

HOLLYWOOD ENTERTAINMENT CORPORATION
AUDIT COMMITTEE CHARTER

Purpose

The Audit Committee is appointed by the Board of Directors and is charged with overseeing and monitoring the accounting and financial reporting processes, the audits and integrity of the Company's financial statements, and the independence and performance of the Company's external auditors.

The Committee shall review the adequacy of this Charter on an annual basis and shall conduct an annual self-evaluation.

Membership

The Committee shall be comprised of not less than three members of the Board, each of whom shall qualify for membership under applicable Securities and Exchange Commission Rules and Nasdaq listing standards.

Accordingly, each of the members will (subject to limited exceptions allowed by SEC rules and Nasdaq listing standards):

1. Be "independent" under SEC rules and Nasdaq listing standards and have no relationship to the Company that may interfere with the exercise of their independence from management and the Company;
2. Accept no direct or indirect compensation from the Company, except in the capacity as a director or board committee member;
3. Not be an "affiliated person" of the Company as defined in SEC rules;
4. Be financially literate. In addition, at least one member of the Committee will be an "audit committee financial expert," as defined by SEC rules and Nasdaq listing standards.

Key Responsibilities

The Committee's job is one of oversight and it recognizes that the Company's management is responsible for preparing the Company's financial statements and that the outside auditors are responsible for auditing those financial statements. Additionally, the Committee recognizes that financial management, as well as the outside auditors, have more time, knowledge, and more detailed information on the Company than do Committee members; consequently, in carrying

out its oversight responsibilities, the Committee is not providing any expert assurance as to the Company's financial statements or any professional certification as to the outside auditors' work.

The following functions shall be the common recurring activities of the Committee in carrying out its oversight function. These functions are set forth as a guide with the understanding that the Committee may diverge from this guide as permitted by applicable SEC rules and Nasdaq listing standards and as otherwise appropriate given the circumstances.

- The Committee shall review with management and the outside auditors the audited financial statements to be included in the Company's Annual Report on Form 10-K (or the Annual Report to Shareholders if distributed prior to the filing of Form 10-K) and review and consider with the outside auditors the matters required to be discussed by Statement of Auditing Standards ('SAS') No. 61.
- As a whole, or through the Committee chair, the Committee shall review with the outside auditors the Company's interim financial results to be included in the Company's quarterly reports to be filed with the SEC and the matters required to be discussed by SAS No. 61. The Committee shall receive and timely discuss with outside auditors the auditors' reports of (a) all critical accounting policies used by the registrant, (b) alternative accounting treatments that have been discussed with management along with the potential ramifications of using those alternatives, (c) other written communications provided by the auditors to management, including a schedule of unadjusted audit differences, and (d) other matters the auditors are required to report under generally accepted accounting standards.
- The Committee shall review management's annual internal control report and discuss with management and the outside auditors the quality and adequacy of the Company's internal controls.
- The Committee shall review any audit problems or difficulties and management's response and shall resolve any disagreement between the outside auditors and management.
- With respect to the Company's outside auditors, the Committee shall:
 - receive from the outside auditors annually a formal written statement delineating all relationships between the auditors and the Company consistent with Independence Standards Board, Standard Number 1;
 - discuss with the outside auditors any such disclosed relationships and their impact on the outside auditors' independence;
 - pre-approve all audit services and permissible non-audit services as set forth in Section 10A(i) of the Securities Exchange Act of 1934 (the "Act");
 - have the sole authority to appoint, determine funding for, and oversee the outside auditors as set forth in Section 10A(m)(2) of the Act.

- The Committee shall have the authority to engage and determine funding for independent counsel and other advisors as set forth in Section 10A(m)(5) of the Act.
- The Committee shall be responsible to establish procedures for:
 - The receipt, retention, and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters; and
 - The confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.
- The Committee shall set clear hiring policies for employees or former employees of the outside auditors and shall review any conflicts in connection with the employment of any person who was on the “audit engagement team” (as defined in SEC Rule 2-01(f)(7)) of the Company’s outside auditors in the year prior to the contemplated employment with the Company.
- The Committee shall prepare the report required to be included in the Company’s annual proxy statement.
- The Committee shall review and approve all related-party transactions required to be disclosed pursuant to Item 404 of SEC Regulation S-K.