA account is an account used by companies to eliminate excess balances in separate accounts and maintain greater control over disbursements.

201. Deposit of Credit Card Transactions. With respect to credit card sales, the Merchant Collection Accounts have a ZBA relationship with the HEC Corporate Concentration Account and the MGUS Concentration Account. The MGD Merchant Collection Account also has a ZBA relationship with the MGUS Concentration Account. Funds in the Merchant Collection Accounts are generally transferred to their respective concentration accounts within 72 hours of the sales transaction. Funds in the HEC Corporate Concentration Account are then transferred via a ZBA relationship with the HEC Master Concentration Account.

202. Prepetition Deposit of Credit Facility Funds. Before the Commencement Date, in the ordinary course of business, the Debtors made borrowing requests under the Senior Secured First Priority Revolving Loan Facility (the "Prepetition Credit Facility") based on availability as determined by a borrowing base calculation. These borrowings were deposited into the MGUS Concentration Account.[19]

203. HEC Disbursement Accounts. In the ordinary course of business, the Debtors disburse funds to pay, among others, their employees, creditors, suppliers and taxing authorities. The HEC Master Concentration Account disburses funds via a ZBA relationship to a HEC BofA disbursement account (the "HEC Disbursement Account") for payroll purposes only with a deposit into a separate BofA direct deposit payroll account through a manual "book transfer" of funds from the HEC Disbursement Account for employees with direct deposit payroll accounts. Payroll checks are funded daily via the ACH from the HEC Disbursement Account to a BofA

[19] As noted above, the Debtors' non-Debtor affiliate, MG Canada, maintains a separate, but linked, cash management system. Funds in Canada flow in much the same way as funds flow in the United States, with Canadian funds channeling to a concentration account at CIBC (the "MG Canada Concentration Account") and eventually sweeping to the MGUS Concentration Account. Cash in the MG Canada Concentration Account was recently swept to reduce certain intercompany balances.

check funding account that has a ZBA relationship with a BofA payroll check drawing account. All other disbursements for HEC are made through the HEC Wachovia Concentration Account to a Wachovia accounts payable disbursement account (the "HEC Accounts Payable Disbursement Account") via a ZBA relationship. As checks clear the HEC Accounts Payable Disbursement Account, these disbursement accounts become negative and are subsequently funded by the HEC Wachovia Concentration Account via a ZBA relationship. The HEC Wachovia Concentration Account is funded daily via a "book transfer" from the MGUS Concentration Account to fund the outflows in the disbursement accounts. The HEC Wachovia Concentration Account has minimal inflows, so daily transfers are needed to account for clearings. There is also a HEC Wachovia property tax payable specialty disbursement account with a ZBA relationship with the HEC Wachovia Concentration Account.

204. MGUS Disbursement Accounts. MGUS disbursements are transferred to Wachovia accounts payable, payroll, property tax and sales tax specialty accounts that have ZBA relationships with the MGUS Concentration Account. As noted above, the MGUS Concentration Account also funds the HEC Wachovia Concentration Account to account for daily clearings from the HEC Disbursement Account. Disbursements from the MGD Standalone Account are funded from the MGUS Concentration Account. In addition, before the Commencement Date, disbursements to the Prepetition Credit Facility borrowings were made from the MGUS Concentration Account.

c. Benefits of the Existing Cash Management System

205. I believe that the Debtors' Cash Management System is similar to those commonly employed by corporate enterprises comparable to the Debtors in economic scope and

geographic reach. Indeed, large, multiple-entity businesses use such systems because of the numerous benefits provided, including the ability to (a) quickly create status reports on the location and amount of funds, allowing management to track and control corporate funds, (b) ensure cash availability and (c) reduce administrative expenses by facilitating the movement of funds. It is my understanding that these controls are particularly important because approximately $40 million to 80 million flows through the Debtors' integrated Cash Management System on a weekly basis to service the Debtors' retail stores, distribution centers and corporate offices.

d. The Debtors' Existing Business Forms and Checks

206. In the ordinary course of business, the Debtors use a multitude of checks and other business forms. To minimize expenses to their estates, I believe it is appropriate for the Debtors to continue to use all correspondence and business forms (including, but not limited to, letterhead, purchase orders and invoices) as such forms were in existence immediately before the Commencement Date — without reference to the Debtors' status as debtors in possession — rather than requiring the Debtors to incur the expense and delay of ordering entirely new business forms. I also believe it will minimize expense to their estates if the Debtors are permitted to use their existing check stock.

207. By virtue of the nature and scope of the Debtors' business operations and the customers and vendors with whom the Debtors deal on a regular basis, I believe that it is important that the Debtors be permitted to continue to use their existing checks and other business forms without alteration or change, except as requested herein.

e. The Debtors' Intercompany Claims

208. In the ordinary course of business, the Debtors and MG Canada maintain business relationships with each other, resulting in intercompany receivables and payables in the ordinary course of business (the "Intercompany Claims"). Indeed, in connection with the daily operation of the Cash Management System, funds are disbursed throughout the Cash Management System and at any given time there may be Intercompany Claims owing by one Debtor to another, or between a Debtor and MG Canada. The transactions that give rise to Intercompany Claims are made between and among the Debtors and, to a certain extent MG Canada, in the ordinary course of the Debtors' business (the "Intercompany Transactions"). The Debtors maintain records of all fund transfers and can ascertain, trace and account for Intercompany Transactions. At the same time, though, if the Intercompany Transactions were to be discontinued, it is my understanding that the Cash Management System and related administrative controls would be disrupted to the Debtors' detriment.

209. In the ordinary course of business, HEC purchases game product on behalf of MG Canada from vendors in the United States and ships the product to MG Canada stores. In addition, MGUS and HEC transfer excess movie product inventory to MG Canada stores in the ordinary course of business. Lastly, there are cash transfers between MG Canada, MGUS and HEC accounts for funding of general corporate items due to excess liquidity in each of the respective accounts. It is my understanding that all of the foregoing transactions will be accounted for in the respective intercompany accounts of the respective entities. The foregoing are examples of the business relationships between and among the Debtors and MG Canada (together with the Intercompany Transactions, the "Intercompany Arrangements"). The Debtors

will continue to maintain records related to the Intercompany Arrangements, so that transactions can be ascertained, traced and accounted for properly on applicable intercompany accounts.

f. The Continued Use of the Debtors' Cash Management System and Existing Bank Accounts Is Essential to the Debtors' Ongoing Operations and Restructuring Efforts

210. Given the substantial economical scale and geographic reach of the Debtors' business operations, I believe a successful reorganization of the Debtors' business, as well as the preservation and enhancement of the Debtors' respective values as a going concern entity, simply cannot be achieved if the Debtors' cash management procedures are substantially disrupted and the Bank Accounts are closed.

211. If the Debtors were required to open separate accounts as debtors in possession and rearrange their Cash Management System, it is my understanding that it would necessitate opening numerous new accounts for collections, cash concentration and disbursements. In fact, the Debtors would need to open hundreds of new bank accounts. It is also my understanding that the Debtors' treasury, accounting and bookkeeping employees would be forced to focus exclusively on opening new accounts immediately, instead of on their daily responsibilities during this critical time. I believe the opening of new accounts would certainly increase operating costs, thereby negatively impacting the Debtors' cash flow. Most importantly, I believe that delays that would result from opening new accounts, revising cash management procedures and instructing customers to redirect payments would negatively impact the Debtors' ability to operate their businesses while pursuing these arrangements.

g. Maintaining the Existing Cash Management System Facilitates a Smooth Transition into Chapter 11 and Does Not Harm Parties in Interest

212. I believe maintaining the Bank Accounts would greatly facilitate the Debtors' transition in connection with operating under chapter 11 by, among other things, avoiding administrative inefficiencies and expenses and minimizing delays in paying debts incurred postpetition. Thus, I believe it would be extremely beneficial to continue to maintain the existing Bank Accounts and, if necessary, to open new accounts and close existing accounts in the ordinary course of business operations.

213. I believe parties in interest would not be harmed by the Debtors' maintenance of the existing Cash Management System, including their Bank Accounts, because the Debtors have implemented appropriate mechanisms to ensure that payments will not be made on any debts incurred by them before the Commencement Date, other than those authorized by the Court, and to eliminate the risk of other errors or misunderstandings. Specifically, the Debtors have centralized their accounts payable systems and implemented software restrictions that prohibit payments to be issued without prior approval of the Debtors' treasury department. In turn, I believe the Debtors' senior treasury personnel (led by A&M, whom the Debtors have sought to continue to employ as financial advisors) are aware of, and will comply with, the Bankruptcy Code and the U.S. Trustee Guidelines except as modified by order of the Court. I also believe that the Debtors' personnel will consult with the Debtors' advisors and bankruptcy counsel as appropriate in connection with payment approvals.

214. Under these circumstances, I believe that maintaining their Cash Management System is in the best interests of their respective estates and creditors. Indeed, I believe

preserving the "business as usual" atmosphere and avoiding the unnecessary distractions that would inevitably be associated with any substantial disruption in the Cash Management System will facilitate the Debtors' overall reorganization efforts.

215. Furthermore, I believe that because parties doing business with the Debtors undoubtedly will be aware of the Debtors' status as a debtor in possession (as a result of the large and highly-publicized nature of these chapter 11 cases). Consequently, I believe that changing business forms is unnecessary and unduly burdensome.

h. The Debtors Should Be Allowed to Continue Certain Intercompany Arrangements and Intercompany Claims Should Be Afforded Administrative Expense Priority

216. I believe that continued performance under the Intercompany Arrangements is not only important to the Debtors' successful restructuring, but is necessary to ensure the Debtors' ability to operate their businesses as debtors in possession. Were the Debtors required to obtain the services they currently receive under the Intercompany Arrangements by non-affiliated third parties, I believe the significant burdens of identifying appropriate providers and negotiating agreements for these services would divert the Debtors' attention and efforts from ensuring a smooth transition into the chapter 11 process and, ultimately, working towards a successful restructuring.

217. If the Intercompany Arrangements were discontinued, it is my understanding that a number of services currently provided by the Debtors would be disrupted. Accordingly, I believe that the continuation of the Intercompany Arrangements is in the best interest of the Debtors' estates and their creditors and, therefore, the Debtors should be permitted to continue such Intercompany Arrangements.

218. At any given time, there may be balances due and owing between and among the Debtors and MG Canada. These balances represent extensions of intercompany credit made in the ordinary course of business that I believe are an essential component of the Cash Management System. The Debtors maintain records of these transfers of cash and can ascertain, trace and account for these intercompany transactions. It is my understanding that the Debtors will continue to maintain such records, including records of all current intercompany accounts receivable and payable.

M. Motion of the Debtors for Interim and Final Orders Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, 364(c), 364(d) and 364(e) and Fed. R. Bankr. P. 4001 and 9014 (I) Authorizing Debtors to Obtain Secured Postpetition Financing on Super-Priority Priming Lien Basis, Granting Adequate Protection for Priming and Modifying the Automatic Stay, (II) Authorizing Debtors to Use Cash Collateral of Existing Secured Lenders and Granting Adequate Protection for Use, (III) Authorizing Debtors to Repay Existing Revolver Indebtedness Upon Interim Approval and (IV) Prescribing Form and Manner of Notice and Setting the Time for the Final Hearing

219. The Debtors have negotiated and reached an agreement to enter into, subject to approval of the Court pursuant to the DIP Orders, a $150,000,000 Secured Super-Priority Debtor in Possession Credit and Guaranty Agreement, which consists of a $100,000,000 term loan (the "Term Loan Commitment") and a $50,000,000 revolving loan and letter of credit facility (the "Revolving Commitment"), by and among Movie Gallery, Inc., as borrower and the other Debtors as guarantors, GSCP as lead arranger, syndication agent and documentation agent (the "Arranger"), The Bank of New York as administrative agent and collateral agent (collectively, the "DIP Agents") and the banks, financial institutions and other lenders parties thereto (collectively, the "Lenders" and with the DIP Agents, the "DIP Lenders") (as the same now exists or may hereafter be amended, modified, ratified, extended, renewed, restated or replaced, the "Credit Agreement") and the other credit documents (the "Credit Documents").

220. Before the Commencement Date, the Debtors, with the assistance of their financial advisor and investment banker Lazard assessed their financing needs. In addition to the proposal from the DIP Agents, the Debtors also received a proposal from the majority holder of the Debtors' 11% senior notes due in 2012 (the "Majority Holder"). I believe that after fully considering this proposal and the DIP Agents' proposal, and, with the assistance of Lazard evaluating the terms and costs associated with the DIP Agents' proposal as compared to other similar facilities provided to debtors in the retail industry, the proposal by the DIP Agents provided the most advantageous and flexible terms to the Debtors' estates. Among other benefits, since the DIP Lenders are substantially the same as the Existing First Lien Loan Parties, obtaining financing through the DIP Lenders allows the Debtors to avoid the cost and risks to business operations associated with attempting to prime the Existing First Lien Indebtedness over the Existing First Lien Loan Parties' potential objection.

221. In addition to the postpetition financing to be provided under the Credit Agreement, I believe the Debtors will require the use of cash on hand and amounts generated by the collection of accounts receivable, sales of inventory or other dispositions of the Existing Collateral, all of which constitute proceeds of the Existing Collateral and, therefore, is cash collateral of Existing Lenders (the "Cash Collateral"). The DIP Orders provide the terms on which the Debtors propose to use the Cash Collateral.

222. Under the DIP Orders, the Debtors will be authorized to use the Cash Collateral of the Existing Lenders during the period from the Commencement Date through the earlier of (a) the acceleration of the Obligations following an Event of Default under the Credit Agreement, (b) the Maturity Date of the Credit Agreement and (c) the breach by the Debtors of

their obligations to provide adequate protection to the Existing Lenders pursuant to the Credit Documents.

223. I believe that the Existing Lenders will agree that their Cash Collateral may be used by the Debtors, provided that they receive adequate protection for the diminution in value of their respective interests in the Existing Collateral, including for the use of the Cash Collateral and the use, sale, depreciation or other diminution in value of the other assets and property constituting the Existing Collateral, in the form of cash interest payments for Existing First Lien Loan Parties and paid-in-kind interest for Existing Second Lien Loan Parties, payments of postpetition fees, costs and charges incurred by both parties and the additional rights provided in the Interim DIP Order and additionally, in the case of the Existing First Lien Loan Parties, repayment of the Existing Revolver Indebtedness following entry of the Interim DIP Order.

224. The DIP Lenders consist primarily of the Existing First Lien Loan Parties. As the Credit Agreement requires the priming of the Existing Collateral on behalf of the DIP Lenders, it also requires that the interests of the Existing First Lien Loan Parties, as well as the junior interests of the Existing Second Lien Loan Parties, be adequately protected. As provided for in the DIP Orders, that adequate protection consists of additional liens and security interests in the Collateral (as defined in the Credit Agreement) that are, respectively, junior to the liens and security interests granted to the DIP Lenders and additionally, in the case of the Existing First Lien Loan Parties, repayment of the Existing Revolver Indebtedness following entry of the Interim DIP Order and the grant of subordinate super-priority administrative expense claims pending the required repayments, pursuant to the Interim DIP Order.

225. The proceeds of the DIP Facilities will be used to (a) refinance the Existing Revolver Indebtedness following entry of the Interim DIP Order, (b) pay certain other fees and expenses relating to the credit facilities established under the Credit Agreement, (c) support the working capital and general corporate purposes of the Debtors and (d) make any other payments permitted to be made by the Bankruptcy Code or in the DIP Orders or any other order of the Court to the extent not prohibited by the Credit Agreement or otherwise consented to by the DIP Lenders. The Cash Collateral will also be used for the foregoing purposes.

226. I believe the relief requested in the DIP Motion should be granted on an expedited basis in light of the immediate and irreparable harm that will likely be suffered by the Debtors' estates if they cannot obtain the financing needed to sustain their business as a going concern. Indeed, the Debtors have an urgent need to obtain the DIP Financing and use Cash Collateral for, among other things, continuing the operation of their business in an orderly manner, maintaining business relationships with vendors, suppliers and customers, paying employees and satisfying other working capital and operational needs — all of which are necessary to preserve and maintain the Debtors' going-concern values and, ultimately, effectuate a successful reorganization.

227. The Debtors are currently in the fourth quarter, which includes the holiday season and is often the most important time of the year as it relates to the Debtors' profitability. I believe the Debtors' access to financing during this time, especially in light of their recent precarious financial position, will be key to the long-term success of the Debtors' business and the Debtors' overall ability to maximize value for all parties in interest. Indeed, because of the Debtors' recent financial distress, which included most of its key vendors demanding cash in

advance or cash on delivery payment terms, I believe that the Debtors require access to immediate funding to satisfy product delivery requirements to permit the Debtors to maintain adequate inventory during the holiday season.

228. In light of the foregoing, it is my understanding that the Debtors anticipate accessing the DIP Financing and using Cash Collateral immediately for certain requirements, which will enable the Debtors to demonstrate to their customers, suppliers, employees and vendors that they have sufficient capital to ensure ongoing operations. If approved by the Court on an interim basis, the Debtors will immediately have initial availability of up to $140,000,000 under the terms and conditions of the Credit Agreement as well as access to Cash Collateral. Thus, I believe the Credit Agreement provides the Debtors with the funding needed to operate and maintain their business and to pay necessary expenses during the pendency of their chapter 11 cases. Absent approval of the DIP Orders, I believe the Debtors may have to curtail or even terminate their business operations to the material detriment of creditors, employees and other parties in interest.

229. Additionally, the Debtors were unable to obtain more favorable postpetition financing in the form of unsecured credit, an administrative expense or credit secured by junior liens on the Debtors' assets. Accordingly, pursuant to the Credit Agreement, the Lenders have agreed to provide funding needed to sustain the Debtors' business operations. In exchange, the Credit Agreement provides the DIP Lenders with reasonable protections considering the circumstances of these chapter 11 cases.

230. I believe it is vital that the Debtors are successful in immediately instilling confidence in their employees, vendors and customers by displaying their ability to seamlessly

transition into chapter 11, operate normally in this environment and, ultimately, reorganize in a successful and expedient manner. I believe the DIP Financing will provide the working capital necessary to allow the Debtors to continue operating their business in the ordinary course and navigate the course of these chapter 11 cases with the ultimate goal of maintaining and maximizing value for the benefit of all parties in interest.

231. Indeed, I believe the ultimate success of these chapter 11 cases and the stabilization of the Debtors' operations at the outset of these chapter 11 cases is largely dependent upon the confidence of the Debtors' employees, vendors and customers, which, in turn, depends upon the Debtors' ability to minimize the disruption of the chapter 11 filings. All major constituencies understand that the Debtors are suffering severe liquidity constraints and cannot continue to operate without additional financing. If the relief sought in the DIP Motion is delayed or denied, confidence may be shattered. As previously noted, the Debtors are embarking upon the most critical part of their business year, which includes the holiday season and the release of many featured titles. As reflected in the budget provided to the Existing First Lien Loan Parties and incorporated into the Credit Agreement, the Debtors must have the immediate ability to borrow $40 million to ensure that adequate inventory is placed on the Debtors' shelves so that customers are able to rent and purchase the titles that they expect to see throughout the holiday season. The last several months have been debilitating to the Debtors' business, as many studios and vendors have insisted upon cash in advance prior to delivering essential product and inventory. At this time, and in the face of financial instability, I believe that the Debtors simply cannot operate without an infusion of $40 million for their near-term financing needs.

232. I believe that the Debtors' inability to access financing and thereby generate revenues to support adequately their business at this critical juncture would severely jeopardize the reorganization efforts. I believe that approval and implementation of the DIP Financing, however, will enable continued functioning of the Debtors' operations on a daily basis and preserve the going concern value of the Debtors' estates for the benefit of all parties.

233. I believe the terms and conditions of the DIP Financing are fair and reasonable and were negotiated by the parties in good faith and at arm's-length. In my business judgment, the DIP Financing is the best financing option available under the present circumstances. Further, it is my understanding with the inclusion of the Carve-Out, the DIP Financing does not directly or indirectly deprive the Debtors' estates or other parties in interest of possible rights and powers by restricting the services for which professionals may be paid in these cases.

234. Moreover, pursuant to the terms of the Credit Agreement, the Debtors seek authority to repay the Existing Revolver Indebtedness with the proceeds of the DIP Facility upon entry of the Interim DIP Order. It is my understanding that the Credit Agreement contemplates making the repayment of the Existing Revolver Indebtedness subject to the right of the Court to unwind the repayment in the event that there is a timely and successful challenge to the validity, enforceability, extent, perfection or priority of the Existing First Lien Loan Parties' claims or liens, or a determination that the Existing Revolver Indebtedness is undersecured as of the Commencement Date.

235. It is my understanding that the repayment of the Existing Revolver Indebtedness will benefit the Debtors' estates by reducing by 2.75% (or approximately $230,000 per month assuming fully-drawn instruments) the Debtors' interest expenses as well as certain fees, costs

and expenses associated with maintaining the Existing Revolver Indebtedness during the pendency of these cases. I believe that the interests of the Debtors' estates are protected under the terms of the DIP Orders by provisions allowing a reasonable period of time for certain parties in interest to challenge the claims and liens of the Existing First Lien Loan Parties for the purpose of ensuring that they are oversecured and entitled to repayment in full. It is my understanding that these same provisions allow for a challenge of the adequate protection granted to the Existing Lenders under the DIP Orders.

236. The Existing First Lien Indebtedness and the Existing Second Lien Indebtedness total approximately $900 million and are secured by substantially all of the Debtors' assets. In addition to the $100 million that the Debtors propose to pay to the Existing First Lien Loan Parties under the Existing Revolver, the DIP Lenders are providing $50 million in new financing to the Debtors, which I believe will benefit the Debtors' estates and help preserve the value of their business. Furthermore, I believe that the Existing Revolver Indebtedness constitutes valid indebtedness that is secured by perfected liens on the Existing Collateral that has a value in excess of the amount of the Existing First Lien Indebtedness. I believe that the approval of the Credit Agreement would significantly benefit the Debtors by providing a meaningful infusion of new funding for the Debtors' operations without bestowing any special rights or protections to the Existing First Lien Loan Parties that they do not already enjoy and without prejudicing parties in interest. I believe that, based upon their secured status and the terms of the Existing First Lien Credit Agreement, it is undisputed that the Existing First Lien Loan Parties would be entitled to be paid before other creditors in these chapter 11 cases. Thus, I believe that the Existing First Lien Loan Parties holding the Existing Revolver Indebtedness are simply being

repaid early. Since the Credit Agreement provides that the repayment of the Existing Revolver Indebtedness may be unwound in appropriate circumstances, I do not believe that the interim approval of the repayment of the Existing Revolver Indebtedness will adversely affect parties in interest. Accordingly, I believe that repaying the Existing Revolver Indebtedness with borrowings under the Credit Agreement is appropriate under the circumstances and will not give undue advantage to the Existing First Lien Loan Parties without a countervailing benefit to the estates.

237. I believe that the Debtors have exercised sound business judgment in determining the appropriateness of the DIP Facilities and deciding to incur debt on the terms and conditions set forth in the Credit Agreement. I believe that the Credit Agreement contains terms that are fair, reasonable and in the best interests of the Debtors and their estates. Accordingly, I believe that the Debtors should be granted authority to enter into the Credit Agreement and obtain funds from the DIP Lenders on the secured and administrative "super-priority" basis described herein.

I declare under penalty of perjury that the foregoing is true and correct.

By: /s/ William C. Kosturos
Name: William C. Kosturos
Title: Chief Restructuring Officer

Sworn to before me on this
15th day of October, 2007

By: /s/ Lynda M. Woods
Lynda M. Woods
Notary Public

EXHIBIT A

[Corporate Structure and Debt Chart]

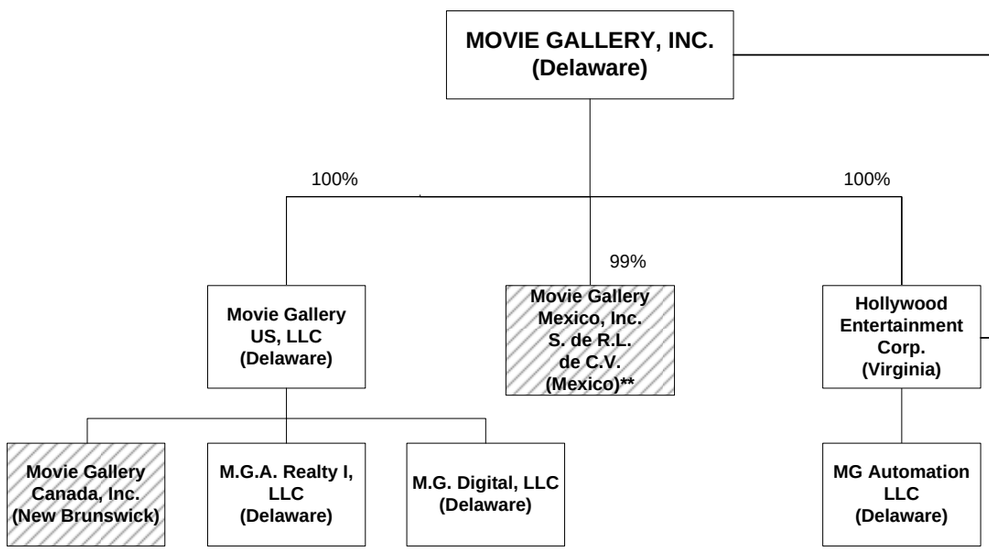
Movie Gallery, Inc. Corporate and Capital Structure*

First Lien Facilities

Aggregate First Lien Amount Outstanding:	$720,600,000 as of September 30, 2007.
Revolving Loan Facility:	$100,000,000 facility, maturing March 8, 2012. Not less than $100,000,000 outstanding as of September 30, 2007.
Synthetic Letter of Credit Facility:	$25,000,000 facility, maturing March 8, 2012. $23,600,000 outstanding as of September 30, 2007.
First Lien Term Loan:	$600,000,000 term loan, maturing March 8, 2012. $597,000,000 outstanding as of September 30, 2007.
Borrower:	Movie Gallery, Inc.
Guarantors:	All domestic subsidiaries of Movie Gallery, Inc.

Second Lien Facility

Second Lien Term Loan:	$175,000,000 facility, maturing September 8, 2012. Not less than $175,000,000 outstanding as of September 30, 2007.
Borrower:	Movie Gallery, Inc.
Guarantors:	All domestic subsidiaries of Movie Gallery, Inc.



11% Senior Unsecured Notes

Issued Amount:	$325,000,000 aggregate principal amount, due May 1, 2012. $325,000,000 outstanding as of September 30, 2007.
Issuer:	Movie Gallery, Inc.
Guarantors:	Unconditionally guaranteed by Movie Gallery US, LLC; Hollywood Entertainment Corp.; M.G.A. Realty I, LLC; and M.G. Digital, LLC.

9.625% Senior Subordinated Notes

Issued Amount:	$225,000,000 aggregate principal amount, due March 15, 2011. $450,000 outstanding as of September 30, 2007.
Issuer:	Hollywood Entertainment Corp.
Guarantors:	None.

= Debtor

= Non-debtor

* Movie Gallery Inc. also has approximately $2,200,000 in outstanding capital leases.
** One percent of this entity is owned by Movie Gallery US, LLC.

EXHIBIT B

[Lock Up Agreement]

LOCK UP, VOTING AND CONSENT AGREEMENT

This LOCK UP, VOTING AND CONSENT AGREEMENT is made and entered into as of October 14, 2007 (the "Agreement") by and among the following parties:

(a) The undersigned Holders (each, a "Consenting Second Lien Holder"; collectively, the "Consenting Second Lien Holders") of certain Claims under the Second Lien Credit Agreement dated as of March 8, 2007, among Movie Gallery, Inc. (the "Company"), as borrower, the lenders party thereto (the "Second Lien Lenders"), Goldman Sachs Credit Partners L.P., as lead arranger and syndication agent (the "Second Lien Syndication Agent"), and Wells Fargo Bank, N.A., as successor to CapitalSource Inc., as collateral agent and administrative agent (the "Second Lien Administrative Agent," and together with the Second Lien Syndication Agent, the "Second Lien Agents") (the "Second Lien Credit Agreement"), providing for a $175 million second lien term loan (the "Second Lien Term Loan");

(b) The undersigned Holders (each, a "Consenting 11% Senior Note Holder"; collectively, the "Consenting 11% Senior Note Holders" and together with the Consenting Second Lien Holders, the "Consenting Holders") of certain Claims under the 11% Senior Unsecured Notes Indenture dated as of April 27, 2005, between Movie Gallery, Inc. as issuer, certain Movie Gallery, Inc. subsidiaries, as guarantors and U.S. Bank N.A., as trustee (the "11% Senior Notes Indenture");

(c) Movie Gallery, Inc. and each of its affiliates that will or may constitute one of the "Debtors" (as defined below) (each of the foregoing Consenting Holders and the Debtors, a "Party"; collectively, the "Parties").

RECITALS

WHEREAS, the Company has determined that a prompt restructuring concerning or impacting, *inter alia*, the First Lien Credit Agreement (as defined below), the Second Lien Credit Agreement and the 11% Senior Notes Indenture would be in the best interests of its creditors and shareholders;

WHEREAS, each Consenting Holder is the Holder of a Claim, as defined in section 101(5) of the Bankruptcy Code, 11 U.S.C. §§ 101-1532 (the "Bankruptcy Code") arising out of, or related to, the Second Lien Credit Agreement (each, a "Second Lien Claim") and/or the 11% Senior Notes Indenture (each, a "Senior Note Claim," and together with the Second Lien Claims, the "Movie Gallery Claims");

WHEREAS, Movie Gallery, Inc. is a party to that certain First Lien Credit Agreement dated as of March 8, 2007, among Movie Gallery, Inc. as borrower, certain Movie Gallery, Inc. subsidiaries as guarantors, the lenders party thereto (the "First Lien Lenders"), Goldman Sachs Credit Partners L.P., as lead arranger, syndication agent and administrative agent, and Wachovia Bank, National Association, as collateral agent and documentation agent (the "First Lien Credit Agreement"), providing for (a) a $600 million first lien revolving term loan (the "First Lien Term Loan"); (b) a $100 million first lien revolving facility (the "First Lien Revolving Facility") and (c) a $25 million first lien synthetic letter of credit facility (the "First Lien LC Facility");

WHEREAS, as of July 2, 2007, the Debtors were obligated for an aggregate principal and interest amount of approximately $602,200,000 on account of the First Lien Term Loan, an aggregate principal amount of approximately $100,000,000 on account of the First Lien Revolving Facility, approximately $25,000,000 in letters of credit under the First Lien LC Facility, approximately $175,300,000 in aggregate principal and PIK Interest (as defined in the Second Lien Credit Agreement) on account of the Second Lien Term Loan and approximately $325,000,000 on account of the 11% Senior Notes Indenture;

WHEREAS, the Parties intend to implement the restructuring contemplated by this Agreement through a confirmed plan of reorganization, the form and substance of which shall be (a) reasonably satisfactory to the Debtors and Sopris Capital Advisors LLC ("Sopris") and consistent with the Amended and Restated Second Lien Credit Agreement Term Sheet (as defined in the Plan Term Sheet) and (b) consistent in all material respects with, and on terms and conditions no less favorable than, the terms set forth in this Agreement and that certain term sheet attached hereto as Exhibit A (the "Plan Term Sheet," and the plan of reorganization contemplated thereby, as the same may be amended from time to time in accordance with the terms of this Agreement, the "Plan"), for the Company and certain of its affiliates, including, but not limited to, Hollywood Entertainment Corporation; M.G. Digital, LLC; M.G.A. Realty I, LLC; MG Automation LLC; and Movie Gallery US, LLC (together with the Company, the "Debtors") in voluntary bankruptcy cases (the "Chapter 11 Cases") to be commenced by the Debtors by filing petitions (the "Petitions") under chapter 11 of the Bankruptcy Code (the date of that event being the "Petition Date");

WHEREAS, the Parties have engaged in good faith negotiations with the objective of reaching an agreement with regard to restructuring the outstanding Claims of, and Equity Interests in, the Debtors in accordance with the terms set forth in this Agreement and the Plan Term Sheet;

WHEREAS, each Consenting Holder has reviewed, or has had the opportunity to review, the Plan Term Sheet and this Agreement with the assistance of professional legal advisors of its own choosing;

WHEREAS, each Consenting Holder desires to support and vote to accept the Plan, and the Company desires to obtain the commitment of the Consenting Holders to support and vote to accept the Plan, in each case subject to the terms and conditions set forth herein; and

WHEREAS, subject to execution of definitive documentation and appropriate approvals by the United States Bankruptcy Court for the Eastern District of Virginia, Richmond Division (the "Bankruptcy Court") of the Plan and the associated disclosure statement, as the same may be amended from time to time (the "Disclosure Statement"), each of which shall be in form and substance satisfactory to the Debtors and Sopris, and which shall be consistent with the Amended and Restated Second Lien Credit Agreement Term Sheet (as defined in the Plan Term Sheet), the following sets forth the agreement between the Parties concerning their respective obligations.

NOW, THEREFORE, in consideration of the foregoing and the promises, mutual covenants and agreements set forth herein and for other good and valuable consideration, the Parties agree as follows:

AGREEMENT

Section 1. Means for Implementing the Plan Term Sheet.

To implement the Plan Term Sheet, the Debtors and each of the signatories hereto have agreed, on the terms and conditions set forth herein, that the Debtors shall use their commercially reasonable efforts to:

(a) solicit the requisite acceptances of the Plan in accordance with section 1125 of the Bankruptcy Code after: (i) the Chapter 11 Cases have commenced; and (ii) the Bankruptcy Court has approved the Disclosure Statement;

(b) move the Bankruptcy Court to confirm the Plan as expeditiously as practicable under the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure and the Bankruptcy Court's local rules (the federal and local rules being the "Bankruptcy Rules"); and

(c) Consummate the Plan;

provided, *however*, that the form and substance of the Plan (including any Plan Supplement filed in connection therewith) and the Disclosure Statement shall be in form and substance satisfactory to the Debtors and Sopris and shall be consistent with the Amended and Restated Second Lien Credit Agreement Term Sheet (as defined in the Plan Term Sheet).

Section 2. Plan Term Sheet

The Plan Term Sheet is incorporated herein by reference and is made part of this Agreement. Capitalized terms used herein without definition shall have the meanings ascribed to any such terms in the Plan Term Sheet. The general terms and conditions of the Restructuring are set forth in the Plan Term Sheet; *provided*, *however*, that the Plan Term Sheet is supplemented by the terms and conditions of this Agreement. In the event the terms and conditions as set forth in the Plan Term Sheet and this Agreement are inconsistent, the terms and conditions as set forth in the Plan Term Sheet shall govern.

Section 3. Commitments of the Consenting Holders Under this Agreement and the Plan Term Sheet.

3.1 Voting by Consenting Holders.

As long as a Termination Event (as defined herein) has not occurred, or has occurred but has been duly waived or cured in accordance with the terms hereof, each Consenting Holder agrees for itself that, so long as it is the legal owner, beneficial owner and/or the investment advisor or manager of or with power and/or authority to bind any Movie Gallery Claims and has been properly solicited pursuant to sections 1125 and 1126 of the Bankruptcy Code, it shall timely vote its Movie Gallery Claims (and not revoke or withdraw its vote) to accept the Plan, subject to Section 1 hereof.

3.2 Support of Plan.

(a) As long as a Termination Event has not occurred, or has occurred but has been duly waived or cured in accordance with the terms hereof, each of the Consenting Holders, as long as each such Consenting Holder remains the legal owner, beneficial owner and/or the investment advisor or manager of or with power and/or authority to bind any Movie Gallery Claims, agrees that, subject to Section 1 hereof, by having executed and become party to this Agreement, it will:

(i) from and after the date hereof not directly or indirectly seek, solicit, support or vote in favor of any other plan, sale, proposal or offer of dissolution, winding up, liquidation, reorganization, merger or restructuring of the Debtors that could reasonably be expected to prevent, delay or impede the restructuring of the Debtors as contemplated by the Plan Term Sheet, the Plan or any other document filed in connection with confirming the Plan (each, a "Reorganization Document"); and

(ii) agree to permit disclosure in the Disclosure Statement and any filings by the Debtors with the Securities and Exchange Commission of the contents of this Agreement, including the aggregate Movie Gallery Claims held by all Consenting Holders; provided that the amount of the Movie Gallery Claims held by any individual Consenting Holder shall be disclosed only to the Debtors and shall not be disclosed by the Debtors to any other person or Entity.

(b) As long as a Termination Event has not occurred, or has occurred but has been duly waived or cured in accordance with the terms hereof, the Debtors and each Consenting Holder, so long as it is a Holder of any Movie Gallery Claim, further agree that they shall not:

(i) object to or otherwise commence any proceeding opposing any of the terms of this Agreement, the Plan Term Sheet, the Disclosure Statement or the Plan; and

(ii) take any action that is inconsistent with, or that would delay approval of the Disclosure Statement or confirmation of the Plan.

3.3 Transfer of Claims, Interests and Securities.

Each of the Consenting Holders hereby agrees, for so long as this Agreement shall remain in effect (such period, the "Restricted Period"), not to sell, assign, transfer, hypothecate or otherwise dispose of, directly or indirectly (each such transfer, a "Transfer"), all or any of its Movie Gallery Claims (or any right related thereto and including any voting rights associated with such Movie Gallery Claims), *unless* the transferee thereof (a) agrees in writing to assume and be bound by this Agreement and the Plan Term Sheet, and to assume the rights and obligations of a Consenting Holder under this Agreement and (b) delivers such writing to the Company before the close of two (2) Business Days after the relevant Transfer (each such transferee becoming, upon the Transfer, a Consenting Holder hereunder). The Company shall

promptly acknowledge any such Transfer in writing and provide a copy of that acknowledgement to the transferor. By its acknowledgement of the relevant Transfer, the Company shall be deemed to have acknowledged that its obligations to the Consenting Holders hereunder shall be deemed to constitute obligations in favor of the relevant transferee as a Consenting Holder hereunder. Any sale, transfer or assignment of any Relevant Claim (as defined below) that does not comply with the procedure set forth in the first sentence of this Subsection 3.3 shall be deemed void *ab initio*.

3.4 Further Acquisition of Movie Gallery Claims.

This Agreement shall in no way be construed to preclude any Consenting Holder or any of its respective subsidiaries from acquiring additional Movie Gallery Claims; *provided* that any such additional Movie Gallery Claims acquired by a Consenting Holder or any subsidiary thereof shall automatically be deemed to be subject to the terms of this Agreement. Upon the request of the Debtors, each Consenting Holder shall, in writing and within five (5) Business Days, provide an accurate and current list of all Movie Gallery Claims that it and any affiliate holds at that time, subject to any applicable confidentiality restrictions and applicable law.

3.5 Representation of Consenting Holders' Holdings.

Each of the Consenting Holders represents that, as of the date hereof:

(a) it is the legal owner, beneficial owner and/or the investment advisor or manager for the beneficial owner of such legal or beneficial owner's Movie Gallery Claims set forth on its respective signature page (collectively, the "Relevant Claims");

(b) there are no Movie Gallery Claims of which it is the legal owner, beneficial owner and/or investment advisor or manager for such legal or beneficial owner that are not part of its Relevant Claims unless such Consenting Holder does not possess the full power to vote and dispose of such Claims; and

(c) it has full power to vote, dispose of and compromise the aggregate principal amount of the Relevant Claims.

Section 4. The Debtor's Responsibilities.

4.1 Implementation of Plan.

The Debtors shall use their commercially reasonable efforts to:

(a) effectuate and consummate the Restructuring on the terms contemplated by the Plan Term Sheet and the Plan;

(b) file the Disclosure Statement along with a motion seeking its approval by the Bankruptcy Court within the time frame set forth in the Plan Term Sheet;

(c) implement all steps necessary and desirable to obtain from the Bankruptcy Court an order confirming the Plan (the "Confirmation Order") within the time frame set

forth in the Plan Term Sheet, which Confirmation Order shall be in form and substance satisfactory to the Debtors and Sopris and consistent with the Amended and Restated Second Lien Credit Agreement Term Sheet (as defined in the Plan Term Sheet); and

(d) take no actions inconsistent with this Agreement, the Plan Term Sheet and the Plan or the expeditious Confirmation and Consummation of the Plan.

4.2 Representation of the Debtors.

None of the materials and information provided by or on behalf of the Debtors to the Consenting Holders in connection with the Restructuring contemplated by this Agreement, when read or considered together, contains any untrue statement of a material fact or omits to state a material fact necessary in order to prevent the statements made therein from being materially misleading.

4.3 The Debtors' Fiduciary Obligations.

Notwithstanding anything to the contrary contained in this Agreement:

(a) The Debtors may furnish or cause to be furnished information concerning the Company and its affiliates to a party (a "Potential Acquirer") that the Company's Board of Directors believes in good faith has expressed an unsolicited legitimate interest in, and has the financial wherewithal to consummate, a Business Combination (as defined below) on terms, including confidentiality terms, approved by the Company's Board of Directors;

(b) Following receipt of a proposal or offer for a Business Combination from a Potential Acquirer, after delivery of such proposal or offer to Sopris, the Debtors may negotiate and discuss such proposal or offer with the Potential Acquirer;

(c) Following the good faith determination by the Company and its Board of Directors that such a proposal or offer for a Business Combination constitutes a Topping Proposal, the Debtors may immediately terminate their obligations under this Agreement by written notice to Sopris; and

(d) The Debtors may terminate their obligations under this Agreement by written notice to Sopris if the Debtors, in good faith exercise of their business judgment, determine that there is a sufficient risk of non-performance by the Debtors with respect to the financial obligations contemplated under the Plan such that the Sopris proposal is not in the best interests of the Debtors' estate.

For the purposes of this Section 4.3:

(e) "Business Combination" means any merger, consolidation or combination to which the Company or any of its subsidiaries is a party; any proposed sale or other disposition of capital stock or other ownership interests of the Company and its subsidiaries, including a rights offering; or any proposed sale or other

disposition of all or substantially all of the assets or properties of the Company and its subsidiaries; and

(f) "Topping Proposal" means a proposal or offer or indication of interest for a Business Combination from a Potential Acquirer that the Company and its Board of Directors determines in good faith is reasonably likely to be more favorable to the Debtors' estates and their creditors and other parties to whom the Debtors owe fiduciary duties than is proposed under the Plan Term Sheet, taking into account, among other factors, the identity of the Potential Acquirer, the likelihood that any such offer or proposal will be negotiated to finality within a reasonable time, and the potential loss to the Debtors' estates and their creditors and other parties to whom the Debtors owe fiduciary duties if any such Business Combination is not consummated; *provided*, *however*, that such Topping Proposal provides a full recovery to the First Lien Lenders and Second Lien Lenders and more favorable treatment for unsecured creditors and equity holders than the Plan.

Section 5. Mutual Representations, Warranties, and Covenants.

Each Party makes the following representations, warranties and covenants to each of the other Parties, each of which are continuing representations, warranties and covenants:

5.1 Enforceability.

Subject to the provisions of sections 1125 and 1126 of the Bankruptcy Code, this Agreement is a legal, valid and binding obligation of the Party, enforceable against it in accordance with its terms, except as enforcement may be limited by applicable laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

5.2 No Consent or Approval.

Except as expressly provided in this Agreement, no consent or approval is required by any other Entity in order for it to carry out the provisions of this Agreement.

5.3 Power and Authority.

It has all requisite power and authority to enter into this Agreement and to carry out the transactions contemplated by, and perform its respective obligations under, this Agreement, the Plan Term Sheet and the Plan.

5.4 Authorization.

The execution and delivery of this Agreement and the performance of its obligations hereunder have been duly authorized by all necessary action on its part.

5.5 Governmental Consents.

The execution, delivery and performance by it of this Agreement does not and shall not require any registration or filing with consent or approval of, or notice to, or other action to, with

or by, any federal, state or other governmental authority or regulatory body, except such filings as may be necessary and/or required under the federal securities laws and, in connection with the commencement of the Chapter 11 Cases, the approval of the DIP Order,[1] the approval of the Disclosure Statement and Confirmation of the Plan by the Bankruptcy Court.

5.6 No Conflicts.

The execution, delivery and performance of this Agreement does not and shall not: (a) violate any provision of law, rule or regulations applicable to it or any of its subsidiaries; (b) violate its certificate of incorporation, bylaws or other organizational documents or those of any of its subsidiaries; or (c) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any material contractual obligation to which it or any of its subsidiaries is a party.

Section 6. No Waiver of Participation and Preservation of Rights.

This Agreement and the Plan are part of a proposed settlement of disputes among the Parties. Except as expressly provided in this Agreement, nothing herein is intended to, does or shall be deemed in any manner to waive, limit, impair or restrict the ability of each of the Consenting Holders to protect and preserve its rights, remedies and interests, including, but not limited to, its claims against any of the Debtors, any liens or security interests it may have in any assets of any of the Debtors, or its full participation in the Chapter 11 Cases. Without limiting the foregoing sentence in any way, if the transactions contemplated by this Agreement or otherwise set forth in the Plan are not consummated as provided herein, if a Termination Event occurs, or if this Agreement is otherwise terminated for any reason, the Parties each fully reserve any and all of their respective rights, remedies and interests.

Section 7. Acknowledgement.

This Agreement and the Plan Term Sheet and the transactions contemplated herein and therein are the product of negotiations between the Parties and their respective representatives. This Agreement is not and shall not be deemed to be a solicitation of votes for the acceptance of a plan of reorganization for the purposes of sections 1125 and 1126 of the Bankruptcy Code or otherwise. The Debtors will not solicit acceptances of the Plan from any Consenting Holder until the Consenting Holders have been provided with copies of a Disclosure Statement approved by the Bankruptcy Court.

[1] The "DIP Order" shall mean the interim and final orders entered by the Bankruptcy Court approving the postpetition financing and use of cash collateral contemplated in the Plan Term Sheet.

Section 8. Termination.

8.1 Termination Events.

The term "Termination Event," wherever used in this Agreement, means any of the following events (whatever the reason for such Termination Event and whether it is voluntary or involuntary):

(a) the Plan or any subsequent Plan filed by the Debtors with the Bankruptcy Court (or a Plan supported or endorsed by the Debtors) is not in a form and substance that is reasonably satisfactory to the Debtors and Sopris;

(b) the Debtors shall not have filed for chapter 11 bankruptcy protection before the Bankruptcy Court on or before October 19, 2007;

(c) the Debtors shall not have filed the Plan and Disclosure Statement with the Bankruptcy Court on or before 30 days following the Petition Date, or such later date as may be mutually agreed upon by the Company and Sopris;

(d) the Disclosure Statement is not approved on or before 75 days following the Petition Date, or such later date as may be mutually agreed upon by the Company and Sopris;

(e) an order, in form and substance satisfactory to the Debtors and Sopris, confirming the Plan is not entered on or before 120 days following the Petition Date, or such later date as may be mutually agreed upon by the Company and Sopris;

(f) the Effective Date shall not have occurred on or before 150 days following the Petition Date, or such later date as may be mutually agreed upon by the Company and Sopris;

(g) any of the Chapter 11 Cases of Movie Gallery, Inc., Hollywood Entertainment Corporation or Movie Gallery US, LLC are converted to cases under chapter 7 of the Bankruptcy Code;

(h) the Bankruptcy Court shall enter an order in any of the Chapter 11 Cases appointing (i) a trustee under chapter 7 or chapter 11 of the Bankruptcy Code, (ii) a responsible officer or (iii) an examiner, in each case with enlarged powers relating to the operation of the business (powers beyond those set forth in subclauses (3) and (4) of Section 1106(a)) under Section 1106(b) of the Bankruptcy Code;

(i) any of the Chapter 11 Cases of Movie Gallery, Inc., Hollywood Entertainment Corporation or Movie Gallery US, LLC are dismissed;

(j) the order confirming the Plan is reversed on appeal or vacated;

(k) any Party has breached any material provision of this Agreement or the Plan Term Sheet and any such breach has not been duly waived or cured in accordance with the terms hereof after a period of five (5) days;

(l) the Bankruptcy Court does not enter, within 45 days after the Petition Date, a final, non-appealable DIP Order;

(m) any court shall enter a final, non-appealable judgment or order declaring this Agreement or any material portion hereof to be unenforceable;

(n) the Debtors shall withdraw the Plan or publicly announce their intention not to support the Plan;

(o) the Debtors inform Sopris in writing of their decision to accept a Topping Proposal; or

(p) the Debtors file a motion with the Bankruptcy Court seeking approval of a Topping Proposal.

The foregoing Termination Events are intended solely for the benefit of the Debtors and the Consenting Holders; *provided* that no Consenting Holder may seek to terminate this Agreement based upon a material breach or a failure of a condition (if any) in this Agreement arising out of its own actions or omissions.

8.2 Termination Event Procedures.

(a) Upon the occurrence of a Termination Event pursuant to Section 8.1(k) hereof due to a material breach of this Agreement by Sopris, then the Debtors shall have the right to terminate this Agreement and the Plan Term Sheet by giving written notice thereof to the other Parties.

(b) Upon the occurrence of a Termination Event contemplated by clauses (a), (g), (h), (i), (j), (m), (n) or (o) of Section 8.1 hereof, this Agreement and the Plan Term Sheet shall automatically terminate without further action.

(c) Except as set forth in Section 8.2(a) and 8.2(b) hereof, upon the occurrence of a Termination Event, this Agreement and the Plan Term Sheet shall automatically terminate without further action unless no later than three (3) Business Days after the occurrence of any such Termination Event, the occurrence of such Termination Event is waived in writing by each of: (a) Holders of 51% of the aggregate outstanding principal amount of the Second Lien Claims held by Consenting Holders (the "Second Lien Requisite Holders"); and (b) Holders of 51% of the aggregate outstanding principal amount of the Senior Note Claims held by Consenting Holders (the "Senior Note Requisite Holders"). The Parties hereby waive any requirement under section 362 of the Bankruptcy Code to lift the automatic stay thereunder (the "Automatic Stay") in connection with giving any such notice (and agree not to object to any non-breaching Party seeking to lift the Automatic Stay in connection with giving any such notice, if necessary). Any

such termination (or partial termination) of the Agreement shall not restrict the Parties' rights and remedies for any breach of the Agreement by any Party, including, but not limited to, the reservation of rights set forth in Section 6 hereof.

8.3 Consent to Termination.

In addition to the Termination Events set forth in Section 8.1 hereof, this Agreement shall be terminable immediately upon written notice to all of the Parties of the written agreement of the Company, the Second Lien Requisite Holders and the Senior Note Requisite Holders to terminate this Agreement.

8.4 Termination Fee.

If the Debtors close a Business Combination based on and embodying a Topping Proposal (a "Termination Fee Event") within the earlier of the effective date of a chapter 11 plan confirmed by the Debtors or 18 months after the date hereof, the Debtors shall pay a termination fee (the "Termination Fee") upon such closing, which shall be equal to $2 million plus any unpaid Expense Reimbursements (as defined in the Rights Offering Term Sheet), to the Backstop Party in cash; provided, however, that the Termination Fee will not be payable if this Lock Up Agreement has been terminated by the Backstop Party prior to the occurrence of a Termination Fee Event for any reason other than a Termination Event set forth in Section 8.1(o) or 8.1(p) hereof.

8.5 Termination by Consenting Second Lien Holders other than Sopris.

Notwithstanding anything to the contrary elsewhere in this Agreement, any Consenting Second Lien Holder other than Sopris may terminate its own obligations and undertakings under this Agreement upon three (3) days written notice to the Debtors following the occurrence of any of the following events:

(a) the Plan or any subsequent Plan filed by the Debtors with the Bankruptcy Court (or a Plan supported or endorsed by the Debtors) is not consistent with the Amended and Restated Second Lien Credit Agreement Term Sheet (as defined in the Plan Term Sheet);

(b) the Debtors shall not have filed the Plan and Disclosure Statement with the Bankruptcy Court on or before 45 days following the Petition Date, or such later date as may be mutually agreed upon by the Company and such Consenting Second Lien Holder;

(c) the Disclosure Statement is not approved on or before 90 days following the Petition Date;

(d) an order, in form and substance satisfactory to to such Consenting Second Lien Holder with respect to those provisions that relate to the recovery provided to the Consenting Second Lien Holders under the Plan, confirming the Plan is not entered on or before 150 days following the Petition Date; or

(e) the Debtors shall withdraw the Plan or publicly announce their intention not to support the Plan.

Any termination by any Consenting Second Lien Lender of its obligations or undertakings under this Section 8.5 shall not terminate this Agreement with respect to any other party hereto.

Section 9. Miscellaneous Terms.

9.1 Binding Obligation; Assignment.

Binding Obligation. Subject to the provision of sections 1125 and 1126 of the Bankruptcy Code, this Agreement is a legally valid and binding obligation of the Parties and their respective members, officers, directors, agents, financial advisors, attorneys, employees, partners, Affiliates, successors, assigns, heirs, executors, administrators and representatives, other than a trustee or similar representative appointed in the Chapter 11 Cases, enforceable in accordance with its terms, and shall inure to the benefit of the Parties and their respective members, officers, directors, agents, financial advisors, attorneys, employees, partners, Affiliates, successors, assigns, heirs, executors, administrators and representatives. Nothing in this Agreement, express or implied, shall give to any Entity, other than the Parties and their respective members, officers, directors, agents, financial advisors, attorneys, employees, partners, Affiliates, successors, assigns, heirs, executors, administrators and representatives, any benefit or any legal or equitable right, remedy or claim under this Agreement. The agreements, representations, warranties, covenants and obligations of the Consenting Holders contained in this Agreement are, in all respects, several and not joint.

Assignment. No rights or obligations of any Party under this Agreement may be assigned or transferred to any other Entity except as provided in Section 3.3 hereof.

9.2 Further Assurances.

The Parties agree to execute and deliver such other instruments and perform such acts, in addition to the matters herein specified, as may be reasonably appropriate or necessary, from time to time, to effectuate the agreements and understandings of the Parties, whether the same occurs before or after the date of this Agreement.

9.3 Headings.

The headings of all sections of this Agreement are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit or aid in the construction or interpretation of any term or provision hereof.

9.4 Governing Law.

THIS AGREEMENT IS TO BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED IN SUCH STATE, WITHOUT GIVING EFFECT TO THE CHOICE OF LAWS PRINCIPLES THEREOF. By its execution and

delivery of this Agreement, each of the Parties hereto hereby irrevocably and unconditionally agrees for itself that any legal action, suit or proceeding against it with respect to any matter under or arising out of or in connection with this Agreement or for recognition or enforcement of any judgment rendered in any such action, suit or proceeding, may be brought in either a state or federal court of competent jurisdiction in the State of New York. By execution and delivery of this Agreement, each of the Parties hereto hereby irrevocably accepts and submits itself to the nonexclusive jurisdiction of each such court, generally and unconditionally, with respect to any such action, suit or proceeding. Notwithstanding the foregoing consent to jurisdiction in either a state or federal court of competent jurisdiction in the State of New York, upon the commencement of the Chapter 11 Cases, each of the Parties hereto hereby agrees that, if the Petitions have been filed and the Chapter 11 Cases are pending, the Bankruptcy Court shall have exclusive jurisdiction of all matters arising out of or in connection with this Agreement.

9.5 Complete Agreement, Interpretation and Modification.

(a) **Complete Agreement.** This Agreement, the Plan Term Sheet and the other agreements, exhibits and other documents referenced herein and therein constitute the complete agreement between the Parties with respect to the subject matter hereof and supersedes all prior agreements, oral or written, between or among the Parties with respect thereto.

(b) **Interpretation.** This Agreement is the product of negotiation by and among the Parties. Any Party enforcing or interpreting this Agreement shall interpret it in a neutral manner. There shall be no presumption concerning whether to interpret this Agreement for or against any Party by reason of that Party having drafted this Agreement, or any portion thereof, or caused it or any portion thereof to be drafted.

(c) **Modification of this Agreement and the Plan Term Sheet.** Except as set forth in Section 8.2 and except for Section 8.5 hereof, as it applies to Termination Events, this Agreement and the Plan Term Sheet may only be modified, altered, amended or supplemented by an agreement in writing signed by the Company, the Requisite Second Lien Holders and the Requisite Senior Note Holders; *provided, however*, that if the modification or amendment at issue materially adversely impacts the economic treatment or rights of any Consenting Holder, the agreement in writing of such Consenting Holder whose economic treatment or rights are materially adversely impacted shall also be required for such modification or amendment; *provided, further, however*, that, if the modification of amendment at issue only materially adversely impacts the economic treatment or rights of some or all of the Consenting Holders, then only the agreement in writing of such Consenting Holders and related agents, if any, and the Debtors shall be required for such modification or amendment.

9.6 Execution of this Agreement.

This Agreement may be executed and delivered (by facsimile or otherwise) in any number of counterparts, each of which, when executed and delivered, shall be deemed an

original, and all of which together shall constitute the same agreement. Except as expressly provided in this Agreement, each individual executing this Agreement on behalf of a Party has been duly authorized and empowered to execute and deliver this Agreement on behalf of said Party; *provided*, *however*, that no Holder of a Second Lien Claim or Senior Note Claim may become a Consenting Holder by executing this Agreement at any time on or after the Petition Date nor shall the Parties agree to treat any such Holder as a Party to this Agreement.

9.7 Settlement Discussions.

This Agreement and the Restructuring are part of a proposed settlement of a dispute among the Parties. Nothing herein shall be deemed an admission of any kind. Pursuant to Federal Rule of Evidence 408 and any applicable state rules of evidence, this Agreement and all negotiations relating thereto shall not be admissible into evidence in any proceeding other than a proceeding to enforce the terms of this Agreement.

9.8 Consideration.

The Debtors and each Consenting Holder hereby acknowledge that no consideration, other than that specifically described herein and in the Plan Term Sheet, shall be due or paid to the Consenting Holders for their agreement to vote to accept the Plan in accordance with the terms and conditions of this Agreement, other than the Debtors' agreement to use commercially reasonable efforts to obtain approval of the Disclosure Statement and to seek to confirm the Plan in accordance with the terms and conditions of the Plan Term Sheet.

9.9 Notices.

All notices hereunder shall be deemed given if in writing and delivered, if sent by facsimile, courier or by registered or certified mail (return receipt requested) to the following addresses and facsimile numbers (or at such other addresses or facsimile numbers as shall be specified by like notice):

(a) If to the Debtors, to: Movie Gallery, Inc., 900 West Main Street, Dothan, AL 36301; Attn: S. Page Todd; with copies to: Kirkland & Ellis, LLP, 200 E. Randolph, Suite 5400; Attn: Anup Sathy and Ross M. Kwasteniet;

(b) If to a Consenting Second Lien Holder or a transferee thereof, to the addresses or facsimile numbers set forth below following the Consenting Holder's signature (or as directed by any transferee thereof), as the case may be, with copies to: Sonnenschein Nath & Rosenthal LLP, 1221 Avenue of the Americas, New York, New York 10022; Attn: Peter D. Wolfson;

(c) If to a Consenting 11% Senior Note Holder of a transferee thereof, to the addresses or facsimile numbers set forth below following the Consenting Holder's signature (or as directed by any transferee thereof), as the case may be, with copies to: Sonnenschein Nath & Rosenthal LLP, 1221 Avenue of the Americas, New York, New York 10022; Attn: Peter D. Wolfson;

(d) Any notice given by delivery, mail or courier shall be effective when received. Any notice given by facsimile shall be effective upon oral or machine confirmation of transmission.

IN WITNESS WHEREOF, the parties have entered into this Agreement on the day and year first above written.

Dated: October 14, 2007

MOVIE GALLERY, INC

By: _____
Name: _____
Its: _____

HOLLYWOOD ENTERTAINMENT CORPORATION

By: _____
Name: _____
Its: _____

M.G. DIGITAL, LLC

By: _____
Name: _____
Its: _____

M.G.A. REALTY I, LLC

By: _____
Name: _____
Its: _____

MG AUTOMATION LLC

By: _____
Name: _____
Its: _____

MOVIE GALLERY US, LLC

By: _____
Name: _____
Its: _____

Dated: October 14, 2007

CONSENTING SECOND LIEN LENDER

Name of Institution: _____

By: _____
Name: _____
Its: _____
Telephone: _____
Facsimilie: _____

Aggregate amount of Second Lien Claims held by such Consenting Second Lien Holder as of the date above:
$_____

Description and aggregate amount of any additional Movie Gallery Claims other than Second Lien Claims:

$_____
Description:_____

Dated: October 14, 2007

CONSENTING 11% SENIOR NOTE HOLDER

Name of Institution: _____

By: _____
Name: _____
Its: _____
Telephone: _____
Facsimilie: _____

Aggregate amount of Senior Note Claims held by such Consenting 11% Senior Note Holder as of the date above:
$_____

*Description and aggregate amount of any additional Claims against the Company other than Senior Note Claims:

$ _____
Description:_____

EXHIBIT A

PLAN TERM SHEET

EXHIBIT A
to
Lock Up Agreement

[Plan Term Sheet]

MOVIE GALLERY, INC., ET AL.

PROPOSED RESTRUCTURING TERM SHEET

THIS TERM SHEET IS NOT AN OFFER OR A SOLICITATION WITH RESPECT TO ANY SECURITIES OF THE COMPANY OR A SOLICITATION OF ACCEPTANCES OF A CHAPTER 11 PLAN WITHIN THE MEANING OF SECTION 1125 OF THE BANKRUPTCY CODE. ANY SUCH OFFER OR SOLICITATION WILL COMPLY WITH ALL APPLICABLE SECURITIES LAWS AND/OR PROVISIONS OF THE BANKRUPTCY CODE. THIS TERM SHEET CONTAINS MATERIAL NON-PUBLIC INFORMATION ABOUT A PUBLIC COMPANY AND, THEREFORE, IS SUBJECT TO FEDERAL SECURITIES LAWS.

THIS TERM SHEET IS PROVIDED IN THE NATURE OF A SETTLEMENT PROPOSAL IN FURTHERANCE OF SETTLEMENT DISCUSSIONS. ACCORDINGLY, THIS TERM SHEET IS INTENDED TO BE ENTITLED TO THE PROTECTIONS OF RULE 408 OF THE FEDERAL RULES OF EVIDENCE AND ANY OTHER APPLICABLE STATUTES OR DOCTRINES PROTECTING THE USE OR DISCLOSURE OF CONFIDENTIAL INFORMATION AND INFORMATION EXCHANGED IN THE CONTEXT OF SETTLEMENT DISCUSSIONS. FURTHER, NOTHING IN THIS TERM SHEET SHALL BE AN ADMISSION OF FACT OR LIABILITY OR DEEMED BINDING ON THE COMPANY.

I. Overview

A. Purpose

This term sheet (the "Term Sheet") outlines the proposed restructuring transaction (the "Restructuring") and other material terms of a joint plan of reorganization (the "Plan") pursuant to chapter 11 of the Bankruptcy Code, 11 U.S.C. §§ 101-1532 (the "Bankruptcy Code") for Movie Gallery, Inc. and certain of its Affiliates (the "Company"). Capitalized terms used but not otherwise defined in the Term Sheet have the meaning given to such terms in the glossary of defined terms attached hereto as Exhibit A-1, and capitalized terms not otherwise defined in the Term Sheet or in Exhibit A-1 shall have the meanings given to such terms in the Bankruptcy Code. The terms "include," "includes," or "including" are not limiting. The Term Sheet does not include a description of all of the terms, conditions and other provisions that are to be contained in the definitive documentation governing the Plan, which remain subject to discussion and negotiation.

B. Proposed Filing Entities

The Company expects that voluntary Chapter 11 Cases will be commenced by Movie Gallery, Inc., Hollywood Entertainment Corporation, M.G. Digital, LLC, M.G.A. Realty I, LLC, MG Automation LLC and Movie Gallery US, LLC (each individually a "Debtor" and collectively, the "Debtors").

C. Proposed Caption and Venue

In re Movie Gallery, Inc., et al., to be filed in the United States Bankruptcy Court for the Eastern District of Virginia, Richmond Division (the "Bankruptcy Court").

D. Sources of Capital for the Plan

The Plan contemplates using proceeds from the Exit Facility and Rights Offering to fund certain Cash payments to be made pursuant to the Plan, as well as the Debtors' post-emergence operations. In addition, the Plan provides for the issuance of the New MG Common Stock to Holders of certain Claims and Interests as set forth in the Term Sheet.

1. Exit Facility

The Plan will provide that the Reorganized Debtors shall enter into the Exit Facility, which provides for a $100 million revolving credit facility and may include a $25 million letter of credit supplement, upon commercially reasonable terms reasonably acceptable to Sopris.

2. Rights Offering

The Plan will be predicated on raising $50 million through the Rights Offering. It is contemplated that the Rights Offering will dilute the New MG Common Stock issued on account of Claims and Interests under the Plan.

3. New MG Common Stock

The Plan will provide that Reorganized Movie Gallery will issue on the Effective Date up to 20,000,000 shares of New MG Common Stock to certain Holders of Allowed Claims and Interests in full satisfaction of such Claims and Interests, pursuant to the terms forth in the Term Sheet, subject to dilution as set forth in this Term Sheet.

E. Management and Director Equity Incentive Programs

The Plan will provide for 10% of the New MG Common Stock, on a fully-diluted basis, to be reserved for issuance as grants of equity, restricted stock or options in connection with the Reorganized Debtors' Management and Director Equity Incentive Program. At a minimum, 50% of such awards shall be granted not later than 60 days after the Effective Date. It is contemplated that the Reorganized Debtors' Management and Director Equity Incentive Program will dilute the New MG Common Stock issued through the Rights Offering and on account of Claims and Interests under the Plan.

II. Classification and Treatment of Claims and Interests

Classification and treatment of Claims and Interests under the Plan shall be as follows:

A. Unclassified Claims

1. DIP Facility Claims

Allowed DIP Facility Claims shall not be classified under the Plan and shall be paid in full in Cash with the proceeds of the Exit Facility.

2. Administrative Claims

Each Holder thereof will receive payment in full in Cash of the unpaid portion of an Allowed Administrative Claim on the Effective Date or as soon thereafter as practicable (or, if not then due, in accordance with its terms).

3. Priority Tax Claims

On the later of the Effective Date or the date on which a Priority Tax Claim becomes an Allowed Priority Tax Claim, or, in each such case, as soon as practicable thereafter, each Holder of an Allowed Priority Tax Claim due and payable on or prior to the Effective Date will receive on account of such Claim, an amount in Cash equal to the amount of such Allowed Priority Tax Claim.

B. Classified Claims and Interests

1. Class 1—Other Priority Claims

Classification: Class 1 consists of the Other Priority Claims against the Debtors.

Treatment: The legal, equitable and contractual rights of the Holders of Allowed Class 1 Claims will be unaltered by the Plan. Unless otherwise agreed to by the Holders of the Allowed Class 1 Claims and the Debtors, each Holder of an Allowed Class 1 Claim shall receive, in full and final satisfaction of such Allowed Class 1 Claim, payment of the Allowed Class 1 Claim in full in Cash on the Effective Date.

Voting: Class 1 is an Unimpaired Class, and the Holders of Class 1 Claims will be conclusively deemed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code. Therefore, the Holders of Class 1 Claims will not be entitled to vote to accept or reject the Plan.

2. Class 2 —Other Secured Claims

Classification: Class 2 consists of Other Secured Claims against the Debtors.

Treatment: Holders of Allowed Class 2 Claims will be paid in full in Cash or otherwise made Unimpaired, in full and final satisfaction of such Allowed Class 2 Claims.

Voting: Class 2 is an Unimpaired Class, and the Holders of Class 2 Claims will be conclusively deemed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code. Therefore, the Holders of Class 2 Claims will not be entitled to vote to accept or reject the Plan.

3. Class 3 —First Lien Claims

Classification: Class 3 consists of First Lien Claims against the Debtors.

Treatment: Holders of Allowed Class 3 Claims will receive, in full and final satisfaction of such Allowed Class 3 Claims, their pro rata share of the Company's obligations under the Amended and Restated First Lien Credit Agreement.

Voting: Class 3 is Impaired, and Holders of Class 3 Claims will be entitled to vote to accept or reject the Plan.

4. Class 4 —Second Lien Claims

Classification: Class 4 consists of Second Lien Claims against the Debtors, including the Reinstated Second Lien Claims and the Sopris Second Lien Claims.

Treatment: Holders of Allowed Reinstated Second Lien Claims (not including the Sopris Second Lien Claims) will receive, in full and final satisfaction of such Allowed Class 4 Claims, their pro rata share of the Company's obligations under the Amended and Restated Second Lien Credit Agreement (taking into account the Second Lien Conversion).

The Allowed Sopris Second Lien Claims will receive the Second Lien Conversion Equity Allocation, in full and final satisfaction of such Allowed Class 4 Claims.

Voting: Class 4 is Impaired, and Holders of Class 4 Claims will be entitled to vote to accept or reject the Plan.

5. Class 5—Studio Claims

Classification: Class 5 consists of Claims of Studios who have entered into Accommodation Agreements with the Debtors.

Treatment: Holders of Allowed Class 5 Claims will receive, in full and final satisfaction of such Allowed Class 5 Claims, the consideration contained in each Holder's respective Accommodation Agreement.

Voting: Class 5 is Impaired, and Holders of Class 5 Claims will be entitled to vote to accept or reject the Plan.

6. Class 6—11% Senior Note Claims

a. Class 6A - 11% Senior Note Claims against Movie Gallery, Inc.

Classification: Class 6A consists of 11% Senior Note Claims against Movie Gallery, Inc.

Treatment: Holders of Allowed Class 6A Claims will receive, in full and final satisfaction of such Allowed Class 6A Claims, their pro rata share of **[XX]%**[1] of the Unsecured Claim Equity Allocation, subject to dilution by the issuance of options, equity or equity-based grants in connection with the Reorganized Debtors' Management and Director Equity Incentive Program.

Voting: Class 6A is Impaired, and Holders of Class 6A Claims will be entitled to vote to accept or reject the Plan.

b. Class 6B - 11% Senior Note Claims against Movie Gallery US, LLC

Classification: Class 6B consists of 11% Senior Note Claims against Movie Gallery US, LLC.

Treatment: Holders of Allowed Class 6B Claims will receive, in full and final satisfaction of such Allowed Class 6B Claims, their pro rata share of **[XX%]** of the Unsecured Claim Equity Allocation, subject to dilution by the issuance of options, equity or equity-based grants in connection with the Reorganized Debtors' Management and Director Equity Incentive Program.

Voting: Class 6B is Impaired, and Holders of Class 6B Claims will be entitled to vote to accept or reject the Plan.

c. Class 6C - 11% Senior Note Claims against M.G.A. Realty I, LLC

Classification: Class 6C consists of 11% Senior Note Claims against M.G.A. Realty I, LLC.

Treatment: Holders of Allowed Class 6C Claims will receive, in full and final satisfaction of such Allowed Class 6C Claims, their pro rata share of **[XX%]** of the Unsecured Claim Equity Allocation, subject to dilution by the issuance of options, equity or equity-based grants in connection with the Reorganized Debtors' Management and Director Equity Incentive Program.

Voting: Class 6C is Impaired, and Holders of Class 6C Claims will be entitled to vote to accept or reject the Plan.

[1] This percentage, and all percentages indicated "[XX%]" in this Article II, shall be determined in accordance with the principles described in "Understanding Regarding Claim Treatments" at the end of this Article II.

d. Class 6D - 11% Senior Note Claims against M.G. Digital, LLC

Classification: Class 6D consists of 11% Senior Note Claims against M.G. Digital, LLC.

Treatment: Holders of Allowed Class 6D Claims will receive, in full and final satisfaction of such Allowed Class 6D Claims, their pro rata share of **[XX%]** of the Unsecured Claim Equity Allocation, subject to dilution by the issuance of options, equity or equity-based grants in connection with the Reorganized Debtors' Management and Director Equity Incentive Program.

Voting: Class 6D is Impaired, and Holders of Class 6D Claims will be entitled to vote to accept or reject the Plan.

e. Class 6E - 11% Senior Note Claims against Hollywood Entertainment Corporation

Classification: Class 6E consists of 11% Senior Note Claims against Hollywood Entertainment Corporation.

Treatment: Holders of Allowed Class 6E Claims will receive, in full and final satisfaction of such Allowed Class 6E Claims, their pro rata share of **[XX%]** of the Unsecured Claim Equity Allocation, subject to dilution by the issuance of options, equity or equity-based grants in connection with the Reorganized Debtors' Management and Director Equity Incentive Program.

Voting: Class 6E is Impaired, and Holders of Class 6E Claims will be entitled to vote to accept or reject the Plan.

f. Class 6F - 11% Senior Note Claims against M.G. Automation LLC

Classification: Class 6F consists of 11% Senior Note Claims against M.G. Automation LLC.

Treatment: Holders of Allowed Class 6F Claims will receive, in full and final satisfaction of such Allowed Class 6F Claims, their pro rata share of **[XX%]** of the Unsecured Claim Equity Allocation, subject to dilution by the issuance of options, equity or equity-based grants in connection with the Reorganized Debtors' Management and Director Equity Incentive Program.

Voting: Class 6F is Impaired, and Holders of Class 6F Claims will be entitled to vote to accept or reject the Plan.

7. Class 7—General Unsecured Claims

a. Class 7A - General Unsecured Claims against Movie Gallery, Inc.

Classification: Class 7A consists of General Unsecured Claims against Movie Gallery, Inc.

Treatment: Holders of Allowed Class 7A Claims will receive, in full and final satisfaction of such Allowed Class 7A Claims, at their option, either (a) their pro rata share of **[XX%]** of the Unsecured Claim Equity Allocation, or (b) in exchange for assigning to Sopris such Holder's Allowed Class 7A Claim, an amount in Cash to be paid by Sopris equal to that Holder's pro rata percentage of the total Allowed Class 7A Claims multiplied by **[$XX]**.[2]

Voting: Class 7A is Impaired, and Holders of Class 7A Claims will be entitled to vote to accept or reject the Plan.

[2] This amount, and all amounts indicated "[$XX]" in this Article II, shall be determined in accordance with the principles described in "Understanding Regarding Claim Treatments" at the end of this Article II.

b. Class 7B —Movie Gallery US, LLC General Unsecured Claims

Classification: Class 7B consists of General Unsecured Claims against Movie Gallery US, LLC.

Treatment: Holders of Allowed Class 7B Claims will receive, in full and final satisfaction of such Allowed Class 7B Claims, at their option, either (a) their pro rata share of **[XX%]** of the Unsecured Claim Equity Allocation, or (b) in exchange for assigning to Sopris such Holder's Allowed Class 7B Claim, an amount in Cash to be paid by Sopris equal to that Holder's pro rata percentage of the total Allowed Class 7B Claims multiplied by **[$XX]**.

Voting: Class 7B is Impaired, and Holders of Class 7B Claims will be entitled to vote to accept or reject the Plan.

c. Class 7C — M.G.A. Realty I, LLC General Unsecured Claims

Classification: Class 7C consists of General Unsecured Claims against M.G.A. Realty I, LLC.

Treatment: Holders of Allowed Class 7C Claims will receive, in full and final satisfaction of such Allowed Class 7C Claims, at their option, either (a) their pro rata share of **[XX%]** of the Unsecured Claim Equity Allocation, or (b) in exchange for assigning to Sopris such Holder's Allowed Class 7C Claim, an amount in Cash to be paid by Sopris equal to that Holder's pro rata percentage of the total Allowed Class 7C Claims multiplied by **[$XX]**.

Voting: Class 7C is Impaired, and Holders of Class 7C Claims will be entitled to vote to accept or reject the Plan.

d. Class 7D —M.G. Digital, LLC General Unsecured Claims

Classification: Class 7D consists of General Unsecured Claims against M.G. Digital, LLC.

Treatment: Holders of Allowed Class 7D Claims will receive, in full and final satisfaction of such Allowed Class 7D Claims, at their option, either (a) their pro rata share of **[XX%]** of the Unsecured Claim Equity Allocation, or (b) in exchange for assigning to Sopris such Holder's Allowed Class 7D Claim, an amount in Cash to be paid by Sopris equal to that Holder's pro rata percentage of the total Allowed class 7D Claims multiplied by **[$XX]**.

Voting: Class 7D is Impaired, and Holders of Class 7D Claims will be entitled to vote to accept or reject the Plan.

e. Class 7E—Hollywood Entertainment Corporation General Unsecured Claims

Classification: Class 7E consists of the General Unsecured Claims against Hollywood Entertainment Corporation and the 9.625% Senior Subordinated Note Claims.

Treatment: Holders of Allowed Class 7E Claims will receive, in full and final satisfaction of such Allowed Class 7E Claims, at their option, either (a) their pro rata share of **[XX%]** of the Unsecured Claim Equity Allocation, or (b) in exchange for assigning to Sopris such Holder's Allowed Class 7E Claim, an amount in Cash to be paid by Sopris equal to that Holder's pro rata percentage of the total Allowed Class 7E Claims multiplied by **[$XX]**.

Voting: Class 7E is Impaired, and Holders of Class 7E Claims will be entitled to vote to accept or reject the Plan.

f. Class 7F—MG Automation LLC General Unsecured Claims

Classification: Class 7F consists of the General Unsecured Claims against MG Automation LLC and the 9.625% Senior Subordinated Note Claims.

Treatment: Holders of Allowed Class 7F Claims will receive, in full and final satisfaction of such Allowed Class 7F Claims, at their option, either (a) their pro rata share of **[XX%]** of the Unsecured Claim Equity Allocation, or (b) in exchange for assigning to Sopris such Holder's Allowed Class 7F Claim, an amount in Cash to be paid by Sopris equal to that Holder's pro rata percentage of the total Allowed Class 7F Claims multiplied by **[$XX]**.

Voting: Class 7F is Impaired, and Holders of Class 7F Claims will be entitled to vote to accept or reject the Plan.

8. Class 8—Equity Interests

Classification: Class 8 consists of all Equity Interests in Movie Gallery, Inc.

Treatment: If Class 8 votes to accept the Plan, Holders of Allowed Class 8 Equity Interests will receive, in full and final satisfaction of such Allowed Class 8 Equity Interests, their pro rata share of 5% of the Unsecured Claim Equity Allocation. If Class 8 votes to reject the Plan, Holders of Allowed Class 8 Equity Interests will not receive any distribution on account of the Allowed Class 8 Equity Interests.

Voting: Class 8 is Impaired, and Holders of Class 8 Equity Interests will be entitled to vote to accept or reject the Plan.

9. Class 9—Intercompany Interests

Classification: Class 9 consists of all Intercompany Interests in the Debtors.

Treatment: Class 9 Intercompany Interests shall be retained and the legal, equitable, and contractual rights to which the Holder of such Intercompany Interest is entitled shall remain unaltered.

Voting: Class 9 is Unimpaired, and the Holders of Class 9 Claims will be conclusively deemed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code.

Understanding Regarding Claim Treatments: The Debtors and Sopris will work together to appropriately allocate the Pre-Money Equity Value among the Debtors. Holders of Claims in Classes 6A through 6F and Classes 7A through 7F shall receive, in the aggregate, 95% of the Unsecured Claim Equity Allocation and Class 8 shall receive, in the aggregate, 5% of the Unsecured Claim Equity Allocation so long as Class 8 votes to accept the Plan; provided, however, if Class 8 votes to reject the Plan, Holders of Claims in Classes 6A through 6F and Classes 7A through 7F shall receive, in the aggregate, 100% of the Unsecured Claim Equity Allocation and Class 8 shall receive no distribution. The Unsecured Claim Equity Allocation will be allocated among the Debtors in the same proportion that the Pre-Money Equity Value is ascribed to each Debtor. The Debtors will also determine, in consultation with Sopris, an estimate of the General Unsecured Claims against each Debtor. The Debtors, in consultation with Sopris, will then take the Unsecured Claim Equity Allocation for each Debtor and divide such allocation pro rata between the 11% Senior Note Claims against such Debtor and the estimated General Unsecured Claims against such Debtor in the same proportion as their relative claims against such Debtor. The Holders of 11% Senior Note Claims shall be entitled to assert the full amount of their claims against each of the Debtors. The General Unsecured Claims shall be entitled to receive their recoveries on the Effective Date, or as soon thereafter as practical, subject to appropriate reserves for disputed claims, and the balance upon the resolution of the final amount of allowed claims in the particular class. Furthermore, in the case of each Debtor, the cash election contemplated for Classes 7A through 7F shall be calculated by Sopris, in consultation with the Debtors, in an amount designed to be at a discount to the implied value of the portion of the Unsecured Claim Equity Allocation that such creditor would receive on account of its claim. The aggregate amount of cash to be made available by Sopris to fund cash elections for any given class of claims will be capped at an amount to be determined by Sopris in consultation with the Debtors. Intercompany Claims shall be allowed in their respective Debtor class and shall receive the same treatment as General Unsecured Claims against that Debtor, but no cash option. If one of Classes 6A through 6F or 7A through 7F rejects the Plan but Class 8 accepts the Plan, the recovery for Class 8 shall be decreased by an amount equal to the pro rata percentage of the Unsecured Claim Equity Allocation allocated to such non-consenting Class.

III. Proposed Reorganization Schedule

Item	Description
First-Day Pleadings to Be Filed	First Day: See Proposed Agenda attached hereto as Exhibit A-2 (the "First Day Pleadings"). Within Five (5) Business Days of Petition Date: Motion seeking approval of the Debtors' performance of all of their obligations under the Lock Up Agreement and all exhibits thereto, including, without limitation, payment on a current basis of all required fees and expenses.
Plan-Related Pleadings to Be Filed	On or before 30 days after the Petition Date, the Company shall file: (i) the Plan; (ii) the Disclosure Statement; and (iii) all related solicitation materials.
Approval of Disclosure Statement	The Company shall use commercially reasonable efforts to obtain the following schedule from the Bankruptcy Court: (i) a hearing on or within 60 days after the Petition Date to approve the adequacy of the Disclosure Statement; and (ii) at such hearing (or a continuation thereof), obtain an order from the Bankruptcy Court establishing deadlines for voting on the Plan and setting the confirmation hearing for a date no later than 40 days after entry of an order approving the Disclosure Statement.
Entry of Confirmation Order	The Company shall use commercially reasonable efforts to obtain entry by the Bankruptcy Court of the Confirmation Order no later than 45 days after entry of the order approving the Disclosure Statement.

IV. Release Provisions

Release	Provision
Compromise and Settlement	The allowance, classification and treatment of all Allowed Claims and Equity Interests and their respective distributions and treatments under the Plan takes into account and/or conforms to the relative priority and rights of the Claims and Equity Interests in each Class in connection with any contractual, legal and equitable subordination rights relating thereto whether arising under general principles of equitable subordination, section 510(c) of the Bankruptcy Code, or otherwise. As of the Effective Date, any and all such rights described in the preceding sentence will be settled, compromised and released pursuant to the Plan. In addition, the allowance, classification and treatment of Allowed Claims takes into account any Causes of Action, whether under the Bankruptcy Code or otherwise under applicable law, that may exist: (i) between the Debtors, on the one hand, and the Releasing Parties, on the other, and (ii) as between the Releasing Parties (to the extent set forth in the Third Party Release); and, as of the Effective Date, any and all such Causes of Action are settled, compromised and released pursuant hereto. The Confirmation Order shall approve the releases by all Entities of all such contractual, legal and

Release	**Provision**
	equitable subordination rights or Causes of Action against each such Releasing Party that are satisfied, compromised and settled in this manner. Nothing in this section will compromise or settle in any way whatsoever, any Causes of Action that the Debtors or the Reorganized Debtors may have against the Non-Released Parties.
Debtor Release	On the Effective Date and effective as of the Effective Date, for the good and valuable consideration provided by each of the Debtor Releasees, including, but not limited to: (i) the discharge of debt and all other good and valuable consideration paid pursuant to the Plan; (ii) the obligations of the Consenting First Lien Lenders, Consenting Second Lien Lenders and Consenting 11% Senior Note Holders to provide the support necessary for Consummation of the Plan; and (iii) the services of the Debtors' present and former officers and directors in facilitating the expeditious implementation of the Restructuring contemplated by the Plan, each of the Debtors shall provide a full discharge and release to each Releasing Party and each of their respective members, officers, directors, agents, financial advisors, attorneys, employees, partners, Affiliates and representatives (collectively, the "Debtor Releasees" (and each such Debtor Releasee so released shall be deemed released and discharged by the Debtors)) and their respective properties from any and all Causes of Action, whether known or unknown, whether for tort, fraud, contract, violations of federal or state securities laws, or otherwise, arising from or related in any way to the Debtors, including, without limitation, those that any of the Debtors or Reorganized Debtors would have been legally entitled to assert in their own right (whether individually or collectively) or that any Holder of a Claim or Equity Interest or other Entity including, but not limited to the Holders of First Lien Claims, Second Lien Claims and 11% Senior Note Claims, would have been legally entitled to assert on behalf of any of the Debtors or any of their Estates, and further including those in any way related to the Chapter 11 Cases or the Plan to the fullest extent of the law; *provided, however*, that the foregoing "Debtor Release" shall not operate to waive or release any Releasing Party from any Causes of Action: (i) expressly set forth in and preserved by the Plan, the Plan Supplement or related documents; (ii) arising from any obligations under the Lock Up Agreement; or (iii) arising under the Amended and Restated First Lien Credit Agreement or the Amended and Restated Second Lien Credit Agreement. Notwithstanding anything in the Plan to the contrary, the Debtors or the Reorganized Debtors will not release any Causes of Action that they may have now or in the future against the Non-Released Parties. Entry of the Confirmation Order shall constitute the Bankruptcy Court's approval, pursuant to Fed. R. Bankr. P. 9019, of the Debtor Release, which includes by reference each of the related provisions and definitions contained in this Term Sheet, *and further*, shall constitute its finding that the Debtor Release is: (i) in exchange for the good and valuable consideration provided by the Debtor Releasees, a good faith settlement and compromise of the claims released by the Debtor Release; (ii) in the best interests of the Debtors and all Holders of Claims; (iii) fair, equitable and reasonable; (iv) given and made after due notice and opportunity for hearing; and (v) a bar to any of the Debtors or Reorganized Debtors asserting any Claim released by the Debtor Release against any of the Debtor Releasees.
Third Party Release	On the Effective Date and effective as of the Effective Date, the Releasing Parties shall provide a full discharge and release (and each Entity so released shall be deemed released by the Releasing Parties) to the Third Party Releasees

Release	**Provision**
	and their respective property from any and all Causes of Action, whether known or unknown, whether for tort, fraud, contract, violations of federal or state securities laws, or otherwise, arising from or related in any way to the Debtors, including, without limitation, those in any way related to the Chapter 11 Cases or the Plan to the fullest extent of the law; *provided*, *however*, that the foregoing "Third Party Release" shall not operate to waive or release any of the Third Party Releasees from any Causes of Action: (i) expressly set forth in and preserved by the Plan, the Plan Supplement or related documents; (ii) arising from any obligations under the Lock Up Agreement or (iii) arising under the Amended and Restated First Lien Credit Agreement or the Amended and Restated Second Lien Credit Agreement. Notwithstanding anything in the Plan to the contrary, the Releasing Parties will not release any Causes of Action that they, the Debtors or the Reorganized Debtors may have now or in the future against the Non-Released Parties. Entry of the Confirmation Order shall constitute the Bankruptcy Court's approval, pursuant to Fed. R. Bankr. P. 9019, of the Third Party Release, which includes by reference each of the related provisions and definitions contained in this Term Sheet, *and further*, shall constitute its finding that the Third Party Release is: (i) in exchange for the good and valuable consideration provided by the Third Party Releasees, a good faith settlement and compromise of the claims released by the Third Party Release; (ii) in the best interests of the Debtors and all Holders of Claims; (iii) fair, equitable and reasonable; (iv) given and made after due notice and opportunity for hearing; and (v) a bar to any of the Releasing Parties asserting any claim released by the Third Party Release against any of the Third Party Releasees.
Injunction	From and after the Effective Date, all Entities are permanently enjoined from commencing or continuing in any manner, any Cause of Action released or to be released pursuant to the Plan or the Confirmation Order.
Exculpation	The Exculpated Parties shall neither have, nor incur any liability to any Entity for any prepetition or postpetition act taken or omitted to be taken in connection with, or related to formulating, negotiating, preparing, disseminating, implementing, administering, confirming or effecting the Consummation of the Plan, the Disclosure Statement or any contract, instrument, release or other agreement or document created or entered into in connection with the Plan or any other prepetition or postpetition act taken or omitted to be taken in connection with or in contemplation of the restructuring of the Company; *provided*, *however*, that the foregoing provisions of this release shall have no effect on the liability of any Entity that results from any such act or omission that is determined in a Final Order to have constituted gross negligence or willful misconduct; *provided further*, that each Exculpated Party shall be entitled to rely upon the advice of counsel concerning his, her or its duties pursuant to, or in connection with, the Plan; *provided still further*, that the foregoing Exculpation shall not apply to any acts or omissions: (i) expressly set forth in and preserved by the Plan, the Plan Supplement or related documents; or (ii) arising from any obligations under the Lock Up Agreement.

Release	**Provision**
Indemnification of Prepetition Officers and Directors	Under the Plan, all indemnification provisions currently in place (whether in the by-laws, certificates of incorporation, articles of limited partnership, board resolutions or employment contracts) for the current and former directors, officers, employees, attorneys, other professionals and agents of the Debtors and such current and former directors and officers' respective Affiliates shall be assumed, and shall survive effectiveness of the Plan. All indemnification provisions in place on and prior to the Effective Date for current and former directors and officers of the Debtors and their subsidiaries and such current and former directors and officers' respective Affiliates shall survive the Effective Date of the Plan for Claims related to or in connection with any actions, omissions or transactions occurring prior to the Effective Date; *provided*, *however*, that, notwithstanding the foregoing and notwithstanding anything in the Plan to the contrary, the Plan will not indemnify any of the Non-Released Parties for any matter.
Director and Officer Liability Policy	Reorganized Movie Gallery will obtain reasonably sufficient tail coverage under a directors and officers' liability insurance policy for the current and former directors and officers for a period of six years. As of the Effective Date, the Debtors shall assume all of the D&O Liability Insurance Policies pursuant to section 365(a) of the Bankruptcy Code. Entry of the Confirmation Order will constitute the Bankruptcy Court's approval of the Debtors' foregoing assumption of each of D&O Liability Insurance Policies. Notwithstanding anything to the contrary contained in the Plan, Confirmation of the Plan shall not discharge, impair or otherwise modify any indemnity obligations assumed by the foregoing assumption of the D&O Liability Insurance Policies, and each such indemnity obligation will be deemed and treated as an Executory Contract that has been assumed by the Debtors under the Plan as to which no proof of claim need be Filed; *provided*, *however*, the D&O Liability Insurance Policies will not cover any of the Non-Released Parties for any matter.
Discharge of the Debtors	Except as otherwise provided herein, on the Effective Date and effective as of the Effective Date: (i) the rights afforded in the Plan and the treatment of all Claims and Equity Interests herein shall be in exchange for and in complete satisfaction, discharge and release of all Claims and Equity Interests of any nature whatsoever, including any interest accrued on such Claims from and after the Petition Date, against the Debtors, or any of their assets, property or Estates; (ii) the Plan shall bind all Holders of Claims and Equity Interests, notwithstanding whether any such Holders failed to vote to accept or reject the Plan or voted to reject the Plan; (iii) all Claims against and Equity Interests in the Debtors shall be satisfied, discharged and released in full, and the Debtors' liability with respect thereto shall be extinguished completely, including, without limitation, any liability of the kind specified under section 502(g) of the Bankruptcy Code; and (iv) all Entities shall be precluded from asserting against the Debtors, the Debtors' Estates, the Reorganized Debtors, each of their successors and assigns, each of their assets and properties, any other Claims or Equity Interests based upon any documents, instruments or any act or omission, transaction or other activity of any kind or nature that occurred prior to the Effective Date.
DIP Facility	Sopris will not oppose entry of interim or final orders approving the DIP Facility in the form submitted to Sopris on October 14, 2007, and as acknowledged by Sopris, provided, however, that Sopris reserves all rights with respect to any material amendment, modification, ratification, extension,

Release	Provision
	renewal restatement or replacement thereof.

V. Governance of Reorganized Movie Gallery

Board of Directors	There will be an initial board of directors of Reorganized Movie Gallery (the "New Board"), which will consist of 7 directors, consisting of: (a) Joe Malugen; (b) 4 directors designated by Sopris in its sole discretion; and (c) 2 directors designated by Sopris, subject (solely with respect to this clause (c)) to the reasonable approval of the Debtors. Any directors designated pursuant to clause (b) or (c) hereof shall be subject to approval of the Bankruptcy Court pursuant to section 1129(a)(5) of the Bankruptcy Code.
Organizational Documents	Reorganized Movie Gallery will adopt revised by-laws and a revised certificate of incorporation, subject to the reasonable approval of Sopris.

VI. Other Key Proposed Plan Provisions

Other Key Proposed Plan Terms	Resolution of Disputed Claims and any reserves therefore; The assumption or rejection, as the case may be, of Executory Contracts and Unexpired Leases; and Retention of jurisdiction by the Bankruptcy Court for Claims resolution and certain other purposes.
Employee-related Provisions	The Plan will provide for the assumption of the Employee-Related Agreements.
Fees and Expenses of Sopris	The Company shall pay, on a current basis, all reasonable and documented fees and expenses of Sopris associated with the Restructuring (including the Rights Offering), including, but not limited to, the fees of Sonnenschein Nath & Rosenthal LLP, Tavenner & Beran, PC and Jefferies & Co., Inc.
Fees and Expenses of Second Lien Administrative Agent and Second Lien Collateral Agent	On the Effective Date, all reasonable and documented fees and expenses of the Second Lien Administrative Agent and the Second Lien Collateral Agent and their advisors (including, without limitation, the fees and expenses of Milbank, Tweed, Hadley & McCloy LLP, Venable LLP, and Blackstone Advisory Services LP) not previously paid by the Debtors shall be paid in full in Cash.
Public Listing	The New Board shall determine the timing of any public listing of the New MG Common Stock.
Tax Structure	The Debtors shall consult with counsel to Sopris on tax issues and matters of tax structure relating to the Restructuring.
Conditions Precedent to Plan Confirmation	(i) No Termination Event (as defined in the Lock Up Agreement) has terminated the Lock Up Agreement. (ii) The Disclosure Statement has been approved. (iii) The Plan and all Plan Supplement documents, including any amendments, modifications or supplements thereto, shall be acceptable to Sopris. (iv) The Bankruptcy Court shall have entered an order confirming the Plan, which order shall be in form and substance reasonably satisfactory to the Debtors and Sopris.

	(v) The Company shall have entered into Accommodation Agreements on terms and conditions reasonably acceptable to Sopris.
Conditions Precedent to Plan Consummation	(i) The Plan shall contain such additional conditions to Consummation of the Plan customary in plans of reorganization of this type, which shall be in form and substance reasonably satisfactory to the Debtors and Sopris; *provided*, *however*, that public listing of the Reorganized Movie Gallery's stock shall not be a condition precedent to Plan Consummation. (ii) The Plan and all Plan Supplement documents, including any amendments, modifications or supplements thereto, shall be reasonably acceptable to Sopris; and (iii) Total funded secured indebtedness of the Debtors on the Effective Date, after giving effect to the transactions contemplated herein, shall not exceed $800 million (plus any PIK amounts under the Amended and Restated Second Lien Credit Agreement), or such greater amount acceptable to Sopris.

EXHIBIT A-1

DEFINITIONS

Term	Definition
9.625% Senior Subordinated Notes	The 9.625% Senior Subordinated Notes due March 15, 2011, issued by Hollywood Entertainment Corporation and guaranteed by Hollywood Management Company pursuant to the 9.625% Senior Subordinated Notes Indenture.
9.625% Senior Subordinated Note Claims	All Claims derived from or based upon the 9.625% Senior Subordinated Notes Indenture.
9.625% Senior Subordinated Notes Indenture	That certain Indenture, dated as of January 25, 2002, among Hollywood Entertainment Corporation, as issuer, Hollywood Management Company, as guarantor, and BNY Western Trust Company, as trustee, as amended by the supplemental indenture dated as of December 18, 2002.
11% Senior Notes	The 11% Senior Unsecured Notes due May 1, 2012, issued by Movie Gallery, Inc. pursuant to the 11% Senior Notes Indenture.
11% Senior Note Claims	All Claims derived from or based upon the 11% Senior Notes and 11% Senior Notes Indenture.
11% Senior Notes Indenture	That certain Indenture, dated as April 27, 2005, among Movie Gallery, Inc., as issuer, Movie Gallery US, Inc., Movie Gallery Services, Inc., Movie Gallery Licenses, Inc., Movie Gallery Finance Inc., Movie Gallery Asset Management, Inc., M.G.A. Realty I, LLC, M.G. Digital, LLC, Hollywood Entertainment Corporation and Hollywood Management Company, as guarantors, and SunTrust Bank, as trustee.
11% Senior Notes Trustee	U.S. Bank National Association.
Accommodation Agreement	An agreement between the Debtors and a major Studio, reasonably satisfactory to Sopris, consistent with an order of the Bankruptcy Court approving the Studio Motion.
Adjusted Equity Value	A number equal to the Pre-Money Equity Value plus the Second Lien Conversion Amount plus the Rights Offering Amount plus the Rights Offering Commitment Fee.
Administrative Claim	A Claim for costs and expenses of administration of the Estates under sections 503(b), 507(b) or 1114(e)(2) of the Bankruptcy Code, including, without limitation, for: (a) the actual and necessary costs and expenses incurred after the Petition Date of preserving the respective Estates and operating the businesses of the Debtors; (b) Allowed Claims of retained professionals in the Chapter 11 Cases; and (c) all fees and charges assessed against the Estates under chapter 123 of title 28 of the United States Code, 28 U.S.C. §§ 1911-1930.
Affiliate	As defined in section 101(2) of the Bankruptcy Code.
Allowed	With respect to any Claim, except as otherwise provided herein: (a) a Claim that is scheduled by the Debtors in their Schedules as neither disputed, contingent nor unliquidated and for which the claim amount has not been identified as unknown and as to which Debtors or other party in interest has not filed an objection by the Claims Objection Bar Date; (b) a Claim that either is not a Disputed Claim or has been allowed by a Final Order; (c) a Claim that is allowed: (i) pursuant to the Plan; (ii) in any stipulation of amount and nature of Claim executed prior to the Confirmation Date and approved by the Bankruptcy Court; (iii) in any stipulation with the Debtors of amount and nature of Claim

Term	Definition
	executed on or after the Confirmation Date and approved by the Bankruptcy Court; or (iv) in or pursuant to any contract, instrument, indenture or other agreement entered into or assumed in connection herewith; (d) a Claim relating to a rejected Executory Contract or Unexpired Lease that either (i) is not a Disputed Claim or (ii) has been allowed by a Final Order, in either case only if a proof of Claim has been Filed by the applicable bar date or has otherwise been deemed timely filed under applicable law; (e) a Claim that is allowed pursuant to the terms of the Plan; or (f) a Disputed Claim as to which a proof of Claim has been timely filed and as to which no objection has been filed by the Claims Objection Bar Date.
Amended and Restated First Lien Credit Agreement	An Amended and Restated First Lien Credit Agreement on terms reasonably acceptable to Sopris and the Debtors.
Amended and Restated Second Lien Credit Agreement	An Amended and Restated Second Lien Credit Agreement on substantially the same terms as the Second Lien Credit Agreement and consistent with the Amended and Restated Second Lien Credit Agreement Term Sheet.
Amended and Restated Second Lien Credit Agreement Term Sheet	That certain Amended and Restated Second Lien Credit Agreement Term Sheet attached as Exhibit A-3.
Bankruptcy Code	Chapter 11 of the Bankruptcy Code, 11 U.S.C. §§ 101-1532.
Bankruptcy Court	The United States Bankruptcy Court for the Eastern District of Virginia, Richmond Division, having jurisdiction over the Chapter 11 Cases and, to the extent of the withdrawal of any reference under section 157 of title 28 of the United States Code and/or the General Order of the District Court pursuant to section 151 of title 28 of the United States Code, the United States District Court for the Eastern District of Virginia.
Bankruptcy Rules	The Federal Rules of Bankruptcy Procedure, as applicable to the Chapter 11 Cases, promulgated under 28 U.S.C. § 2075 and the general, local and chambers rules of the Bankruptcy Court.
Business Day	Any day, other than a Saturday, Sunday or "legal holiday" (as defined in Bankruptcy Rule 9006(a)).
Cash	The legal tender of the United States of America or the equivalent thereof, including bank deposits, checks and Cash Equivalents.
Cash Equivalents	Equivalents of Cash in the form of readily marketable securities or instruments issued by an Entity, including, without limitation, readily marketable direct obligations of, or obligations guaranteed by, the United States of America, commercial paper of domestic corporations carrying a Moody's rating of "A2" or better, or equivalent rating of any other nationally recognized rating service, or interest bearing certificates of deposit or other similar obligations of domestic banks or other financial institutions having a shareholders' equity or capital of not less than one hundred million dollars ($100,000,000) having maturities of not more than one (1) year, at the then best generally available rates of interest for like amounts and like periods.
Causes of Action	All actions, causes of action, Claims, liabilities, obligations, rights, suits, debts, damages, judgments, remedies, demands, setoffs, defenses, recoupments, crossclaims, counterclaims, third-party claims, indemnity claims, contribution claims or any other claims disputed or undisputed, suspected or unsuspected, foreseen or unforeseen, direct or indirect, choate or inchoate, existing or hereafter arising, in law, equity or otherwise, based on whole or in part upon

Term	Definition
	any act or omission or other event occurring prior to the Petition Date or during the course of the Chapter 11 Cases, including through the Effective Date.
Chapter 11 Cases	(a) When used with reference to a particular Debtor, the chapter 11 case to be filed for that Debtor under chapter 11 of the Bankruptcy Code in the Bankruptcy Court and (b) when used with reference to all Debtors, the procedurally consolidated chapter 11 cases for all of the Debtors.
Claim	Any claim against a Debtor as defined in section 101(5) of the Bankruptcy Code.
Claims Objection Bar Date	The date or dates to be fixed by the Plan or an order of the Bankruptcy Court for objecting to Claims.
Class	A category of Holders of Claims or Equity Interests pursuant to section 1122(a) of the Bankruptcy Code as set forth in Article II.B of the Term Sheet.
Company	Movie Gallery, Inc. and certain of its Affiliates.
Confirmation	The entry of the Confirmation Order on the docket of the Chapter 11 Cases, subject to all conditions specified having been: (a) satisfied; or (b) waived.
Confirmation Date	The date upon which the Bankruptcy Court enters the Confirmation Order on the docket of the Chapter 11 Cases, within the meaning of Bankruptcy Rules 5003 and 9021.
Confirmation Order	The order of the Bankruptcy Court confirming the Plan pursuant to, among others, section 1129 of the Bankruptcy Code.
Consenting First Lien Holders	Those Holders of First Lien Claims, if any, that are parties to the Lock Up Agreement.
Consenting Second Lien Holders	Those Holders of Second Lien Claims that are parties to the Lock Up Agreement.
Consenting 11% Senior Note Holders	Those Holders of 11% Senior Note Claims that are parties to the Lock Up Agreement.
Consummation	The occurrence of the Effective Date.
Creditor	Any Holder of a Claim.
D&O Liability Insurance Policies	All insurance policies for directors and officers' liability maintained by the Debtors as of the Petition Date, including the Directors and Officers' Liability (Traditional) policy issued by XL Specialty Insurance and expiring on September 9, 2008 and the Directors and Officers' Liability (Side A Excess) issued by XL Specialty Insurance and expiring on September 9, 2008 with an automatic six year run off.
Debtor	One of the Debtors, in its individual capacity as a debtor in the Chapter 11 Cases.
Debtors	Collectively, Movie Gallery, Inc.; Hollywood Entertainment Corporation; M.G. Digital, LLC; M.G.A. Realty I, LLC; MG Automation LLC; and Movie Gallery US, LLC.
Debtor Releasees	Each Releasing Party and each of their respective members, officers, directors, agents, financial advisors, attorneys, employees, partners, Affiliates and representatives.
DIP Facility	That certain $150 million Secured Super-Priority Debtor in Possession Credit and Guaranty Agreement among Movie Gallery, Inc., as borrower, and the other Debtors as guarantors, Goldman Sachs Credit Partners L.P., as lead arranger and syndication agent, The Bank of New York, as administrative agent and collateral agent, Goldman Sachs Credit Partners L.P., as documentation agent and the banks, financial institutions and other lenders parties thereto, as may be amended, modified, ratified, extended, renewed, restated or replaced, provided, however, that Sopris reserves all rights with respect to any material amendment,

Term	Definition
	modification, ratification, extension, renewal restatement or replacement thereof.
DIP Facility Claim	Any Claim on account of the DIP Facility.
Disclosure Statement	The disclosure statement for the Plan, as amended, supplemented or modified from time to time, describing the Plan, that is prepared and distributed in accordance with, among others, sections 1125, 1126(b) and 1145 of the Bankruptcy Code, Bankruptcy Rule 3018 and other applicable law.
Disputed Claim	(a) If no proof of Claim has been filed by the applicable Bar Date or has otherwise been deemed timely filed under applicable law: (i) a Claim that is listed on a Debtor's Schedules as other than disputed, contingent or unliquidated, but as to which the applicable Debtor or Reorganized Debtor or, prior to the Confirmation Date, any other party in interest, has filed an objection by the Claims Objection Bar Date, and such objection has not been withdrawn or denied by a Final Order; or (ii) a Claim that is listed on a Debtor's Schedules as disputed, contingent or unliquidated; or (b) if a proof of Claim or request for payment of an Administrative Claim has been filed by the applicable Bar Date or has otherwise been deemed timely filed under applicable law: (i) a Claim for which no corresponding Claim is listed on a Debtor's Schedules; (ii) a Claim for which a corresponding Claim is listed on a Debtor's Schedules as other than disputed, contingent or unliquidated, but the nature or amount of the Claim as asserted in the proof of Claim varies from the nature and amount of such Claim as it is listed on the Schedules; (iii) a Claim for which a corresponding Claim is listed on a Debtor's Schedules as disputed, contingent or unliquidated; (iv) a Claim for which an objection has been filed by the applicable Debtor or Reorganized Debtor or, prior to the Confirmation Date, any other party in interest, by the Claims Objection Bar Date, and such objection has not been withdrawn or denied by a Final Order; or (v) a Tort Claim.
Effective Date	The day that is the first Business Day after the Confirmation Date on which: (a) no stay of the Confirmation Order is in effect; and (b) all conditions precedent to the Effective Date have been satisfied or waived.
Employee-Related Agreements	Those certain employee-related agreements including, without limitation, (a) senior management employee agreements; (b) change of control agreements; (c) indemnification agreements; and (d) D&O Liability Insurance Policies (and any tail policy with respect thereto) in effect as of the Petition Date and that have been made available to Sopris and/or its advisors prior to the Petition Date.
Entity	An entity as defined in section 101(15) of the Bankruptcy Code.
Equity Interest	Any share of common stock, preferred stock or other instrument evidencing an ownership interest in a Debtor, whether or not transferable, and any option, warrant or right, contractual or otherwise, to acquire any such interest in a Debtor that existed immediately prior to the Effective Date; *provided*, *however*, that Equity Interest does not include any Intercompany Interest.
Equity Security Holder	An Equity Interest Holder.
Estate	As to each Debtor, the estate created for the Debtor in its Chapter 11 Case pursuant to section 541 of the Bankruptcy Code.
Exculpated Parties	(a) The Debtors; (b) Reorganized Debtors; (c) the Releasing Parties; (d) Sopris and (e) all of the officers, directors, employees, members, attorneys, actuaries, financial advisors, accountants, investment bankers, agents, professionals and representatives of each of the foregoing Entities (whether current or former, in each case in his, her or its capacity as such); provided, however, that no Non-Released Party will be an Exculpated Party.

Term	Definition
Executory Contract	A contract to which one or more of the Debtors is a party that is subject to assumption or rejection under section 365 of the Bankruptcy Code.
Exit Facility	The credit facility to be entered into by the Reorganized Debtors on the Effective Date.
Final Order	An order or judgment of the Bankruptcy Court, or other court of competent jurisdiction with respect to the subject matter, as entered on the docket in any Chapter 11 Case or the docket of any court of competent jurisdiction, that has not been reversed, stayed, modified or amended, and as to which the time to appeal, or seek certiorari or move for a new trial, reargument or rehearing has been timely taken, or as to which any appeal that has been taken or any petition for certiorari that has been timely filed has been withdrawn or resolved by the highest court to which the order or judgment was appealed or from which certiorari was sought or the new trial, reargument or rehearing will have been denied, resulted in no modification of such order or has otherwise been dismissed with prejudice.
First Lien Administrative Agent	Goldman Sachs Credit Partners, L.P.
First Lien Agents	First Lien Administrative Agent, First Lien Collateral Agent and First Lien Documentation Agent.
First Lien Claims	All Claims derived from or based upon the First Lien Credit Facilities, including fees and expenses of the First Lien Agents and their advisors (including, without limitation, the reasonable and documented fees and expenses of Skadden, Arps, Slate, Meagher & Flom, LLP and Houlihan Lokey Howard & Zukin) not previously paid by the Debtors.
First Lien Collateral Agent	Wachovia.
First Lien Credit Agreement	That certain First Lien Credit and Guaranty Agreement dated March 8, 2007, among Movie Gallery, Inc., as borrower, and Wachovia, as First Lien Collateral Agent and as Documentation Agent.
First Lien Credit Facilities	The $725,000,000 Senior Secured First Priority Credit Facilities between Movie Gallery, Inc. and certain Movie Gallery, Inc. subsidiaries as guarantors, Goldman Sachs Credit Partners L.P., as lead arranger, syndication agent and First Lien Administrative Agent, and Wachovia, as First Lien Collateral Agent and Documentation Agent.
First Lien Documentation Agent	Wachovia.
First Lien Lenders	Those lenders party to the First Lien Credit Facilities.
First Lien Pledge and Security Agreement	That certain First Lien Pledge and Security Agreement dated March 8, 2007, between Movie Gallery, Inc. and Wachovia, as First Lien Collateral Agent.
General Unsecured Claim	Any unsecured Claim against any Debtor that is not an Other Priority Claim, 11% Senior Note Claim, 9.625% Senior Subordinated Note Claim or Intercompany Claim.
Holder	An Entity holding an Equity Interest or Claim.
Impaired	Claims in an Impaired Class.
Impaired Class	An impaired Class within the meaning of section 1124 of the Bankruptcy Code.
Intercompany Claims	Any and all Claims of a Debtor against and in another Debtor.
Intercompany Interest	An Interest in a Debtor held by another Debtor or an Interest in a Debtor held by an Affiliate of the Debtors.
Intercreditor Agreement	That certain intercreditor agreement dated March 8, 2007, between Movie Gallery, Inc., the First Lien Collateral Agent and the Second Lien Collateral

Term	Definition
	Agent.
Lock Up Agreement	That certain Lock Up, Voting and Consent Agreement dated October 14, 2007, between the Consenting First Lien Lenders, if any, the Consenting Second Lien Lenders, the Consenting 11% Senior Note Holders, Sopris and the Debtors.
Management and Director Equity Incentive Program	A post-Effective Date director and officer compensation incentive program, approved by the New Board, providing for New MG Common Stock equal to 10%, on a fully-diluted basis, to be reserved for issuance as grants of equity, restricted stock or options.
New Board	The initial board of directors of Reorganized Movie Gallery.
New MG Common Stock	50,000,000 shares of common stock in the Reorganized Movie Gallery, par value [$.01] per share, to be authorized pursuant to the Reorganized Movie Gallery charter, of which up to 20,000,000 shares shall be initially issued on the Effective Date pursuant to the Plan.
Non-Released Parties	Those Persons listed in the Plan Supplement.
Other Priority Claims	Any and all Claims accorded priority in right of payment under section 507(a) of the Bankruptcy Code, other than a Priority Tax Claim.
Other Secured Claims	Any secured Claim, other than a: (a) DIP Facility Claim; (b) First Lien Claim; or (c) Second Lien Claim.
Person	A person as defined in section 101(41) of the Bankruptcy Code.
Petition Date	The date on which the Debtors will commence the Chapter 11 Cases.
Plan	The Debtors' joint plan of reorganization under chapter 11 of the Bankruptcy Code, as it may be altered, amended, modified or supplemented from time to time in accordance with this Term Sheet, the Lock Up Agreement and the Bankruptcy Code or the Bankruptcy Rules, and in each case, in form and substance reasonably acceptable to Sopris.
Plan Supplement	The compilation of documents and forms of documents, schedules and exhibits to be filed no later than 5 Business Days prior to the hearing at which the Bankruptcy Court considers whether to confirm the Plan, as may thereafter be altered, amended, modified or supplemented from time to time in accordance with the terms hereof and in accordance with the Bankruptcy Code and the Bankruptcy Rules, comprising, without limitation, the following documents: (a) new organizational documents; (b) to the extent known, the identity of New Board members and the nature of any compensation for any member of the New Board who is an "insider" under the Bankruptcy Code; (c) the list of Non-Released Parties; (d) the list of Executory Contracts and Unexpired Leases to be assumed; and (e) the list of Executory Contracts and Unexpired Leases to be rejected.
Pre-Money Equity Value	$100 million.
Priority Tax Claim	Any and all Claims of a governmental unit of the kind specified in section 507(a)(8) of the Bankruptcy Code.
Reinstated Second Lien Claim	Any Second Lien Claim other than a Sopris Second Lien Claim.
Releasing Parties	All current and former First Lien Agents, all current and former Second Lien Agents, the DIP agent(s), the DIP arrangers, the Consenting First Lien Holders, the Consenting Second Lien Holders, the Consenting 11% Senior Note Holders, the Exculpated Parties, the Equity Security Holders, and all Holders of Claims, provided, however, that no Non-Released Party shall be a Releasing Party.
Reorganized Debtors	The Debtors, in each case, or any successor thereto, by merger, consolidation, or otherwise, on or after the Effective Date.

Term	Definition
Reorganized Movie Gallery	Movie Gallery, Inc. or any successor thereto, by merger, consolidation or otherwise, on or after the Effective Date.
Retained Professional	An Entity: (a) employed in these Chapter 11 Cases pursuant to a Final Order in accordance with sections 327 and 1103 of the Bankruptcy Code and to be compensated for services rendered prior to the Effective Date, pursuant to sections 327, 328, 329, 330 and 331 of the Bankruptcy Code; or (b) for which compensation and reimbursement has been allowed by the Bankruptcy Court pursuant to section 503(b)(4) of the Bankruptcy Code.
Rights Offering	That certain $50 million New MG Common Stock rights offering backstopped by Sopris, the terms of which are set forth in the Rights Offering Term Sheet.
Rights Offering Amount	$50 million.
Rights Offering Commitment Fee	2.3% of the Rights Offering Amount.
Rights Offering Commitment Fee Equity Allocation	A percentage of New MG Common Stock to be issued to Sopris on the Effective Date equal to the Rights Offering Commitment Fee divided by the Adjusted Equity Value, subject to dilution by the issuance of options, equity or equity-based grants in connection with the Reorganized Debtors' Management and Director Equity Incentive Program.
Rights Offering Equity Allocation	A percentage of New MG Common Stock to be issued on the Effective Date equal to the Rights Offering Amount divided by the Adjusted Equity Value, subject to dilution by the issuance of options, equity or equity-based grants in connection with the Reorganized Debtors' Management and Director Equity Incentive Program.
Rights Offering Term Sheet	That certain Rights Offering Term Sheet attached as Exhibit A-4.
Schedules	The schedules of assets and liabilities, schedules of Executory Contracts and Unexpired Leases and statements of financial affairs filed by the Debtors pursuant to section 521 of the Bankruptcy Code and in substantial accordance with the Official Bankruptcy Forms, as the same may have been amended, modified or supplemented from time to time.
Second Lien Administrative Agent	Wells Fargo Bank, N.A., as agent, as successor to CapitalSource Finance LLC.
Second Lien Agents	Second Lien Administrative Agent, Second Lien Collateral Agent and Second Lien Syndication Agent.
Second Lien Claims	All Claims derived from or based upon the Second Lien Credit Agreement, including reasonable and documented fees and expenses of the Second Lien Administrative Agent and the Second Lien Collateral Agent and their advisors (including, without limitation, the fees and expenses of Milbank, Tweed, Hadley & McCloy LLP, Venable LLP and Blackstone Advisory Services LP) not previously paid by the Debtors.
Second Lien Collateral Agent	Wells Fargo Bank, N.A., as agent, as successor to CapitalSource Finance LLC.
Second Lien Conversion	The conversion of the Allowed Sopris Second Lien Claims into the Second Lien Conversion Equity Allocation.
Second Lien Conversion Amount	The Allowed amount of Sopris Second Lien Claims.
Second Lien Conversion Equity Allocation	A percentage of New MG Common Stock to be issued on the Effective Date equal to the Second Lien Conversion Amount divided by the Adjusted Equity Value, subject to dilution by the issuance of options, equity or equity-based

Term	Definition
	grants in connection with the Reorganized Debtors' Management and Director Equity Incentive Program.
Second Lien Credit Agreement	That certain Second Lien Credit and Guaranty Agreement dated March 8, 2007, between Movie Gallery, Inc., Goldman Sachs Credit Partners, L.P., as Lender, Syndication Agent and Lead Arranger, those lenders party thereto and the Second Lien Collateral Agent.
Second Lien Lenders	The lenders party to the Second Lien Credit Agreement.
Second Lien Pledge and Security Agreement	That certain Second Lien Pledge and Security Agreement dated March 8, 2007, between Movie Gallery, Inc. and CapitalSource Finance LLC, as Second Lien Collateral Agent.
Second Lien Syndication Agent	Goldman Sachs Credit Partners L.P.
Second Lien Term Loan	The $175,000,000 Second Lien Term Loan issued pursuant to the Second Lien Credit Agreement.
Sopris	Sopris Capital Advisors LLC.
Sopris Second Lien Claims	All Second Lien Claims held by Sopris, the aggregate principal amount of which is estimated to be $72 million plus accrued and PIK Interest (as defined in the Second Lien Credit Agreement) thereon.
Sopris Senior Notes Commitment	The commitment by Sopris, set forth in the Rights Offering Term Sheet, to purchase shares in the Rights Offering in an amount equal to its current proportionate ownership of the 11% Senior Notes.
Studio	One of the Debtors' movie studio suppliers.
Studio Claims	Any and all Claims based on amounts owed to the Studios.
Studio Motion	That certain motion to be filed by the Debtors in the Chapter 11 Cases seeking authorization to enter into Accommodation Agreements and to pay prepetition obligations in connection therewith.
Third Party Releasees	Collectively, each of the Debtors, the Reorganized Debtors, each Releasing Party, and each of their respective members, officers, directors, agents, financial advisors, attorneys, employees, partners, Affiliates and representatives.
Tort Claim	Any Claim that has not been settled, compromised or otherwise resolved that: (a) arises out of allegations of personal injury, wrongful death, property damage, products liability or similar legal theories of recovery; or (b) arises under any federal, state or local statute, rule, regulation or ordinance governing, regulating or relating to protection of human health, safety or the environment.
Unexpired Lease	A lease of non-residential real property to which one or more of the Debtors is a party that is subject to assumption or rejection under section 365 of the Bankruptcy Code.
Unimpaired	Claims in an Unimpaired Class.
Unimpaired Class	An unimpaired Class within the meaning of section 1124 of the Bankruptcy Code.
Unsecured Claim Equity Allocation	A percentage of New MG Common Stock to be issued on the Effective Date equal to the Pre-Money Equity Value divided by the Adjusted Equity Value, subject to dilution by the issuance of options, equity or equity-based grants in connection with the Reorganized Debtors' Management and Director Equity Incentive Program.
Voting Classes	Classes 3, 4, 5, 6A through 6F, 7A through 7F, and 8.
Wachovia	Wachovia Bank, National Association.

EXHIBIT A-2

PROPOSED FIRST DAY AGENDA

EXECUTION COPY

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Proposed Co-Counsel to the Debtors

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
RICHMOND DIVISION

In re:	)	Case No. 07-_____
	)	Jointly Administered
MOVIE GALLERY, INC., et al.,[3]	)	Chapter 11
	)	
Debtors.	)	
	)	

PROPOSED FIRST DAY AGENDA
OCTOBER 16, 2007 AT 2:00 P.M. PREVAILING EASTERN TIME

I. INTRODUCTION AND REQUEST FOR FIRST DAY HEARING

1. **["First Day Hearing Motion"]** Motion of the Debtors for an Order Setting an Expedited Hearing on "First Day Motions" and for Related Relief

2. **["Affidavit in Support of First Day Motions"]** Affidavit of William C. Kosturos, Chief Restructuring Officer of Movie Gallery, Inc., in Support of First Day Motions

3. **["Affidavit in Support of Restructuring Advisors"]** Affidavit of Thomas D. Johnson, Jr., Executive Vice President and Chief Financial Officer of Movie Gallery, Inc., in Support of Restructuring Advisors

II. FIRST DAY MATTERS

A. Procedural Motions

1. **["Pro Hac Vice"]** Motion for an Order Authorizing Certain Attorneys from Kirkland & Ellis LLP to Appear and Practice *Pro Hac Vice* on Behalf of the Debtors

[3] The Debtors in the cases include: Movie Gallery, Inc.; Hollywood Entertainment Corporation; M.G. Digital, LLC; M.G.A. Realty I, LLC; MG Automation LLC; and Movie Gallery US, LLC.

2. **["Joint Administration"]** Motion of the Debtors for an Order Directing Joint Administration of their Related Chapter 11 Cases

3. **["Matrix and Consolidated Creditors List"]** Motion of the Debtors for Authority to (A) Prepare a List of Creditors in Lieu of Submitting a Formatted Mailing Matrix and (B) File a Consolidated List of the Debtors' 30 Largest Unsecured Creditors

4. **["Extend Deadline for SoFAs and Schedules"]** Motion of the Debtors for an Order (A) Granting an Extension of Time to File Statements of Financial Affairs and Schedules of Assets and Liabilities, Current Income and Expenditures and Executory Contracts and Unexpired Leases and (B) Scheduling Meeting of Creditors under Section 341 of the Bankruptcy Code

5. **["Form of Notice of Commencement / Bar Date"]** Motion of the Debtors for an Order Establishing Bar Dates and Approving Form and Manner of Notice of Commencement of Cases and Notice of Bar Dates for Creditors to File Proofs of Claim

6. **["Case Management"]** Motion of the Debtors for an Order Establishing Certain Notice, Case Management and Administrative Procedures

B. Professional Retentions

1. **["Counsel"]** Application of the Debtors for an Order Authorizing the Employment and Retention of Kirkland & Ellis LLP as Attorneys for the Debtors and Debtors in Possession

2. **["Local Counsel"]** Application of the Debtors for an Order Authorizing the Employment and Retention of Kutak Rock LLP as Attorneys for the Debtors and Debtors in Possession

3. **["Restructuring Advisors"]** Motion of the Debtors for an Order Authorizing the Employment and Retention of Alvarez & Marsal as Restructuring Advisors for the Debtors and Debtors in Possession

4. **["Investment Banker and Financial Advisor"]** Application of the Debtors for an Order Authorizing the Employment and Retention of Lazard Frères & Co. LLC as Investment Banker and Financial Advisor for the Debtors and Debtors in Possession

5. **["Real Estate Consultant"]** Application of the Debtors for an Order Authorizing the Employment and Retention of Keen Consultants, the Real Estate Division of KPMG Corporate Finance LLC, as Real Estate Consultant for the Debtors and Debtors in Possession

6. **["Assume Store Closing Agency Agreement"]** Motion of the Debtors for an Order Authorizing the Assumption by the Debtors of the Store Closing Consulting Agreement with Great American Group, LLC

7. **["Notice, Claims and Balloting Agent"]** Application of the Debtors for an Order Authorizing the Employment and Retention of Kurtzman Carson Consultants LLC as Notice, Claims and Balloting Agent for the Debtors and Debtors in Possession

8. **["OCP Motion"]** Motion of the Debtors for an Order Authorizing the Retention and Compensation of Certain Professionals Utilized in the Ordinary Course of Business

C. Operational Motions

1. **["Wages and Employee Benefits"]** Motion of the Debtors for an Order (A) Authorizing, but not Directing, the Debtors to Pay Certain Prepetition (I) Wages, Salaries, Bonuses and Other Compensation, (II) Reimbursable Employee Expenses and (III) Employee Medical and Similar Benefits and (B) Authorizing and Directing Banks and Other Financial Institutions to Honor All Related Checks and Electronic Payment Requests

2. **["Customer Programs"]** Motion of the Debtors for an Order Authorizing, but not Directing, the Debtors to Continue Their Customer Programs and Honor Prepetition Commitments Related Thereto

3. **["Insurance Coverage and Premium Financing"]** Motion of the Debtors for an Order Authorizing the Debtors to (A) Continue Insurance Coverage Entered into Prepetition, (B) Enter into New Insurance Policies, (C) Maintain Postpetition Financing of Insurance Premiums and (D) Enter into New Postpetition Financing Agreements

4. **["Taxes"]** Motion of the Debtors for an Order (A) Authorizing, but not Directing, the Debtors to Remit and Pay Certain Taxes and Fees and (B) Authorizing and Directing Banks and Other Financial Institutions to Honor Related Checks and Electronic Payment Requests

5. **["Shippers and Other Lien Holders"]** Motion of the Debtors for an Order (A) Authorizing, but not Directing, the Debtors to Pay Prepetition Claims of Shippers, Warehousemen and Other Lien Claimants and (B) Authorizing and Directing Banks and Other Financial Institutions to Honor Related Checks and Electronic Payment Requests

6. **["Utilities"]** Motion of the Debtors for Entry of Interim and Final Orders Determining Adequate Assurance of Payment for Future Utility Services

7. **["Store Closing Procedures"]** Motion of the Debtors for an Order (A) Authorizing the Debtors to Conduct Store Closing Sales, (B) Approving Procedures with Respect to Store Closing Sales and (C) Authorizing the Debtors to Pay Limited Liquidation Bonuses and Severance Payments in Connecting with Store Closing Sales

8. **["Lease Auction Procedures"]** Motion of the Debtors for an Order Authorizing an Auction Process and Approving Bid Procedures for the Disposition of the Debtors' Interests in Certain Nonresidential Real Property Leases and Granting Related Relief

9. **["Reject Leases and Contracts"]** Motion of the Debtors for an Order Authorizing the Debtors to Reject Certain Unexpired Leases and Executory Contracts Effective as of the Commencement Date

10. **["Equity Trading Procedures"]** Motion of the Debtors for the Entry of an Order Establishing Notification and Hearing Procedures for Transfers of Certain Common Stock and for Related Relief

11. **["Movie Studio Motion"]** Motion of the Debtors for Interim and Final Orders Authorizing, but not Directing, the Debtors, in their Sole Discretion, to Enter into Accommodation Agreements with Major Movie Studio Suppliers and to Pay Prepetition Obligations in Connection Therewith

12. **["Cash Management"]** Motion of the Debtors for an Order (A) Authorizing the Debtors to Continue Using their Existing Cash Management System, Bank Accounts and Business Forms, (B) Granting Postpetition Intercompany Claims Administrative Expense

Priority and (C) Authorizing Continued Intercompany Arrangements and Historical Practices

13. **["DIP Financing"]** Motion of the Debtors for Interim and Final Orders Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, 364(c), 364(d), and 364(e) And Fed. R. Bankr. P. 4001 and 9014 (I) Authorizing Debtors to Obtain Secured Postpetition Financing on Super-Priority Priming Lien Basis Granting Adequate Protection For Priming and Modifying the Automatic Stay, (II) Authorizing Debtors to Use Cash Collateral Of Existing Secured Lenders and Granting Adequate Protection for Use, (III) Authorizing Debtors to Repay Existing Revolver Indebtedness Upon Interim Approval and (IV) Prescribing Form and Manner of Notice and Setting the Time For the Final Hearing

Richmond, Virginia
Dated: October 15, 2007

/s/

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Proposed Co-Counsel to the Debtors

EXHIBIT A-3

AMENDED AND RESTATED SECOND LIEN CREDIT AGREEMENT TERM SHEET

1. On the Effective Date, holders of Second Lien Claims (other than the Sopris Second Lien Claims) shall receive, in respect of the default occurring as a result of the Company's failure to pay the cash interest payment due on September 10, 2007 under the Second Lien Credit Agreement, payment in cash of all amounts due in connection with such default.

2. For all interest periods beginning September 10, 2007 through and including the Effective Date (the "Initial PIK Period"), the Company will elect to pay "PIK Interest" (as such term is defined in the Second Lien Credit Agreement). During the Initial PIK Period, interest will accrue as Base Rate Loans (as defined in the Second Lien Credit Agreement), plus the existing PIK margin increase ("PIK Margin") of 75 basis points and the default margin increase of 200 basis points.

3. Holders of Allowed Reinstated Second Lien Claims (other than the Sopris Second Lien Claims) shall receive their pro-rata share of Company obligations to be established under the Amended and Restated Second Lien Credit Agreement. The Amended and Restated Second Lien Credit Agreement shall provide as follows (and any inconsistent provisions in the Second Lien Credit Agreement shall not be included in the Amended and Restated Second Lien Credit Agreement):

- The Amended and Restated Second Lien Credit Agreement shall bear interest at a rate equal to the Base Rate (as defined in the Second Lien Credit Agreement) plus 550 basis points or the Adjusted Eurodollar Rate (as defined in the Second Lien Credit Agreement) plus 800 basis points for Base Rate Loans and Eurodollar Rate Loans, respectively; provided, however, that if the Amended and Restated First Lien Credit Agreement (including any replacement or refinancing thereof occurring prior to the Effective Date) provides for interest rates based on a pricing matrix that is based on the Company's leverage ratio, the Amended and Restated Second Lien Credit Agreement shall bear interest at a rate that is 300 basis points higher than the blended interest rate under the Amended and Restated First Lien Credit Agreement (including any replacement or refinancing thereof occurring prior to the Effective Date) according to such pricing matrix at any time, up to a maximum rate of the Base Rate plus 550 basis points or the Adjusted Eurodollar Rate plus 800 basis points for Base Rate Loans and Eurodollar Rate Loans, respectively.

- Notwithstanding the forgoing, under no circumstances shall the applicable interest rate margin under the Amended and Restated Second Lien Credit Agreement be at any time less than 200 basis points greater than the highest interest rate margin applicable to any portion of the Amended and Restated First Lien Credit Agreement (including any replacement or refinancing thereof occurring prior to the Effective Date).

- For twenty four (24) months following the Effective Date, the Company shall have the option to make PIK Interest payments under the Amended and Restated Second Lien Credit Agreement ("Optional PIK Period") at a margin increase of 200 basis points

("Optional PIK Period Margin").

- For twelve (12) months following the expiration of the Optional PIK Period, the Company will retain the option to elect PIK Interest for any interest period ("Conditional PIK Period"), provided, however, that the Company shall be required to conduct a quarterly test of the Interest Coverage Ratio (as defined in the First Lien Credit Agreement) based on trailing twelve month results. In the event the Interest Coverage Ratio exceeds 2.0x for any trailing twelve month period, the Company would be required to pay cash interest in the subsequent quarter. In the event the Interest Coverage Ratio does not exceed 2.0x for any trailing twelve month period, the Company will retain the option to elect to pay PIK Interest for such subsequent quarter at a margin increase of 325 basis points ("Conditional PIK Period Margin").

- After the expiration of the Conditional PIK Period, the Company would be required to pay cash interest for any interest period.

- The reorganized Company shall be prohibited from paying any cash dividends until such time as the obligations under the Amended and Restated Second Lien Credit Agreement have been satisfied in full in cash.

4. The Amended and Restated Second Lien Credit Agreement shall otherwise be on the same terms as the Second Lien Credit Agreement (provided that any terms that are inconsistent with the terms contained in this Amended and Restated Second Lien Credit Agreement Term Sheet shall not be included in the Amended and Restated Second Lien Credit Agreement) and contain such other terms as are reasonably acceptable to both Sopris and the Second Lien Requisite Holders (as defined in the Lock Up Agreement) (excluding those Second Lien Claims held by Sopris for the purposes of this paragraph 4 only).

EXHIBIT A-4

RIGHTS OFFERING TERM SHEET

EXHIBIT A-4

RIGHTS OFFERING TERM SHEET

MOVIE GALLERY, INC. ET AL.
RIGHTS OFFERING TERM SHEET[1]

Term	Description
Plan Sponsor	The Debtors, including Movie Gallery, Inc., in the Chapter 11 Cases administered under case number [ ] in the United States Bankruptcy Court for the Eastern District of Virginia, Richmond Division (the "Bankruptcy Court").
Backstop Party	The "Backstop Party" means investment entities affiliated with Sopris Capital Advisors LLC ("Sopris"). 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 "Rights Offering Term Sheet"). One hundred percent (100%) of the Backstop Commitment shall be undertaken by the Backstop Party.
Rights Offering	A Rights Offering shall be made pursuant to, and in accordance with the terms set forth in, this Rights Offering Term Sheet and the Plan Term Sheet (as defined below). As used in this Rights Offering Term Sheet, the "Plan Term Sheet" means the Proposed Restructuring Term Sheet attached as Exhibit A to the Lock Up, Voting and Consent Agreement dated as of October 14, 2007 (the "Lock Up Agreement"), 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). The Plan Term Sheet sets forth the principal terms of the plan of reorganization contemplated by the Debtors (the "Plan"), and this Rights Offering Term Sheet is attached as Exhibit A-3 to the Plan Term Sheet. "Rights Offering" means the equity rights offering for the Rights Offering Amount contemplated by this Rights Offering Term Sheet and the Plan Term Sheet, and on terms reasonably acceptable to the Backstop Party.
Rights Offering Amount	The amount of the Rights Offering shall be $50 million (the "Rights Offering Amount") and the number of shares of New MG Common Stock to be issued pursuant to the Rights Offering (the "Rights Offering Shares") shall be determined according to the Rights Offering Equity Allocation as defined in the Plan Term Sheet.
Effective Date	The "Effective Date" shall have the meaning set forth in the Plan Term Sheet.
Participation in Rights Offering	Each eligible Holder of 11% Senior Notes (each, a "Rights Offering Participant") may participate in the Rights Offering by purchasing that number of Rights Offering Shares equal to its proportionate ownership of the 11% Senior Notes. Sopris irrevocably commits to participate in the

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

Term	Description
	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 "Sopris Senior Notes Commitment").
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 "Exercise Price").
Dilution	All shares of New MG 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 MG 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	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 other Rights Offering Participants as part of the Rights Offering (the "Backstop Commitment"). The "Backstop Rights Purchase Agreement" 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 Backstop Rights Purchase Agreement shall be filed in advance of the deadline for filing objections to the Approval Motion.
Registration Rights	On the Effective Date the Debtors will provide demand and piggy-back registration rights (together, the "Registration Rights") with respect to the Rights Offering Shares. The "Registration Rights Agreement" 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 Registration Rights Agreement shall be filed in advance of the deadline for filing objections to the approval of the Disclosure Statement.
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 "Commitment Fee"). The Commitment Fee shall be paid in the form of New MG Common Stock and the number of shares issued in connection therewith shall be a percentage of the New MG Common Stock to be issued on the Effective Date in a percentage equal to the amount of the Commitment Fee

Term	Description
	divided by the Adjusted Equity Value.
Debtors' Representations and Warranties	The Backstop Rights Purchase Agreement shall contain the following representations and warranties of the Debtors: • corporate good standing; • requisite corporate power and authority; • delivery of documents; • due issuance and authorization of New MG Common Stock; • no governmental consents; • no conflicts; and • other customary representations and warranties.
Backstop Party's Representations and Warranties	The Backstop Rights Purchase Agreement shall contain the following representations and warranties of the Backstop Party: • 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	The "Expense Reimbursements" means all reasonable and documented fees and expenses of the Backstop Party associated with the Rights Offering and the transactions contemplated by the Plan Term Sheet, 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 Lock Up Agreement or the Backstop Rights Purchase Agreement
Conditions to Backstop Commitment	The Backstop Commitment will be subject to the following conditions precedent (the "Conditions Precedent"): • entry of the Approval Motion Order;

Term	Description
	• 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 (the "Confirmation Order") 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; • no event of default has occurred and is continuing under any debtor-in-possession financing of the Debtors; • the waiting period (and any extension thereof) applicable to the Plan under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act") shall have been terminated or shall have expired; • the Debtors shall have timely paid all Expense Reimbursements on a continuing basis or within ten (10) business days after the Backstop Party notifies the Debtors of their failure to pay such Expense Reimbursements; provided 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 "Disputed Expense Reimbursement Amount") and pay the remainder pursuant to the terms hereof; • execution of all documents arising from or related to the Rights Offering and the Restructuring (including, without limitation, if requested by the Backstop Party, a stockholders agreement), which documents must be reasonably satisfactory to the Backstop Party; • the Lock Up Agreement has not been terminated, whether by occurrence of a Termination Event (as defined in the Lock Up Agreement) or otherwise; • from the Petition Date, no Material Adverse Effect has occurred. The Backstop Commitment will not be conditioned on any of the following: • due diligence; • any cap or restriction on the amount of allowed unsecured claims against the Debtors; and • any Disputed Expense Reimbursement Amounts.

Term	Description
Material Adverse Effect	The term "Material Adverse Effect" means an effect 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, but shall exclude any effect or combination of effects resulting or arising from (i) any change in law, rule, or regulation by the United States, Canada or their subdivisions; (ii) any change in interest rates or general economic conditions; (iii) any change in the industry in which the Debtors operate generally; (iv) the entry into this Rights Offering Term Sheet and the Backstop Rights Purchase Agreement; (v) any action taken by the Debtors with the express prior written consent of the Backstop Party or any of its affiliates; or (vi) any change in generally accepted accounting principles.
Approval Motion	Within 5 business days after the Petition Date, the Debtors shall file a motion requesting, among other things, that the Bankruptcy Court enter the Approval Motion Order, authorizing the Debtors to enter into the Backstop Rights Purchase Agreement (the "Approval Motion"). Such Approval Motion must request authority from the Bankruptcy Court for the Debtors to pay: • the Commitment Fee on the Effective Date; • the Expense Reimbursements on a continuing basis; and • the Termination Fee as defined in and on the conditions set forth in the Lock Up Agreement. The "Approval Motion Hearing" means that hearing before the Bankruptcy Court to consider the relief requested in the Approval Motion. The "Approval Motion Order" means that order entered by the Bankruptcy Court granting the Approval Motion on terms materially consistent with this Rights Offering Term Sheet and Plan Term Sheet, and reasonably acceptable to the Backstop Party.
Expiration of Backstop Rights Purchase Agreement	The Backstop Rights Purchase Agreement shall expire upon termination of the DIP Facility.
Termination of Backstop Rights Purchase Agreement	The Backstop Party will have the right, but not the obligation, to terminate the Backstop Rights Purchase Agreement (the "Backstop Party Termination Rights") if: • the Debtors file any pleading or document with the Bankruptcy Court with respect to a Topping Proposal (as defined in the Lock Up Agreement); • the Lock Up Agreement has been terminated by reason of the occurrence of a Termination Event (as defined in the Lock Up Agreement) or otherwise; or • the Debtors fails to pay any requested Expense Reimbursement to the Backstop Party within ten days after the Backstop Party notifies the Debtors of their failure to pay such Expense Reimbursement;

Term	Description
	provided that, in the event that the parties dispute whether amounts are "reasonable," the Debtors shall separate the disputed amount and pay the rest pursuant to the terms hereof. 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; or • the Bankruptcy Court denies the relief set forth in the Approval Motion.
Binding Agreement	In the event of a conflict between this Rights Offering Term Sheet and the Backstop Rights Purchase Agreement after that Backstop Rights Purchase Agreement has been filed with the Bankruptcy Court, the terms of the Backstop Rights Purchase Agreement shall control.

[Nothing further on this page]