MOVIE STAR INC /NY/
Form PREM14A
June 08, 2007

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(A)
of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Under Rule 14a-12
Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

MOVIE STAR, INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.
Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common Stock of Movie Star, Inc.

(2) Aggregate number of securities to which transaction applies: 38,619,737 shares

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

Average of the high and low prices reported on the American Stock Exchange on June 6, 2007 ($2.16)

(4) Proposed maximum aggregate value of transaction: $83,418,631

(5) Total fee paid: $2,560.95

Fee paid previously with preliminary materials:
Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by

registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PRELIMINARY PROXY STATEMENT SUBJECT TO COMPLETION, DATED JUNE 8, 2007

Movie Star, Inc.
1115 Broadway
New York, New York 10010

Dear shareholder:

You are cordially invited to attend a special meeting in lieu of the annual meeting of shareholders of Movie Star, Inc., a New York corporation (''Movie Star''), to be held on , 2007, at , Eastern Time. The special meeting will be held at .

On December 18, 2006, we entered into an Agreement and Plan of Merger and Reorganization (as amended, the ''merger agreement'') with Fred Merger Corp., a Delaware corporation and wholly-owned subsidiary of Movie Star (''Merger Sub''), and FOH Holdings, Inc., a Delaware corporation (''FOH Holdings''), the parent and sole stockholder of Frederick's of Hollywood, Inc. FOH Holdings is owned by Tokarz Investments, LLC (''Tokarz Investments'') and certain funds and accounts affiliated with, managed by, or over which Fursa Alternative Strategies LLC (''Fursa'') or any of its affiliates exercises investment authority. Michael T. Tokarz is the sole controlling person of Tokarz Investments and is also the sole controlling person of TTG Apparel, LLC (''TTG Apparel''), which currently owns 3,532,644 shares of our common stock.

As described in this proxy statement, upon completion of the merger, each stockholder of FOH Holdings will have the right to receive shares of our common stock equal to the product of (i) the number of shares of FOH Holdings common stock held by such stockholder of FOH Holdings immediately prior to the effective time of the merger multiplied by (ii) an exchange ratio of 17.811414. As a result of the merger, we anticipate issuing approximately 23.7 million shares of our common stock to the stockholders of FOH Holdings, 20% of which will initially be placed in escrow pursuant to the merger agreement and an escrow agreement.

The board of directors of Movie Star unanimously approved the merger agreement and the transactions contemplated thereby on the unanimous recommendation of a special committee comprised entirely of independent directors.

As described in this proxy statement, at the special meeting, you will be asked to consider and vote upon the following proposals:

- stock issuance proposal – a proposal to approve the issuance of shares of our common stock in connection with the merger, the rights offering and other transactions contemplated by the merger agreement;
- increase of authorized common stock proposal – a proposal to amend our certificate of incorporation to increase the number of authorized shares of our common stock from 30,000,000 to 200,000,000 shares;

- name change proposal – a proposal to amend our certificate of incorporation to change the name of Movie Star, Inc. to Frederick's of Hollywood Group Inc.;
- preferred stock proposal – a proposal to amend our certificate of incorporation to authorize the issuance of up to 10,000,000 shares of preferred stock, $.01 par value per share, and to establish the terms, rights, preference and privileges of the Series A Preferred Stock, a new series of preferred stock to be issued in connection with the transactions contemplated hereby;
- reverse stock split proposal – a proposal to authorize our board of directors, in its discretion, to amend our certificate of incorporation to effect a reverse stock split of our outstanding common stock simultaneous with the closing of the merger within a range to be determined by our board of directors from 9 for 10 to 1 for 2, in order to satisfy the minimum price requirement of $2.00 per share for continued listing on the American Stock Exchange;
- 2000 performance equity plan amendment proposal – a proposal to amend our 2000 Performance Equity Plan to increase the number of shares of our common stock available for issuance under the plan from 750,000 shares to 7,000,000 shares;

- director election proposal – a proposal to elect eleven directors to our board of directors to serve from the effective time of the merger until the annual meeting of shareholders to be held in 2008 and their successors are elected and qualified; and
- adjournment proposal – a proposal to authorize the adjournment of the special meeting to a later date or dates, if necessary, to permit further solicitation and vote of proxies if there are insufficient votes at the time of the special meeting to adopt any of the foregoing proposals.

If holders of record of (a) a majority of the outstanding shares of Movie Star common stock as of , 2007 and (b) a majority of the outstanding shares of Movie Star common stock that are held by shareholders other than TTG Apparel and its affiliates and associates who are entitled to vote in person or by proxy at the special meeting vote to approve the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal and the preferred stock proposal and the other conditions in the merger agreement are satisfied or waived, Merger Sub will be merged with and into FOH Holdings and FOH Holdings will become our wholly owned subsidiary.

Movie Star common stock is listed on the American Stock Exchange under the trading symbol ''MSI.'' On June 6, 2007, the closing sale price of Movie Star common stock was $2.21.

Your vote is very important, regardless of the number of shares you own. Whether or not you plan to attend the special meeting, please promptly complete, sign and return the enclosed proxy card in the envelope provided. Your shares then will be represented at the special meeting. Note that a failure to vote your shares has the same effect as a vote against the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal, the preferred stock proposal and the reverse stock split proposal. If a written proxy card is signed by a shareholder of Movie Star and returned without instructions, the shares represented by the proxy will be voted FOR the adoption of each of the proposals above. If you attend the special meeting, you may, by following the procedures discussed in this proxy statement, withdraw your proxy and vote in person.

The notice of special meeting, proxy statement and proxy card explain the proposed merger and related transactions and provide specific information concerning the special meeting. Please read these materials carefully. In particular, please see the section entitled ''Risk Factors'' beginning on page 28 of this proxy statement.

Movie Star's board of directors has determined that the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal, the preferred stock proposal, the reverse stock split proposal, the 2000 performance equity plan amendment proposal, the director election proposal and the adjournment proposal are in the best interests of Movie Star's shareholders. Movie Star's board of directors unanimously recommends that you vote or give instruction to vote ''FOR'' the approval of these proposals.

On behalf of the board of directors, I would like to express our appreciation for your continued interest in Movie Star. We look forward to seeing you at the special meeting.

Sincerely,

Melvyn Knigin
Chairman, President and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has passed upon the fairness or merits of the proposed transaction nor upon the accuracy or adequacy of the information contained in this proxy statement. Any representation to the contrary is a criminal offense.

This proxy statement is dated , 2007 and is first being mailed to Movie Star, Inc. shareholders on or about , 2007.

MOVIE STAR, INC.
1115 Broadway
New York, New York 10010

NOTICE OF A SPECIAL MEETING IN LIEU OF THE ANNUAL MEETING
OF SHAREHOLDERS
TO BE HELD ON , 2007

TO THE SHAREHOLDERS OF MOVIE STAR, INC.:

NOTICE IS HEREBY GIVEN that a special meeting in lieu of the annual meeting of shareholders of Movie Star, Inc. (''Movie Star''), a New York corporation, will be held at a.m. Eastern Time, on , 2007, at . You are cordially invited to attend the meeting, which will be held for the following purposes:

(1) to consider and vote upon a proposal to approve the issuance of shares of our common stock in connection with the merger, the rights offering and other transactions contemplated by the Agreement and Plan of Merger and Reorganization (as amended, the ''merger agreement''), dated as of December 18, 2006, by and among Movie Star, Fred Merger Corp., a Delaware corporation and wholly-owned subsidiary of Movie Star (''Merger Sub''), and FOH Holdings, Inc., a Delaware corporation (''FOH Holdings''), the parent and sole stockholder of Frederick's of Hollywood, Inc., a copy of which is attached to this proxy statement as Annex A. We refer to this proposal as the stock issuance proposal;

(2) to consider and vote upon a proposal to amend our certificate of incorporation to increase the number of authorized shares of Movie Star common stock from 30,000,000 to 200,000,000 shares. We refer to this proposal as the increase of authorized common stock proposal;

(3) to consider and vote upon a proposal to amend our certificate of incorporation to change the name of Movie Star, Inc. to Frederick's of Hollywood Group Inc. We refer to this proposal as the name change proposal;

(4) to consider and vote upon a proposal to amend our certificate of incorporation to authorize the issuance of up to 10,000,000 shares of preferred stock, $.01 par value per share, and to establish the terms, rights, preference and privileges of the Series A Preferred Stock, a new series of preferred stock to be issued in connection with the transactions contemplated hereby. We refer to this proposal as the preferred stock proposal;

(5) to consider and vote upon a proposal to authorize our board of directors, in its discretion, to amend our certificate of incorporation to effect a reverse stock split of our outstanding common stock simultaneous with the closing of the merger within a range to be determined by our board of directors from 9 for 10 to 1 for 2, in order to satisfy the minimum price requirement of $2.00 per share for continued listing on the American Stock Exchange. We refer to this proposal as the reverse stock split proposal;

(6) to consider and vote upon a proposal to amend our 2000 Performance Equity Plan to increase the number of shares of our common stock available for issuance under the plan from 750,000 shares to 7,000,000 shares. We refer to this proposal as the 2000 performance equity plan amendment proposal;

(7) to consider and vote upon the election of eleven directors to our board of directors to serve from the effective time of the merger until the annual meeting to be held in 2008 and their successors are elected and qualified. We refer to this proposal as the director election proposal; and

(8) to consider and vote upon a proposal to authorize the adjournment of the special meeting to a later date or dates, if necessary, to permit further solicitation and vote of proxies in the event there are insufficient votes at the time of the special meeting to adopt any of the foregoing proposals. We refer to this proposal as the adjournment proposal.

These items of business are described in more detail in this proxy statement, which we encourage you to read in its entirety before voting. Only holders of record of Movie Star's common stock at the close of business on , 2007 are entitled to notice of the special meeting and to vote and have their votes counted at the special meeting and any adjournments or postponements of the special meeting. An adjournment or postponement of the special meeting may occur to solicit additional votes. Movie Star will not transact any other business at the special meeting or any adjournment or postponement of it.

The stock issuance proposal, the increase of authorized common stock proposal, the name change proposal and the preferred stock proposal must be approved by both (a) the affirmative vote of holders of a majority of the shares of Movie Star common stock outstanding on the record date and (b) the affirmative vote of holders of a majority of the shares of Movie Star common stock that are held by shareholders, other than TTG Apparel, LLC (''TTG Apparel'') and its affiliates and associates on the record date. TTG Apparel currently owns 3,532,644 shares of our common stock and the sole controlling person of TTG Apparel is Michael T. Tokarz, its manager. Mr. Tokarz is also the sole controlling person of Tokarz Investments, LLC (''Tokarz Investments'') which holds approximately 50% of FOH Holdings common stock. The reverse stock split proposal must be approved by the affirmative vote of holders of a majority of the shares of Movie Star common stock outstanding on the record date. The 2000 performance equity plan amendment proposal and the adjournment proposal must be approved by the affirmative vote of holders of a majority of the shares of Movie Star common stock present in person or represented by proxy and entitled to vote at the meeting. Those directors who receive a plurality of votes cast for the respective positions will be elected. If the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal and the preferred stock proposal, all of which are conditions to the merger, are approved and the other conditions to the merger are satisfied or waived, Merger Sub will be merged with and into FOH Holdings, and FOH Holdings will become our wholly owned subsidiary. If the proposals that are conditions to the merger are not approved, the other proposals, including the election of directors, will not be presented to the shareholders for a vote.

The board of directors of Movie Star unanimously approved the merger agreement and the transactions contemplated thereby on the unanimous recommendation of a special committee comprised entirely of independent directors. Our special committee engaged Chanin Capital, LLC (''Chanin'') to serve as its financial advisor. On December 18, 2006, Chanin delivered an opinion to our special committee, a copy of which is attached to this proxy statement as Annex C, on which Movie Star's board of directors was entitled to rely, stating that, as of such date, the consideration to be paid by Movie Star to the holders of FOH Holdings common stock is fair to the holders of Movie Star common stock from a financial point of view. Movie Star's board of directors has also determined that the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal, the preferred stock proposal, the reverse stock split proposal, the 2000 performance equity plan amendment proposal, the adjournment proposal and the election of each of our nominees for director are in the best interests of Movie Star's shareholders. Movie Star's board of directors unanimously recommends that you vote or give instruction to vote ''FOR'' the approval of these proposals and in favor of each of our nominees for directors. FOH Holdings' board of directors and stockholders already have approved the merger agreement and the transactions contemplated thereby.

All Movie Star shareholders are cordially invited to attend the special meeting in person. However, to ensure your representation at the special meeting, you are urged to complete, sign, date and return the enclosed proxy card as soon as possible. If you are a shareholder of record of Movie Star common stock, you also may cast your vote in person at the special meeting. If your shares are held in an account at a brokerage firm or bank, you must instruct your broker or bank on how to vote your shares. If you do not vote or do not instruct your broker or bank how to vote, it will have the same effect as voting against the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal, the preferred stock proposal and the reverse stock split proposal.

Your vote is important regardless of the number of shares you own. Whether you plan to attend the special meeting or not, please sign, date and return the enclosed proxy card as soon as possible in the envelope provided.

Thank you for your participation. We look forward to your continued support.

By Order of the Board of Directors

Saul Pomerantz, Secretary

, 2007

Before voting, you should carefully review all of the information contained in the proxy statement. IN PARTICULAR, YOU SHOULD CAREFULLY CONSIDER THE MATTERS DISCUSSED UNDER ''RISK FACTORS'' BEGINNING ON PAGE 28.

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SUMMARY OF THE MATERIAL TERMS OF THE MERGER AND RELATED TRANSACTIONS

- The parties to the merger are Movie Star, Inc., a New York corporation (‘‘Movie Star’’), FOH Holdings, Inc., a Delaware Corporation (‘‘FOH Holdings’’), the parent and sole stockholder of Frederick’s of Hollywood, Inc. (‘‘Frederick’s of Hollywood’’), and Fred Merger Corp., a newly formed Delaware corporation and a wholly owned subsidiary of Movie Star (‘‘Merger Sub’’), established solely for the purpose of consummating the merger with FOH Holdings. See ‘‘The Parties to the

Merger.''

- Upon closing of the merger, Merger Sub will merge with and into FOH Holdings and FOH Holdings will become our wholly owned subsidiary. See ''The Merger Agreement.''
- Upon completion of the merger, stockholders of FOH Holdings will have the right to receive shares of our common stock equal to the product of (i) the number of shares of FOH Holdings common stock held by each stockholder of FOH Holdings immediately prior to the effective time of the merger multiplied by (ii) an exchange ratio of 17.811414. As a result of the merger, we anticipate issuing approximately 23.7 million shares of our common stock to the stockholders of FOH Holdings, 20% of which will initially be placed in escrow pursuant to the merger agreement and an escrow agreement, as described below. See ''The Merger Agreement—Merger Consideration,'' ''The Merger Agreement—Escrow Arrangements'' and ''Other Transaction Documents—Escrow Agreement.''
- In connection with the transactions contemplated by the merger agreement, we will enter into an escrow agreement with designated stockholder representatives of the holders of FOH Holdings common stock. Pursuant to the escrow agreement, 20% of the shares of our common stock to be issued to each stockholder of FOH Holdings in connection with the merger will be held in escrow to cover indemnification claims that may be brought by us for certain matters, including breaches of representations, warranties and covenants of FOH Holdings under the merger agreement. Shares remaining in escrow will be released following the 18-month anniversary of the effective time of the merger, subject to extension under certain circumstances. Similarly, treasury shares of our common stock representing 7.5% of the aggregate number of issued and outstanding shares of our common stock prior to the effective time of the merger will be deposited into escrow to cover any indemnification claims that may be brought by FOH Holdings' stockholders against Movie Star, which shares will be returned to us following the 18-month anniversary of the effective time of the merger, subject to certain conditions and to the extent not used to satisfy these indemnification claims. See ''The Merger Agreement–Escrow Arrangements'' and ''Other Transaction Documents—Escrow Agreement.''
- On December 18, 2006, Chanin Capital, LLC (''Chanin'') delivered a written opinion to the special committee of our board of directors (our ''special committee'') to the effect that, as of such date, the merger consideration to be paid in the proposed merger with FOH Holdings was fair, from a financial point of view, to our shareholders. The summary of the Chanin opinion set forth in this proxy statement is qualified in its entirety by reference to the full text of the opinion which is attached to this proxy statement as Annex C. Chanin's opinion does not constitute a recommendation to any of our shareholders as to how such shareholders should vote with respect to any of the proposals contained in this proxy statement. See ''The Merger and Related Transactions—Opinion of Financial Advisor to Special Committee.''
- In connection with the merger agreement, our shareholders will have the opportunity to purchase shares of our common stock at a 15% discount through our offering of non-transferable rights to purchase shares of our common stock. If all such rights are exercised, we will raise aggregate proceeds of $20 million. We have filed a Registration Statement on Form S-1 (No. 333-   ) with the Securities and Exchange Commission (''SEC'') for the registration of such securities under the Securities Act of 1933, as amended (''Securities Act''). We have entered into a standby purchase agreement with Fursa Alternative Strategies LLC (''Fursa'') and certain funds and accounts affiliated with, managed by, or over which Fursa or any of its affiliates exercises investment authority, including, without limitation, with respect to voting and dispositive rights, as specified in the standby purchase agreement (collectively referred to as the ''Fursa Standby Purchasers''), Tokarz Investments, LLC (''Tokarz

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Investments'') and TTG Apparel, LLC (''TTG Apparel''), pursuant to which the Fursa Standby Purchasers, Tokarz Investments and TTG Apparel have each agreed to purchase shares not subscribed for in the rights offering. As necessary, the Fursa Standby Purchasers have agreed to purchase, on a several but not on a joint and several basis, 50% of such unsubscribed shares, and Tokarz Investments and TTG Apparel have agreed to purchase the remaining 50% of such unsubscribed shares (the ''Standby Purchase Commitment''). As consideration for these commitments, we will issue warrants with an exercise price equal to the subscription price of the new shares in the rights offering, representing the right to purchase, in the aggregate, shares of our common stock, or 10.5% of the total number of shares to be offered in the rights offering. Tokarz Investments and TTG Apparel each have agreed not to purchase any such new shares other than pursuant to their Standby Purchase Commitment. TTG Apparel currently owns 3,532,644 shares of our common stock and the sole controlling person of TTG Apparel is Michael T. Tokarz, its manager. Mr. Tokarz is also the sole controlling person of Tokarz Investments, which holds approximately 50% of FOH Holdings common stock. Fursa has investment authority, including without limitation, with respect to voting and dispositive rights, over the Fursa Standby Purchasers, holders of approximately 50% of FOH Holdings common stock, and the Fursa Debt Holders (as defined below). See ''Other Transaction Documents—Standby Purchase Agreement'' ''Other Transaction Documents—Standby Purchase Agreement—Rights Offering'' and ''Other Transaction Documents—Standby Purchase Agreement—Guarantor Warrants.''

- Following the execution and delivery of the merger agreement, we entered into a stockholders agreement (the ''stockholders agreement'') with FOH Holdings, Fursa, the Fursa Standby Purchasers and certain other affiliated Fursa entities that hold FOH Holdings indebtedness (collectively referred to as the ''Fursa Debt Holders,'' and together with the Fursa Standby Purchasers, the ''Fursa Managed Accounts'') and Tokarz Investments, pursuant to which the Fursa Managed Accounts holding FOH Holdings common stock and Tokarz Investments agreed, among other things, to vote in favor of the merger and the other transactions contemplated by the merger agreement, not to transfer any shares of FOH Holdings common stock owned by them prior to the effective time of the merger, other than in connection with the merger or to their affiliates or managed funds and accounts, and not to solicit or accept any third party proposals involving a merger or acquisition of FOH Holdings. See ''Other Transaction Documents—FOH Holdings' Stockholders Agreement.''
- Pursuant to the FOH Holdings' stockholders agreement, the Fursa Debt Holders, in their capacities as holders of FOH Holdings indebtedness, agreed with us that, in connection with the consummation of the transactions contemplated by the merger agreement, they would cancel $7.5 million of such indebtedness in exchange for the issuance of shares of our new Series A 7.5% Convertible Preferred Stock (''Series A Preferred Stock''). See ''Other Transaction Documents—FOH Holdings' Stockholders Agreement—Series A Preferred Stock.''
- In connection with the merger agreement, we entered into a voting agreement with TTG Apparel, pursuant to which it has agreed to certain matters, including (i) to vote in favor of the transactions contemplated by the merger agreement, including, without limitation, the approval of the issuance of shares of our common stock and the amendment to our certificate of incorporation and (ii) to not transfer shares of our common stock without our prior written consent. See ''Other Transaction Documents—Voting Agreement.''
- Pursuant to an agreement (the ''shareholders agreement'') to be entered into in connection with the consummation of the transactions contemplated by the merger agreement, during the 18-month period following the merger, Tokarz Investments, TTG Apparel and Fursa (on its behalf and on behalf of the Fursa Managed Accounts) will each agree, among other things, to certain restrictions on (i) acting together with respect to their shares of our common stock, (ii) increasing their ownership positions in the merged entity and (iii) transferring their holdings in our securities, and

have agreed to vote for the combined company's directors. See ''Other Transaction Documents—Shareholders Agreement.''

- In connection with its approval of the merger and other transactions contemplated by the merger agreement, our board of directors approved the increase of the number of directors constituting the

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full board from seven to eleven, which will be effective at the effective time of the merger. At the effective time of the merger, if management's nominees are elected, the directors of the combined company will be Peter Cole, John L. Eisel, Melvyn Knigin, Michael A. Salberg and Joel M. Simon, all currently serving as directors of Movie Star, Thomas Rende, the Chief Financial Officer of Movie Star and a former member of Movie Star's board of directors, William F. Harley, Linda LoRe, Rose Peabody Lynch and Milton J. Walters, all currently serving as directors of FOH Holdings, and Thomas J. Lynch, Chief Executive Officer of Fursa. If the merger is not consummated, our existing directors will continue to serve as directors of Movie Star. See ''The Merger Agreement—Election of Directors and Appointment of Executive Officers'' and ''Director Election Proposal.''

- After the merger, in accordance with the merger agreement, the newly constituted board of directors will appoint Peter Cole as our Executive Chairman, Thomas Rende as our Chief Financial Officer, Melvyn Knigin as the President and Chief Executive Officer of the Movie Star division and Linda LoRe as the President and Chief Executive Officer of the Frederick's of Hollywood division. See ''The Merger Agreement—Election of Directors and Appointment of Executive Officers.''
- In connection with the consummation of the transactions contemplated by the merger agreement, we will enter into a registration rights agreement with Fursa (on its behalf and on behalf of the Fursa Managed Accounts), Tokarz Investments and TTG Apparel, pursuant to which we will grant certain demand and ''piggyback'' registration rights for the securities that those entities will receive in connection with the merger and related transactions. See ''Other Transaction Documents—Registration Rights Agreement.''
- Our shareholders are also being asked to vote on proposals to:
    - approve the issuance of shares of our common stock in connection with the merger, the rights offering and other transactions contemplated by the merger agreement;
    - amend our certificate of incorporation to:
        - increase the number of authorized shares of common stock from 30,000,000 to 200,000,000 shares;
        - change our name to Frederick's of Hollywood Group Inc.; and
        - authorize the issuance of up to 10,000,000 shares of our preferred stock and to establish the terms, rights, preference and privileges of the Series A Preferred Stock.
    - authorize our board of directors, in its discretion, to amend our certificate of incorporation to effect a reverse stock split of our outstanding common stock simultaneous with the closing of the merger within a range to be determined by our board of directors from 9 for 10 to 1 for 2, in order to satisfy the minimum price requirement of $2.00 per share for continued listing on the American Stock Exchange;
    - approve an amendment to our 2000 Performance Equity Plan to increase the number of shares of common stock available for issuance under the plan from 750,000 shares to 7,000,000 shares;
    - elect eleven directors to our board of directors to serve from the effective time of the merger until the annual meeting to be held in 2008 and until their successors are elected and qualified; and
    -

approve an adjournment of the special meeting to a later date or dates, if necessary, to permit further solicitation and vote of proxies in the event there are insufficient votes at the time of the special meeting.

See ‘‘Increase of Authorized Common Stock Proposal,’’ ‘‘Name Change Proposal,’’ ‘‘Preferred Stock Proposal,’’ ‘‘Reverse Stock Split Proposal,’’ ‘‘2000 Performance Equity Plan Amendment Proposal,’’ ‘‘Director Election Proposal’’ and ‘‘Adjournment Proposal.’’

- The merger agreement provides for an amendment to our bylaws in connection with the consummation of the merger, pursuant to which during the 18-month period following the merger, certain material transactions not in the ordinary course or actions that affect our capital structure or securities will require the approval of 75% of the directors. See ‘‘The Merger Agreement—Amended and Restated Bylaws.’’

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QUESTIONS AND ANSWERS ABOUT THE PROPOSALS

Q. Why am I receiving this proxy statement and what am I voting on?

A. We have sent you this proxy statement and the enclosed proxy card because the board of directors of Movie Star is soliciting your proxy to vote at the special meeting of shareholders on the proposals described below. This proxy statement contains important information about the proposals and the special meeting of Movie Star shareholders. You should read it carefully.

Movie Star and FOH Holdings have agreed to a business combination under the terms of the Agreement and Plan of Merger and Reorganization dated as of December 18, 2006, as amended by the amendment to the merger agreement dated as of June 8, 2007, that is described in this proxy statement. This agreement, as amended, is referred to as the merger agreement. Copies of the merger agreement and the amendment to the merger agreement are attached to this proxy statement as Annex A and Annex B, respectively, which we encourage you to read.

In order to complete the merger, Movie Star shareholders must vote to approve:

- the issuance of shares of our common stock in connection with the merger, the rights offering and other transactions contemplated by the merger agreement;
- an amendment to Movie Star’s certificate of incorporation to increase the number of shares of authorized common stock from 30,000,000 to 200,000,000 shares;

- an amendment to Movie Star's certificate of incorporation to change the name of Movie Star, Inc. to Frederick's of Hollywood Group Inc.; and
- an amendment to Movie Star's certificate of incorporation to authorize the issuance of up to 10,000,000 shares of preferred stock and to establish the terms, rights, preferences and privileges of the Series A Preferred Stock.

Movie Star shareholders also will be asked to vote to approve:

- the authorization of our board of directors to amend, in its discretion, Movie Star's certificate of incorporation to effect a reverse stock split of our outstanding common stock simultaneous with the closing of the merger within a range to be determined by our board of directors from 9 for 10 to 1 for 2, in order to satisfy the minimum price requirement of $2.00 per share for continued listing on the American Stock Exchange;

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- an amendment to our 2000 Performance Equity Plan to increase the number of shares available for issuance under the plan from 750,000 shares to 7,000,000 shares;
- the election of eleven directors to our board of directors to serve from the effective time of the merger until the annual meeting to be held in 2008 and until their successors are elected and qualified; and
- the adjournment of the special meeting to a later date or dates, if necessary, to permit further solicitation and vote of proxies in the event there are insufficient votes at the time of the special meeting to adopt any of the foregoing proposals.

The approval of the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal and the preferred stock proposal are conditions to the consummation of the merger. The approval of the reverse stock split proposal, the 2000 performance equity plan amendment proposal and the director election proposal are not conditions to the consummation of the merger, but are being proposed in connection with the merger and will not be presented at the meeting for a vote if the proposals that are conditions to the merger are not approved. If the stock issuance proposal or the increase of authorized common stock proposal is not approved, we cannot effect the merger or the other transactions contemplated by the merger agreement. If the name change proposal or the preferred stock proposal is not approved, absent a waiver by FOH Holdings and us, we cannot effect the merger or the other transactions contemplated by the merger agreement. The 2000 performance equity plan amendment has been approved by Movie Star's board of directors and will be effective upon consummation of the merger, if approved by shareholders. Movie Star's restated certificate of incorporation, as it will appear if all amendments to the certificate of incorporation are approved, is attached as Annex D hereto. The 2000 Performance Equity Plan and the proposed amendment to the 2000 Performance Equity Plan are attached as Annex E hereto.

Your vote is important. We encourage you to vote as soon as possible after carefully reviewing this proxy statement.

Q. How are votes counted?

A. Votes will be counted by the inspector of election appointed for the meeting, who will separately count ''FOR'' and ''AGAINST'' votes, abstentions and broker non-votes. Except with respect to the 2000 performance equity plan amendment proposal and the adjournment proposal, abstentions will be counted towards the total votes for each proposal, and will have the same effect as

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''AGAINST'' votes. Abstentions will not be counted towards the total votes for the 2000 performance equity plan amendment proposal and the adjournment proposal. Broker non-votes will have the same effect as ''AGAINST'' votes with respect to all proposals except for the 2000 performance equity plan amendment proposal and the adjournment proposal. Broker non-votes will not be counted towards the total votes for the 2000 performance equity plan amendment proposal or the adjournment proposal. Directors are elected by a ''plurality,'' which means that the eleven individuals who receive the highest number of votes cast ''FOR'' election are elected as directors. Any shares not voted ''FOR'' a particular nominee (whether as a result of abstentions, a direction to withhold authority or a broker non-vote) will not be counted in the nominee's favor.

Q. What is the quorum requirement?

A. A quorum of Movie Star shareholders is necessary to hold a valid meeting. A quorum will be present at the Movie Star special meeting if a majority of the outstanding shares entitled to vote at the meeting are represented in person or by proxy. Abstentions and broker non-votes will count as present for the purpose of establishing a quorum.

Q. What vote is required to approve the stock issuance proposal?

A. Shareholder approval is not required for the merger itself under the New York Business Corporation Law (''NYBCL''). However, under the rules of the American Stock Exchange, shareholder approval is required prior to the issuance of common stock in any transaction if (a) the number of shares of common stock, or securities convertible into common stock, to be issued will be, upon issuance, equal to or in excess of 20% of the number of shares of common stock outstanding prior to such issuance, (b) the common stock, or securities convertible into common stock, to be issued will be issued as consideration for an acquisition of the stock or assets of another company, provided that any director, officer or substantial shareholder of the acquiring listed company, directly or indirectly, has a 5% or greater interest in the acquired company or in the consideration to be paid in such transaction and the present or potential issuance of common stock, or securities convertible into common stock, could result in an increase in outstanding common shares of 5% or more, or (c) such transaction would involve the application of Section 341 of the American Stock Exchange Company Guide, which requires that a listed company being effectively acquired by an unlisted company as a result of a plan of acquisition, merger, or consolidation meet the American Stock Exchange's original listing standards.

Because the shares to be issued in connection with the merger and the rights offering and pursuant to the

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standby purchase agreement, together with the shares underlying the warrants that will be issued as consideration for the commitments of the Fursa Standby Purchasers, Tokarz Investments and TTG

Apparel under the standby purchase agreement and Series A Preferred Stock that will be issued in exchange for the cancellation of certain indebtedness of FOH Holdings, will be in excess of 20% of the number of shares of our common stock outstanding prior to such issuances, your vote is required. Additionally, your vote is required because (i) the American Stock Exchange has informed us that Section 341 of the American Stock Exchange Guide would apply to the transactions contemplated by the merger agreement due to the structure of the proposed merger and (ii) an affiliate of TTG Apparel, our substantial shareholder, owns more than 5% of FOH Holdings.

The stock issuance proposal must be approved by both (a) the affirmative vote of holders of a majority of the shares of Movie Star common stock outstanding on the record date and (b) the affirmative vote of holders of a majority of the shares of Movie Star common stock that are held by shareholders other than TTG Apparel and its affiliates and associates on the record date. The approval of the stock issuance proposal is a condition to the consummation of the merger.

Q. What vote is required to approve the increase of authorized common stock proposal?

A. The increase of authorized common stock proposal must be approved by both (a) the affirmative vote of holders of a majority of the shares of Movie Star common stock outstanding on the record date and (b) the affirmative vote of holders of a majority of the shares of Movie Star common stock that are held by shareholders other than TTG Apparel and its affiliates and associates on the record date. The approval of the increase of authorized common stock proposal is a condition to the consummation of the merger.

Q. What vote is required to approve the name change proposal?

A. The name change proposal must be approved by both (a) the affirmative vote of holders of a majority of the shares of Movie Star common stock outstanding on the record date and (b) the affirmative vote of holders of a majority of the shares of Movie Star common stock that are held by shareholders other than TTG Apparel and its affiliates and associates on the record date. The approval of the name change proposal is a condition to the consummation of the merger.

Q. What vote is required to approve the preferred stock proposal?

A. The preferred stock proposal must be approved by both (a) the affirmative vote of holders of a majority of the shares of Movie Star common stock outstanding on the record date and (b) the affirmative vote of holders of a majority of the shares of Movie Star common stock that

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are held by shareholders other than TTG Apparel and its affiliates and associates on the record date. The approval of the preferred stock proposal is a condition to the consummation of the merger.

Q. What vote is required to approve the reverse stock split proposal?

A. The reverse stock split proposal must be approved by the affirmative vote of holders of a majority of the shares of Movie Star common stock outstanding on the record date. The approval of the reverse stock split proposal is not a condition to the consummation of the merger, but is being proposed in connection with the merger and will not be presented at the meeting for a vote if the proposals that are conditions to the merger are not approved.

Q. What vote is required to approve the 2000 performance equity plan amendment proposal?

A. The 2000 performance equity plan amendment proposal must be approved by the affirmative vote of holders of a majority of the shares of Movie Star common stock present in person or represented by proxy and entitled to vote at the special meeting. The approval of the 2000 performance equity plan amendment proposal is not a condition to the consummation of the merger, but is being proposed in connection with the merger and will not be presented at the meeting for a vote if the proposals that are conditions to the merger are not approved.

Q. What vote is required to elect each director?

A. Directors are elected by a ‘‘plurality,’’ which means that the eleven individuals who receive the highest number of votes cast ‘‘FOR’’ election are elected as directors. The election of directors is not a condition to the consummation of the merger, but is being proposed in connection with the merger and will not be presented at the meeting for a vote if the proposals that are conditions to the merger are not approved.

Q. What vote is required to approve the adjournment proposal?

A. The adjournment proposal must be approved by the affirmative vote of holders of a majority of the shares of Movie Star common stock present in person or represented by proxy and entitled to vote at the special meeting. The approval of the adjournment proposal is not a condition to the consummation of the merger.

Q. Does the Movie Star board of directors recommend voting for each of the proposals included in this proxy statement?

A. Yes. After careful consideration of the terms and conditions of these proposals, the board of directors of Movie Star has determined that the merger and the other transactions contemplated by the merger agreement and each of the proposals contained in this proxy statement are fair to and in the best interests of Movie Star and its shareholders. The Movie Star board of directors unanimously recommends that Movie Star shareholders vote ''FOR'' each of these proposals. The members of Movie Star's board of directors have interests in the merger that are different from, or in addition to, your

interests as a shareholder. For a description of such interests, please see the section entitled ''Summary of this Proxy Statement—Interests of Movie Star Directors and Officers in the Merger.''

Q. How much of Movie Star will existing Movie Star shareholders own after the merger and rights offering?

A. Immediately following the effective time of the merger and without giving effect to the rights offering to our shareholders or the issuance of options, guarantor warrants, shares of common stock that may be issued pursuant to the standby purchase agreement or shares of Series A Preferred Stock, the shares of Movie Star common stock will be owned as follows: (a) existing holders of Movie Star common stock, excluding TTG Apparel, will own approximately 32.1% of the outstanding common stock of Movie Star; (b) TTG Apparel, together with Tokarz Investments, will own approximately 38.4% of the outstanding common stock of Movie Star (32.4% if the shares of Movie Star common stock to be contributed into escrow are excluded) and (c) the Fursa Managed Accounts will beneficially own approximately 29.5% of the outstanding common stock of Movie Star (23.6% if the shares of Movie Star common stock to be contributed into escrow are excluded).

In connection with the merger agreement, our shareholders will have the opportunity to purchase shares of our common stock at a 15% discount through our offering of non-transferable rights to purchase shares of our common stock. If all such rights are exercised, we will raise aggregate proceeds of $20 million. To the extent that existing Movie Star shareholders participate in the rights offering, the number of shares of Movie Star common stock held by existing Movie Star shareholders, other than TTG Apparel, following the merger will increase. If no Movie Star shareholder participates in the rights offering, (i) TTG Apparel, together with Tokarz Investments, will beneficially own approximately % of the outstanding common stock of Movie Star, in the aggregate, after giving effect to the purchase of the unsubscribed shares of the rights in accordance with the standby purchase agreement and the issuance and exercise of the guarantor warrants as consideration for the Standby Purchase Commitments and (ii) the Fursa Managed Accounts will beneficially own approximately % of the outstanding common stock of Movie Star, after giving effect to the purchase of the unsubscribed shares of the rights in accordance with the standby purchase agreement, the issuance and exercise of the guarantor warrants as consideration for the Standby Purchase Commitments and the issuance and conversion of the Series A Preferred Stock.

Q. What if I object to the proposed merger? Do I have appraisal rights?

A. No. Movie Star shareholders do not have appraisal rights in connection with the merger under the NYBCL.

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Q. Did Movie Star's board of directors obtain a fairness opinion in connection with its approval of the merger agreement?

A. Yes. On December 18, 2006, Chanin delivered its written opinion to our special committee, on which Movie Star's board of directors was entitled to rely, stating that, as of such date, the consideration to be paid by Movie Star to the holders of FOH Holdings common stock is fair to the holders of Movie Star common stock from a financial point of view. The full text of this opinion is attached to this proxy statement as Annex C. We encourage you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations included in connection with the review undertaken.

Q. What will happen in the proposed merger?

A. As a consequence of the merger, Merger Sub will merge with and into FOH Holdings, with FOH Holdings remaining as the surviving corporation and becoming a wholly-owned subsidiary of Movie Star.

Q. When do you expect the merger to be completed?

A. It is currently anticipated that the merger will be consummated promptly following the Movie Star special meeting on , 2007.

For a description of the conditions to completion of the merger, see the section entitled ''The Merger Agree-ment—Conditions to the Closing of the Merger.''

Q. What do I need to do now?

A. Movie Star urges you to read carefully and consider the information contained in this proxy statement, including the annexes, and to consider how the merger will affect you as a shareholder of Movie Star.

You should then vote as soon as possible in accordance with the instructions provided in this proxy statement and on the enclosed proxy card.

Q. How do I vote my Movie Star shares?

A. If you are a holder of Movie Star common stock at the close of business on , 2007, which is the record date for the special meeting, you may vote in person at the special meeting or by submitting a proxy for the special meeting. You may submit your proxy by completing, signing, dating and returning the enclosed proxy card in the accompanying pre-addressed postage paid envelope. On each matter to be voted upon, you have one vote for each share of common stock you own as of the record date. If you hold your shares in ‘‘street name,’’ which means your shares are held of record by a broker, bank or nominee, the organization holding your account is considered to be the shareholder of record for purposes of voting at the special meeting. As a beneficial owner, you have the right to direct your broker or other agent regarding how to vote the shares in your account. You are also invited to attend the special meeting. However, if you are not the shareholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or

other agent. On the record date, shares of our common stock were issued and outstanding.

Q. If my shares are held in ‘‘street name,’’ will my broker, bank or nominee automatically vote my shares for me?

A. If your shares are held by your broker as your nominee (that is, in ‘‘street name’’), you will need to obtain a proxy form from the institution that holds your shares and follow the instructions included on that form regarding how to instruct your broker to vote your shares. If you do not give instructions to your broker, your broker can vote your shares with respect to ‘‘discretionary’’ items, but not with respect to ‘‘non-discretionary’’ items. Discretionary items are proposals considered routine under the rules of the American Stock Exchange on which your broker may vote shares held in street name in the absence of your voting instructions. On non-discretionary items for which you do not give your broker instructions, the shares will be treated as broker non-votes. The adjournment proposal is the only discretionary item being proposed at the special meeting, therefore, all of the other proposals will require your instructions to your broker.

Q. Can I change my vote after I have mailed my signed proxy card?

A. Yes. Send a later-dated, signed proxy card to Movie Star's secretary at the address of Movie Star's corporate headquarters prior to the date of the special meeting or attend the special meeting in person and vote. You may also revoke your proxy by sending a notice of revocation to Movie Star's secretary.

Q. Do I need to send in my stock certificates?

A. No. You should not submit your stock certificates now or after the merger because your shares will not be exchanged in the merger. However, if our board of directors determines to implement the reverse stock split, you will need to surrender your stock certificates so that replacement certificates representing shares of Movie Star common stock following the reverse stock split may be issued in exchange therefor. For additional information on the exchange of stock certificates, see the section entitled ''Reverse Stock Split Proposal—Exchange of Stock Certificates.''

Q. What should I do if I receive more than one set of voting materials?

A. You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a holder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive in order to cast a vote with respect to all of your Movie Star shares.

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Q. Who is paying for this proxy solicitation?

A. We will pay for the entire cost of soliciting proxies. In addition to these mailed proxy materials, our directors, officers and employees may also solicit proxies in person, by telephone or by other means of communication. These parties will not be paid any additional compensation for soliciting proxies. Morrow & Co., Inc., a proxy solicitation firm that we have engaged to assist us in soliciting proxies, will be paid a customary fee of $7,500 plus expenses. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

Q: How may I obtain Movie Star’s Annual Report on Form 10-K for the year ended June 30, 2006?

A: We have enclosed with this proxy statement a copy of our Annual Report on Form 10-K for the fiscal year ended June 30, 2006, as amended by Amendment No. 1 on Form 10-K/A (filed on January 30, 2007). Our Annual Report on Form 10-K, as amended and our other filings with the Securities and Exchange Commission can be accessed through our website at www.moviestarinc.com.

Q. Who can help answer my questions?

A. If you have questions about the merger, the proposals or this proxy statement, or if you need additional copies of the proxy statement or the enclosed proxy card, you should contact:

Investor Relations
Movie Star, Inc.
1115 Broadway
New York, New York 10010
Tel: (212) 798-4700

or

Morrow & Co., Inc.
470 West Avenue, 3rd Floor
Stamford, Connecticut 06902
Tel: (800) 607-0088

You may also obtain additional information about Movie Star from documents filed with the SEC by following the instructions in the section entitled ‘‘Where You Can Find More Information’’ on page 182.

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FORWARD-LOOKING STATEMENTS

We believe that some of the information in this proxy statement constitutes, or may be deemed to constitute, ‘‘forward-looking statements’’ within the meaning of the Private Securities Litigation Reform Act of 1995. You can identify these statements by forward-looking words such as ‘‘may,’’ ‘‘expect,’’ ‘‘anticipate,’’ ‘‘should,’’ ‘‘could,’’ ‘‘likely,’’ ‘ ‘‘contemplate,’’ ‘‘believe,’’ ‘‘estimate,’’ ‘‘intend,’’ ‘‘plan,’’ ‘‘project,’’ ‘‘predict’’ and ‘‘continue’’ or, in each case, their nega variations or comparable terminology. You should read statements that contain these words carefully because they may:

- discuss future expectations;
- contain projections of future results of operations or financial condition; or
- state other ‘‘forward-looking’’ information.

We believe it is important to communicate our expectations to our shareholders. However, there may be events in the future that we are not able to predict accurately or over which we have no control. The risk factors and cautionary language discussed in this proxy statement provide examples of risks, uncertainties and events that may cause actual results to differ materially from the expectations described by us or FOH Holdings in such forward-looking statements, including, among other things:

- difficulties relating to the integration of our business and operations with FOH Holdings;
- competition;
- business conditions and industry growth;
- rapidly changing consumer preferences and trends;
- general economic conditions;
- reliance on vendors and service providers;
- large variations in sales volume with significant customers;
- the addition or loss of significant customers;
- continued compliance with government regulations;
- the loss of key personnel;
- labor practices;
- product development;
- management of growth;
- increases of costs of operations or inability to meet efficiency or cost reduction objectives;
- timing of orders and deliveries of products; and
- foreign government regulations and risks of doing business abroad.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this proxy statement.

All forward-looking statements included herein attributable to Movie Star, FOH Holdings or any person acting on either party's behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable laws and regulations, Movie Star and FOH Holdings undertake no obligations to update these forward-looking statements to reflect events or circumstances after the date of this proxy statement or to reflect the occurrence of unanticipated events.

Before you grant your proxy or instruct how your vote should be cast or vote on the proposals contained in this proxy statement, you should be aware that the occurrence of the events described in the ''Risk Factors'' section and elsewhere in this proxy statement could have a material adverse effect on the business, prospects, financial condition or operating results of Movie Star and/or FOH Holdings.

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SUMMARY OF THIS PROXY STATEMENT

This summary highlights selected information from this proxy statement and does not contain all of the information that may be important to you. To better understand the merger and related transactions, you should read this entire document carefully, including the merger agreement and the amendment to the merger agreement, which are attached as Annex A and Annex B, respectively, to this proxy statement. Except where the context otherwise requires, references to the merger agreement refer to the merger agreement, as amended. The merger agreement is the legal document that governs the merger and certain of the other transactions that will be undertaken in connection with the merger. It is also described in detail elsewhere in this proxy statement.

In this proxy statement, all references to ''Movie Star,'' ''we,'' ''us'' and ''our'' refer to Movie Star, Inc. and its subsidiaries, except where the context makes it clear that the reference is only to Movie Star itself and not its subsidiaries. Depending on the context, such references will either refer to (i) Movie Star, Inc. prior to giving effect to the merger or (ii) Movie Star, Inc. as the parent company following the merger. In this proxy statement, all references to ''FOH Holdings'' refer to FOH Holdings, Inc. and its subsidiaries prior to giving effect to the merger, except where the context makes it clear that the reference is only to FOH Holdings itself and not its subsidiaries. In this proxy statement, all references to ''Frederick's of Hollywood'' refer to Frederick's of Hollywood, Inc. and its subsidiaries prior to giving effect to the merger, except where the context makes it clear that the reference is only to Frederick's of Hollywood itself and not its subsidiaries. In this proxy statement, all references to the ''combined company'' refer to Movie Star, Inc. and its subsidiaries after giving effect to the merger, except where the context makes it clear that the reference is only to Movie Star itself and not its subsidiaries.

The Parties

Movie Star

Movie Star is a publicly traded corporation that designs, manufactures (through independent contractors), imports, markets and distributes women's intimate apparel to mass merchandisers, specialty and department stores, discount retailers, national and regional chains and direct mail catalog marketers throughout the United States. See ''The Parties to the Merger.''

Merger Sub

Fred Merger Corp. was organized on December 12, 2006 to effect a merger with FOH Holdings and is a wholly-owned subsidiary of Movie Star. We sometimes refer to Fred Merger Corp. as Merger Sub. See ''The Parties to the Merger.''

FOH Holdings

FOH Holdings is a privately-held company headquartered in Hollywood, California that has four subsidiaries that operate under the brand name ''Frederick's of Hollywood.'' Frederick's of Hollywood is a mall-based specialty retailer of women's intimate apparel and related products in the United States, and a direct retailer of intimate apparel and other women's apparel through its catalog and Internet operations. Frederick's of Hollywood currently operates 133 stores nationwide, operates an online store at www.fredericks.com and, in its 2006 fiscal year mailed approximately 27 million catalogs. Frederick's of Hollywood had net sales from continuing operations of approximately $138 million for the fiscal year ended July 29, 2006. See ''The Parties to the Merger.''

TTG Apparel

TTG Apparel is a Delaware limited liability company formed for the purpose of investing in Movie Star. The sole controlling person of TTG Apparel is Michael T. Tokarz, its manager. Mr. Tokarz is presently the controlling person of The Tokarz Group Advisors, LLC, an entity that manages MVC Capital, Inc., a business development company that is listed on the New York Stock Exchange. Mr. Tokarz does not directly own our common stock. TTG Apparel currently owns approximately 21.5% of our outstanding common stock. See ''The Parties to the Other Transactions Contemplated by the Merger.''

Tokarz Investments

Tokarz Investments is a Delaware limited liability company formed for the purpose of owning various Tokarz family investments. The sole controlling person of Tokarz Investments is Michael T. Tokarz, its manager. Mr. Tokarz does not directly own FOH Holdings common stock. Tokarz Investments currently owns approximately 50% of the common stock of FOH Holdings. See ‘‘The Parties to the Other Transactions Contemplated by the Merger.’’

Fursa

Fursa is a Delaware limited liability company and registered investment advisor that beneficially owns, on behalf of certain funds and accounts affiliated with, managed by, or over which Fursa or its affiliates exercises investment authority, including, without limitation, with respect to voting and dispositive rights, approximately 50% of the common stock of FOH Holdings. See ‘‘The Parties to the Other Transactions Contemplated by the Merger.’’

The Merger

The merger agreement provides for a business combination by means of a merger of Merger Sub with and into FOH Holdings in which FOH Holdings will be the surviving entity and become a wholly owned subsidiary of Movie Star. This will be accomplished through an exchange of all the issued and outstanding shares of capital stock of FOH Holdings for approximately 23.7 million shares of common stock of Movie Star.

We and FOH Holdings plan to complete the merger promptly after our special meeting, provided that:

- our shareholders have approved the stock issuance proposal, the increase in authorized common stock proposal, the name change proposal and the preferred stock proposal (all discussed below); and
- the other conditions specified in the merger agreement have been satisfied or waived.

See ‘‘The Merger Agreement—Closing and Effective Time of the Merger.’’

Merger Consideration

Upon completion of the merger, each stockholder of FOH Holdings will have the right to receive in exchange for its shares of common stock of FOH Holdings held at the effective time of the merger shares of our common stock equal to the product of (i) the number of shares of FOH Holdings common stock held by such stockholder of FOH Holdings immediately prior to the effective time of the merger multiplied by (ii) an exchange ratio of 17.811414. As a result of the merger, we anticipate issuing approximately 23.7 million shares of our common stock to the stockholders of FOH Holdings, 20% of which will initially be placed in escrow pursuant to the merger agreement and an escrow agreement and described in ‘‘The Merger Agreement—Escrow Arrangements’’ and ‘‘Other Transaction Documents—Escrow Agreement

Each share of FOH Holdings common stock issued and outstanding immediately prior to the effective time of the merger that is owned by FOH Holdings or any of its direct or indirect subsidiaries will, by virtue of the merger and without any action on the part of the holder thereof, cease to be outstanding, will be cancelled and retired without payment of any consideration therefor and will cease to exist. See ‘‘The Merger Agreement—Merger Consideration.’’

Escrow Agreement—Indemnification

In connection with the transactions contemplated by the merger agreement, we will enter into an escrow agreement with designated stockholder representatives of the holders of FOH Holdings common stock. Pursuant to the escrow agreement, 20% of the shares of our common stock to be issued to each stockholder of FOH Holdings in connection with the merger will be held in escrow to cover

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indemnification claims that may be brought by us for certain matters, including breaches of representations, warranties and covenants of FOH Holdings under the merger agreement. Shares remaining in escrow will be released following the 18-month anniversary of the effective time of the merger, subject to extension under certain circumstances. Similarly, treasury shares of our common stock representing 7.5% of the aggregate number of issued and outstanding shares of our common stock prior to the effective time of the merger will be deposited into escrow to cover any indemnification claims that may be brought by FOH Holdings' stockholders against Movie Star, which shares will be returned to us following the 18-month anniversary of the effective time of the merger, subject to certain conditions and to the extent not used to satisfy these indemnification claims. See ''The Merger Agreement—Escrow Arrangements'' and ''Other Transaction Documents—Escrow Agreement.''

Recommendations of Movie Star Special Committee and Board of Directors; Reasons for the Merger and Related Transactions

After careful consideration of the proposals summarized below, and upon the recommendation of our special committee, our board of directors has determined that the merger, the rights offering and the transactions contemplated thereby are fair to and in the best interests of Movie Star and its shareholders. In reaching its decision, our special committee received an opinion from Chanin on December 18, 2006, on which our board of directors was entitled to rely, that, as of such date, the merger consideration to be paid in the proposed merger with FOH Holdings was fair, from a financial point of view, to our shareholders.

Accordingly, our board of directors recommends that our shareholders vote:

- FOR the issuance of shares of our common stock in connection with the merger, the rights offering and other transactions contemplated by the merger agreement (stock issuance proposal);
- FOR an amendment to our certificate of incorporation to increase the number of authorized shares of our common stock from 30,000,000 to 200,000,000 shares (increase of authorized common stock proposal);
- FOR an amendment to our certificate of incorporation to change Movie Star's name to Frederick's of Hollywood Group Inc. (name change proposal);
- FOR an amendment to our certificate of incorporation to authorize the issuance of 10,000,000 shares of preferred stock and to establish the terms, rights, preferences and privileges of the Series A Preferred Stock (preferred stock proposal);
- FOR the authorization of our board of directors, in its discretion, to amend our certificate of incorporation to effect a reverse stock split of our outstanding common stock simultaneous with the closing of the merger within a range to be determined by our board of directors from 9 for 10 to 1 for 2, in order to satisfy the minimum price requirement of $2.00 per share for continued listing on the American Stock Exchange (reverse stock split proposal);
- FOR an amendment to our 2000 Performance Equity Plan to increase the number of shares of common stock available for issuance under the plan from 750,000 shares of common stock to 7,000,000 shares of common stock (2000 performance equity plan amendment proposal);
- FOR the election of eleven directors to serve from the effective time of the merger until the annual meeting to be held in 2008 and their successors are elected and qualified (director election proposal); and
-

FOR the adjournment of the special meeting to a later date or dates, if necessary, to permit further solicitation and vote of proxies in the event there are insufficient votes at the time of the special meeting to adopt any of the foregoing proposals (adjournment proposal).

See ‘‘Special Meeting in Lieu of the Annual Meeting of Movie Star Shareholders—Purpose of the Movie Star Special Meeting.’’

Date, Time and Place of Special Meeting of Movie Star Shareholders

The special meeting of the shareholders of Movie Star will be held at a.m., Eastern Time, on , 2007, at to consider and vote upon the stock issuance proposal, the

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increase of authorized common stock proposal, the name change proposal, the preferred stock proposal, the reverse stock split proposal, the 2000 performance equity plan amendment proposal, the adjournment proposal and the election of directors. See ‘‘Special Meeting in Lieu of the Annual Meeting of Movie Star Shareholders—Date, Time and Place.’’

Voting Power; Record Date; Quorum

You will be entitled to vote or direct votes to be cast at the special meeting if you owned shares of Movie Star common stock at the close of business on , 2007, which is the record date for the special meeting. You will have one vote for each share of Movie Star common stock you owned at the close of business on the record date. On the record date, shares of Movie Star common stock were outstanding, the only class of stock of Movie Star entitled to vote and the only class of stock of Movie Star that has been issued. See ‘‘Special Meeting in Lieu of the Annual Meeting of Movie Star Shareholders—Record Date; Who is Entitled to Vote.’’

A quorum of Movie Star shareholders is necessary to hold a valid meeting. A quorum will be present at the Movie Star special meeting if a majority of the outstanding shares entitled to vote at the meeting is represented in person or by proxy. Abstentions and broker non-votes will count as present for the purpose of establishing a quorum. See ‘‘Special Meeting in Lieu of the Annual Meeting of Movie Star Shareholders—Quorum.’’

Vote of Movie Star Shareholders

- Shareholder approval is not required for the merger itself under the NYBCL. However, under the rules of the American Stock Exchange, shareholder approval is required prior to the issuance of common stock in any transaction if
  - the number of shares of common stock, or securities convertible into common stock, to be issued will be, upon issuance, equal to or in excess of 20% of the number of shares of common stock outstanding prior to such issuance,
  - the common stock, or securities convertible into common stock, to be issued will be issued as consideration for an acquisition of the stock or assets of another company, provided that any director, officer or substantial shareholder of the acquiring listed company, directly or indirectly, has a 5% or greater interest in the acquired company or in the consideration to be paid in such transaction and the present or potential issuance of common stock, or

securities convertible into common stock, could result in an increase in outstanding common shares of 5% or more, or

- such transaction would involve the application of Section 341 of the American Stock Exchange Company Guide, which requires that a listed company being effectively acquired by an unlisted company as a result of a plan of acquisition, merger, or consolidation meet the American Stock Exchange's original listing standards.

Because the shares to be issued in connection with the merger and the rights offering and pursuant to the standby purchase agreement, together with the shares underlying the warrants that will be issued as consideration for the commitments of the Fursa Standby Purchasers, Tokarz Investments and TTG Apparel under the standby purchase agreement and Series A Preferred Stock that will be issued in exchange for the cancellation of certain indebtedness of FOH Holdings, will be in excess of 20% of the number of shares of our common stock outstanding prior to such issuances, your vote is required. Additionally, your vote is required because (i) the American Stock Exchange has informed us that Section 341 of the American Stock Exchange Guide would apply to the transactions contemplated by the merger agreement due to the structure of the proposed merger and (ii) an affiliate of TTG Apparel, our substantial shareholder, owns more than 5% of FOH Holdings. The approval of the stock issuance proposal will require the affirmative vote of both (i) the holders of a majority of the outstanding shares of Movie Star common stock on the record date and (ii) the holders of a majority of the shares of Movie Star common stock that are held by Movie Star's shareholders other than TTG Apparel

and its affiliates and associates on the record date. Abstentions from voting with respect to this proposal and shares which are subject to shareholder withholding or broker non-vote will have the same effect as a vote against the stock issuance proposal. See ''The Merger and Related Transactions.''

- Under the merger agreement, the approval of the increase of authorized common stock proposal will require the affirmative vote of both (i) the holders of a majority of the outstanding shares of Movie Star common stock on the record date and (ii) the holders of a majority of the shares of Movie Star common stock that are held by Movie Star's shareholders other than TTG Apparel and its affiliates and associates on the record date. Abstentions from voting with respect to this proposal and shares which are subject to shareholder withholding or broker non-vote will have the same effect as a vote against the increase of authorized common stock proposal. See ''Increase of Authorized Common Stock Proposal.''
- Under the merger agreement, the approval of the name change proposal will require the affirmative vote of both (i) the holders of a majority of the outstanding shares of Movie Star common stock on the record date and (ii) the holders of a majority of the shares of Movie Star common stock that are held by Movie Star's shareholders other than TTG Apparel and its affiliates and associates on the record date. Abstentions from voting with respect to this proposal and shares which are subject to shareholder withholding or broker non-vote will have the same effect as a vote against the name change proposal. See ''Name Change Proposal.''
- Under the merger agreement, the approval of the preferred stock proposal will require the affirmative vote of both (i) the holders of a majority of the outstanding shares of Movie Star common stock on the record date and (ii) the holders of a majority of the shares of Movie Star common stock that are held by Movie Star's shareholders other than TTG Apparel and its affiliates and associates on the record date. Abstentions from voting with respect to this

proposal and shares which are subject to shareholder withholding or broker non-vote will have the same effect as a vote against the preferred stock proposal. See ‘‘Preferred Stock Proposal.’’

- The approval of the reverse stock split proposal will require the affirmative vote of the holders of a majority of the outstanding shares of Movie Star common stock on the record date. Abstentions from voting with respect to this proposal and shares which are subject to shareholder withholding or broker non-vote will have the same effect as a vote against the reverse stock split proposal. See ‘‘Reverse Stock Split Proposal.’’
- The approval of the 2000 performance equity plan amendment proposal will require the affirmative vote of the holders of a majority of the shares of Movie Star common stock represented in person or by proxy and entitled to vote at the special meeting. Abstentions from voting with respect to this proposal and shares which are subject to shareholder withholding or broker non-vote will not be counted in determining the number of votes required for a majority and will therefore have no effect on such vote. See ‘‘2000 Performance Equity Plan Amendment Proposal.’’
- The election of directors requires a plurality vote of the shares of common stock present in person or represented by proxy and entitled to vote at the special meeting. ‘‘Plurality’’ means that the individuals who receive the highest number of votes cast ‘‘FOR’’ election are elected as directors. Any shares not voted ‘‘FOR’’ a particular nominee (whether as a result of abstentions, a direction to withhold authority or a broker non-vote) will not be counted in the nominee’s favor. See ‘‘Director Election Proposal.’’
- The approval of the adjournment proposal will require the affirmative vote of the holders of a majority of the shares of Movie Star common stock represented in person or by proxy and entitled to vote at the special meeting. Abstentions from voting with respect to this proposal and shares which are subject to shareholder withholding or broker non-vote will not be counted in determining the number of votes required for a majority and will therefore have no effect on such vote. See ‘‘Adjournment Proposal.’’

The approval of the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal and the preferred stock proposal are conditions to the consummation of the

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merger. The approval of the reverse stock split proposal, the 2000 performance equity plan amendment proposal and the director election proposal are not conditions to the consummation of the merger, but are being proposed in connection with the merger and will not be presented at the meeting for a vote if the proposals that are conditions to the merger are not approved. If the stock issuance proposal or the increase of authorized common stock proposal is not approved, we cannot effect the merger or the other transactions contemplated by the merger agreement. If the name change proposal or the preferred stock proposal is not approved, absent a waiver by FOH Holdings and us, we cannot effect the merger or the other transactions contemplated by the merger agreement.

Voting Agreement

In connection with the merger agreement, we entered into a voting agreement with TTG Apparel, pursuant to which it has agreed to certain matters, including (i) to vote in favor of the transactions contemplated by the merger agreement, including, without limitation, the approval of the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal and the preferred stock proposal and (ii) to not transfer shares of our common stock without our prior written consent. The voting agreement and the obligations of TTG Apparel, as well as the irrevocable proxy signed by TTG Apparel, will terminate upon the earlier to occur of (i) the effective time of the merger and (ii) the date of termination of the merger agreement in accordance with its terms. See ‘‘Other Transaction Documents—Voting Agreement.’’

Approval by the FOH Holdings Stockholders

All of the stockholders of FOH Holdings have approved and adopted the merger agreement and the transactions contemplated thereby by virtue of the execution of an unanimous written consent of such stockholders. No further action is required to be taken by FOH Holdings' stockholders to approve the merger and related transactions. See ‘‘The Merger Agreement—General; Structure of Merger.’’

Appraisal Rights

Movie Star shareholders do not have appraisal rights in connection with the merger or the reverse stock split under the NYBCL. See ‘‘Special Meeting in Lieu of the Annual Meeting of Movie Star Shareholders—Appraisal Rights’’ and ‘‘Reverse Stock Split Proposal—No Appraisal Right.’’

Proxies

Proxies may be solicited by mail, telephone or in person. Movie Star has engaged Morrow & Co., Inc. to assist in the solicitation of proxies. See ‘‘Special Meeting in Lieu of the Annual Meeting of Movie Star Shareholders—Proxy Solicitation Costs.’’

If you grant a proxy, you may still vote your shares in person if you revoke your proxy before the special meeting. See ‘‘Special Meeting in Lieu of the Annual Meeting of Movie Star Shareholders— Revoking Your Proxy.’’

The Certificate of Incorporation Amendments

If the increase of authorized common stock proposal, the name change proposal and the preferred stock proposal are approved, upon consummation of the merger, we will file a restated certificate of incorporation, substantially in the form attached to this proxy statement as Annex D, with the Secretary of State of the State of New York. The material changes to be made to the restated certificate of incorporation will:

- increase the number of shares of common stock we are authorized to issue from 30,000,000 to 200,000,000 shares for purposes of effecting the rights offering and completing the merger;
- change Movie Star's name to Frederick's of Hollywood Group Inc.; and
- authorize the issuance of up to 10,000,000 shares of preferred stock and to establish the terms, rights, preference and privileges of the Series A Preferred Stock.

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See ‘‘Increase of Authorized Common Stock Proposal,’’ ‘‘Name Change Proposal’’ and ‘‘Preferred Stock Proposal.’’

Reverse Stock Split

Our board of directors has unanimously approved a proposal, subject to shareholder approval, to amend our certificate of incorporation if our board of directors determines, in its discretion, to implement a reverse stock split of our common stock simultaneous with the closing of the merger within a range to be determined by our board of directors from 9 for 10 to 1 for 2, in order to satisfy the minimum price requirement of $2.00 per share for continued listing on the American Stock Exchange. This means that if our board of directors were to select a ratio of 9 for 10, for every 10 shares of common stock held by a shareholder before the reverse stock split, such shareholder would receive nine shares of common stock immediately after the reverse stock split. If our board of directors were to select a ratio of 1 for 2, for every 2 shares of common stock held by a shareholder before the reverse stock split, such shareholder would receive one share of common stock immediately after the reverse stock split. Pursuant to Section 341 of the American Stock Exchange Company Guide, the American Stock Exchange requires that a listed company being effectively acquired by an unlisted company as a result of a plan of acquisition, merger, or consolidation meet the American Stock Exchange's original listing standards. Due to the structure of the proposed merger through which FOH Holdings' stockholders will be the majority shareholders of the combined company immediately following the effective time of the merger, the American Stock Exchange has informed us that we would be obligated to satisfy the American Stock Exchange's original listing standards which, among other things, require that our shares of common stock have a bid price of at least $2.00 per share. A range for the reverse stock split is being proposed instead of a specific ratio since the price at which our common stock trades may fluctuate between now and the time the reverse stock split is implemented, if at all. Based on the proposed range of ratio, as few as 1.1 shares or as many as 2 shares of our common stock would be combined into one new share. Our board also may choose not to implement the reverse stock split at all. See ''Reverse Stock Split Proposal.''

Amendment to the 2000 Performance Equity Plan

Our 2000 Performance Equity Plan was adopted by our board of directors on February 21, 2000 and by our shareholders on November 28, 2000. The plan covers 750,000 shares of our common stock, and our officers, directors, employees and consultants are eligible to receive incentive or non-qualified stock options, stock appreciation rights, restricted stock awards, deferred stock, stock reload options and other stock-based awards. As of May 15, 2007, 125,649 shares of our common stock are available under the plan for future grants. Our board of directors proposes to amend the plan to increase the number of shares issuable under the plan to 7,000,000 shares. Our board believes that the increase in the size of the plan is necessary in connection with the merger to cover currently outstanding FOH Holdings options, the shares of common stock to be issued and the options to be granted to Performance Enhancement Partners, LLC under the consulting agreement with Performance Enhancement Partners, LLC and to enable us to continue to attract and retain employees, consultants and board members of the highest caliber and provide increased incentive for them to promote our business interests through the grant of options. The plan and the proposed amendment to the plan are attached as Annex E to this proxy statement. We encourage you to read the plan in its entirety. See ''2000 Performance Equity Plan Amendment Proposal.''

Standby Purchase Agreement; Rights Offering

In connection with the merger agreement, our shareholders will have the opportunity to purchase shares of our common stock at a 15% discount through our offering of non-transferable rights to purchase shares of our common stock. If all such rights are exercised, we will raise aggregate proceeds of $20 million. We expect to close the rights offering immediately following the effective time of the merger. We have filed a Registration Statement on Form S-1 (No. 333-   ) with the SEC for the registration of such securities under the Securities Act. We have entered into a standby purchase agreement with the Fursa Standby Purchasers, Tokarz Investments, TTG Apparel and Fursa, pursuant to which the Fursa Standby Purchasers, Tokarz Investments and TTG Apparel have each agreed to purchase unsubscribed shares. As

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necessary, the Fursa Standby Purchasers have agreed to purchase, on a several, but not on a joint and several basis, 50% of such unsubscribed shares, and Tokarz Investments and TTG Apparel have agreed to purchase the remaining 50% of such unsubscribed shares. As consideration for these commitments, we will issue warrants with an exercise price equal to the subscription price of the shares to be offered through the rights offering, representing the right to purchase in the aggregate shares of our common stock, or 10.5% of the total number of new shares to be offered in the rights offering. See ‘‘Other Transaction Documents—Standby Purchase Agreement—Rights Offering’’ and ‘‘Other Transaction Documents—Standby Purchase Agreement—Guarantor Warrants.’’

FOH Holdings’ Stockholders Agreement

Following the execution and delivery of the merger agreement, we entered into a stockholders agreement with FOH Holdings, Fursa, the Fursa Managed Accounts and Tokarz Investments, pursuant to which the Fursa Managed Accounts holding FOH Holdings common stock and Tokarz Investments agreed, among other things, to vote to adopt the merger agreement and approve the transactions contemplated thereby, to not transfer any shares of common stock owned by them prior to the effective time of the merger other than in connection with the merger or to their affiliates or managed funds and accounts, and to not solicit or accept any third party proposals involving a merger or acquisition of FOH Holdings. See ‘‘Other Transaction Documents—FOH Holdings’ Stockholders Agreement.’’

Pursuant to the FOH Holdings’ stockholders agreement, the Fursa Debt Holders, in their capacities as holders of FOH Holdings’ indebtedness, agreed with us that, in connection with the consummation of the transactions contemplated by the merger agreement, they would cancel $7.5 million of such indebtedness in exchange for the issuance of shares of our new Series A Preferred Stock. See ‘‘Other Transaction Documents — FOH Holdings’ Stockholders Agreement—Series A Preferred Stock.’’

Registration Rights Agreement

In connection with the consummation of the transactions contemplated by the merger agreement, we will enter into a registration rights agreement with Fursa (on its behalf and on behalf of the Fursa Managed Accounts), Tokarz Investments and TTG Apparel, pursuant to which we will grant certain demand and ‘‘piggyback’’ registration rights for the securities that those entities will receive in connection with the merger and related transactions. See ‘‘Other Transaction Documents—Registration Rights Agreement.’’

Shareholders Agreement

Pursuant to an agreement to be entered into in connection with the consummation of the transactions contemplated by the merger agreement, during the 18-month period following the merger, Tokarz Investments, TTG Apparel and Fursa (on its behalf and on behalf of the Fursa Managed Accounts) will each agree to vote for the combined company’s directors and, further, will each agree, among other things, to certain restrictions on (i) acting together with respect to their shares of our common stock, (ii) increasing their ownership positions in the merged entity and (iii) transferring their holdings in our securities. See ‘‘Other Transaction Documents—Shareholders Agreement.’’

The Director Election Proposal; Management of the Combined Company Following the Consummation of the Merger

As a result of the merger, Merger Sub will be merged with and into FOH Holdings and will cease to exist. FOH Holdings and Movie Star will each survive the merger, with FOH Holdings becoming a wholly owned subsidiary of Movie Star. See ‘‘The Merger Agreement—General; Structure of the Merger.’’

At the special meeting, eleven directors will be elected to Movie Star's board of directors and will serve from the effective time of the merger until the annual meeting to be held in 2008 and their successors are elected and qualified.

In connection with its approval of the merger and other transactions contemplated by the merger agreement, our board of directors approved an increase of the number of directors constituting the full

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board from seven to eleven, which will be effective at the effective time of the merger. At the effective time of the merger, if management's nominees are elected, the directors of the combined company will be Peter Cole, John L. Eisel, Melvyn Knigin, Michael A. Salberg and Joel M. Simon, all currently serving as directors of Movie Star, Thomas Rende, the Chief Financial Officer of Movie Star and a former member of Movie Star's board of directors, William F. Harley, Linda LoRe, Rose Peabody Lynch and Milton J. Walters, all currently serving as directors of FOH Holdings, and Thomas J. Lynch, Chief Executive Officer of Fursa. If the merger is not consummated, our existing directors will continue to serve as directors of Movie Star. See ''The Merger Agreement—Election of Directors and Appointment of Executive Officers'' and ''Director Election Proposal.''

After the merger, in accordance with the merger agreement, the newly constituted board of directors of the combined company is expected to appoint Peter Cole as our Executive Chairman, Thomas Rende as our Chief Financial Officer, Melvyn Knigin as the President and Chief Executive Officer of the Movie Star division and Linda LoRe as the President and Chief Executive Officer of the Frederick's of Hollywood division. See ''The Merger Agreement—Election of Directors and Appointment of Executive Officers.''

The merger agreement provides for an amendment to our bylaws in connection with the consummation of the merger, pursuant to which during the 18-month period following the merger, certain material transactions not in the ordinary course or actions that affect capital structure or securities will require the approval of 75% of our directors. See ''The Merger Agreement—Amended and Restated Bylaws.''

If the proposals that are conditions to the merger are not approved by Movie Star's shareholders at the special meeting, the director election proposal will not be presented at the meeting for a vote and Movie Star's current directors will continue in office until the election of directors at our next annual meeting of shareholders and their successors are elected and qualified.

Interests of Movie Star Directors and Officers in the Merger and Related Transactions

When you consider the recommendation of Movie Star's board of directors in favor of the proposals included in this proxy statement, you should be aware that certain members of Movie Star's board of directors have agreements or arrangements that provide them with interests in the merger and the related transactions that differ from, or are in addition to, your interests as a shareholder generally. In particular:

- On April 9, 2007, we entered into a consulting agreement with Performance Enhancement Partners, LLC (''Consultant''), pursuant to which the Consultant provides us with the personal services of Peter Cole, a current member of our board of directors and the sole member of the Consultant, to (i) act as the lead member of our board to facilitate the timely and successful completion of the merger, the rights offering and other transactions contemplated by the merger agreement and (ii) serve as the Executive Chairman of the combined company following the closing of the merger until July 26, 2008. We have the option to extend the consulting agreement for up to two additional six-month periods. The consulting agreement provides for the Consultant to receive a base consulting fee at the annual rate of $400,000, payable in four equal quarterly installments in arrears, the first payment having been made on April 12, 2007. For the year ending July 28, 2007, the Consultant will be entitled to receive an additional consulting fee, as determined on a discretionary basis by our board. For the year ending July 26, 2008, the Consultant will be entitled to receive an additional consulting fee of a minimum of $100,000 in accordance with the terms of a bonus plan expected to be adopted by the compensation committee following the closing of the merger. Mr. Cole is required to devote substantially all of his business time, energies and attention to the business and affairs of Movie Star (and the combined company following the merger) in the performance of his duties under the consulting agreement.

On the closing date of the merger, we will (i) issue to the Consultant 100,000 shares of our common stock under the 2000 Performance Equity Plan and (ii) grant to the Consultant a five-year option to purchase 275,000 shares of our common stock under the 2000 Performance Equity Plan at an exercise price equal to the last sale price of our common stock on the closing date of the merger. 75,000 of the shares underlying the option will vest on the date of grant and

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100,000 shares will vest on each of January 3, 2008 and July 26, 2008. We also will grant to the Consultant under the 2000 Performance Equity Plan five-year non-qualified options to purchase an aggregate of 100,000 shares of our common stock, with each grant of 50,000 shares to be made on the commencement date of each six-month extension period, if applicable, at an exercise price equal to the last sale price of our common stock on the date of grant. Each grant of 50,000 shares will vest on the six-month anniversary of the commencement date of the applicable extension period. In order to issue the shares of common stock and grant the stock options to the Consultant in accordance with the terms of the consulting agreement, the 2000 Performance Equity Plan must be amended to increase the number of shares available for issuance thereunder, which amendment will require shareholder approval, which is being sought at the special meeting. See ‘‘2000 Performance Equity Plan Amendment Proposal.’’

The consulting agreement provides that if the merger agreement is terminated or the Consultant terminates the consulting agreement for ‘‘Good Reason’’ (as defined in the consulting agreement) prior to the closing of the merger, we will pay the Consultant the base consulting fee through September 30, 2007, net of any additional consulting fee awarded and paid to the Consultant for the year ending July 28, 2007. The consulting agreement also provides that if, following the closing of the merger, we terminate the Consultant without ‘‘Cause’’ or the Consultant terminates the consulting agreement for ‘‘Good Reason’’, we will pay to the Consultant the base consulting fee through July 26, 2008 or the end of the applicable extension period, as the case may be, and any additional consulting fee which would have become payable under the consulting agreement for the year ending July 26, 2008 or the applicable extension period, as the case may be. Additionally, options that have been granted and would otherwise have vested shall immediately vest upon such termination.

Additionally, FOH Holdings has agreed that if the merger agreement is terminated for any reason other than by FOH Holdings as a result of an Adverse Recommendation Change (as defined below in ‘‘The Merger Agreement—Restrictions on Solicitations of Other Offers Concerning Movie Star’’), a Parent Acquisition Proposal (as defined below in ‘‘The Merger Agreement—Restrictions on Solicitations of Other Offers Concerning Movie Star’’) or certain breaches of representations, warranties, covenants or agreements made by us or Merger Sub, as more fully described below in ‘‘The Merger Agreement—Termination,’’ FOH Holdings will reimburse us for one half of the base consulting fee paid to

Consultant (or earned and previously unpaid to Consultant) under the consulting agreement prior to such termination.

- Saul Pomerantz, Chief Operating Officer of Movie Star, and Thomas Rende, Chief Financial Officer of Movie Star, who were directors of Movie Star at the time we entered into the merger agreement, hold certain options to purchase 280,000 and 105,000 shares of Movie Star common stock, respectively. These options are fully vested and exercisable. Pursuant to the terms of their respective option agreements, in the event of any merger, reorganization, consolidation, recapitalization, dividend (other than cash dividend), stock split, reverse stock split, or other change in corporate structure affecting the number of issued shares of Movie Star common stock, we are required to proportionately adjust the number and kind of option shares and the exercise price of the options in order to prevent dilution or enlargement of the optionee's proportionate interest in Movie Star. Accordingly, upon completion of the merger, Mr. Pomerantz will be entitled to receive options to purchase an additional 420,000 shares of our common stock and Mr. Rende will be entitled to receive options to purchase an additional 157,500 shares of our common stock. The number and kind of option shares and the exercise price of other options held by Messrs. Pomerantz and Rende will not be adjusted as a result of the merger.
- As a result of our entering into the consulting agreement with Performance Enhancement Partners, Peter Cole no longer qualified as an ''independent'' director under the rules of the American Stock Exchange, which rules also require that a majority of our directors qualify as ''independent.'' In order for us to remain in compliance with this requirement, Messrs. Pomerantz and Rende resigned from our board of directors at the time we entered into the consulting agreement with Performance Enhancement Partners. Mr. Rende is included among management's nominees to become a director of the combined company.

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Regulatory Matters

The merger and the transactions contemplated by the merger agreement are not subject to any additional federal or state regulatory requirement or approval other than filings with the states of Delaware and New York, which will be necessary to effect the transactions contemplated by the merger agreement, and filings of notification and report forms with the Department of Justice and the Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the ''HSR Act''), which we and FOH Holdings may be required to make.

Conditions to the Closing of the Merger

Our obligations under the merger agreement, as well as the obligations of each of FOH Holdings and Merger Sub under the merger agreement, are subject to the satisfaction or waiver of a number of conditions, which are set out in more detail in ''The Merger Agreement—Conditions to Closing of the Merger,'' including the following:

- any party to the merger agreement may elect not to consummate the merger if:
  - the stock issuance proposal and the increase of authorized common stock proposal have not been approved by (i) the holders of a majority of the outstanding shares of our common stock and (ii) holders of the majority of the outstanding shares of our common stock that are held by our shareholders other than TTG Apparel and its affiliates or associates;

- all consents, authorizations or approvals required from any third parties, including Wells Fargo Retail Finance, LLC or CIT Commercial Service to the extent they hold indebtedness of FOH Holdings, us or any of our respective subsidiaries that has not been refinanced, are not obtained, other than those which the failure to obtain would not, individually or in the aggregate, have a material adverse effect on FOH Holdings or us, as applicable, or result in a criminal violation;
- there shall have been any judgment, decree or similar ruling which would prohibit or render illegal the merger or the transactions contemplated by the merger agreement or the standby purchase agreement;
- the registration statement for the rights offering has not been filed with the SEC and declared effective and all requests from the SEC have not been complied with and all conditions to our issuing shares of our common stock in the rights offering have not been satisfied or waived;
- the directors' and officers' liability insurance as mutually agreed to by FOH Holdings and us, subject to the potential increase in the limit of liability to $25,000,000, is not available to our officers and directors; or
- a filing is made under the HSR Act, the waiting period under the HSR Act and any other material antitrust laws shall not have expired or a voluntary agreement between us or FOH Holdings and the Federal Trade Commission or the Department of Justice shall have been entered into pursuant to which we or FOH Holdings has agreed not to consummate the merger for a period of time.

- We and Merger Sub may elect not to consummate the merger if:
  - FOH Holdings' representations and warranties under the merger agreement, the standby purchase agreement and the shareholders agreement, are not true and correct in all material respects when made and on the closing date, subject to certain exceptions, and the representations and warranties of the Fursa Standby Purchasers, Tokarz Investments and TTG Apparel set forth in the standby purchase agreement are not true and correct in all material respects when made and on the closing date, subject to certain exceptions;
  - FOH Holdings does not perform and comply in all material respects with its obligations and covenants under the merger agreement prior to the closing of the transactions contemplated thereby;

  - any of the Fursa Standby Purchasers, Tokarz Investments and TTG Apparel does not deliver its portion of the aggregate purchase price for the applicable number of unsubscribed shares from the rights offering;
  - after the execution of the merger agreement, FOH Holdings experiences a change which would constitute a material adverse effect with respect to its (i) assets, liabilities, business, financial condition or results of operations or (ii) ability to consummate the transactions contemplated by the merger agreement in a timely fashion, subject to certain exceptions; or
  - executed versions of the stockholders agreement and the shareholders agreement shall not have been delivered by the stockholders of FOH Holdings.
- FOH Holdings may elect not to consummate the merger if:
  - our representations and warranties, as well as those of Merger Sub, under the merger agreement, the standby purchase agreement and the shareholders agreement, are not true and correct in all material respects when made and on the closing date, subject to certain

exceptions;

- we and Merger Sub do not perform and comply in all material respects with our respective obligations and covenants under the merger agreement prior to the closing of the transactions contemplated thereby;
- after the execution of the merger agreement, we experience a change which would constitute a material adverse effect with respect to our (i) assets, liabilities, business, financial condition or results of operations or (ii) ability to consummate the transactions contemplated by the merger agreement in a timely fashion, subject to certain exceptions; or
- executed versions of the shareholders agreement, the registration rights agreement and the guarantor warrants shall not have been delivered by us.

Termination

The merger agreement may be terminated at any time prior to the effective time of the merger:

- by mutual written consent duly authorized by FOH Holdings and us;
- by either FOH Holdings or us if:
  - the merger has not been consummated by December 31, 2007;
  - there is any final and non-appealable judgment, decree, injunction or similar action that makes consummation of the merger illegal or otherwise prohibited; or
  - the majority of our outstanding shares of common stock and the majority of the shares of our common stock that are held by our shareholders other than TTG Apparel and its affiliates or associates do not approve any of the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal or the preferred stock proposal at a duly held shareholders meeting (after giving effect to all adjournments or postponements thereof).
- by FOH Holdings if, among other things:
  - our board of directors makes, or approves a resolution or authorizes or agrees to make, an Adverse Recommendation Change or if we have entered into an agreement that contains a Parent Acquisition Proposal; or
  - there is a breach of any representation, warranty, covenant or agreement made by us or Merger Sub in the merger agreement such that:
    - such representation and warranty shall not be true and correct in all material respects (or in all respects for such representations and warranties qualified as to materiality) on the date of the merger agreement or on the date of the closing of the transactions contemplated by the merger agreement; or

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- neither we nor Merger Sub shall have performed or complied, in all material respects, with all obligations and covenants that either of us is required to perform or comply with under the merger agreement prior to the closing of the transactions contemplated thereby

and such breach or failure to be true and correct cannot be cured by December 31, 2007.

- by us if, among other things:
  - FOH Holdings breaches any representation, warranty, covenant or agreement made by it in the merger agreement such that:

- such representation and warranty shall not be true and correct in all material respects (or in all respects for such representations and warranties qualified as to materiality) on the date of the closing of the transactions contemplated by the merger agreement, or
- FOH Holdings shall not have performed or complied, in all material respects, with all obligations and covenants that it is required to perform or comply with under the merger agreement prior to the closing of the transactions contemplated thereby

and such breach or failure to be true and correct cannot be cured by December 31, 2007;

- at any time prior to obtaining the approval by our shareholders, our board of directors (as approved by its special committee) resolves to enter into a definitive agreement containing a Parent Acquisition Proposal so long as: (i) our board of directors shall have determined in good faith that such Parent Acquisition Proposal constitutes a Superior Proposal (as defined below in ‘‘The Merger Agreement—Restrictions on Solicitations of Other Offers Concerning Movie Star’’); and (ii) prior to terminating the merger agreement, we shall, and shall cause our financial and legal advisors to, negotiate with FOH Holdings in good faith for five business days to make such improvements in the terms and conditions of the merger agreement so that such Parent Acquisition Proposal ceases to constitute a Superior Proposal; or
- FOH Holdings fails to prepare and deliver, by January 31, 2007, to Merger Sub and us consolidated balance sheets as of July 31, 2004, July 30, 2005 and July 29, 2006, and the related consolidated statements of income and cash flows for the years ended July 31, 2004, July 30, 2005 and July 29, 2006 of FOH Holdings and its subsidiaries, together with a signed unqualified audit report from Deloitte & Touche LLP, or such audited financial statements delivered shall contain any change or changes, other than changes specified in the merger agreement, that, in our reasonable judgment, are material and adverse changes, when taken as a whole from the financial statements delivered by FOH Holdings concurrently with the execution of the merger agreement. As more fully described under the section entitled ‘‘The Merger and Related Transactions— Background of the Merger and Related Transactions,’’ we have delivered a notice to FOH Holdings reserving our right to terminate the merger agreement prior to the effective time, as a result of FOH Holdings’ failure to deliver the aforementioned financial statements by January 31, 2007. See ‘‘The Merger Agreement—Termination.’’

Tax Consequences of the Merger

The merger is expected to qualify as a tax-free transaction to Movie Star under the provisions of Section 1032 of the Internal Revenue Code of 1986, as amended (the ‘‘Code’’), as an issuance of stock in exchange for property (i.e., the stock of FOH Holdings). However, as a result of the merger, our ability to use the net operating losses that we incurred prior to the merger will be limited on an annual basis. The ability of FOH Holdings to use its net operating losses that it incurred prior to the merger may also be limited. For a description of the material federal income tax consequences of the merger, please see the information set forth in ‘‘The Merger and Related Transactions—Material Federal Income Tax Consequences of the Merger.’’

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Accounting Treatment

The merger of FOH Holdings and Movie Star will be accounted for under the purchase method of accounting as a reverse acquisition with FOH Holdings being treated as having acquired Movie Star as of the date of the completion of the merger. For a more detailed description of purchase accounting, see ‘‘The Merger and Related Transactions—Anticipated Accounting Treatment.’’

Risk Factors

In evaluating the proposals included in this proxy statement, you should carefully read this proxy statement and especially consider the factors discussed in the section entitled ‘‘Risk Factors.’’

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RISK FACTORS

You should carefully consider the following risk factors, together with all of the other information included in this proxy statement, before you decide whether to vote or instruct your vote to be cast to adopt the proposals being discussed in this proxy statement.

The value of your investment in us following consummation of the merger will be subject to the significant risks inherent in the intimate apparel business. If any of the events described below occur, the business, financial condition and results of operation of the combined company could be adversely affected. This could cause the trading price of the combined company’s common stock to decline, perhaps significantly, and you therefore may lose all or part of your investment.

Risks Relating to the Merger

The value of our shares of common stock to be issued to FOH Holdings’ stockholders will fluctuate; the shares being issued to FOH Holdings may be at a higher purchase price than we anticipated paying to the FOH Holdings stockholders depending on fluctuations in the price of our common stock.

The number of shares of our common stock to be issued in the merger for each share of FOH Holdings common stock was fixed at the time we entered into the merger agreement. As a result of changes in our business, operations or prospects, market assessments of the likelihood that the merger will be completed, the timing of the completion of the merger, the prospects of post-merger operations, general market and economic conditions and other factors, the per share price of our common stock upon the consummation of the merger may be considerably higher or lower than the per share price on the date of this proxy statement, on the date of the special meeting of our shareholders or on the date of our board’s approval of the merger and related transactions. Because the exchange ratio will not be adjusted to reflect any changes in the market value of our common stock, if the market value of our common stock should rise considerably, the purchase price we pay may be considerably higher than we originally anticipated when the merger agreement was executed. During the 12-month period ending on June 6, 2007, our common stock traded in a range from a low of $0.67 to a high of $3.50 and ended that period at $2.21. See ‘‘Price Range of Movie Star Common Stock and Dividends’’ on page 179 for more detailed share price information.

The combined company may fail to realize some or all of the anticipated benefits of the merger.

The success of the merger will depend, in part, on the combined company's ability to achieve the anticipated synergies and other strategic benefits from combining our business with Frederick's of Hollywood. To realize these anticipated benefits, we must successfully combine our business with FOH Holdings. We may not be able to achieve these objectives, and the anticipated cost synergies and other strategic benefits of the merger may not be realized fully, or at all, or may take longer to realize than expected. The combined company may fail to realize some or all of the anticipated benefits of the transaction for a number of reasons, including that the integration may take longer than anticipated, be more costly than anticipated or have unanticipated adverse results relating to either of the existing businesses.

Pursuant to the standby purchase agreement, TTG Apparel, Tokarz Investments and the Fursa Standby Purchasers agreed to purchase any shares of our common stock not subscribed for in the rights offering, which would enable them to materially influence the election of our directors and other major corporate decisions requiring the approval of our shareholders.

TTG Apparel currently owns approximately 21.5% of our outstanding common stock and, at the effective time of the merger, TTG Apparel, together with Tokarz Investments, will own approximately 38.4% (32.4% if the shares of Movie Star common stock to be contributed into escrow are excluded) of the combined company's outstanding common stock, prior to giving effect to any shares purchased under their Standby Purchase Commitment. At the effective time of the merger, Fursa will beneficially own approximately 29.5% of the combined company's outstanding common stock (23.6% if the shares of Movie Star common stock to be contributed into escrow are excluded), prior to giving effect to any shares purchased under its Standby Purchase Commitment or the issuance of the Series A Preferred Stock.

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Pursuant to the standby purchase agreement, if and to the extent any shares of our common stock are not subscribed for in the rights offering, the Fursa Standby Purchasers have agreed to purchase, on a several but not on a joint and several basis, 50% of such amount of unsubscribed shares and TTG Apparel and Tokarz Investments have agreed to purchase the remaining 50% of such amount of unsubscribed shares. Further, as sole consideration for the commitments by the parties entering into the standby purchase agreement with us, we will issue warrants representing the right to purchase, in the aggregate, shares of our common stock. If no Movie Star shareholder participates in the rights offering, TTG Apparel, together with Tokarz Investments, would then beneficially own in the aggregate % of the combined company's outstanding common stock, after giving effect to the shares purchased under their Standby Purchase Commitment and the issuance of the guarantor warrants and the Fursa Standby Purchasers would then beneficially own in the aggregate % of the combined company's outstanding common stock, after giving effect to the shares purchased under their Standby Purchase Commitment, the issuance of the guarantor warrants and the issuance of the Series A Preferred Stock.

This substantial ownership of the combined company's common stock would enable TTG Apparel, Tokarz Investments and the Fursa Standby Purchasers to significantly influence the election of the combined company's directors and other significant corporate decisions and transactions with respect to which the combined company's shareholders are entitled to vote, subject to the limitations on their abilities to act together for 18 months following the consummation of the merger as provided in the shareholders agreement and subject to those actions that will require a super-majority vote of the combined company's directors during such 18-month period. See ''Other Transaction Documents— Standby Purchase Agreement,'' ''Other Transaction Documents—Standby Purchase Agreement—Rights Offering,'' ''Other Transaction Documents—Standby Purchase Agreement—Guarantor Warrants,'' ''Other Transaction

Documents—Shareholders Agreement'' and ''The Merger Agreement—Amended and Restated Bylaws.''

The failure to integrate successfully in a timely manner our business and operations and those of Frederick's of Hollywood may adversely affect the combined company's future results.

Historically, we and Frederick's of Hollywood have operated as independent companies, and will continue to do so until the completion of the merger. The management of the combined company may face significant challenges in consolidating our functions with Frederick's of Hollywood and its subsidiaries, integrating its technologies, organizations, procedures, policies and operations, as well as addressing differences in the business cultures of the two companies and retaining key personnel. These tasks will be complex and time consuming, and will require substantial resources and effort. The integration process and other disruptions resulting from the merger may also disrupt each company's ongoing business or cause inconsistencies in standards, controls, procedures and policies that adversely affect our and Frederick's of Hollywood's relationships with customers, suppliers and other market participants, employees and others with whom we or Frederick's of Hollywood have business or other dealings.

The fairness opinion obtained by our special committee will not reflect changes in circumstances during the period between when the merger agreement was signed and the merger is consummated.

Our special committee has not obtained an updated opinion from Chanin as of the date of this proxy statement. Changes in our or Frederick's of Hollywood's operations and prospects, general market and economic conditions and other factors which may be beyond our control or the control of Frederick's of Hollywood and on which the fairness opinion was based, may alter the value of Movie Star or Frederick's of Hollywood or the price of shares of our common stock by the time the merger is completed. The opinion is based on the information in existence on the date delivered and will not be updated as of the time the merger is consummated. Since we do not intend to obtain an updated opinion, the opinion given at the time the merger agreement was signed does not address the fairness of the merger consideration from a financial point of view at the time of the special meeting of our shareholders or at the time the merger is completed. For a description of the opinion given by Chanin in connection with this merger, please refer to ''The Merger and Related Transactions—Opinion of Financial Advisor to Special Committee.''

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The merger agreement limits our ability to pursue alternatives to the merger.

Under the merger agreement, we have agreed that we will not initiate, solicit, facilitate or encourage any inquiries or proposals regarding, or take certain other actions in connection with, any acquisition proposals by third parties, but we may respond to certain unsolicited proposals from third parties. We have also agreed that our board of directors will not change its recommendation to our shareholders, subject to limited exceptions, including that, at any time prior to the applicable shareholder approval, our special committee, advising our board of directors in connection with the transaction, may make a change in recommendation in response to certain superior proposals or if required to comply with its fiduciary duties. Further, subject to limited exceptions, before we can terminate the merger agreement in favor of a superior proposal from a third party, we have agreed to provide FOH Holdings five business days to negotiate changes to its proposal. In addition, under specified circumstances, we may be required to pay a termination fee of $300,000 if the merger is not consummated and reimburse FOH Holdings for all of its actual and reasonable documented out-of-pocket expenses incurred in connection with the termination of the merger.

These provisions might discourage a potential third party that might have an interest in entering into a transaction with us from considering or proposing any such transaction, even if it were prepared to enter into a transaction that would be more financially beneficial to our shareholders.

Our executive officers and directors may have financial interests in the merger that are different from, or in addition to, the interests of our shareholders. These interests may have influenced their decision to approve the merger and other transactions contemplated by the merger agreement.

At the recommendation of our special committee, our board of directors unanimously approved the merger agreement and the transactions, agreements and documents contemplated thereby and recommends that our shareholders vote to adopt the proposals set forth in this proxy statement. Certain of our executive officers and directors have interests in the merger that are different from, or in addition to, those of our shareholders generally. These interests include the continuing employment of our executive officers and the continuing service of all of our current directors as directors of the combined company. These interests may have influenced their decision as members of our board of directors to vote for the merger and other transactions contemplated by the merger agreement. In considering the recommendations of our board of directors to vote for the proposals contained in this proxy statement, you should consider these interests. Additionally, the exercise of our directors' and officers' discretion in agreeing to changes in or waivers to the terms of the merger agreement and other transaction documents may result in a conflict of interest when determining whether such changes or waivers are appropriate and in our shareholders' best interest. See ''Summary of this Proxy Statement—Interests of Movie Star Directors and Officers in the Merger and Related Transactions,'' ''The Merger and Related Transactions—Interests of Movie Star Directors and Officers in the Merger and Related Transaction'' and ''Director Election Proposal—Compensation Arrangements for Executive Officers.''

The unaudited pro forma financial information included in this proxy statement may not be indicative of what the combined company's actual financial position or results of operations would have been or will be for any future period.

The unaudited pro forma financial information in this proxy statement is presented for illustrative purposes only and is not necessarily indicative of what the combined company's actual financial position or results of operations would have been had the merger been completed on the dates indicated. Such information also is not necessarily indicative of the financial position or results of operations for any future period. Accordingly, the final purchase accounting may lead to materially different financial results from the pro forma financial information reflected in this proxy statement. See ''Unaudited Pro Forma Condensed Consolidated Financial Information.''

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If we are damaged and become entitled to indemnification under the merger agreement, our claim on the shares placed in escrow by the FOH Holdings stockholders will not mitigate the impact that such damage may have on the combined company's cash resources.

As part of the merger agreement, we have required, pursuant to an escrow agreement, that the FOH Holdings stockholders place in escrow a portion of the common stock they would have otherwise received upon consummation of the merger to cover their indemnification obligations to us under the merger agreement. There is no way of predicting the total dollar amount of such claims. Although the satisfaction of an indemnification claim against FOH Holdings stockholders by reclaiming shares of our common stock to be placed in escrow will adjust the relative equity ownership between our current shareholders and the FOH Holdings stockholders, any related cash expenditures could be a drain on the cash resources of the combined company.

We and FOH Holdings may not be able to fully utilize each of our respective existing net operating loss carryovers in determining future taxable income.

As a result of the merger, our ability to use the net operating losses that we incurred prior to the merger will be limited on an annual basis. The ability of FOH Holdings to use its operating losses that it incurred prior to the merger may also be limited. Consequently, subsequent to the merger, our income tax liability and/or that of FOH Holdings may be greater than what it would have been had the merger not been effected. FOH Holdings, as of July 29, 2006, and Movie Star, as of June 30, 2006, had net operating loss carryforwards (for federal income tax purposes) of approximately $5.2 million and $9.3 million, respectively.

Completion of the merger may be subject to the receipt of consents and approvals from, or the making of filings with, government entities that could delay completion of the merger or impose conditions that could have a material adverse effect on the combined company or that could cause abandonment of the merger.

The merger may be subject to review by the Antitrust Division of the U.S. Department of Justice (‘‘Department of Justice’’) and the U.S. Federal Trade Commission (‘‘Federal Trade Commission’’) under the HSR Act, and the related rules and regulations that have been issued by the Federal Trade Commission. Under the HSR Act, we and FOH Holdings may be required to make pre-merger notification filings and to await the expiration of the statutory waiting period prior to completing the merger. In connection with a review, at the end of an initial 30-day waiting period we could receive a request for additional information regarding the merger from either the Department of Justice or the Federal Trade Commission. Such a request would extend the initial waiting period under the statute during which time either the Department of Justice or the Federal Trade Commission is permitted to review a proposed transaction until 30 days after the parties have substantially complied with the request, unless the Department of Justice or the Federal Trade Commission chooses to terminate that period early.

The Department of Justice and the Federal Trade Commission frequently scrutinize the legality under the antitrust laws of transactions such as the merger. At any time before or after the merger, the Department of Justice or the Federal Trade Commission could take any action under the antitrust laws that it either considers necessary or desirable in the public interest, including seeking to enjoin the merger. Private parties as well as state attorneys general and foreign antitrust regulators may also bring legal actions under the antitrust laws under certain circumstances. There is a possibility that such an injunction may be imposed. Neither we nor FOH Holdings is obligated to complete the merger if a waiting period under the HSR Act in connection with the merger has not expired or a voluntary agreement exists between either party and the Department of Justice or the Federal Trade Commission pursuant to which the party has agreed not to consummate the merger for any period.

The combined company will be required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 in the future. Any delays or difficulty in satisfying these requirements could adversely affect the combined company’s future results of operations and its stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires the combined company to document and test the effectiveness of its internal control over financial reporting in accordance with an established internal control framework and to report on the combined company’s conclusion as to the effectiveness of its

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internal controls. It also requires an independent registered public accounting firm to test the combined company's internal control over financial reporting and report on the effectiveness of such controls. Following the merger, an independent registered public accounting firm will be required to test, evaluate and report on the completeness of the combined company's assessment of internal controls over financial reporting.

While our independent registered public accounting firm has not reported any ''material weaknesses'' in our internal control over financial reporting in the past, in preparing for the combined company's compliance with Section 404 going forward, we may discover areas of internal control that need improvement. In addition, we will need to address issues relating to FOH Holdings' internal control over financial reporting as described below. Any remedial measures that the combined company takes may not result in adequate internal controls over its financial processes and reporting in the future. The combined company's failure to implement or maintain adequate internal controls, or any difficulties it experiences in their implementation, could harm the combined company's operating results or cause it to fail to meet its reporting obligations. If the combined company is unable to conclude that it has effective internal control over financial reporting, or if its independent registered public accounting firm is unable to provide the combined company with an unqualified report regarding the effectiveness of its management's assessment of our internal control over financial reporting in future periods as required by Section 404, investors could lose confidence in the reliability of the combined company's financial statements, which could result in a decrease in the market price of its common stock. Failure to comply with Section 404 could potentially subject the combined company to sanctions or investigations by the SEC, the American Stock Exchange or other regulatory authorities.

In connection with the audit of FOH Holdings' consolidated financial statements for fiscal year 2006, which did not include an audit of its internal controls over financial reporting, its independent registered public accounting firm reported to its audit committee two ''material weaknesses'' and other deficiencies in FOH Holdings' internal control over financial reporting. In general, a material weakness is defined as a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Two specific material weaknesses were identified:

- FOH Holdings did not perform reconciliations of significant accounts on a timely basis during the course of the year, nor did these reconciliations undergo the appropriate level of review; and
- FOH Holdings did not have adequate cut-off procedures to ensure that all costs during the year were properly recorded in the correct period.

FOH Holdings is in the process of implementing procedures to remediate these material weaknesses and other deficiencies. If these weaknesses are not adequately remediated, there could be a material misstatement of the combined company's financial statements and investors could lose confidence in the accuracy and reliability of the combined company's financial statements, which would cause the market price of the combined company's stock to decline and could lead to stockholder litigation.

Risks Related to the Businesses of Movie Star and Frederick's of Hollywood

The following risk factors apply to us and Frederick's of Hollywood, individually, where appropriate, and also are expected to apply to the combined company following the consummation of the merger.

If the combined company cannot compete effectively in the retail and wholesale apparel industry, its business, financial condition and results of operations may be adversely affected.

The intimate apparel industry is highly competitive, both on the wholesale and retail levels. The wholesale industry is characterized by a large number of small companies manufacturing and selling unbranded merchandise, and by several large companies which have developed widespread consumer recognition of the brand names associated with merchandise manufactured and sold by these companies. In addition, certain of the larger retailers to whom we have historically sold our products have sought to expand the development and marketing of their own brands and to obtain intimate apparel products directly from the same or similar sources from which we obtain our products. If we do not continue to provide high quality and reliable services on a timely basis at competitive prices, we may not be able to

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continue to compete in our industry. If we are unable to compete successfully, we could lose one or more of our significant customers which, if not replaced, could negatively impact sales and have an adverse effect on our business, financial condition and results of operations, as well as those of the combined company after the consummation of the merger.

Frederick's of Hollywood competes with a variety of retailers, including national department store chains, national and international specialty apparel chains, apparel catalog businesses and online apparel businesses that sell similar lines of merchandise. Since Frederick's of Hollywood emerged from bankruptcy in 2003, it has been limited in its ability to invest in its business and infrastructure. Many of Frederick's of Hollywood's competitors may have greater financial, distribution, logistics, marketing and other resources available to them and may be able to adapt to changes in customer requirements more quickly, devote greater resources to the design, sourcing, distribution, marketing and sale of their products, generate greater national brand recognition or adopt more aggressive pricing policies. If Frederick's of Hollywood is unable to overcome these potential competitive disadvantages, such factors could have an adverse effect on Frederick's of Hollywood's business, financial condition and results of operations, as well as those of the combined company after the consummation of the merger.

Adverse changes in the economy may adversely affect consumer spending, which could negatively impact the combined company's business.

Frederick's of Hollywood's business and our business are heavily dependent on discretionary consumer spending patterns and, accordingly, are sensitive to numerous factors that affect discretionary consumer income, including adverse general economic conditions, changes in employment trends and levels of unemployment, increases in interest rates, acts of war, terrorist attacks, political events, a significant rise in energy prices or other events or actions that may lead to a decrease in consumer confidence or a reduction in discretionary income. Declines in consumer spending on apparel and accessories could lead to a decline in revenues and there could be a material adverse effect on the business, financial condition and results of operations of the combined company.

The combined company's failure to successfully order and manage inventory to reflect customer demand and anticipate changing consumer preferences and buying trends may adversely affect the combined company's revenue and profitability.

The success of the combined company depends, in part, on management's ability to anticipate and respond effectively to rapidly changing fashion trends and consumer tastes and to translate market trends into appropriate, saleable product offerings. Generally, merchandise must be ordered well in advance of the applicable selling season. The extended lead times for many of our and Frederick's of Hollywood's purchases may make it difficult to respond rapidly to new or changing product trends or changes in prices. If we and/or Frederick's of Hollywood are unable to successfully anticipate, identify or react to changing styles or trends and misjudges the market for our products or our customers' purchasing habits, then our and Frederick's of Hollywood's product offerings may be poorly received by the ultimate consumer and may require substantial discounts to sell, which would reduce the combined company's sales revenue and lower profit margins. In addition, we and/or Frederick's of Hollywood will incur additional costs if we need to redesign our product offerings. Our brand image or Frederick's of Hollywood's brand image may also suffer if our customers believe that we are unable to offer innovative products, respond to the latest fashion trends or maintain the quality of our products.

The combined company depends on its key personnel.

The combined company's success depends to a large extent upon the continued services of our key employees and Frederick's of Hollywood's key employees. The loss of the services of any key employee by us or Frederick's of Hollywood could have a material negative impact on our ability to manage our businesses successfully. The combined company's success depends upon our and Frederick's of Hollywood's ability to retain and attract qualified management, administrative and sales personnel to support our businesses. Our or Frederick's of Hollywood's inability to do so may have a significant negative impact on the combined company's ability to manage and grow its businesses. Except for a key man life insurance policy that we carry on our Chief Executive Officer, neither we nor Frederick's of Hollywood carries key man life insurance on key employees. The death of a key employee of the combined company could adversely affect its profitability and there would be no insurance to mitigate the loss.

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Frederick's of Hollywood historically has depended on a high volume of mall traffic, the lack of which would hurt the combined company's business.

Most Frederick's of Hollywood stores are located in shopping malls. Sales at these stores are derived, in part, from the volume of traffic in those malls. Frederick's of Hollywood stores benefit from the ability of the malls' ‘‘anchor’’ tenants, generally large department stores, and other area attractions to generate customer traffic in the vicinity of its stores and the continuing popularity of malls as shopping destinations. A decline in the desirability of the shopping environment of a particular mall, whether due to the closing of an anchor tenant or competition from non-mall retailers, or a decline in the popularity of shopping mall generally, could reduce the volume of mall traffic, which could have an adverse effect on the combined company's business, financial condition and results of operations.

If leases for Frederick's of Hollywood stores cannot be negotiated on reasonable terms, the combined company's growth and profitability could be harmed.

The growth in Frederick's of Hollywood's sales is significantly dependent on Frederick's of Hollywood's ability and will be dependent on the combined company's ability to operate Frederick's of Hollywood stores in desirable locations with capital investments and lease costs that allow the combined company to earn a reasonable return. Desirable locations and configurations may not be available at a reasonable cost, or at all. If Frederick's of Hollywood is unable to renew or replace its store leases or enter into leases for new stores on favorable terms, the combined company's growth and profitability could be harmed.

If the combined company does not continue to broaden the appeal of the Frederick's of Hollywood brand, its business may be adversely impacted.

Frederick's of Hollywood has taken, and the combined company will continue to take, a number of strategic, operational and management actions designed to further enhance Frederick's of Hollywood's customer relationships and broaden the targeted appeal of Frederick's of Hollywood as a premium quality brand. The additional actions the combined company takes or intends to take may not be successful. If the combined company cannot continue the Frederick's of Hollywood brand strategy, or if its continuing efforts take longer or cost more than anticipated, such contingencies could have an adverse effect on its business, financial condition and results of operations.

We rely on one key customer, and the loss of such key customer could substantially reduce revenues. There has also been a growing trend toward retail consolidation and we are increasingly dependent upon fewer customers.

In fiscal 2006, approximately 40% of our sales were generated from five customers, including approximately 25% of our sales from Wal-Mart. During the nine months ended March 31, 2007, approximately 65% of our sales were generated from five customers, including approximately 48% of our sales from Wal-Mart. We do not have long-term contracts with any of our customers and therefore our business is subject to unpredictable increases and decreases in sales depending upon the size and number of orders received from our customers. A significant decrease in business from or loss of any of our major customers could have a material adverse effect on our business, financial condition and results of operations and such material adverse effect could continue to affect the business, financial condition and results of operations of the combined company.

Frederick’s of Hollywood and Movie Star both depend on vendors and service providers to operate their respective businesses and any disruption of the supply of products and services to either company could have an adverse impact on the revenue and profitability of the combined company.

We and Frederick’s of Hollywood do not own or operate any manufacturing facilities, other than a small facility operated by Movie Star in the Philippines to handle specialty orders. Further, we and Frederick’s of Hollywood each depend, and the combined company will depend, on a number of other vendors and service providers to operate our and Frederick’s of Hollywood’s businesses, including, but not limited to:

- vendors to supply merchandise in sufficient quantities at competitive prices in a timely manner;

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- shipping companies, such as United Parcel Service, the U.S. Postal Service and common carriers, for shipment of merchandise to customers and delivery of merchandise from our and Frederick’s of Hollywood’s vendors to us and from our and Frederick’s of Hollywood’s distribution centers to retail stores, and for timely delivery of catalogs;
- outside printers and catalog production vendors to print and mail Frederick’s of Hollywood’s catalogs and to convert catalogs to digital format for website posting; and
- communications providers to provide telephone service to Frederick’s of Hollywood’s in-house customer call centers, to provide Internet users with access to Frederick’s of Hollywood’s website and a website hosting service provider to host and manage Frederick’s of Hollywood’s website.

Any disruption in these services could have a negative impact on the combined company’s ability to market and sell its products, and serve its customers. If the combined company is unable to acquire suitable merchandise or lose one or more key vendors, the combined company may not be able to offer products that are important to its merchandise assortment. The combined company is also subject to risks, such as the unavailability of raw materials, labor disputes, union organizing activity, strikes, inclement weather, natural disasters, war and terrorism, and adverse general economic and political conditions that might limit the combined company’s vendors’ ability to provide it with quality merchandise on a timely basis. Neither we nor Frederick’s of Hollywood has long-term contractual arrangements from our key vendors and our vendors may discontinue selling to us at any time. The combined company may not be able to develop relationships with new vendors, and products from alternative sources, if any, may be of a lesser quality and more expensive than those we and Frederick’s of Hollywood currently purchase. Any delay or failure in offering products to the combined company’s customers could have an adverse impact on its business, financial condition and results of operations.

We and Frederick's of Hollywood operate on very tight delivery schedules and if there are delays and we and/or Frederick's of Hollywood are unable to meet the expected delivery dates, it could negatively affect the combined company's profitability.

If there is a delay in the delivery of goods and either we or Frederick's of Hollywood cannot meet delivery schedules, then our wholesale customers and both our and Frederick's of Hollywood's retail customers may cancel their orders or request a reduced price for the delivery of their orders. If orders are canceled, it would leave us or Frederick's of Hollywood in an over-inventoried position and require the sale of inventory at low or negative gross profits, which would reduce the combined company's profitability. We and/or Frederick's of Hollywood may also incur extra costs to meet the delivery dates of our customers, which would also reduce the combined company's profitability.

Any disruptions at our or Frederick's of Hollywood's distribution centers could materially affect the ability of the combined company to distribute products, which could lead to a reduction in the combined company's revenue and/or profits.

Frederick's of Hollywood's and our respective distribution centers in Phoenix, AZ and Poplarville, MS will serve the combined company's customers. There is no backup facility or any alternate distribution arrangements in place. If Frederick's of Hollywood or we experience disruptions at our respective distribution centers that impede the timeliness or fulfillment of the products being distributed, or either distribution center is partially or completely destroyed, becomes inaccessible, or is otherwise not fully usable, whether due to unexpected circumstances such as weather conditions or disruption of the transportation systems or uncontrollable factors such as terrorism and war, it would have a material adverse effect on the combined company's ability to distribute its products, which in turn would have a material adverse effect on the combined company's business, financial condition and results of operations.

Transactions with foreign contractors and suppliers are subject to risks of doing business abroad.

Our and Frederick's of Hollywood's import operations are subject to restraints imposed by agreements between the United States and certain foreign countries, primarily China, in which we and Frederick's of Hollywood do business. These agreements impose quotas on the amount and type of goods that can be imported into the United States from these countries. Our and Frederick's of Hollywood's imported products are also subject to United States customs duties and, in the ordinary course of business,

we and Frederick's of Hollywood or our respective vendors are from time to time subject to claims by the United States Customs and Border Protection for duties and other charges. The United States and other countries in which our and Frederick's of Hollywood's products are manufactured may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adversely adjust presently prevailing quotas, duty or tariff levels, which could adversely affect the combined company's operations and ability to continue to import products at current or increased levels.

Increases in costs of mailing, paper and printing may affect the combined company's business.

Postal rate increases and paper and printing costs will affect the cost of the combined company's catalog and promotional mailings. Frederick's of Hollywood currently relies, and the combined company intends to rely, on discounts from the basic postal rate structure, such as discounts for bulk mailings and sorting. Future paper, printing costs and postal rate increases could adversely impact future earnings.

Frederick's of Hollywood is exposed to business risks as a result of its Internet operations.

Frederick's of Hollywood operates an online store at www.fredericks.com. Its Internet operations are subject to numerous risks, including online security breaches and/or credit card fraud, reliance on third-party software providers and diversion of sales from its retail stores. In addition, increased Internet sales by competitors of Frederick's of Hollywood could result in increased price competition and decreased margins. Frederick's of Hollywood's inability to effectively address these risks and any other risks that it faces in connection with its Internet operations could adversely affect the profitability of the combined company.

Failures or disruptions of its information technology systems could adversely affect the ability of the combined company to process orders and deliver products in a timely manner.

The combined company will depend, in part, on the secure and uninterrupted performance of its information technology systems. The combined company's computer systems as well as those of its service providers are vulnerable to damage from a variety of sources, including telecommunication failures, malicious human acts and natural disasters. Moreover, some of the combined company's servers and those of its service providers are potentially vulnerable to physical or electronic break-ins, computer viruses and similar disruptive problems. Unanticipated problems may cause failures in the combined company's information technology systems. Sustained or repeated system failures that interrupt the combined company's ability to process orders and deliver products in a timely manner could have a material adverse effect on the combined company's business, financial condition and results of operations.

The failure to upgrade information technology systems as necessary could have an adverse effect on the combined company's operations.

Some of our and Frederick's of Hollywood's information technology systems are dated and are an amalgamation of multiple applications, rather than one overarching state-of-the-art system. Modifications involve replacing legacy systems with successor systems, making changes to legacy systems or acquiring new systems with new functionality. If the combined company is unable to effectively implement these systems and update them where necessary, this could have a material adverse effect on its business, financial condition and results of operations.

The processing, storage and use of personal data could give rise to liabilities as a result of governmental regulation, conflicting legal requirements or differing views of personal privacy rights.

The collection of data and processing of transactions through Frederick's of Hollywood's websites and through its call centers, require Frederick's of Hollywood, and will require the combined company, to receive and store a large volume of personally identifiable data. This type of data is subject to legislation and regulation in various jurisdictions. The combined company may become exposed to potential liabilities with respect to the data that it collects, manages and processes, and may incur legal costs if the combined company's information security policies and procedures are not effective or if it is required to defend its respective methods of collection, processing and storage of personal data. Future investigations, lawsuits or adverse publicity relating to its methods of handling personal data could

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adversely affect the combined company's business, financial condition and results of operations due to the costs and negative market reaction relating to such developments.

The combined company may not have the personnel and the infrastructure to successfully complete Frederick's of Hollywood's store expansion plan and remodeling program following the merger.

The growth of the combined company will depend, in part, on its ability to open and operate Frederick's of Hollywood's stores successfully and to manage Frederick's of Hollywood's planned retail store expansion. Frederick's of Hollywood's store expansion plan is to open approximately 50 new stores over the three years commencing with the closing of the merger. Additionally, Frederick's of Hollywood is currently implementing a program of regularly remodeling or expanding existing stores. There can be no assurance that the combined company will be able to achieve such store expansion goals, manage its growth effectively, successfully integrate the planned new stores into its operations effectively remodel or expand its stores or operate its new and remodeled stores profitably.

Frederick's of Hollywood's collection and remittance of sales and use tax may be subject to audit and may expose the combined company to liabilities for unpaid sales or use taxes, interest and penalties on past sales.

Frederick's of Hollywood sells its products through three channels: retail specialty stores, mail order catalogs and the Internet. Historically, Frederick's of Hollywood has operated its channels separately and accounts for sales and use tax accordingly. Frederick's of Hollywood and its subsidiaries are periodically audited by state governmental authorities. It is possible that one or more states may disagree with Frederick's of Hollywood's method of assessing and remitting these taxes. The combined company expects that it will challenge any and all future assertions by state governmental authorities or private litigants that it owes sales or use tax, but the combined company may not prevail. If the combined company does not prevail, it could be held liable for substantial sales or use taxes, interest and penalties which could have an adverse effect on the profitability of the combined company.

The combined company could be sued for trademark infringement, which could force it to incur substantial costs and devote significant resources to defend the litigation.

We and Frederick's of Hollywood use many trademarks and product designs in our businesses. As appropriate, we and Frederick's of Hollywood rely on the trademark and copyright laws to protect these designs even if not formally registered as marks, copyrights or designs. We and Frederick's of Hollywood believe these trademarks and product designs are important to each of our businesses and the combined company's competitive position and success. Third parties may sue us, Frederick's of Hollywood, and/or the combined company for alleged infringement of their proprietary rights. The party claiming infringement might have greater resources than the combined company to pursue its claims, and the combined company could be forced to incur substantial costs and devote significant management resources to defend the litigation. Moreover, if the party claiming infringement were to prevail, the combined company could be forced to discontinue the use of the related trademark, patent or design and/or pay significant damages, or to enter into expensive royalty or licensing arrangements with the prevailing party, assuming these royalty or licensing arrangements are available at all on an economically feasible basis, which they may not be.

If the combined company cannot protect its trademarks and other proprietary intellectual property rights, its business may be adversely affected.

We and Frederick's of Hollywood may experience difficulty in effectively limiting unauthorized use of our respective trademarks and product designs worldwide. Unauthorized use of our or Frederick's of Hollywood's trademarks or other proprietary rights may cause significant damage to our or Frederick's of Hollywood's brand name and our respective ability to effectively represent ourselves to our agents, suppliers, vendors and/or customers. The combined company may not be successful in enforcing its trademark and other proprietary rights and there can be no assurance that it will be adequately protected in all countries or that it will prevail when defending its trademark and proprietary rights.

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The combined company may suffer negative publicity or be sued if the manufacturers of our and Frederick's of Hollywood's merchandise violate labor laws or engage in practices that are viewed as unethical, which could harm the combined company's business and reputation.

We and Frederick's of Hollywood rely on our sourcing personnel, utilizing established procedures, to select manufacturers with legal and ethical labor practices, but neither we nor Frederick's of Hollywood can control the business and labor practices of our manufacturers. If one of these manufacturers violates, or is accused of violating, labor laws or other applicable regulations, or if such a manufacturer engages in labor or other practices that would be viewed as unethical if such practices occurred in the United States, the combined company could in turn suffer negative publicity or be sued. In addition, if such negative publicity affected one of the combined company's customers, it could result in a loss of business for the combined company.

Risks Related to the Reverse Stock Split

If a reverse stock split is implemented, the market price per share of our common stock after the reverse stock split may not exceed or remain in excess of the current market price, which could impact the combined company's ability to maintain an American Stock Exchange listing.

Due to the structure of the proposed merger through which FOH Holdings' stockholders will be the majority shareholders of the combined company immediately following the effective time of the merger, the American Stock Exchange has informed us that we would be obligated to satisfy the American Stock Exchange's original listing standards which, among other things, require that our shares of common stock have a bid price of at least $2.00 per share. If our bid price is less than $2.00 per share and we are required to effect a reverse stock split, there can be no assurance that the market price of the combined company's common stock after effecting such reverse stock split will increase in proportion to the reduction in the number of shares of our common stock issued and outstanding before the reverse stock split. Further, the market price per share of the combined company's common stock following the effective time of the reverse stock split may not be maintained for any period of time following the reverse stock split. For example, based on the closing price of our common stock on June 6, 2007 of $2.21 per share, if the reverse stock split was implemented at 1 for 2, there can be no assurance that the post-split market price of our common stock would be $4.42, or even that it would remain above the pre-split market price. Failure to do so may impact the combined company's ability to maintain an American Stock Exchange listing.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA AND SUMMARY SELECTED PRO FORMA
CONDENSED CONSOLIDATED FINANCIAL INFORMATION

We are providing the following selected financial information to assist you in your analysis of the financial aspects of the merger and related transactions.

FOH Holdings' consolidated balance sheet data as of July 29, 2006 and July 30, 2005 and the consolidated statement of operations data for the year ended July 29, 2006, the five months ended July 30, 2005, the seven months ended March 3, 2005 and the year ended July 31, 2004, are derived from FOH Holdings' consolidated financial statements audited by Deloitte & Touche LLP, an independent registered public accounting firm, which are included elsewhere in this proxy statement. FOH Holdings' consolidated balance sheet data as of July 31, 2004, July 26, 2003 and July 27, 2002 and the consolidated statements of operations data for the year ended July 31, 2004, the seven months ended July 26, 2003, the five months ended December 31, 2002 and the year ended July 27, 2002 have been derived from FOH Holdings' audited consolidated financial statements, which are not included in this proxy statement.

FOH Holdings' consolidated balance sheet data as of January 27, 2007 and the consolidated statements of operations data for the six months ended January 27, 2007 and January 28, 2006 are derived from FOH Holdings' unaudited interim condensed consolidated financial statements, which are included elsewhere in this proxy statement. In the opinion of FOH Holdings' management, the unaudited interim condensed consolidated financial statements include all adjustments (consisting of normal recurring adjustments) that are necessary for a fair presentation of such unaudited interim condensed consolidated financial statements.

Movie Star's consolidated balance sheet data as of June 30, 2006 and 2005 and the consolidated statements of operations data for each of the three years in the period ended June 30, 2006, are derived from Movie Star's consolidated financial statements audited by Mahoney Cohen & Company, CPA, P.C., an independent registered public accounting firm, which are included elsewhere in this proxy statement. Movie Star's consolidated balance sheet data as of June 30, 2004, 2003 and 2002 and the consolidated statements of operations data for the years ended June 30, 2003 and 2002 have been derived from Movie Star's audited consolidated financial statements, which are not included in this proxy statement.

Movie Star's consolidated balance sheet data as of March 31, 2007 and the consolidated statements of operations data for the nine months ended March 31, 2007 and March 31, 2006 are derived from Movie Star's unaudited interim condensed consolidated financial statements which are included elsewhere in this proxy statement. In the opinion of Movie Star's management, the unaudited condensed consolidated interim financial statements include all adjustments (consisting of normal recurring adjustments) that are necessary for a fair presentation of such financial statements.

The selected financial information of FOH Holdings and Movie Star is only a summary and should be read in conjunction with each company's historical consolidated financial statements and related notes and each of FOH Holdings' and Movie Star's ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' contained elsewhere in this proxy statement. The information presented may not be indicative of the future performance of FOH Holdings, Movie Star or the combined company.

FOH Holdings' Selected Historical Consolidated Financial and Other Data

The selected consolidated financial data set forth below should be read in conjunction with ''FOH Holdings' Management's Discussion and Analysis of Financial Condition and Results of Operations'' and the audited consolidated financial statements and notes to the financial statements of FOH Holdings. The consolidated financial statements of FOH Holdings include the accounts of FOH Holdings, Inc. and its operating subsidiaries: Frederick's of Hollywood, Inc., Hollywood Mail Order, LLC, Frederick's of Hollywood Stores, Inc., and Frederick's.com, Inc.

Fiscal 2003 Presentation

On July 10, 2000, FOH Holdings, excluding its subsidiary Frederick's.com. Inc., filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code with the United

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States Bankruptcy Court. The Bankruptcy Court confirmed the plan of reorganization on December 18, 2002, it became effective on January 6, 2003, and at the close of business on that day FOH Holdings emerged from bankruptcy. FOH Holdings prior to emergence from bankruptcy is referred to as the ''Predecessor'' and the emerged company is referred to as the ''First Successor''. FOH Holdings' selected financial data for periods prior to January 6, 2003 included in this proxy statement reflect the financial results of the Predecessor. FOH Holdings' selected financial data for periods as of January 6, 2003 to March 3, 2005 included in this proxy statement reflect the financial results of the First Successor.

FOH Holdings applied the accounting and reporting requirements of ''fresh start'' accounting to the First Successor effective January 6, 2003. As a result of applying fresh start accounting, the First Successor's results of operations for periods after emergence from bankruptcy are not comparable to the Predecessor's results of operations for periods prior to emergence from bankruptcy, and therefore, the combined results for fiscal 2003 should not be taken as indicative of historical or future results.

Fiscal 2005 Presentation

On March 3, 2005, Tokarz Investments and Fursa, along with its affiliated funds, acting together as a collaborative group, purchased in a private shareholder transaction the outstanding common stock of FOH Holdings held by all other shareholders. Additionally, one of the investors, an existing debt holder, purchased directly from the non-affiliated former lenders the outstanding balances under FOH Holdings' term loans (collectively the ''Tranche A, B and C''). Accordingly, pushdown accounting has been applied as of the date of these transactions. FOH Holdings' selected financial data for periods as of and subsequent to March 3, 2005 reflect the results of the ''Second Successor.'' The purchase price in excess of the fair value of the assets was allocated to FOH Holdings' assets based on their respective fair values in accordance with the provisions of Statement of Financial Accounting Standards (''SFAS'') No. 141, Business Combinations. As a result of applying purchase accounting, the results of operations of the Second Successor for periods after March 3, 2005 are not comparable to the results of operations for periods prior to March 3, 2005, and therefore, the results for fiscal 2005 should not be taken as indicative of historical or future results.

Financial Operations Overview

FOH Holdings assesses the performance of its business using various financial and operating measures, which primarily include:

- Net sales — Net sales include sales of merchandise from retail stores, catalogs and websites, less discounts and sales return allowances.
- Comparable store sales — Comparable store sales include net merchandise sales from stores that have been open for one complete fiscal year. FOH Holdings excludes new store locations from the comparable store sales until they have been in operation for one complete fiscal year. Similarly, stores that are expanded or down-sized by more than 30% are also excluded from the comparable store base until they have been in operation in their new configuration for one complete fiscal year. Comparable store sales do not include net sales from the catalogs and websites.
- Average monthly sales per square foot — Average monthly sales per square foot is determined by dividing net sales from retail stores for the respective period presented by the average of the

beginning and ending store gross square footage for the respective period divided by the number of months in the period. Excluded from the numerator and the denominator are store sales and square footage corresponding to stores that have been closed at the expiration of their lease through January 27, 2007.

- Gross profit — Gross profit is equal to the net sales less the costs of goods sold, buying and occupancy. FOH Holdings includes in the costs of goods sold, buying and occupancy the cost of merchandise and inventory markdowns, freight from vendors, shipping and handling, payroll and

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benefits for the design, buying, and merchandising personnel, warehouse and distribution costs, and store occupancy costs. Store occupancy costs include rent, deferred rent, common area maintenance, utilities, real estate taxes, and depreciation. Other costs are included in selling, general and administrative expenses. As a result, the gross profit may not be comparable to those of other retailers.

- Selling, General and Administrative expenses — Selling, general, and administrative expenses primarily include payroll and benefit costs for FOH Holdings' retail store, catalog, and Internet selling and administrative departments (including corporate functions), advertising, and other operating expenses not specifically categorized elsewhere in the consolidated statements of operations.
- Interest expense, net — Interest includes interest on the FOH Holdings revolving line of credit facility, the secured term loans and the long-term debt.

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The following tables set forth selected historical financial and other data for FOH Holdings and Movie Star as of the dates and for the periods indicated.

FOH Holdings' Selected Historical Consolidated Financial and Other Data
(dollar amounts in thousands, except store operating data)

	[Second Successor]				[First Successor]		
	Six Months ended January 27, 2007	Six Months ended January 28, 2006	Year ended July 29, 2006	Five Months ended July 30, 2005	Seven Months ended March 3, 2005	Year ended July 31, 2004	Seven Months ended July 26, 2003
Statement of Operations Data:							
Net sales	$ 80,228	$ 69,367	$137,968	$ 47,205	$ 77,485	$129,371	$ 61,669

Cost of goods sold, buying and occupancy	46,244	39,981	80,839	27,301	44,520	72,283	42,127
Gross profit	33,984	29,386	57,129	19,904	32,965	57,088	19,542
Selling, general and administrative expenses	30,216	30,333	57,985	20,433	35,405	55,312	19,507
Operating income (loss) from continuing operations	3,768	(947)	(856)	(529)	(2,440)	1,776	35
Interest expense, net	1,096	1,167	2,421	700	1,102	1,592	836
Reorganization items (income) expense[a]	—	—	—	—	—	—	—
Gain on debt extinguishment[b]	—	—	—	—	—	—	—
Income (loss) from continuing operations before income tax provision (benefit)	2,672	(2,114)	(3,277)	(1,229)	(3,542)	184	(801)
Income tax provision (benefit)	802	2	121	(132)	(934)	78	500
Income (loss) from continuing operations	1,870	(2,116)	(3,398)	(1,097)	(2,608)	106	(1,301)
Income (loss) from discontinued operations[c]	29	(23)	113	(139)	389	856	(89)
Net income (loss)	$ 1,899	$ (2,139)	$ (3,285)	$ (1,236)	$ (2,219)	$ 962	$ (1,390)
	At January 27, 2007		At July 29, 2006	At July 30, 2005		At July 31, 2004	At July 26, 2003
Balance Sheet Data:							
Working capital (deficiency)	$ (1,246)		$ (299)	$ (1,562)		$ 2,080	$ 1,377
Goodwill	$ 7,131		$ 7,299	$ 7,299		$ 585	$ 585
Trademarks	$ 18,090		$ 18,090	$ 18,090		$ 13,900	$ 13,900
Total assets	$ 71,199		$ 60,734	$ 58,733		$ 39,848	$ 38,540
Total long-term debt-related party	$ 15,826		$ 18,742	$ 18,095		$ 17,287	$ 17,309
Stockholders' equity (deficiency)	$ 14,019		$ 12,059	$ 11,344		$ 174	$ (788)
Store Operating Data[d]:							
Percentage increase (decrease) in comparable store sales[e]	10.4%	3.7%	6.5%	(3.6)%	(4.1)%	11.4%	1.5%
	232,740	227,173	225,634	229,626	229,536	231,578	243,638

Total square footage at the end of the period[f]							
Average monthly retail sales per square foot	$ 35.24	$ 33.06	$ $31.67	$ 25.96	$ 32.32	$ 30.83	$ 25.88
Number of retail stores:							
Open at beginning of period	134	140	140	140	145	155	166
Opened during the period	3	4	5	—	4	2	
Closed during the period	(3)	(3)	(11)	—	(9)	(12)	(11)
Open at the end of the period	134	141	134	140	140	145	155

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(a) The financial statements prior to emergence from bankruptcy on January 6, 2003 include amounts directly related to the Chapter 11 filing that were recognized as incurred and are included as reorganization items in the consolidated statements of operations.

(b) In accordance with SOP 90-7, FOH Holdings recorded a net gain of approximately $20.5 million related to the discharge of its liabilities upon emergence from bankruptcy for the five months ended December 31, 2002.

(c) Income (loss) from discontinued operations represents the net income (loss) of those stores closed at the expiration of their leases. Stores closed in a period will have their prior results reflected in discontinued operations for all of the previous periods presented that the store was in operation.

(d) Represents financial measures used by FOH Holdings' management to assess business performance.

(e) Represents increase (decrease) over respective prior year comparable periods. Comparable store sales include net merchandise sales from stores that have been open for one complete fiscal year, but exclude new or permanently relocated store locations from comparable store sales until they have been in operation for one complete fiscal year. Also excluded from comparable sales are those stores that have had a change in selling square footage of 30% or more until they have been in operation in their new configuration for one complete fiscal year.

(f) Represents total retail store gross square footage at the end of each reported period.

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Movie Star Selected Historical Consolidated Financial Data
(in thousands, except per share data)

	Nine Months Ended March 31,		Fiscal Year Ended June 30,				
	2007	2006	2006	2005	2004	2003	2002
Statement of Operations Data:							
Net sales	$50,000	$43,444	$51,639	$58,533	$53,691	$64,916	$54,359
Cost of sales	33,801	31,199	37,528	44,304	37,581	44,345	39,157
Selling, general and administrative expenses	13,368	12,426	16,556	19,024	15,824	14,623	13,689
Merger related fees	1,952	—	—	—	—	—	—
Gain on sale of property, plant and equipment	(496)	—	—	—	—	—	—
Insurance recovery	—	(1,424)	(1,450)	—	—	—	—
Total costs and expenses	48,625	42,201	52,634	63,328	53,405	58,968	52,846
Operating income (loss) from continuing operations	1,375	1,243	(995)	(4,795)	286	5,948	1,513
Interest income	—	—	(3)	(1)	(12)	(4)	(3)
Interest expense	526	383	476	282	76	351	695
Income (loss) from continuing operations before income tax provision (benefit)	849	860	(1,468)	(5,076)	222	5,601	821
Income tax provision (benefit)	340	345	(468)	(1,954)	94	2,170	360
Income (loss) from continuing operations	509	515	(1,000)	(3,122)	128	3,431	461
Income from discontinued operations	—	—	—	—	—	—	86
Net income (loss)	$ 509	$ 515	$ (1,000)	$ (3,122)	$ 128	$ 3,431	$ 547
BASIC NET INCOME (LOSS) PER SHARE:							
From continuing operations	$ .03	$ .03	$ (.06)	$ (.20)	$ .01	$ .23	$ .03
From discontinued operations	—	—	—	—	—	—	.01
Net income (loss) per share	$ .03	$ .03	$ (.06)	$ (.20)	$ .01	$ .23	$ .04
DILUTED NET INCOME (LOSS) PER SHARE:							
From continuing operations	$ .03	$ .03	$ (.06)	$ (.20)	$ .01	$ .22	$ .03
From discontinued operations	—	—	—	—	—	—	.01
Net income (loss) per share	$ .03	$ .03	$ (.06)	$ (.20)	$ .01	$ .22	$ .04
Basic weighted average number of shares outstanding	15,978	15,687	15,700	15,625	15,574	15,133	15,085
Diluted weighted average number of shares outstanding	16,467	15,776	15,700	15,625	16,199	15,407	15,112

	At March 31,	At June 30,				
	2007	2006	2005	2004	2003	2002
Balance Sheet Data:						
Working Capital	$10,250	$ 8,932	$10,673	$16,543	$15,979	$ 9,529
Total Assets	$21,782	$23,221	$24,907	$20,779	$24,089	$22,406
	$ 3,533	$ 4,955	$ 4,794	$ —	$ 2,304	$ 4,169

Short-Term Debt — Including current maturities of long-term debt and capital lease obligations						
Long-Term Debt — Including deferred lease And other long-term liabilities	$ 400	$ 398	$ 390	$ 374	$ 325	$ 254
Shareholders' Equity	$14,937	$13,782	$14,677	$17,747	$17,264	$13,624

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Summary Selected Pro Forma Condensed Consolidated Financial Information

The following summary selected pro forma condensed consolidated financial information should be read in conjunction with the Unaudited Pro Forma Condensed Consolidated Financial Information and related notes included elsewhere in this proxy statement. The merger of FOH Holdings and Movie Star will be accounted for under the purchase method of accounting as a reverse acquisition with FOH Holdings being treated as having acquired Movie Star as of the date of the completion of the merger. For a more detailed description of purchase accounting, see ‘‘The Merger and Related Transactions—Accounting Treatment.’’ The historical financial information set forth below has been derived from, and is qualified by reference to, the consolidated financial statements of FOH Holdings and Movie Star and should be read in conjunction with those financial statements and notes thereto included elsewhere in this proxy statement. The Unaudited Pro Forma Condensed Consolidated Statements of Operations for the six months ended January 27, 2007 and December 31, 2006 for FOH Holdings and Movie Star, respectively, give effect to the merger and other transactions contemplated by the merger agreement as if they had occurred on July 31, 2005. The Unaudited Pro Forma Condensed Consolidated Statements of Operations for the year ended July 29, 2006 and June 30, 2006 for FOH Holdings and Movie Star, respectively, give effect to the merger and other transactions contemplated by the merger agreement as if they had occurred on July 31, 2005. The Unaudited Pro Forma Condensed Consolidated Balance Sheet as of January 27, 2007 and December 31, 2006 for FOH Holdings and Movie Star, respectively, give effect to the merger and other transactions contemplated by the merger agreement as if they occurred on January 27, 2007. Because FOH Holdings is the accounting acquirer, the pro forma reporting periods have been conformed to FOH Holdings' reporting periods. You should not rely on this pro forma information as being indicative of the results that would actually have been obtained if the merger had been in effect for the above-mentioned periods or the future results of the combined company. See ‘‘Where You Can Find More Information’’ and ‘‘Unaudited Pro Forma Condensed Consolidated Financial Information.’’

	Six Months Ended January 27, 2007	Twelve Months Ended July 29, 2006
	(in thousands, except per share data)	
Pro Forma Statement of Operations Information:		
Net sales	$114,383	$188,396
Income (loss) from continuing operations	$2,647	$(5,696)
Less: Preferred stock dividends	$(281)	$(563)
Income (loss) available to common shareholders	$2,366	$(6,259)
Income (loss) from continuing operations per share:		

— basic	$0.05	$(0.12)
— diluted	$0.05	$(0.12)
Shares used in computing basic and diluted income (loss) per share:		
— basic	50,874	50,788
— diluted	51,589	50,788

	As of January 27, 2007 (in thousands)
Pro Forma Balance Sheet Information:	
Cash and cash equivalents	$ 20,951
Total current assets	$ 69,859
Total liabilities	$ 65,616
Shareholders' equity	$ 58,177

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THE PARTIES TO THE MERGER

Movie Star

Movie Star is a publicly traded corporation that designs, manufactures (through independent contractors), imports, markets and distributes women's intimate apparel to mass merchandisers, specialty and department stores, discount retailers, national and regional chains and direct mail catalog marketers throughout the United States and Canada.

Movie Star's common stock is currently listed on the American Stock Exchange under the symbol ''MSI.''

The mailing address of Movie Star's principal executive office is 1115 Broadway, New York, New York 10010, and its telephone number is (212) 798-4700.

Merger Sub

Fred Merger Corp. was organized on December 12, 2006 to effect a merger with FOH Holdings and is a wholly-owned subsidiary of Movie Star. Its address and telephone number is the same as ours. We sometimes refer to Fred Merger Corp. as Merger Sub.

FOH Holdings

FOH Holdings is a privately-held company headquartered in Hollywood, California that has four subsidiaries that operate under the brand name ''Frederick's of Hollywood.'' Frederick's of Hollywood is a mall-based specialty retailer of women's intimate apparel and related products in the United States, and a direct retailer of intimate apparel and other women's apparel through its catalog and Internet operations. Frederick's of Hollywood currently operates 133 stores nationwide, operates an online store at www.fredericks.com, and in its 2006 fiscal year, mailed approximately 27 million catalogs. Frederick's of Hollywood had net sales from continuing operations of approximately $138 million for the fiscal year ended July 29, 2006.

The mailing address of FOH Holdings principal executive office is 6255 Sunset Boulevard, Sixth Floor, Hollywood, California 90028, and its telephone number is (323) 466-5151.

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THE PARTIES TO THE OTHER TRANSACTIONS CONTEMPLATED BY THE MERGER

TTG Apparel

TTG Apparel is a Delaware limited liability company formed for the purpose of investing in Movie Star. The sole controlling person of TTG Apparel is Michael T. Tokarz, its manager. Mr. Tokarz is presently the controlling person of The Tokarz Group Advisors, LLC, an entity that manages MVC Capital, Inc., a business development company which is listed on the New York Stock Exchange. Mr. Tokarz does not directly own our common stock. TTG Apparel currently owns approximately 21.5% of our outstanding common stock.

The mailing address of TTG Apparel’s principal executive office is Riverview at Purchase, 287 Bowman Avenue, Purchase, New York 10577, and its telephone number is (914) 251-1825.

Tokarz Investments

Tokarz Investments is a Delaware limited liability company formed for the purpose of owning various Tokarz family investments. The sole controlling person of Tokarz Investments is Michael T. Tokarz, its manager. Mr. Tokarz does not directly own FOH Holdings common stock. Tokarz Investments currently owns approximately 50% of the common stock of FOH Holdings.

Tokarz Investments’ principal executive office is located at Riverview at Purchase, 287 Bowman Avenue, Purchase, New York 10577, and its telephone number is (914) 251-1825.

Fursa

Fursa is a Delaware limited liability company and registered investment advisor, which beneficially owns, on behalf of certain funds and accounts affiliated with, managed by, or over which Fursa or any of its affiliates exercises investment authority, including, without limitation, with respect to voting and dispositive rights, approximately 50% of the common stock of FOH Holdings.

The mailing address of Fursa’s principal executive office is 444 Merrick Road, Suite 104, Lynbrook, New York 11563, and its telephone number is (646) 205-6203.

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SPECIAL MEETING IN LIEU OF the ANNUAL MEETING OF MOVIE STAR SHAREHOLDERS

General

We are furnishing this proxy statement to Movie Star shareholders as part of the solicitation of proxies by our board of directors for use at the special meeting in lieu of the annual meeting of Movie Star shareholders to be held on , 2007, and at any adjournment or postponement thereof. This proxy statement is first being furnished to our shareholders on or about , 2007 in connection with the vote on the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal, the preferred stock proposal, the reverse stock split proposal, the 2000 performance equity plan amendment proposal, the director election proposal and the adjournment proposal. This document provides you with the information you need to know to be able to vote or instruct your vote to be cast at the special meeting.

Date, Time and Place

The special meeting of shareholders will be held on , 2007, at , Eastern Time, at .

Purpose of the Movie Star Special Meeting

At the special meeting, we are asking holders of Movie Star common stock to:

- approve the issuance of shares of common stock in connection with the merger, the rights offering and other transactions contemplated by the merger agreement (stock issuance proposal);
- approve an amendment to our certificate of incorporation to increase the number of authorized shares of our common stock from 30,000,000 to 200,000,000 shares (increase of authorized common stock proposal);
- approve an amendment to our certificate of incorporation to change Movie Star’s name to Frederick’s of Hollywood Group Inc. (name change proposal);
- approve an amendment to our certificate of incorporation to authorize the issuance of 10,000,000 shares of preferred stock and to establish the terms, rights, preferences and privileges of the Series A Preferred Stock (preferred stock proposal);
- authorize our board of directors, in its discretion, to amend our certificate of incorporation to effect a reverse stock split of our outstanding common stock simultaneous with the closing of the merger within a range to be determined by our board of directors from 9 for 10 to 1 for 2, in order to satisfy the minimum price requirement of $2.00 per share for continued listing on the American Stock Exchange (reverse stock split proposal);
- approve an amendment to our 2000 Performance Equity Plan to increase the number of shares of common stock available for issuance under the plan from 750,000 shares of common stock to 7,000,000 shares of common stock (2000 performance equity plan amendment proposal);
- elect eleven directors to our board of directors to serve from the effective time of the merger until the annual meeting to be held in 2008 and their successors are elected and qualified (director election proposal); and
- approve the adjournment of the special meeting to a later date or dates, if necessary, to permit further solicitation and vote of proxies in the event there are insufficient votes at the time of the special meeting to adopt any of the foregoing proposals (adjournment proposal).

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Recommendation of Movie Star Board of Directors

Our board of directors:

- has unanimously determined that each of the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal, the preferred stock proposal, the reverse stock split proposal, the 2000 performance equity plan amendment proposal, the adjournment proposal and the election of each of our nominees for director is fair to and in the best interests of Movie Star and our shareholders;
- has unanimously approved the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal, the preferred stock proposal, the reverse stock split proposal, the 2000 performance equity plan amendment proposal, the adjournment proposal and the election of each of our nominees for director;
- unanimously recommends that our common shareholders vote ''FOR'' the stock issuance proposal;
- unanimously recommends that our common shareholders vote ''FOR'' the increase of authorized common stock proposal;
- unanimously recommends that our common shareholders vote ''FOR'' the name change proposal;
- unanimously recommends that our common shareholders vote ''FOR'' the preferred stock proposal;
- unanimously recommends that our common shareholders vote ''FOR'' the reverse stock split proposal;
- unanimously recommends that our common shareholders vote ''FOR'' the 2000 performance equity plan amendment proposal;
- unanimously recommends that our common shareholders vote ''FOR'' the persons nominated by our current board for election as directors; and
- unanimously recommends that our common shareholders vote ''FOR'' the adjournment proposal.

Record Date; Who is Entitled to Vote

We have fixed the close of business on , 2007, as the ''record date'' for determining Movie Star shareholders entitled to notice of and to attend and vote at the special meeting. As of the close of business on , 2007, there were shares of our common stock outstanding and entitled to vote. Each share of our common stock is entitled to one vote per share at the special meeting. This same record date will also be used for purposes of determining which Movie Star shareholders are eligible to participate in the rights offering.

Quorum

The presence, in person or by proxy, of a majority of all the outstanding shares of our common stock constitutes a quorum at the special meeting.

Abstentions and Broker Non-Votes

Proxies that are marked ''abstain'' and proxies relating to ''street name'' shares that are returned to us but marked by brokers as ''not voted'' will be treated as shares present for purposes of determining the presence of a quorum on all matters. Such shares marked by brokers as ‘‘not voted’’ will not be treated as shares entitled to vote on the proposal as to which authority to vote is withheld from the broker. If you do not give the broker voting instructions, under the rules of the NASD, your broker may not vote your shares on the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal, the preferred stock proposal, the reverse stock split proposal and the 2000 performance equity plan amendment proposal.

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Vote of Our Shareholders Required

The approval of the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal and the preferred stock proposal will require the affirmative vote of both (i) the holders of a majority of the outstanding shares of Movie Star common stock on the record date and (ii) the holders of a majority of the shares of Movie Star common stock that are held by Movie Star’s shareholders other than TTG Apparel and its affiliates and associates on the record date. Abstentions from voting with respect to these proposals and shares which are subject to shareholder withholding or broker non-vote will have the same effect as a vote against the proposals.

The approval of the reverse stock split proposal will require the affirmative vote of the holders of a majority of the outstanding shares of Movie Star common stock on the record date. Abstentions from voting with respect to this proposal and shares which are subject to shareholder withholding or broker non-vote will have the same effect as a vote against the reverse stock split proposal.

The approval of the 2000 performance equity plan amendment proposal and the adjournment proposal will require the affirmative vote of the holders of a majority of the shares of Movie Star common stock represented in person or by proxy and entitled to vote at the special meeting. Abstentions from voting with respect to these proposals and shares which are subject to shareholder withholding or broker non-vote will not be counted in determining the number of votes required for a majority and will therefore have no effect on such vote.

Directors are elected by a plurality. ‘‘Plurality’’ means that the individuals who receive the highest number of votes cast ‘‘FOR’’ election are elected as directors. Any shares not voted ‘‘FOR’’ a particular nominee (whether as a result of abstentions, a direction to withhold authority or a broker non-vote) will not be counted in the nominee’s favor.

The approval of the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal and the preferred stock proposal are conditions to the consummation of the merger. The approval of the reverse stock split proposal, the 2000 performance equity plan amendment proposal and the director election proposal are not conditions to the consummation of the merger, but are being proposed in connection with the merger and will not be presented at the meeting for a vote if the proposals that are conditions to the merger are not approved. If any of the stock issuance proposal or the increase of authorized common stock proposal is not approved, we cannot effect the merger or the other transactions contemplated by the merger agreement. If any of the name change proposal or the preferred stock proposal is not approved, absent a waiver by FOH Holdings and us, we cannot effect the merger or the other transactions contemplated by the merger agreement.

Voting Your Shares

Each share of Movie Star common stock that you own in your name entitles you to one vote. Your proxy card shows the number of shares of our common stock that you own.

There are two ways to vote your shares of Movie Star common stock at the special meeting:

- You can vote by signing and returning the enclosed proxy card. If you vote by proxy card, your ‘‘proxy,’’ whose name is listed on the proxy card, will vote your shares as you instruct on the proxy card. If you sign and return the proxy card but do not give instructions on how to vote your shares, your shares will be voted as recommended by our board ‘‘FOR’’ the approval of the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal, the preferred stock proposal, the reverse stock split proposal, the 2000 performance equity plan amendment proposal, the persons nominated by Movie Star’s current board for election as directors and, if necessary, the adjournment proposal. Votes received after a matter has been voted upon at the special meeting will not be counted.
- You can attend the special meeting and vote in person. We will give you a ballot when you arrive. However, if your shares are held in the name of your broker, bank or another nominee, you must get a proxy from the broker, bank or other nominee. That is the only way we can be sure that the broker, bank or nominee has not already voted your shares.

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Revoking Your Proxy

If you give a proxy, you may revoke it at any time before it is exercised by doing any one of the following:

- you may send another proxy card with a later date;
- you may notify Thomas Rende, our Chief Financial Officer, in writing before the special meeting that you have revoked your proxy; or
- you may attend the special meeting, revoke your proxy, and vote in person, as indicated above.

Who Can Answer Your Questions About Voting Your Shares

If you have any questions about how to vote or direct a vote in respect of your shares of our common stock, you may call Morrow & Co., Inc., our proxy solicitor, at (800) 607-0088, or Thomas Rende, our Chief Financial Officer, at (212) 798-4700.

No Additional Matters May Be Presented at the Special Meeting

This special meeting has been called only to consider the approval of the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal, the preferred stock proposal, the reverse stock split proposal, the 2000 performance equity plan amendment proposal, the director election proposal and the adjournment proposal. Under our by-laws, other than procedural matters incident to the conduct of the meeting, no other matters may be considered at the special meeting if they are not included in the notice of the meeting.

Appraisal Rights

Shareholders of Movie Star do not have appraisal rights under the NYBCL in connection with the merger or the other transactions contemplated by the merger agreement.

Proxy Solicitation Costs

We are soliciting proxies on behalf of our board of directors. This solicitation is being made by mail but also may be made by telephone or in person. We and our directors, officers and employees may also solicit proxies in person, by telephone or by other electronic means.

We have hired Morrow & Co., Inc. to assist in the proxy solicitation process. We will pay Morrow & Co., Inc. a fee of approximately $7,500 plus expenses.

We will ask banks, brokers and other institutions, nominees and fiduciaries to forward the proxy materials to their principals and to obtain their authority to execute proxies and voting instructions. We will reimburse them for their reasonable expenses.

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THE MERGER AND RELATED TRANSACTIONS

The discussion in this document of the merger and the principal terms of the merger agreement by and among Movie Star, FOH Holdings and Merger Sub is subject to, and is qualified in its entirety by reference to, the merger agreement. Copies of the merger agreement and the amendment to the merger agreement are attached as Annex A and Annex B, respectively, to this proxy statement.

General Description

Pursuant to the merger agreement, Merger Sub, a wholly owned subsidiary of Movie Star, will merge with and into FOH Holdings and FOH Holdings will be the surviving entity and a wholly owned subsidiary of Movie Star. The separate corporate existence of Merger Sub will cease. Movie Star will be renamed Frederick's of Hollywood Group Inc. after completion of the merger. The holders of all the issued and outstanding shares of common stock of FOH Holdings immediately prior to the completion of the merger will initially receive approximately 23.7 million shares of Movie Star common stock. Each outstanding option to purchase shares of FOH Holdings common stock under FOH Holdings' 2003 Employee Equity Incentive Plan, whether or not exercisable, vested or unvested, will be exchanged for comparable options issued by Movie Star. Immediately after the completion of the merger and without giving effect to the rights offering to our shareholders or the issuance of options, guarantor warrants, shares of common stock that may be issued pursuant to the standby purchase agreement or shares of Series A Preferred Stock, such FOH Holdings stockholders will own approximately 60% of Movie Star's outstanding common stock.

The merger is expected to be completed promptly following the Movie Star special meeting on , 2007, subject to obtaining the required adoption of the stock issuance proposal and the increase of authorized common stock proposal, and the approval or waiver of the name change proposal and the preferred stock proposal and the satisfaction or waiver of certain other conditions, as discussed in greater detail below under ''The Merger Agreement—Conditions to Closing of the Merger.''

The merger is expected to qualify as a tax-free transaction to Movie Star under the provisions of Section 1032 of the Code as an issuance of stock in exchange for property (i.e., the stock of FOH Holdings). For a description of the material federal income tax consequences of the merger, please see the information set forth in ''The Merger and Related Transactions—Material Federal Income Tax Consequences of the Merger.''

Background of the Merger and Related Transactions

The terms of the merger agreement and other transaction agreements and documents are the result of arm's-length negotiations between representatives of Movie Star, as directed by our special committee, and FOH Holdings. The following is a brief discussion of the background of these negotiations, the merger agreement and related transactions.

From time to time we consider different opportunities to improve our competitive position in the market and to enhance value for our shareholders. In January 2004, during Michael T. Tokarz's due diligence investigation of us prior to his purchase of our shares from a former shareholder, Mr. Tokarz met with our management team and discussed, among other things, whether we would be interested in growing our business. During the discussion, Mr. Tokarz also asked our management members whether they knew of Frederick's of Hollywood. At this time, Mr. Tokarz was also interested in making an investment in FOH Holdings. After further reflecting on the discussion and consistent with our desire to improve our competitive position, Melvyn Knigin, our President and Chief Executive Officer, contacted Linda LoRe, President and Chief Executive Officer of FOH Holdings, to suggest the idea of exploring a possible business combination. We and FOH Holdings began preliminary discussions regarding a possible business combination after entering into confidentiality agreements in March 2004.

In early April 2004, members of our management team and members of our board of directors met with members of FOH Holdings' management team and members of FOH Holdings' board of directors to discuss each company's operations and prospects. During the following months, the management teams of both companies exchanged information about their respective businesses and discussed potential

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synergies that could be created through a business combination. On October 15, 2004, Tokarz Investments purchased approximately 12% of FOH Holdings' outstanding common stock from an affiliate of Fursa. At a December 6, 2004 meeting of our board of directors, which Mr. Tokarz attended, Mr. Tokarz discussed his purchase of shares of FOH Holdings and, among other things, our board discussed the possible business combination with FOH Holdings. At a meeting of non-employee directors later that same day, the directors considered, among other things, obtaining a fairness opinion and considered other measures to preserve the impartiality of the board's decision-making process. In January 2005, we engaged a boutique investment banking firm to act as our financial advisor with respect to the possible business combination with FOH Holdings. Also in January 2005, Graubard Miller (''Graubard''), our legal counsel, submitted to FOH Holdings a preliminary legal due diligence request list that was to be the basis of the mutual legal due diligence that was conducted by the parties during the following months. At a February 8, 2005 meeting of our board of directors, which Mr. Tokarz attended, he provided another update on the status of his negotiations to acquire additional shares of FOH Holdings.

At a March 9, 2005 meeting of our board of directors, which Mr. Tokarz attended, he informed us that Tokarz Investments had acquired control of FOH Holdings and that he and FOH Holdings would, for a period of time, be focusing primarily on FOH Holdings' business rather than on the possible business combination with us. Nonetheless, the board discussed the timing of due diligence and directed our financial advisor to provide a review of the possible business combination. Again, the board considered measures to preserve the impartiality of the decision-making process, such as creating a special committee to handle the negotiations. During the following months, phone calls and meetings continued between the management teams of both companies and their respective legal and financial advisors, and with Mr. Tokarz, regarding the business, operations and financial projections of each company and the anticipated synergies of a combined company.

During our due diligence on FOH Holdings, we learned that Frederick's of Hollywood and certain of its subsidiaries were subject to a class action lawsuit relating to unlawful wages and employment practices. Based on the potential liability that could arise from this type of lawsuit, our board determined on September 21, 2005 that we would not engage in further discussions with FOH Holdings relating to a possible business combination until this lawsuit was resolved.

On December 13, 2005, our board determined that it was advisable to continue the discussions with FOH Holdings regarding the possible business combination after learning of the November 2005 preliminary order to approve the settlement of the class action lawsuit. During the following months, the management teams of both companies continued with their discussions, conducted further mutual due diligence, further reviewed the synergies that could be obtained from a business combination of the two companies and continued to learn about each party's respective business and prospects, though specific terms of a business combination had not yet been discussed.

Following the April 6, 2006 meeting of our board of directors, Peter Cole, a Movie Star director, contacted James P. Jenkins, then a FOH Holdings director, to determine whether or not FOH Holdings remained interested in pursuing a possible transaction. Following a positive response from Mr. Jenkins and in view of both companies' desire to move the possible transaction forward, on May 10, 2006, our board of directors appointed a special committee to act on behalf of the board of directors, consisting of two directors who are not and have never been one of our officers or employees, an employee or officer of FOH Holdings or otherwise had any relationship with Mr. Tokarz and his affiliated companies. Our special committee members are Joel M. Simon and Michael A. Salberg. Our special committee was authorized, subject to the limitations of New York law, to exercise all of the powers of the board of directors with respect to the possible transaction with FOH Holdings and any alternative transactions, including the power to select and retain legal counsel and an independent financial advisor.

On May 15, 2006, at a meeting between Mr. Jenkins and Joseph Keeney, then a consultant to FOH Holdings, and Mr. Knigin, Thomas Rende, our Chief Financial Officer, and Saul Pomerantz, our Chief Operating Officer, to discuss the proposed business combination, the FOH Holdings representatives delivered to our representatives a copy of a report by Allen & Company, FOH Holdings' financial advisor, which included Allen & Company's analysis of our and FOH Holdings' business, operations, financial condition and prospects and Allen & Company's view with respect to the relative valuation of the two companies.

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On May 17, 2006, FOH Holdings' board of directors appointed a committee (the ''FOH Holdings special committee'') to act on behalf of the FOH Holdings board of directors, consisting of Mr. Jenkins and Milton J. Walters, a FOH Holdings director.

On May 19, 2006, our special committee engaged Cooley Godward Kronish LLP, then known as Kronish Lieb Weiner & Hellman LLP (''Cooley''), as legal counsel. In early June 2006, our special committee interviewed several investment banking firms with a view to selecting one as its financial advisor. Following discussions with representatives of several such firms, at a special committee meeting held on June 12, 2006, attended by Cooley, our special committee selected Chanin to assist our special committee in its negotiations with FOH Holdings, to advise our special committee regarding the terms of the potential FOH Holdings transaction, as well as alternative proposals that could become available to us and to render a fairness opinion in connection with any transaction. At this meeting, representatives of Cooley advised the special committee of its fiduciary duties with respect to its consideration of the potential combination with FOH Holdings and other possible transactions. At this time, we also decided to terminate our relationship with our previously retained financial advisor. As an initial matter, Chanin was directed by our special committee to analyze our business operations, financial condition and prospects, as well as those of FOH Holdings. In connection with this analysis, Chanin met with representatives of our management and representatives from FOH Holdings.

On June 30, 2006, our special committee held a meeting, attended by Cooley and Chanin, at which meeting Chanin presented its preliminary analysis of our business operations, financial condition and prospects and those of FOH Holdings. Our special committee discussed the differences between the Allen & Company analysis and the Chanin analysis. The Allen & Company analysis proposed that in a combination between us and FOH Holdings, the FOH Holdings stockholders should receive approximately 67% of the shares of the combined company and our shareholders should receive approximately 33% of the shares, whereas the preliminary Chanin analysis suggested that a higher ownership percentage for our shareholders could be justified.

Between June 30, 2006 and July 31, 2006, our special committee and its legal and financial advisors and the FOH Holdings special committee and its legal advisors and Mr. Keeney met to further discuss valuation issues and related matters with regard to a proposed combination of the two companies. During this period, a number of proposals and counter-proposals were made by the parties with regard to the proper equity allocation. On July 31, 2006, Chanin delivered to Mr. Keeney a draft of a non-binding term sheet that provided for FOH Holdings' stockholders to be issued shares of our common stock in exchange for their shares of FOH Holdings, which would provide FOH Holdings' stockholders with 60% of the outstanding shares immediately after the transaction. In addition, the draft non-binding term sheet provided for, among other things, the terms of a $20 million rights offering by us to our pre-merger shareholders, to be backstopped by FOH Holdings' stockholders, and key governance issues, including certain protections for minority shareholders.

On August 3, 2006, our special committee and the FOH Holdings special committee, together with their advisors, met to discuss the terms contained in the draft preliminary non-binding term sheet. At the conclusion of this meeting, our special committee and the FOH Holdings special committee determined that they were willing to proceed with due diligence and the negotiation of definitive transaction agreements based on the terms discussed at this meeting, which terms included the 60/40 equity allocation proposed in our non-binding term sheet.

On August 15, 2006, Mr. Simon and Chanin had an informational meeting with Messrs. Jenkins, Keeney and Tokarz and Torys LLP (''Torys''), counsel to the FOH Holdings special committee.

In the following weeks, mutual due diligence was conducted by our management and our special committee's advisors and by the FOH Holdings special committee's advisors and FOH Holdings' management. These parties also engaged in initial negotiations of the terms of the key transaction agreements contemplated by the draft non-binding term sheet. The negotiation of the terms of the merger agreement and the other transaction agreements and documents was conducted by each company's special committee. Mr. Tokarz was from time to time provided with general status updates regarding the negotiations, but he did not participate in the negotiations of the proposed terms of the merger agreement until after November 1, 2006.

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On August 23, 2006, Cooley provided to Torys initial drafts of a merger agreement, shareholders agreement and voting agreement, and Torys provided to Cooley initial drafts of a standby purchase agreement, including the form of warrant to be issued thereunder, and a registration rights agreement. At various times through the execution of the merger agreement, Cooley and Torys, in consultation with their clients, negotiated the draft merger agreement and the other transaction agreements and related documents. These negotiations included meetings and discussions regarding, and the exchange of drafts of and comments on, these agreements and documents.

On August 29, 2006, Torys informed Cooley of several issues raised by the draft merger agreement. As a result of there being no initial flexibility shown by FOH Holdings on these issues, our special committee instructed its advisors to suspend all work relating to the proposed transaction until further notice. These issues were further discussed telephonically by Mr. Simon with Messrs. Jenkins and Keeney between September 2 and September 5, 2006. As a result of these discussions and the progress made, our special committee instructed its counsel and advisors to recommence their work on September 5, 2006.

Between September 5, 2006 and October 3, 2006, our special committee and its counsel and advisors and the FOH Holdings special committee and its counsel and advisors had numerous phone calls and meetings to discuss various outstanding issues in the draft merger agreement and the other transaction agreements and related documents.

On September 19, 2006, at a meeting of our board of directors, the members of our special committee, together with Cooley and Chanin, provided an update to the full board on the status of the negotiations with FOH Holdings.

On October 3, 2006, our special committee, Cooley, Chanin, Mahoney Cohen & Company, CPA, P.C., our independent registered public accounting firm (‘‘Mahoney Cohen’’), Mr. Rende, the FOH Holdings special committee, Mr. Keeney and Torys met to discuss open business issues.

On October 10, 2006, our special committee, Cooley, Chanin, Mahoney Cohen, Mr. Rende, the FOH Holdings special committee, Mr. Keeney and Torys met again to further discuss certain open matters, but did not resolve any of these matters.

On October 24, 2006, Mr. Simon and Mr. Jenkins met to discuss unresolved business issues.

On October 25, 2006, at our special committee meeting at which Cooley, Chanin and Mr. Rende were present, our special committee discussed a comprehensive package proposal to resolve the material outstanding issues between the parties. Later that day, Mr. Simon delivered to the FOH Holdings special committee and its counsel and advisors a document summarizing this proposal.

On October 27, 2006, the FOH Holdings special committee delivered a written counterproposal that, in substance, rejected the proposals presented on October 25, 2006 by our special committee. FOH Holdings’ counterproposal also indicated that if we found FOH Holdings’ proposed terms unacceptable, further discussions regarding a proposed transaction should be terminated.

On October 30, 2006, at a meeting of our board of directors, the members of our special committee, together with Cooley and Chanin, provided an update to the full board on the status of the negotiations with FOH Holdings, including the October 25 proposal made by our special committee and FOH Holdings’ October 27 counterproposal. No decisions were made at this meeting.

On October 31, 2006, our special committee met with Cooley and Chanin to further discuss FOH Holdings’ October 27 counterproposal and possible alternatives. Taking into account a number of factors, including the input from our full board of directors and FOH Holdings’ suggestion that negotiations be terminated if our special committee found the October 27 counterproposal unacceptable, our special committee determined to recommend to our board of directors that negotiations be terminated, subject to being re-opened if FOH Holdings would be willing to pursue a transaction on substantially the same terms included in our special committee’s October 25 proposal. At a November 2, 2006 meeting of our board of directors, the board followed our special committee’s recommendation to terminate negotiations and directed Mr. Simon to inform the FOH Holdings special committee of our board’s decision.

Following the conclusion of this meeting, Mr. Simon left messages for Messrs. Jenkins and Keeney regarding our board's determination. On November 2, 2006, Mr. Simon also provided Mr. Tokarz with copies of our

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special committee's October 25 proposal, FOH Holdings' October 27 counterproposal and an update regarding the termination of negotiations.

Mr. Keeney contacted Mr. Simon several times over the course of the day on November 2, 2006 after learning of our decision to terminate negotiations and requested a meeting for the next day. On November 3, 2006, Messrs. Jenkins and Keeney met with Messrs. Simon and Salberg, at which meeting, among other things, Messrs. Jenkins and Keeney asked further questions about our special committee's October 25 proposal. On November 6, 2006, the FOH Holdings special committee submitted a new proposal in writing to our special committee that reflected many of the terms included in our special committee's October 25 proposal.

On November 8, 2006, our special committee, Cooley, Chanin, Mahoney Cohen and Mr. Rende held a teleconference with the FOH Holdings special committee, Mr. Keeney and Torys to discuss FOH Holdings' November 6 proposal. Although further work was needed with regard to certain matters, in light of the substantial movement by the FOH Holdings special committee towards our special committee's October 25 proposal, on November 13, 2006, our special committee determined that there was a sufficient basis to re-start formal negotiations with FOH Holdings and directed its counsel and advisors to pursue resolving the open matters.

On November 14, 2006, we filed our quarterly report on Form 10-Q for the quarter ended September 30, 2006. In this filing and in a press release discussing our quarterly earnings, we disclosed that our selling, general and administrative expenses had increased substantially as a result of professional fees incurred due to our continuing exploration of our strategic alternatives to maximize shareholder value, including discussions with a private apparel company with respect to a possible combination of the companies. We also disclosed that we had formed our special committee to consider this transaction and our strategic alternatives and that the special committee had retained Chanin and legal counsel. Also on November 14, 2006, TTG Apparel filed an amendment to its Schedule 13D disclosing that it and Mr. Tokarz intended to consider a proposal for a possible combination between us and a private apparel company, the majority of the shares of which are indirectly owned by Mr. Tokarz. After the filing of our Form 10-Q and press release and TTG Apparel's amendment to its Schedule 13D, our special committee held discussions with Cooley and Chanin regarding a process that Chanin could implement on our behalf to solicit third party interest in a transaction alternative to the proposed transaction with FOH Holdings. At the direction of our special committee, Chanin actively solicited interest from 11 prospective parties (including both strategic and financial parties) concerning alternative transactions and also responded to all unsolicited calls. Of these parties, only one signed a confidentiality agreement and none proposed an alternative transaction.

Between November 13 and December 14, 2006, while continuing the mutual due diligence reviews, our management and our special committee and its advisors, FOH Holdings' management, the FOH Holdings special committee and its advisors and Mr. Tokarz and his advisors negotiated the final terms of the merger agreement and the other transaction agreements and related documents and worked towards resolving the open matters that were then outstanding.

On December 14, 2006, our special committee held a meeting attended by Cooley and Chanin. During this meeting, Cooley provided an update to our special committee on its due diligence review of FOH Holdings and reviewed certain other legal matters including the terms of the merger agreement and the other transaction agreements and documents, drafts of which had been circulated to our special committee prior to the meeting. Cooley also reviewed the fiduciary duties of the members of our special committee in the context of the proposed transaction. Chanin then provided a presentation on the financial terms of the proposed transaction and its preliminary financial analysis.

On December 15, 2006, our board of directors held a meeting attended by Cooley, Chanin and Graubard, during which the members of our special committee reported to the board on the status of the proposed transaction with FOH Holdings. Also during this meeting, Cooley provided an update on its due diligence review of FOH Holdings and reviewed certain other legal matters, including the terms of the merger agreement and the other transaction agreements and documents, drafts of which had been circulated to the board of directors prior to the meeting, Graubard reviewed the fiduciary duties of the

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members of the board of directors in the context of the proposed transaction and Chanin provided a presentation on the financial terms of the proposed transaction and its preliminary financial analysis.

On December 18, 2006, our special committee held a meeting, attended by Cooley and Chanin, to receive a final update on the status of the merger agreement and the other transaction agreements and documents and a final update on legal due diligence. In addition, Chanin discussed the written materials that accompanied its opinion and delivered its opinion, subsequently confirmed in writing, that the merger consideration to be paid to FOH Holdings' stockholders was fair, from a financial point of view, to our shareholders. After careful consideration, our special committee unanimously determined that the proposed transactions were fair to, and in the best interest of, our shareholders and approved the merger agreement and the other transactions agreements and documents contemplated thereby and the recommendation of the proposed transaction for approval by our board of directors. Following our special committee meeting, our full board of directors met. At this meeting, Cooley provided a final update on the status of the merger agreement and the other transaction agreements and documents and a final update on legal due diligence, and Chanin discussed the written materials that accompanied its opinion and confirmed the fairness opinion it had provided to our special committee. After careful consideration, the board of directors unanimously determined that the proposed transactions were fair to, and in the best interest of, our shareholders and approved the merger agreement and the other transactions agreements and documents contemplated thereby and the recommendations to our shareholders of proposals included in this proxy statement.

On the morning of December 19, 2006, we and FOH Holdings issued a joint press release announcing the transaction.

On February 1, 2007, we sent a letter to FOH Holdings, notifying FOH Holdings of its breach of its obligation under the merger agreement to deliver to us and Merger Sub by January 31, 2007, FOH Holdings' fiscal 2006 audited financial statements together with an unqualified audit report from Deloitte & Touche LLP and expressly reserving our rights under the merger agreement and applicable law, including our right to terminate the merger agreement and abandon the merger at any time prior to the effective time as a result of such breach.

On March 29, 2007, at FOH Holdings' request, we granted our consent under the merger agreement (i) to permit FOH Holdings to grant to certain of its employees options to purchase an aggregate of 4,500 shares of FOH Holdings common stock, which, after the merger, will be exercisable for 80,151 shares of Movie Star common stock pursuant to the merger agreement and (ii) to settle a class action lawsuit relating to consumer privacy in credit card transactions.

On April 5, 2007, at our request, FOH Holdings granted its consent under the merger agreement to permit us to enter into a consulting agreement with Performance Enhancement Partners, LLC and agreed to reimburse us for certain fees to be paid to the consultant pursuant to such consulting agreement under certain circumstances.

On June 8, 2007, we entered into an amendment to the merger agreement with FOH Holdings and Merger Sub, pursuant to which the parties agreed to, among other things, extend the termination date under the merger agreement from September 1, 2007 to December 31, 2007 and amend the form of our amended and restated certificate of incorporation to authorize the issuance of up to 10,000,000 shares of preferred stock, $.01 par value per share.

Reasons for the Recommendations of our Special Committee and Board of Directors

Our special committee, acting with the advice and assistance of its legal counsel and financial advisor, and in consultation with members of our senior management, evaluated and negotiated the terms and conditions of the merger agreement and other transaction agreements and documents. Our special committee unanimously determined that the transactions were fair to, and in the best interest of, our shareholders and approved the merger agreement and the transactions, agreements and documents contemplated thereby and the recommendation of the proposed transaction for approval by our board of directors. Acting on the unanimous recommendation of our special committee, our board of directors also unanimously determined that the transactions were fair to, and in the best interest of, our shareholders

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and approved the merger agreement and the transactions, agreements and documents contemplated thereby. Our board of directors also approved the recommendation that our shareholders approve the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal, the preferred stock proposal, the reverse stock split proposal, the 2000 performance equity plan amendment proposal and the adjournment proposal and vote for the eleven nominees we are proposing for directors.

In the course of reaching their respective determinations, our special committee and board of directors considered a number of substantive factors and potential benefits of the proposed transactions, including those discussed below, each of which they believed supported their respective decisions:

- the opportunity to create a vertical business for designing, sourcing, manufacturing and selling intimate apparel products to the consumer;
- our anticipated ability as a combined entity to:
  - borrow funds and access capital markets on more favorable terms than either we or FOH Holdings could have individually;
  - increase the volume of our source purchasing thereby reducing supply costs that both we and FOH Holdings were accustomed to paying individually; and
  - expand and consolidate our respective distribution centers to lower overall distribution costs;
- the potential to achieve operating and sales synergies and cost savings;
- Frederick’s of Hollywood is a highly recognized brand name and acquiring the Frederick’s of Hollywood name will provide us with an opportunity to increase our visibility to consumers, as well as to analysts and investors, and generate greater public interest in us;

- the trading multiples for publicly traded specialty retailers are traditionally greater than those for apparel manufacturers;
- by combining with FOH Holdings and entering into the retail sector, we will be better positioned to take advantage of growth in the intimate apparel and sleepwear markets;
- all five members of our board of directors and our current Chief Financial Officer will be members of the initial board of directors of the combined company following the consummation of the merger;
- certain key members of our senior management team will be part of the senior management team following the consummation of the merger;
- the familiarity of our special committee and board of directors with our current state of development, our customer concentration, our prospects as an independent company, the increasingly competitive market for our products and services and our competitive position;
- the process conducted by Chanin to seek alternative proposals to the proposed transactions; and
- the financial presentations by Chanin, including its opinion dated December 18, 2006, stating that the merger consideration to be paid to FOH Holdings' stockholders pursuant to the merger agreement was fair to our shareholders from a financial point of view.

Our special committee and board of directors also considered the following terms of the merger agreement and other transaction agreements and documents and a number of factors related to the procedural safeguards, including those discussed below, each of which they believed supported their respective decisions:

- our special committee is comprised solely of independent and disinterested directors who are not our employees or employees of FOH Holdings, TTG Apparel or any of its affiliated companies and who have no financial interest in the proposed transactions that is different from that of our shareholders;
- our special committee had the ultimate authority to decide whether to proceed with the transaction or any potential alternative transaction, subject to our board of directors' approval of the resulting transaction;

- our special committee's decisions have been informed by advice from its own legal counsel and financial advisor in evaluating, negotiating and recommending the terms of the proposed transactions and related documents;
- the results of financial, legal and operational due diligence on FOH Holdings performed by our senior management, and the financial advisor and legal counsel to our special committee;
- the financial and other terms and conditions of the proposed transactions and related documents were the product of arm's-length negotiations between the parties;
- the provisions of the merger agreement allowing us, subject to certain restrictions, to furnish information and conduct negotiations with third parties who make unsolicited acquisition proposals;
- the provisions of the merger agreement allowing us to terminate the merger agreement, under certain circumstances, in order to approve a superior acquisition proposal upon payment to FOH Holdings of a $300,000 termination fee, plus all of FOH Holdings' and its stockholders' actual, reasonable and documented out-of-pocket expenses incurred in connection with the merger transactions;
- the provisions of the merger agreement allowing us to terminate the merger agreement, under certain circumstances, if FOH Holdings' audited financial statements delivered after execution

of the merger agreement are delayed or contained certain changes that, in our reasonable judgment have material adverse changes, when taken as a whole, from the financial statements delivered by FOH Holdings in connection with the execution of the merger agreement;

- the requirement in the merger agreement that the stock issuance proposal and the increase of authorized common stock proposal be approved by the affirmative vote of at least a majority of our outstanding shares of common stock entitled to vote other than those beneficially owned by TTG Apparel and its affiliates and associates;
- the amendments to our bylaws that will take effect upon the consummation of the merger creating a 75% supermajority approval requirement in connection with important corporate decisions for a period of 18 months after the merger is consummated;
- the requirement that, subject to certain exceptions, the stockholders of FOH Holdings, TTG Apparel and their respective affiliates will agree to vote their shares of common stock in favor of the election of the individuals designated to serve on the board of directors of the combined company in the manner set forth in the merger agreement and take all necessary action to maintain a board of directors consisting of these individuals (and successors) for a period of 18 months after the consummation of the merger;
- the requirement that, subject to certain limited exceptions, the stockholders of FOH Holdings, TTG Apparel and their respective affiliates will hold the securities they receive upon consummation of the merger and not acquire more of our securities for a period of 18 months after the consummation of the merger; and
- the provisions of the merger agreement requiring that a portion of the shares of Movie Star common stock to be received by FOH Holdings' stockholders in connection with the consummation of the merger be placed in escrow for the purpose of covering their indemnification obligations to us, subject to certain limitations and procedures.

Our special committee and board of directors also considered a number of potentially adverse factors and risks concerning the merger, the merger agreement and the other transaction agreements and documents and the transactions contemplated thereby, including those discussed below:

- the risks, challenges and costs inherent in combining the operations of two companies and the substantial expenses to be incurred in connection with the merger, including the possibility that delays or difficulties in completing the integration could adversely affect the combined company's operating results and either delay or preclude the achievement of some benefits anticipated from the merger;
- the potential loss of one or more of our customers as a result of such customer's unwillingness to do business with the combined company;

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- the possibility that FOH Holdings' audited financial statements would contain material differences from the unaudited financial statements FOH Holdings delivered in connection with the execution of the merger agreement;
- the possibility that the reactions of existing and potential competitors to the combination of the two businesses could adversely impact the competitive environment in which the companies operate;
- although we may terminate the merger agreement under certain circumstances to approve a superior acquisition proposal, after executing the merger agreement, we are no longer allowed to initiate, solicit or encourage acquisition proposals in any manner;

- the merger, as contemplated, might not be completed in a timely manner or at all;
- the merger consideration FOH Holdings' stockholders will receive is comprised entirely of our common stock and the amount to be paid is set at a fixed ratio, therefore, its value may fluctuate in unanticipated ways and result in our paying a higher price than we originally anticipated or intended for FOH Holdings;
- if the merger agreement is terminated by one or both parties, the possible negative effect of the public announcement of such termination on our existing business relationships, sales, operating results, customers, employees and shareholders, and the resulting harm on our ability to survive on a stand-alone basis;
- the benefits and synergies anticipated by the merger, the merger agreement and the transactions contemplated thereby might not be fully realized, if at all;
- execution risk relating to the intent to expand the number of stores and diversify Frederick's of Hollywood's customer base, which is currently concentrated in a limited number of geographical areas;
- the shares to be put in escrow for the purpose of covering indemnification obligations to us may not be sufficient to cover all potential liabilities and any such excess could be a drain on our cash reserves;
- the restrictions on the conduct of our business prior to the consummation of the merger, requiring us to conduct our business materially in the ordinary course and consistent with past practice, particularly in light of expectations that the merger would not be consummated for a period of months;
- certain of our directors and executive officers may have conflicts of interest in connection with the merger, as they may receive benefits that are different from, and in addition to, those of our other shareholders;
- If no Movie Star shareholder participates in the rights offering, TTG Apparel together with Tokarz Investments will own approximately % of the outstanding common stock of the combined company, in the aggregate, after giving effect to the purchase of the unsubscribed shares in accordance with the standby purchase agreement and the issuance of the guarantor warrants as consideration for the Standby Purchase Commitment, and Fursa will beneficially own approximately % of the outstanding common stock of Movie Star, after giving effect to the purchase of the unsubscribed shares in accordance with the standby purchase agreement, the issuance and exercise of the guarantor warrants as consideration for the Standby Purchase Commitment and the issuance and conversion of the Series A Preferred Stock;
- the possibility of management and employee disruption associated with the merger and integrating our operations with FOH Holdings, including the risk that marketing, technical and administrative personnel might not remain employed with the merged entity;
- the potential incompatibility of business cultures; and
- various other applicable risks associated with the combined company and the merger, including those described in the section of this proxy statement entitled ''Risk Factors.''

Our special committee and board of directors considered all of the above factors in light of our historical and anticipated business, operations, financial condition, competitive positioning and business strategies and our growth opportunities and prospects.

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The foregoing discussion of the information and factors considered by our special committee and board of directors is not intended to be exhaustive. After taking into account all of the information and factors set forth above, as well as others, our special committee and board of directors determined that the benefits of the proposed transaction with FOH Holdings outweigh the risks and that entering into the merger agreement and other transactions, agreements and documents contemplated thereby are advisable and in our best interests and the best interests of our shareholders. In view of the wide variety of factors, both positive and negative, considered by our special committee and board of directors, neither consider it practical to, nor did either attempt to, quantify, rank or otherwise seek to assign relative weights to the specific factors that it considered in reaching its determination that the merger, the merger agreement and the transactions, agreements and documents contemplated thereby are advisable and in the best interests of our shareholders. Rather, these decisions should be viewed as being based upon the judgment of the members of our special committee and board of directors, in light of the totality of the information presented and considered, including the knowledge of the members of our special committee and board of directors of our business, financial condition and prospects and the advice of Chanin and legal counsel. In considering the factors described above, individual members of our special committee and board of directors may have focused on different factors and may have applied different analyses to each of the material factors considered by them.

Opinion of Financial Advisor to Special Committee

Our special committee retained Chanin to, among other things, assist our special committee in its negotiations with FOH Holdings and advise our special committee regarding the terms of the proposed transaction with FOH Holdings, as well as alternative proposals that could become available to us during the course of Chanin’s advisory period. In the course of this engagement, our special committee requested that Chanin render an opinion regarding the fairness to our shareholders of the merger consideration to be paid to FOH Holdings’ stockholders in the merger.

On December 18, 2006, Chanin delivered a written opinion to our special committee to the effect that, as of such date, the merger consideration to be paid in the proposed merger with FOH Holdings was fair, from a financial point of view, to our shareholders. Chanin presented the financial analysis underlying its opinion at meetings of our special committee on December 14, 2006 and December 18, 2006, and at meetings of the board of directors on December 15, 2006 and December 18, 2006.

The full text of the Chanin opinion, dated December 18, 2006, which sets forth the assumptions made, matters considered and limits on the review undertaken, is attached to this proxy statement as Annex C and is incorporated herein by reference. The summary of the Chanin opinion set forth below is qualified in its entirety by reference to the full text of the Chanin opinion. You are urged to read the opinion in its entirety.

The Chanin opinion is directed only to the fairness of the merger consideration to be paid by us to FOH Holdings’ stockholders in the merger, from a financial point of view, as of the date of the opinion. The opinion was provided for the information and assistance of our special committee and our board of directors in connection with their consideration of the merger and the other related transactions contemplated by the merger agreement. The Chanin opinion does not constitute a recommendation to any shareholder as to how such shareholder should vote on different proposals contained in this proxy statement.

In connection with rendering its opinion, Chanin did not determine the amount of the merger consideration. The merger consideration was determined through arm’s-length negotiations between our special committee and FOH Holdings. No limitations were imposed by us or Chanin with respect to the investigations made or procedures followed by Chanin in rendering its opinion.

In conducting its analysis and arriving at its opinion, Chanin reviewed information and considered financial data and other factors as Chanin deemed relevant under the circumstances, including the following:

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conducted meetings with members of our and FOH Holdings’ senior management teams at their respective corporate headquarters where Chanin discussed the history, current operations and future outlook for both companies;

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- reviewed our financial statements and SEC filings, including our Annual Reports on Form 10-K for the years ended June 30, 2004, 2005 and 2006 and Quarterly Report on Form 10-Q for the three months ended September 30, 2006;
- reviewed FOH Holdings’ audited historical financial statements for the years ended July 31, 2004 and July 30, 2005 and unaudited financial statements for the year ended July 29, 2006 and the three month period ended October 28, 2006;
- reviewed our and FOH Holdings’ financial projections for fiscal years 2007 through 2010, as well as other operating and financial information prepared by our and FOH Holdings’ respective management teams;
- reviewed drafts as of December 15, 2006 of the merger agreement, stockholders agreement, form of shareholders agreement, form of registration rights agreement, rights offering term sheet, standby purchase agreement, form of guarantor warrant, form of escrow agreement and voting agreement;
- analyzed the historical trading price and trading volume of our common stock;
- reviewed certain publicly available financial, operating and stock market data concerning certain companies engaged in businesses Chanin deemed reasonably similar to FOH Holdings;
- reviewed the financial terms of certain recent business combinations Chanin deemed relevant to its inquiry; and
- performed such other financial studies, analyses and investigations that Chanin deemed appropriate.

For purposes of rendering its opinion, Chanin assumed, with our consent, that the merger agreement, when executed, conformed to the drafts of such agreement that Chanin reviewed in all respects material to its analysis. Chanin further assumed that the proposed merger contemplated by the merger agreement would be consummated in accordance with such agreement.

Chanin discussed with our and FOH Holdings’ senior management teams (i) the past and current operating and financial condition of the respective businesses of both companies, (ii) the prospects, including estimates of future financial performance of the respective businesses of both companies and (iii) such other matters that Chanin deemed relevant.

In connection with Chanin’s review and in arriving at its opinion, Chanin relied upon the accuracy and completeness of the financial and other information that was publicly available or was provided by us or FOH Holdings. Chanin did not undertake any independent verification of such information or any independent evaluation or appraisal of any of our or FOH Holdings’ assets or liabilities (contingent or otherwise), nor did it make any physical inspection of our or FOH Holdings’ properties or assets. With respect to the financial forecasts provided to Chanin by us and FOH Holdings, Chanin assumed that such information (and the assumptions and bases underlying such information) was reasonably prepared and reflected our management’s and FOH Holdings’ management’s best then available estimate and judgment as to our future financial performance and the future financial performance of FOH Holdings, respectively. Chanin expressed no view with respect to such forecasts or the assumptions on which they were based. In addition, Chanin participated in the negotiation of the exchange ratio and other terms of the merger agreement.

The Chanin opinion was necessarily based on economic, financial and market conditions as they existed and were disclosed to Chanin as of the date of its opinion. The Chanin opinion speaks only as of the date thereof, and Chanin has no responsibility to update or revise the opinion based upon events or circumstances occurring after that date.

In arriving at its opinion, Chanin was requested and authorized to solicit, and did solicit, interest from prospective parties with respect to an alternative transaction for us. At the direction of our special committee, Chanin contacted 11 parties (eight strategic and three financial) to solicit interest in a potential transaction with us. Chanin reported on December 15, 2006 that no serious offers were made by any of such parties or any other third party.

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In arriving at its opinion, Chanin performed a variety of valuation, financial, and comparative analyses. The summary of the analyses as set forth below does not purport to be a complete description of the analyses Chanin performed. The preparation of a fairness opinion is a complex process that involves various determinations as to the most appropriate and relevant methods of financial analysis to be employed and the manner in which such methods will be applied to a particular set of facts and circumstances. As such, the preparation of a fairness opinion is not necessarily susceptible to partial analysis or summary description. Chanin informed us that the analyses it performed must be considered as a whole, and selecting portions thereof or portions of the factors considered by it, without considering all analyses and factors, could create an incomplete view of the evaluation process underlying its opinion. Chanin made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond our control. Additionally, estimates of the values of businesses and securities examined do not purport to be appraisals thereof and do not necessarily reflect the prices at which such businesses or securities may be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty.

The Chanin opinion does not address, nor should it be construed to address, the relative merits of the proposed merger with FOH Holdings as compared to other transactions or alternative business strategies that may be available to us. In addition, the Chanin opinion did not in any manner address the prices at which our common stock may trade following consummation of the merger.

The Chanin opinion, including Chanin's presentation of its opinion to our special committee and our board of directors, was one of many factors that our special committee and our board of directors took into consideration in making their recommendations. Consequently, Chanin's analysis described below should not be viewed as determinative of the conclusions of our special committee or our board of directors with respect to the merger consideration.

Subject to the foregoing, the following is a brief summary of the material financial and comparative analyses presented by Chanin to our special committee and our board of directors in connection with the delivery of its opinion. You should understand that the order of the analyses and the results derived from these analyses described below do not represent relative importance or weight given to these analyses by Chanin.

Publicly Traded Company Analysis. Chanin reviewed the current trading multiples of nine publicly traded companies that Chanin determined to be relevant to its analysis. The selected publicly traded companies operate as specialty retailers and have market capitalizations less than $1.0 billion. Chanin analyzed the latest twelve month and projected revenues and earnings before interest, taxes, depreciation and amortization (''EBITDA'') for each of the publicly-traded companies. Chanin then analyzed the peer group's trading multiples of enterprise value to their respective last twelve months and projected revenues and EBITDA. Enterprise value was calculated as the sum of the equity market value (diluted shares outstanding multiplied by the current stock price) and net indebtedness. Chanin then compared the multiples of the publicly-traded companies to the multiples implied in the proposed merger based on our stock price as of November 14, 2006 (the date we announced that we were exploring a possible combination with a private apparel company) and our stock price as of December 15, 2006. The companies analyzed were:

- Cache, Inc.
- Cato Corp.
- Charlotte Russe Holding, Inc.
- Deb Shops, Inc.
- Hot Topic, Inc.
- Le Chateau, Inc.
- Maidenform Brands, Inc.
- Mother’s Work, Inc.
- United Retail Group, Inc.

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Below are summary multiples and statistics for the selected publicly traded companies:

	Enterprises Value as a Multiple of:			
	Net Sales		EBITDA[a]	
	LTM[b]	2007P[c]	LTM[b]	2007P[c]
High	1.38x	1.33x	11.1x	9.8x
Average	0.91	0.86	8.1	7.9
Median	0.81	0.79	7.3	7.7
Low	0.38	0.37	6.1	5.7
Implied FOH Holdings Statistics (November 14, 2006)	0.31x	0.32x	8.2x	8.1x
Implied FOH Holdings Statistics (December 15, 2006)	0.40x	0.41x	10.5x	10.3x

(a) Adjusted to exclude non-recurring, one-time items and include stock based compensation.
(b) LTM represents the Latest Twelve-Month period ending October 31, 2006.
(c) Wall Street research analyst estimates calendarized to a June 30, 2007 year end.

Precedent Transaction Analysis. Chanin reviewed 12 selected merger and acquisition transactions involving target companies that Chanin determined to be relevant to its analysis. Each of the target companies operates as a specialty retailer and the aggregate purchase price of each transaction was less than $1.0 billion. Chanin computed the revenues for the last twelve months and EBITDA for each of the target companies. Chanin then calculated the aggregate purchase price (based on the acquirer’s stock price one day prior to announcement) for each transaction to the target’s respective revenue for the last twelve months and EBITDA and compared the multiples of the selected transactions to the multiples implied in the proposed merger based on our stock price as of November 14, 2006 (the date we announced that we were exploring a possible combination with a private apparel company) and our stock price as of December 15, 2006. The transactions analyzed were:

- the then pending acquisition of La Senza Corp. by Limited Brands, Inc.;
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the pending acquisition of Eddie Bauer Holdings, Inc. by Sun Capital Partners and Golden Gate Capital;

- the acquisition of J. Jill Group, Inc. by Talbots, Inc.;
- the acquisition of OshKosh B'Gosh, Inc. by William Carter Co.;
- the acquisition of Maurices Incorporated by Dress Barn, Inc.;
- the acquisition of Barneys New York, Inc. by Jones Apparel Group, Inc.;
- the acquisition of Ben Sherman Limited by Oxford Industries, Inc.;
- the acquisition of Vans, Inc. by VF Corp.;
- the acquisition of Loehmanns Holdings, Inc. by Arcapita, Inc.;
- the acquisition of Hat World Corporation by Genesco, Inc.;
- the acquisition of Elder Beerman Stores Corp. by Bon-Ton Stores, Inc.; and
- the acquisition of The White House, Inc. by Chico's FAS, Inc.

Below are summary multiples and statistics for the selected precedent transactions:

	Enterprises Value as a Multiple of:	
	Net Sales	EBITDA[(a)]
High	1.45x	17.9x
Average	0.85	9.7
Median	0.89	9.0
Low	0.30	5.9
Implied FOH Holdings Statistics (November 14, 2006)	0.31x	8.2x
Implied FOH Holdings Statistics (December 15, 2006)	0.40x	10.5x

(a) Adjusted to exclude non-recurring, one-time items

The selected publicly traded companies and the acquired entities in the precedent transactions identified above were selected for comparative purposes only. None of these entities is identical to FOH Holdings, and none of the comparable transactions reviewed is identical to the proposed transaction. Accordingly, a complete valuation analysis cannot be limited to a quantitative review of selected comparable companies; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable companies and other factors that could affect the public trading value of the comparable company or companies to which they are being compared.

Discounted Cash Flow Analysis. Chanin performed a discounted cash flow analysis to determine a range of values for FOH Holdings. All cash flows were discounted to December 31, 2006 and terminal values were based upon estimated 2010 calendar year EBITDA multiples. Chanin calculated FOH Holdings' terminal value by multiplying FOH Holdings' 2010 projected EBITDA by terminal EBITDA multiples implied from Chanin's Publicly Traded Company Analysis and the Precedent Transaction Analysis, ranging from 7.5x to 8.5x. Chanin utilized discount rates ranging from 16.5% to 18.5% to calculate the present value of the projected unlevered future cash flows and terminal value of FOH Holdings. The discount rate was determined pursuant to the Capital Asset Pricing Model. Forecasted financial information used in this analysis was based on projections provided by FOH Holdings' management team. This analysis resulted in a range of implied enterprise values for FOH Holdings of $54.5 million to $64.0 million.

Contribution Analysis. Chanin utilized historical financial results and the financial projections of our management and the historical financial results and the financial projections of FOH Holdings' management in order to compare the pro forma ownership of the combined company following the proposed merger to the pro forma contributions by each of FOH Holdings and us based upon historical and projected Net Sales and EBITDA. Chanin compared the pro forma contributions of Net Sales and EBITDA to the implied consideration in the transaction on a fully diluted equity basis and enterprise basis as of November 14, 2006 (the date we announced that we were exploring a possible combination with a private apparel company) and December 15, 2006.

The following table indicates the relative contribution by us and FOH Holdings to the combined company based on financial data provided by FOH Holdings and our management teams, respectively.

						Implied Consideration in the Proposed Transaction			
	Historical				Projected	Fully Diluted Equity Value(b)		Enterprise Value	
	2004	2005	2006	LTM(a)	2007P	11/14/2006	12/15/2006	11/14/2006	12/15/2006
Net Sales Contribution									
FOH Holdings	71.6%	68.3%	72.9%	71.6%	66.9%	59.7%	59.1%	68.2%	65.8%
Movie Star	28.4%	31.7%	27.1%	28.4%	33.1%	40.3%	40.9%	31.8%	34.2%
EBITDA Contribution(c)									
FOH Holdings	87.6%	NM	100.0%	100.0%	64.3%	59.7%	59.1%	68.2%	65.8%
Movie Star	12.4%	NM	0.0%	0.0%	35.7%	40.3%	40.9%	31.8%	34.2%

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(a) Represents the latest twelve-month period ending September 30, 2006 and October 31, 2006 for Movie Star and FOH Holdings, respectively.
(b) Calculated pursuant to the treasury stock method.
(c) Our 2006 and LTM EBITDA is negative. Analysis assumes our 2006 and LTM EBITDA contribution is $0.0.

Our special committee selected Chanin to serve as its financial advisor and to provide a fairness opinion in connection with the proposed merger because Chanin is a nationally recognized investment banking firm with experience and expertise in transactions similar to the proposed merger and regularly engages in the valuation of businesses and securities in connection with merger and acquisition transactions. Pursuant to an engagement letter, Chanin has received a fee of $350,000 for its financial advisory services in connection with the merger and related transactions, $250,000 having been paid in connection with the delivery of its opinion. No additional fees are payable to Chanin in connection with the proposed merger and none of Chanin's fees are contingent upon the completion of the merger. In addition, the engagement letter with Chanin provides that we will reimburse Chanin for its out-of-pocket and incidental expenses and will indemnify Chanin and related persons against certain liabilities arising out of or in connection with advice or services rendered pursuant to the engagement letter and the transactions contemplated thereby.

Interests of Movie Star Directors and Officers in the Merger and Related Transactions

When you consider the recommendation of Movie Star's board of directors in favor of the proposals included in this proxy statement, you should be aware that certain members of Movie Star's board of directors have agreements or arrangements that provide them with interests in the merger and the related transactions that differ from, or are in addition to, your interests as a shareholder generally. In particular:

- On April 9, 2007, we entered into a consulting agreement with Performance Enhancement Partners, LLC (''Consultant''), pursuant to which the Consultant provides us with the personal services of Peter Cole, a current member of our board of directors and the sole member of the Consultant, to (i) act as the lead member of our board to facilitate the timely and successful completion of the merger, the rights offering and other transactions contemplated by the merger agreement and (ii) serve as the Executive Chairman of the combined company following the closing of the merger until July 26, 2008. We have the option to extend the consulting agreement for up to two additional six-month periods. The consulting agreement provides for the Consultant to receive a base consulting fee at the annual rate of $400,000, payable in four equal quarterly installments in arrears, the first payment having been made on April 12, 2007. For the year ending July 28, 2007, the Consultant will be entitled to receive an additional consulting fee, as determined on a discretionary basis by our board. For the year ending July 26, 2008, the Consultant will be entitled to receive an additional consulting fee of a minimum of $100,000 in accordance with the terms of a bonus plan expected to be adopted by the compensation committee following the closing of the merger. Mr. Cole is required to devote substantially all of his business time, energies and attention to the business and affairs of Movie Star (and the combined company following the merger) in the performance of his duties under the consulting agreement.

On the closing date of the merger, we will (i) issue to the Consultant 100,000 shares of our common stock under the 2000 Performance Equity Plan and (ii) grant to the Consultant a five-year option to purchase 275,000 shares of our common stock under the 2000 Performance Equity Plan at an exercise price equal to the last sale price of our common stock on the closing date of the merger. 75,000 of the shares underlying the option will vest on the date of grant and 100,000 shares will vest on each of January 3, 2008 and July 26, 2008. We also will grant to the Consultant under the 2000 Performance Equity Plan five-year non-qualified options to purchase an aggregate of 100,000 shares of our common stock, with each grant of 50,000 shares to be made on the commencement date of each six month extension period, if applicable, at an exercise price

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equal to the last sale price of our common stock on the date of grant. Each grant of 50,000 shares will vest on the six-month anniversary of the commencement date of the applicable extension period.

The consulting agreement provides that if the merger agreement is terminated or the Consultant terminates the consulting agreement for ''Good Reason'' (as defined in the consulting agreement) prior to the closing of the merger, we will pay the Consultant the base consulting fee through September 30, 2007, net of any additional consulting fee awarded and paid to the Consultant for the year ending July 28, 2007. The consulting agreement also provides that if, following the closing of the merger, we terminate the Consultant without ‘‘Cause’’ or the Consultant terminates the consulting agreement for ‘‘Good Reason’’, we will pay to the Consultant the base consulting fee through July 26, 2008 or the end of the applicable extension period, as the case may be, and any additional consulting fee which would have become payable under the consulting agreement for the year ending July 26, 2008 or the applicable extension period, as the case may be. Additionally, options that have been granted and would otherwise have vested shall immediately vest upon such termination.

Additionally, FOH Holdings has agreed that if the merger agreement is terminated for any reason other than by FOH Holdings as a result of an Adverse Recommendation Change (as defined below in ‘‘The Merger Agreement—Restrictions on Solicitations of Other Offers Concerning Movie Star’’), a Parent Acquisition Proposal (as defined below in ‘‘The Merger Agreement—Restrictions on Solicitations of Other Offers Concerning Movie Star’’) or certain breaches of representations, warranties, covenants or agreements made by us or Merger Sub, as more fully described below in ‘‘The Merger Agreement—Termination,’’ FOH Holdings will reimburse us for one half of the base consulting fee paid to Consultant (or earned and previously unpaid to Consultant) under the consulting agreement prior to such termination.

- Saul Pomerantz, Chief Operating Officer of Movie Star, and Thomas Rende, Chief Financial Officer of Movie Star, who were directors of Movie Star at the time we entered into the merger agreement, hold options to purchase 280,000 and 105,000 shares of Movie Star common stock, respectively. Pursuant to the terms of their respective option agreements, in the event of any merger, reorganization, consolidation, recapitalization, dividend (other than cash dividend), stock split, reverse stock split, or other change in corporate structure affecting the number of issued shares of Movie Star common stock, we are required to proportionately adjust the number and kind of option shares and the exercise price of the options in order to prevent dilution or enlargement of the optionee’s proportionate interest in Movie Star. Accordingly, upon completion of the merger, Mr. Pomerantz will be entitled to receive options to purchase an additional 420,000 shares of our common stock and Mr. Rende will be entitled to receive options to purchase an additional 157,500 shares of our common stock. The number and kind of option shares and the exercise price of other options held by Messrs. Pomerantz and Rende will not be adjusted as a result of the merger.
- As a result of our entering into the consulting agreement with Performance Enhancement Partners, Peter Cole no longer qualified as an ‘‘independent’’ director under the rules of the American Stock Exchange, which rules also require that a majority of our directors qualify as ‘‘independent.’’ In order for us to remain in compliance with this requirement, Messrs. Pomerantz and Rende resigned from our board of directors at the time we entered into the consulting agreement with Performance Enhancement Partners. Mr. Rende is included among management’s nominees to become a director of the combined company.

Material Federal Income Tax Consequences of the Merger

The following is a summary of certain material United States federal income tax consequences of the merger to our shareholders. The following discussion is based upon the current provisions of the Code, Treasury Regulations promulgated under the Code, and administrative rulings and judicial decisions in effect as of the date of this document. These authorities may be changed at any time, possibly with retroactive effect. Any such change could result in United States federal income tax consequences that are different from those discussed below.

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The following discussion is intended to provide only a summary of the material U.S. federal income tax consequences of the merger. We do not intend that it be a complete analysis or description of all potential federal income tax consequences of the merger. In addition, the following discussion does not address the tax consequences of other transactions effectuated prior to, concurrently, or after the merger, whether or not such transactions are completed in connection with the merger. Moreover, it does not address any non-income tax or any foreign, state, or local tax consequences of the merger. Furthermore, it does not address tax consequences that may vary with, or are contingent upon, individual circumstances.

We have not sought and will not seek any rulings from the Internal Revenue Service (''IRS'') or opinions from counsel with respect to the United States federal income tax consequences discussed below. Our views regarding the tax consequences of the merger are not binding upon the IRS or the courts, and there is no assurance that the IRS or the courts would accept the tax consequences discussed herein.

ACCORDINGLY, WE STRONGLY URGE YOU TO CONSULT YOUR OWN TAX ADVISOR TO DETERMINE YOUR PARTICULAR U.S. FEDERAL, STATE, LOCAL, OR FOREIGN TAX CONSEQUENCES RESULTING FROM THE MERGER AND ANY RELATED REPORTING OBLIGATIONS.

As a shareholder of Movie Star, you will not exchange or surrender your common stock in the merger or receive any separate consideration. Accordingly, you should not recognize any taxable gain or loss as a result of the merger. The merger is also expected to qualify as a tax-free transaction to Movie Star under the provisions of Section 1032 of the Code as an issuance of stock in exchange for property (i.e., the stock of FOH Holdings). However, as a result of the merger, our ability to use the net operating losses that we incurred prior to the merger will be limited on an annual basis. The ability of FOH Holdings to use its net operating losses that it incurred prior to the merger may also be limited.

Anticipated Accounting Treatment

The merger of FOH Holdings and Movie Star will be accounted for under the purchase method of accounting as a reverse acquisition. Under this method of accounting, FOH Holdings will be treated as having acquired Movie Star as of the date of the completion of the merger. The financial statements prepared after the completion of the merger will be a continuation of the financial statements of FOH Holdings and will include the operations of Movie Star from the date of completion of the merger. The fair value of Movie Star's assets and liabilities as of the consummation date of the merger will be consolidated with the balance sheet of FOH Holdings. The purchase price will be allocated to the net assets of Movie Star's assets based upon their estimated fair values as of the consummation date of the merger. Additionally, the reverse acquisition will result in a recapitalization of the combined businesses representing the fair value of the purchase consideration issued in the merger plus the net assets of FOH Holdings as of the consummation date of the merger.

Deferred tax assets and liabilities will be adjusted for the difference between the tax basis of the assets and liabilities and their estimated values. The excess, if any, of the total acquisition cost over the sum of the assigned fair values of the tangible and identifiable intangible assets acquired, less liabilities assumed, will be recorded as goodwill and periodically evaluated for impairment. Our financial statements issued after completion of the acquisition will reflect these values. Historical data published after the completion of the merger will be of FOH Holdings and will not be restated retroactively to reflect the combined historical financial position or results of operations of Movie Star. Because the number of shares outstanding following the reverse acquisition will be significantly different from the number of shares outstanding prior to the reverse acquisition, the weighted average shares outstanding for purposes of presenting earnings per share on a comparative basis will be retroactively restated to the earliest period presented in order to reflect the effect the recapitalization that will occur as a result of the reverse acquisition.

Regulatory Matters

The merger and the transactions contemplated by the merger agreement are not subject to any additional federal or state regulatory requirement or approval other than filings with the States of Delaware and New York which will be necessary to effect the transactions contemplated by the merger agreement and filings of notification and report forms with the Department of Justice and the Federal Trade Commission under the HSR Act, which we and FOH Holdings may be required to make.

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THE MERGER AGREEMENT

The following summary of the material provisions of the merger agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the merger agreement and the amendment to the merger agreement, which are attached as Annex A and Annex B, respectively, to this proxy statement. All shareholders are encouraged to read the merger agreement in its entirety for a more complete description of the terms and conditions of the merger.

General; Structure of Merger

On December 18, 2006, we entered into a merger agreement with FOH Holdings. Merger Sub, our wholly owned subsidiary formed to effect the merger by merging with and into FOH Holdings, is also a party to the merger agreement. FOH Holdings will be the surviving corporation in the merger with Merger Sub and, as a result, will be our wholly owned subsidiary through an exchange of all of the issued and outstanding shares of capital stock of FOH Holdings for shares of our common stock.

FOH Holdings' stockholders have already approved and adopted the merger agreement and the transactions contemplated thereby by virtue of the execution of an unanimous written consent of such stockholders. No further action is required to be taken by FOH Holdings' stockholders to approve the merger and related transactions.

Closing and Effective Time of the Merger

The closing of the merger will take place promptly following the satisfaction of the conditions described below under ''The Merger Agreement—Conditions to the Closing of the Merger,'' unless we and FOH Holdings agree in writing to another time. The merger is expected to be consummated promptly after the special meeting of our shareholders.

Name; Headquarters; Stock Symbol

After completion of the merger:

- our name will be changed to Frederick's of Hollywood Group Inc.; and
- the corporate headquarters and principal executive offices of the combined company and the Movie Star division will be located at 1115 Broadway, New York, New York 10010, which is Movie Star's current corporate headquarters. The corporate headquarters and principal executive office of the Frederick's of Hollywood division will be located at 6255 Sunset Boulevard, Sixth Floor, Hollywood, California 90028, which is Frederick's of Hollywood's current corporate headquarters.

We intend to apply to have our American Stock Exchange trading symbol changed from ‘‘MSI’’ to ‘‘FOH’’ following the completion of the merger.

Merger Consideration

Upon completion of the merger, each stockholder of FOH Holdings will have the right to receive in exchange for its shares of common stock of FOH Holdings held at the effective time of the merger shares of our common stock equal to the product of (i) 0.8 multiplied by (ii) the number of shares of FOH Holdings common stock held by such stockholder immediately prior to the effective time of the merger multiplied by (iii) an exchange ratio of 17.811414, plus the right to receive the distributions, if any, under the escrow established pursuant to the merger agreement and related escrow agreement and described below under ‘‘The Merger Agreement—Escrow Arrangements’’ and ‘‘Other Transaction Documents— Escrow Agreement.’’

Each share of FOH Holdings common stock issued and outstanding immediately prior to the effective time of the merger that is owned by FOH Holdings or any of its direct or indirect subsidiaries shall, by virtue of the merger and without any action on the part of the holder thereof, cease to be outstanding, shall be cancelled and retired without payment of any consideration therefor, and shall cease to exist.

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Escrow Arrangements

We and the stockholder representatives for the FOH Holdings stockholders will enter into an escrow agreement at or prior to the effective time of the merger with an escrow agent whereby we will deposit into escrow an amount of shares of our common stock equal to the product of (i) 0.2 multiplied by (ii) the number of shares of FOH Holdings common stock held by the stockholders of FOH Holdings immediately prior to the effective time of the merger multiplied by (iii) the exchange ratio of 17.811414 to cover indemnification claims that may be brought by us for certain matters, including breaches of representations, warranties and covenants by FOH Holdings under the merger agreement and the stockholders agreement. Shares remaining in escrow will be released following the 18-month anniversary of the effective time of the merger, subject to extension under certain circumstances. Similarly, treasury shares of our common stock representing 7.5% of the aggregate number of issued and outstanding shares of our common stock immediately prior to the effective time of the merger will be deposited into escrow to cover any indemnification claims that may be brought by FOH Holdings’ stockholders, which shares shall be returned to us following the 18-month anniversary of the effective time of the merger, subject to certain conditions and to the extent not used to satisfy indemnification claims. See also ‘‘Other Transaction Documents—Escrow Agreement.’’

Pursuant to the merger agreement, a committee of the board of directors of the combined company will be formed to make determinations regarding, pursuing and responding to indemnification claims, the amount of losses and the offset of losses against our common stock deposited into escrow. This committee will initially be comprised of Joel M. Simon and Milton J. Walters. If we or the FOH Holdings stockholder representatives do not agree with the determination made by this committee and, further, these parties are unable to reach an agreement, any disputes, claims, or controversies arising out of or relating to these indemnification matters will be resolved solely and exclusively by binding arbitration to be conducted before the Judicial Arbitration and Mediation Services (‘‘JAMS’’) in New York City before a single arbitrator pursuant to JAMS Comprehensive Arbitration Rules and Procedures, the results of which will be final and binding on us and FOH Holdings’ stockholders.

Election of Directors and Appointment of Executive Officers

In connection with its approval of the merger and other transactions contemplated by the merger agreement, our board of directors approved the increase of the number of directors constituting the full board from seven to eleven which will be effective at the effective time of the merger. At the effective time of the merger, if management's nominees are elected, the directors of the combined company will be Peter Cole, John L. Eisel, Melvyn Knigin, Michael A. Salberg and Joel M. Simon, all currently serving as directors of Movie Star, Thomas Rende, the Chief Financial Officer of Movie Star and a former member of Movie Star's board of directors, William F. Harley, Linda LoRe, Rose Peabody Lynch and Milton J. Walters, all currently serving as directors of FOH Holdings, and Thomas J. Lynch, Chief Executive Officer of Fursa. If the merger is not consummated, our existing directors will continue to serve as directors of Movie Star. See ''Director Election Proposal.''

After the merger, in accordance with the merger agreement, the newly constituted board of directors of the combined company will appoint Peter Cole as our Executive Chairman, Thomas Rende as our Chief Financial Officer, Melvyn Knigin as the President and Chief Executive Officer of the Movie Star division and Linda LoRe as the President and Chief Executive Officer of the Frederick's of Hollywood division.

Representations and Warranties

As part of the merger agreement, FOH Holdings made representations and warranties to us and Merger Sub relating to a number of matters, including:

- FOH Holdings' and its subsidiaries' due organization and good standing;
- FOH Holdings' and its subsidiaries' capital structure and the rights and obligations relating to FOH Holdings' and its subsidiaries' capital stock;
- the due authorization, execution, delivery and enforceability of the merger agreement and the transaction documents;

- the absence of the need for filings, authorizations or approvals in order to consummate the merger;
- FOH Holdings' and its subsidiaries' compliance with all applicable laws;
- the accuracy of FOH Holdings' consolidated financial statements specified in the merger agreement;
- the financial projections relating to FOH Holdings and its subsidiaries;
- the absence of undisclosed liabilities;
- the absence of certain material changes or events;
- the absence of litigation;
- the disclosure of material agreements, contracts and commitments;
- the accuracy of information relating to FOH Holdings and its subsidiaries that will be included in filings with the SEC, in connection with the transactions contemplated by the merger agreement;
- FOH Holdings' and its subsidiaries' employees, labor relations and employee benefit plans;
- FOH Holdings' and its subsidiaries' intellectual property, the absence of infringement of third party intellectual property rights by FOH Holdings and other related matters;
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the timely and accurate filing of tax returns, the timely payment of taxes and other related matters;
- related party transactions;
- FOH Holdings' and its subsidiaries' good title to properties and assets;
- FOH Holdings' and its subsidiaries' insurance policies;
- the inapplicability of anti-takeover statutes;
- the absence of brokers' or finders' fees;
- FOH Holdings' significant suppliers;
- environmental matters and compliance with environmental laws;
- the condition of plants, structures and equipment owned and leased by FOH Holdings and its subsidiaries; and
- the condition of the information and communications technologies used by FOH Holdings and its subsidiaries.

As part of the merger agreement, both we and Merger Sub made representations and warranties to FOH Holdings relating to a number of matters, including:

- due organization and good standing;
- capital structure and the rights and obligations relating to our and our subsidiaries' capital stock;
- the due authorization, execution, delivery and enforceability of the merger agreement and the transaction documents;
- the absence of the need for filings, authorizations or approvals in order to consummate the merger;
- our and our subsidiaries' compliance with all applicable laws;
- the accuracy of our consolidated financial statements specified in the merger agreement;
- the accuracy of our financial projections;
- the absence of undisclosed liabilities;

- the absence of certain material changes or events;
- the absence of litigation;
- the disclosure of material agreements, contracts and commitments;
- the accuracy of information relating to us and our subsidiaries that will be included in SEC filings in connection with the transactions contemplated by the merger agreement;
- the delivery of corporate documents;
- our and our subsidiaries' employees, labor relations and employee benefit plans;
- our and our subsidiaries' intellectual property, the absence of infringement of third party intellectual property rights and other related matters;
- the timely and accurate filing of tax returns, the timely payment of taxes and other related matters;
- our and our subsidiaries' good title to properties and assets;
- our and our subsidiaries' insurance policies;
- the inapplicability of anti-takeover statutes;
- the disclosure on brokers' fees or finders' fees;
- our significant suppliers and customers;
- the purpose and formation of Merger Sub;

- environmental matters and compliance with environmental laws;
- the condition of plants, structures and equipment owned and leased by us and our subsidiaries;
- the condition of the information and communications technologies used by us and our subsidies; and
- related party transactions.

In connection with the execution of the merger agreement, we and FOH Holdings delivered disclosure schedules to each other specifying, among other things, certain exceptions to our respective representations and warranties.

Conduct of Businesses Pending the Merger

We and FOH Holdings have each agreed as part of the merger agreement to continue to operate our respective businesses in the ordinary course prior to the closing of the transactions contemplated thereby and we each have agreed not to take the following actions, subject to certain exceptions, without the prior written consent of the other:

- incur any debt, except under existing lines of credit;
- adjust, split, combine or reclassify any of our respective capital stock;
- enter into any transaction not in the ordinary course of business;
- make, declare or pay any dividend, or make any other distribution on, or redeem, purchase or otherwise acquire, any shares of our respective capital stock;
- issue any additional shares of capital stock or any securities convertible into or exchangeable for, or any warrants or options to acquire any such shares;
- pay any bonus, increased salary or special remuneration other than in the ordinary course of business or as required to comply with applicable law or existing benefit plan;
- adopt, enter into, terminate or amend in any material respect any benefit plan, other than the entry into of employment agreements with newly hired non-executive employees;

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- sell, transfer, license, lease, mortgage, encumber or otherwise dispose of any of its properties or assets other than in the ordinary course of business;
- enter into any new line of business;
- make any acquisition or investment, or make any capital expenditures, other than investments in wholly owned subsidiaries or in the ordinary course of business;
- amend the articles of incorporation or bylaws or similar organizational documents;
- settle any material claim, action or proceeding, except in the ordinary course of business;
- take any action that is intended or would be reasonably likely to result in any of the conditions to the merger agreement not being satisfied, except as may be required by applicable law, statute, rule, regulation or ordinance;
- change accounting methods;
- amend or waive its rights under any material contract, terminate or fail to renew any material contract, or enter into any new material contract;
- adopt a plan or agreement of material reorganization;
- write down the value of any inventory or write-off as uncollectible any notes or accounts receivable;
- dispose of rights to any intellectual property, owned or licensed;
- change any insurance coverage; or

- take any action reasonably likely to result in the merger not being treated as a tax-free reorganization pursuant to Section 354 of the Internal Revenue Code of 1986, as amended.

Restrictions on Solicitations of Other Offers Concerning Movie Star

Subject to the provisions described below, until the merger is completed or the merger agreement is terminated, we have agreed, subject to certain exceptions, to not direct, authorize or permit any of our or our subsidiaries' respective officers, directors, employees, shareholders, agents, advisors or other representatives to:

- initiate, solicit or encourage the submission of any inquiries, proposals or offers, or facilitate the making of any inquiry, expression of interest, proposal or offer that constitutes, or could reasonably be expected to lead to any inquiries, proposals or offers from any person or group of persons other than FOH Holdings or its affiliates relating to (i) any direct or indirect acquisition or purchase of a business that constitutes 15% or more of our and our subsidiaries' net revenues, net income or assets, taken as a whole, or 15% or more of our outstanding common stock, (ii) any tender offer or exchange offer that if consummated would result in any person or group of persons beneficially owning 15% or more of our outstanding common stock, or (iii) any merger, reorganization, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or similar transaction involving us (or any of our subsidiaries whose business constitutes 15% or more of our and our subsidiaries' net revenues, net income or assets). Any such proposal is hereafter referred to as a ''Parent Acquisition Proposal''; or
- accept a Parent Acquisition Proposal or enter into any agreement or agreement in principle providing for or relating to a Parent Acquisition Proposal or enter into any agreement or agreement in principle requiring us to abandon, terminate or fail to consummate the transactions contemplated by the merger agreement or to breach our obligations under the merger agreement.

We also have agreed, subject to certain exceptions, to, immediately following the execution of the merger agreement, cease and cause to be terminated any then existing solicitation, encouragement, discussion or negotiation with any person with respect to any Parent Acquisition Proposal.

We have further agreed that, except as provided below, neither our board of directors nor any committee thereof, will withdraw (or modify in a manner adverse to FOH Holdings), or publicly propose

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to withdraw (or modify in a manner adverse to FOH Holdings), the approval, recommendation or declaration of advisability of the merger or recommend, adopt or approve, or propose publicly to recommend, adopt or approve, any alternative Parent Acquisition Proposal (any such action, is hereafter referred to as an ''Adverse Recommendation Change'') or approve or recommend, or publicly propose to approve or recommend, or execute or enter into, any agreement constituting or related to, or that is intended to lead to any Parent Acquisition Proposal (other than in connection with a confidentiality agreement on the terms described below).

Notwithstanding the above restrictions, if at any time prior to obtaining our shareholders' approval of the proposals contemplated by this proxy statement, we receive a written Parent Acquisition Proposal from a third party that our board of directors (acting through its special committee), after consultation with its independent financial advisors and outside counsel:

- believes in good faith to be bona fide;
- determines in good faith to constitute or could reasonably be expected to result in an offer or proposal relating to (i) any direct or indirect acquisition or purchase of a business that constitutes 50% or more of our and our subsidiaries' net revenues, net income or assets, taken as a whole, or 50% or more of our outstanding common stock, (ii) any tender offer or exchange offer that if consummated would result in any person or group of persons beneficially owning 50% or more of our outstanding common stock, or (iii) any merger, reorganization, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or similar transaction involving us (or any of our subsidiaries whose business constitutes 50% or more of our and our subsidiaries' net revenues, net income or assets) (any such proposal is hereafter referred to as a ''Superior Proposal''); and
- determines in good faith that the failure to take such action would be inconsistent with its fiduciary duties under applicable law,

then, we may (x) furnish information with respect to us and our subsidiaries to the person making such Parent Acquisition Proposal (and its representatives) and (y) participate in discussions or negotiations with the person making such Parent Acquisition Proposal (and its representatives) regarding such proposal. In connection with any such Parent Acquisition Proposal, we have agreed that we will not, and will not allow our representatives to, disclose any non-public information to such person without entering into a confidentiality agreement on terms that are not less favorable than those set forth in the confidentiality agreement that we entered into with FOH Holdings and will promptly provide to FOH Holdings any non-public information concerning us or our subsidiaries provided to such other person which was not previously provided to FOH Holdings. We have agreed to notify FOH Holdings within one business day if we receive such Parent Acquisition Proposal, including the material terms and conditions thereof, and shall keep FOH Holdings apprised of the status and any material developments concerning the same. These restrictions do not prohibit us or our board of directors from taking and disclosing to our shareholders a position with respect to a tender or exchange offer by a third party pursuant to Rules 14d-9 and 14e-2(a) promulgated under the Securities Exchange Act of 1934, as amended (the ''Exchange Act'') or from making any other disclosure required by applicable law.

We have the right to terminate the merger agreement and abandon the merger before the effective time, if at any time prior to obtaining our shareholders' approval on the proposals contemplated by this proxy statement, our board of directors (as approved by its special committee) resolves to enter into, in accordance with the provisions of the merger agreement, a definitive agreement containing a Parent Acquisition Proposal so long as:

- we shall have complied with our obligations under the merger agreement regarding not soliciting alternative transaction and related matters;
- our board of directors (acting through its special committee) shall have determined in good faith (after consultation with its independent financial advisors and outside counsel) that such Parent Acquisition Proposal constitutes a Superior Proposal and the failure to take such action is inconsistent with the fiduciary duties of our board of directors to our shareholders under applicable law; and

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- prior to terminating the merger agreement to enter into an agreement with respect to such Superior Proposal, we shall, and shall cause our financial and legal advisors to negotiate with FOH Holdings in good faith (to the extent FOH Holdings desires to negotiate) to make such improvements in the terms and conditions of the merger agreement so that such Parent

Acquisition Proposal ceases to constitute a Superior Proposal, which obligation to negotiate will expire five business days after the date on which we commence to negotiate with FOH Holdings.

Subject to the provisions described above, we have the right to enter into a definitive agreement containing a Parent Acquisition Proposal, so long as the effectiveness of such agreement is conditioned upon the termination of the merger agreement pursuant to the terms described above and immediately following the execution of such agreement, a copy of such agreement and all related agreements, exhibits, schedules and other documents are delivered to FOH Holdings. We have agreed to notify FOH Holdings in writing of our intent to enter into a definitive agreement containing a Parent Acquisition Proposal following the resolution of our board of directors to do so and to provide FOH Holdings with the identity of the person making, and the final terms and conditions of, such Parent Acquisition Proposal.

Notwithstanding anything to the contrary contained in the merger agreement, we (acting on the recommendation of our special committee) are not prevented from discharging our disclosure obligations pursuant to applicable law or from making, prior to obtaining our shareholders' approval on the proposals contemplated by this proxy, an Adverse Recommendation Change, if we determine in good faith (after consultation with our independent financial advisors and outside counsel) that failure to take such action would be inconsistent with our fiduciary duties to our shareholders under applicable law.

Restrictions on Solicitations of Other Offers Concerning FOH Holdings

Until the merger is completed or the merger agreement is terminated, FOH Holdings has agreed to not direct, authorize or permit any of its or its subsidiaries' respective officers, directors, employees, shareholders, agents, advisors or other representatives to:

- initiate, solicit or encourage the submission of any inquiries, proposals or offers or facilitate the making of any inquiry, expression of interest, proposal or offer that constitutes, or could reasonably be expected to lead to (i) any inquiry, proposal or offer from any person or group of persons other than us or our affiliates relating to any direct or indirect acquisition or purchase of a business that constitutes 15% or more of the net revenues, net income or assets of FOH Holdings, taken as a whole, or 15% or more of the outstanding shares of FOH Holdings common stock, (ii) any tender offer or exchange offer that if consummated would result in any person or group of persons beneficially owning 15% or more of the outstanding FOH Holdings common stock, or (iii) any merger, reorganization, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or similar transaction involving FOH Holdings (any such proposal is hereafter referred to, as a ''Company Acquisition Proposal''); or
- accept a Company Acquisition Proposal or enter into any agreement or agreement in principle providing for or relating to a Company Acquisition Proposal or enter into any agreement or agreement in principle requiring FOH Holdings to abandon, terminate or fail to consummate the transactions contemplated by the merger agreement or breach its obligations under the merger agreement.

As part of the merger agreement, immediately following the execution of the merger agreement, FOH Holdings agreed to cease and cause to be terminated any then existing solicitation, encouragement, discussion or negotiation with any person with respect to any Company Acquisition Proposal. As part of the FOH Holdings' stockholders agreement, the stockholders of FOH Holdings also agreed to cease and cause to be terminated any then existing solicitation, encouragement, discussion or negotiation with any person with respect to any Company Acquisition Proposal. See also ''Other Transaction Documents— FOH Holdings' Stockholders Agreement.''

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Other Covenants

In addition to the above, we have agreed with FOH Holdings that each of us will:

- use best reasonable efforts to work together in seeking to refinance our and FOH Holdings' existing indebtedness for borrowed money in connection with the consummation of the transactions contemplated by the merger agreement, other than $7,500,000 owed by FOH Holdings to the Fursa Debt Holders, which amount is to be cancelled in exchange for a number of shares of our Series A Convertible Preferred Stock equal to the quotient obtained by dividing $7,500,000 by the average daily closing price of our common stock (on its principal trading market) for the 20 trading days immediately preceding the record date for our special meeting of shareholders, which shares of Series A Preferred Stock will have the rights and preferences set forth on our proposed amended and restated certificate of incorporation;
- furnish the other party with all information concerning itself, its subsidiaries, directors, officers and stockholders and such other matters as may be reasonably necessary or advisable in connection with this proxy statement, the registration statement for the rights offering or any other statement, filing, notice or application made by or on behalf of FOH Holdings or us to any third party or any governmental entity in connection with the merger and the transactions contemplated by the merger agreement;
- afford the other party and its officers, employees, counsel, accountants, financial advisors and other authorized representatives, reasonable access, during normal business hours throughout the period prior to the effective time of the merger or the earlier termination of the merger agreement, to its properties, books, contracts and records;
- keep all information and materials provided to each other in connection with the merger agreement confidential in accordance with and subject to (i) the confidentiality and non-circumvention agreement, dated March 5, 2004 by and between FOH Holdings and its subsidiaries as the disclosing party and us as the receiving party and (ii) the confidentiality and non-circumvention agreement, dated March 4, 2004, by and between us and our subsidiaries as the disclosing party and FOH Holdings and its subsidiaries as the receiving party;
- from and after the effective time of the merger, maintain FOH Holdings' and our respective employee benefit plans in effect at such time (except that we have agreed to assume, at the effective time of the merger, each outstanding option to purchase shares of FOH Holdings common stock under FOH Holdings' 2003 Employee Equity Incentive Plan, whether or not exercisable or vested or unvested) with respect to employees and former employees, until such time as we otherwise determine, subject to applicable law and the terms of such plans. We and FOH Holdings have agreed to cooperate in reviewing, evaluating and analyzing each of our respective benefit plans with a view towards developing appropriate employee benefits and compensation plans, programs and arrangements. In the merger agreement, we and FOH Holdings expressed our intention, to the extent permitted by applicable law, to develop benefit plans as soon as reasonably practicable after the effective time of the merger to (i) treat similarly situated employees on a substantially equivalent basis, taking into account all relevant factors, including duties, geographic location, tenure, qualifications and abilities, and (ii) not discriminate between employees who were covered by our employee benefit plans, on the one hand, and those covered by FOH Holdings' employee benefit plans on the other; and
- use our respective best reasonable efforts to take such actions as are necessary so that such transactions contemplated by the merger agreement may be consummated as promptly as

practicable on the terms contemplated by the merger agreement and otherwise act to eliminate or minimize the effects of the HSR Act or any antitrust statute or regulation on such transactions.

In addition to the above, we have agreed to, among other things:

- use commercially reasonable efforts to increase the limit of liability under our directors and officers liability insurance policy to $25,000,000 by the closing date of the merger;

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- use our reasonable best efforts to cause our common stock to continue trading on the American Stock Exchange, and to the extent such listing is not available, we will use our reasonable best efforts to cause our common stock to be approved for listing on a regional or other national securities exchange; and
- ‘‘continue’’ at least one ‘‘significant historic business line’’ of FOH Holdings and/or one of its subsidiaries or ‘‘use’’ at least a ‘‘significant portion’’ of FOH Holdings and/or its subsidiaries’ ‘‘historic business assets’’ in a business, in each case as such terms are used with the meaning of the federal tax regulations.

In addition to the above, FOH Holdings agreed to, among other things:

- prepare and deliver, no later than January 31, 2007, to Merger Sub and us consolidated balance sheets as of July 31, 2004, July 30, 2005 and July 29, 2006, the related consolidated statements of income and cash flows for each of the years ended July 31, 2004, July 30, 2005 and July 29, 2006 of FOH Holdings and its subsidiaries and all notes relating thereto, which financial statements was to include a signed audit report from Deloitte & Touche LLP containing no qualifications (other than deficiencies or weaknesses that are not material and adverse, when taken as a whole with respect to such financial statements). As more fully described under the section entitled ‘‘The Merger and Related Transactions—Background of the Merger,’’ we have delivered a notice to FOH Holdings reserving our right to terminate the merger agreement prior to the effective time, as a result of FOH Holdings’ failure to deliver the aforementioned financial statements by January 31, 2007.

Material Adverse Effect

A number of representations, warranties, covenants, closing conditions and termination provisions in the merger agreement use the phrase ‘‘parent material adverse effect’’ and others use the phrase ‘‘company material adverse effect.’’ The merger agreement provides that in both cases, ‘‘material adverse effect’’ means, any change, circumstance, event or occurrence that is reasonably expected to:

- be materially adverse to the assets and liabilities, business, financial condition or results of operations of either us and our subsidiaries, taken as a whole, in the case of a ‘‘parent material adverse effect,’’ or FOH Holdings and its subsidiaries, taken as a whole, in the case of a ‘‘company material adverse effect;’’ or
- prevent or materially delay our ability, in the case of a ‘‘parent material adverse effect,’’ or FOH Holdings, in the case of a ‘‘company material adverse effect,’’ to consummate the transactions contemplated in connection with the merger or to perform our respective obligations under the merger agreement; other than such change, circumstance, event or occurrence resulting from:
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a change, circumstance, event or occurrence generally affecting each party's respective industries, other than such change, circumstance, event or occurrence that has a disproportionate effect on either us and our subsidiaries, taken as a whole, in the case of a ''parent material adverse effect,'' or FOH Holdings and its subsidiaries, taken as a whole, in the case of a ''company material adverse effect;''

- the economy, the financial or securities markets in general, or political conditions in the United States or any acts of terrorism, military actions or war, other than such change, circumstance, event or occurrence resulting therefrom that has a disproportionate effect on either us and our subsidiaries, taken as whole, in the case of a ''parent material adverse effect,'' or FOH Holdings and its subsidiaries, taken as a whole, in the case of a ''company material adverse effect;'' or
- the merger agreement or the transactions contemplated thereby, including the announcement or pendency thereof.

Further, a decrease in the trading price of our common stock and/or litigation arising therefrom, in and of themselves, are not considered to have a material adverse effect on us.

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Conditions to Closing of the Merger

Our obligations, as well as the obligations of each of FOH Holdings and Merger Sub, under the merger agreement are subject to the satisfaction of the following conditions:

- the majority of our outstanding shares of common stock and the majority of the shares of our common stock that are held by our shareholders other than TTG Apparel and its affiliates or associates shall have approved the proposed amendments to our certificate of incorporation that allow for the increase of authorized shares of our common stock to 200,000,000 and the issuance of shares of our common stock in connection with the merger, the rights offering and the other transactions contemplated thereby as set forth by this proxy statement, and such certificate shall have been filed with the Secretary of State of the State of New York;
- all consents, authorizations or approvals of any individual, corporation, partnership, limited liability company, association, trust or other entity or organization (including a court or tribunal or administrative governmental or regulatory body, agency or authority), required or necessary to be obtained prior to the effective time of the merger by us, FOH Holdings or any of our respective subsidiaries in connection with the transactions contemplated by the merger agreement, other than those which the failure to obtain would not, individually or in the aggregate, have a parent material adverse effect or company material adverse effect, as applicable, or result in a criminal violation;
- if any existing indebtedness for borrowed money of FOH Holdings, us, or any of our respective subsidiaries held by Wells Fargo Retail Finance, LLC or CIT Commercial Service is not refinanced, all such consents, authorizations, waivers and approvals of each of such financial institutions shall have been obtained;
- there shall not have been enacted, issued, enforced or entered any judgment, decree, injunction, order, writ, arbitration award, agency requirement, law, statute, ordinance, rule, regulation, concession, franchise, permit, license or other governmental authorization by any court, tribunal

or administrative, governmental or regulatory agency, body, authority or other entity of competent jurisdiction or threat thereof, or any other fact or circumstance, which would prohibit or render illegal the merger or the transactions contemplated by the merger agreement;

- the registration statement for the rights offering shall have been filed with the SEC and declared effective; no stop order suspending the effectiveness of such registration statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the SEC and any request of the SEC for the inclusion of additional information shall have been complied with and all conditions to our issuing shares of our common stock in the rights offering shall have been satisfied or waived;
- the current level of directors' and officers' liability insurance, subject to the potential increase in the limit of liability to $25,000,000, shall be available to our officers and directors; and
- if a filing is made under the HSR Act, the waiting period applicable to the consummation of the merger under the HSR Act shall have expired or been terminated, and there shall not be in effect any voluntary agreement between FOH Holdings or us and the Federal Trade Commission or the Department of Justice pursuant to which either FOH Holdings or us has agreed not to consummate the merger for a period of time. Further, any similar waiting period under any other antitrust rule or regulation applicable to the merger or the transactions contemplated thereby shall have expired or been terminated.

The obligations of FOH Holdings to consummate the transactions contemplated by the merger agreement, in addition to the conditions described above, are subject to the satisfaction of the following conditions, any of which may be waived by FOH Holdings:

- our representations and warranties and the representations and warranties of Merger Sub set forth in the merger agreement, the standby purchase agreement and the shareholders agreement shall be true and correct in all material respects (or in all respects for such representations and warranties qualified as to materiality or a material adverse effect with respect to us and our

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subsidiaries) on the date of the merger agreement and on the date of the closing of the transactions contemplated by the merger agreement with the same effect as though such representations and warranties had been made on and as of such date (unless any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date) and FOH Holdings shall have received a certificate to such effect signed on our behalf by our authorized officer;

- we and Merger Sub shall have each performed or complied, in all material respects, with all obligations and covenants required to be performed or complied with by us under the merger agreement prior to the closing of the transactions contemplated thereby, and FOH Holdings shall have received a certificate to such effect signed on our behalf by our authorized officer;
- there shall not have been any change which would constitute a parent material adverse effect; and
- we shall have executed and delivered the shareholders agreement, the registration rights agreement and the guarantor warrants.

Our obligations, as well as those of Merger Sub, to consummate the transactions contemplated by the merger agreement, in addition to the conditions described above, are subject to the satisfaction of the following conditions, any of which may be waived by us:

- the representations and warranties of FOH Holdings set forth in the merger agreement, the standby purchase agreement and the shareholders agreement shall be true and correct in all material respects (or in all respects for such representations and warranties qualified as to materiality or a material adverse effect with respect to FOH Holdings and its subsidiaries) on the date of the merger agreement and on the date of the closing of the transactions contemplated by the merger agreement with the same effect as though such representations and warranties had been made on and as of such date (unless any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date) and we shall have received a certificate to such effect signed on behalf of FOH Holdings by an authorized officer of FOH Holdings;
- the representations and warranties of the Fursa Standby Purchasers, Tokarz Investments and TTG Apparel set forth in the standby purchase agreement shall be true and correct in all material respects on the date of the merger agreement and on the date of the closing of the transactions contemplated by the merger agreement with the same effect as though such representations and warranties had been made on and as of such date (unless any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date) and we shall have received a certificate to such effect signed on behalf of each of the Fursa Standby Purchasers, Tokarz Investments and TTG Apparel;
- FOH Holdings shall have performed or complied, in all material respects, with all obligations and covenants required to be performed or complied with by FOH Holdings under the merger agreement prior to the closing of the transactions contemplated thereby, and we shall have received a certificate to such effect signed on behalf of FOH Holdings by an authorized officer of FOH Holdings;
- there shall not have been any change which would constitute a company material adverse effect;
- each of the Fursa Standby Purchasers, Tokarz Investments and TTG Apparel shall have delivered to us, by wire transfer of immediately available funds, the aggregate purchase price for the applicable number of shares of our common stock that each such party is obligated to purchase under the standby purchase agreement as described below in ‘‘Other Transaction Documents—Standby Purchase Agreement;’’ and
- each FOH Holdings stockholder shall have executed and delivered the FOH Holdings stockholder agreement and the shareholders agreement.

Indemnification

FOH Holdings (by its stockholders) will indemnify, defend and hold the surviving corporation, us, and our respective successors and permitted assigns, harmless from every claim, liability, obligation, loss

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or expense (including, without limitation, reasonable attorneys’ fees and costs and other expenses of the merged entity, us and our respective successors and permitted assigns) arising out of or resulting from:

- any breach of any representation, warranty, covenant, agreement or certification made by or on behalf of FOH Holdings in the merger agreement;
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any action, written notice of sales or use tax assessment, suit, or administrative proceeding related to the collection or payment of sales or use taxes by FOH Holdings or any of its subsidiaries pursuant to which FOH Holdings, us or any of either of our respective subsidiaries has received a written notice on or before the 18-month anniversary of the closing date under the merger agreement relating to any activity of FOH Holdings or any of its subsidiaries prior to the closing date under the merger agreement and specifying a liability for which sales or use taxes are alleged to be due, including any statutory interest and/or penalties related thereto, or any litigation or audit expenses incurred by any such company related to any such tax proceedings;

- any payment made on or before the 18-month anniversary of the closing date under the merger agreement of state sales or use taxes relating to any activity of FOH Holdings or any of its subsidiaries prior to the closing date under the merger agreement; or
- any liability recorded on the balance sheet of FOH Holdings or any its subsidiaries that remains a liability on the 18-month anniversary of the closing date of the merger agreement with respect to the collection or payment of state sales or use taxes relating to any activity of FOH Holdings or any of its subsidiaries prior to closing date under the merger agreement.

For purposes of determining the amount of any indemnifiable claims under the merger agreement, any representation or warranty given by FOH Holdings should be interpreted without giving effect to the words ‘‘materially’’ or ‘‘material’’ individually or as it appears in the phrase ‘‘company material adverse effect,’’ as it relates to FOH Holdings and its subsidiaries.

The merger agreement provides that by virtue of the execution of the FOH Holdings stockholders agreement by each FOH Holdings stockholder, the FOH Holdings stockholders have agreed that, except with respect to fraud or willful misconduct, the shares of our common stock that will be deposited in escrow pursuant to the terms of the merger agreement and escrow agreement will be available as the sole, exclusive and maximum recourse for our indemnified persons with respect to any indemnifiable claims under the merger agreement by any of them; provided, that in no event will this limit our right to seek injunctive or other equitable relief to enforce the performance by FOH Holdings or the FOH Holdings stockholder representatives of their respective obligations under the merger agreement or the escrow agreement.

We have agreed that if at any time a liability or any portion thereof recorded on our balance sheet or on FOH Holdings’ or on any of our or FOH Holdings’ subsidiaries’ balance sheets with respect to the collection or payment of state sales or use taxes, relating to any activity of FOH Holdings or any of its subsidiaries prior to closing date under the merger agreement is removed as a liability without the payment of amounts therefor and we have been paid under the escrow agreement in respect of such liability, we will reimburse FOH Holdings’ stockholders on a pro rata basis as instructed by FOH Holdings stockholder representatives.

We will indemnify, defend and hold the FOH Holdings stockholders harmless from every claim, liability, obligation, loss or expense (including, without limitation, reasonable attorneys’ fees and costs and other expenses of FOH Holdings’ stockholders and their respective successors and permitted assigns) arising out of or resulting from any breach of any representation, warranty, covenant, agreement or certification made by or on behalf of Merger Sub or us in the merger agreement. For purposes of determining the amount of any indemnifiable claims under the merger agreement, any representation or warranty given by us should be interpreted without giving effect to the words ‘‘materially’’ or ‘‘material’’ individually or as it appears in the phrase ‘‘parent material adverse effect,’’ as it relates to us and our subsidiaries.

The merger agreement provides that except with respect to fraud or willful misconduct, the shares of our common stock that we will deposit in escrow with the escrow agent will be available as the sole,

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exclusive and maximum recourse against us with respect to any indemnifiable claims under the merger agreement by FOH Holdings; provided, however, that in no event will this limit FOH Holdings' right to seek injunctive or other equitable relief to enforce the performance by us of our obligations under the merger agreement or under the escrow agreement.

Any claims for indemnification arising out of breaches of representations and warranties under the merger agreement must be made by the claiming party prior to the expiration of the 18-month anniversary of the closing date under the merger agreement. With respect to certain tax liabilities, the FOH Holdings stockholder representatives may elect to extend the payment of any such tax liability until the 24-month anniversary of the closing under the merger agreement. In the event that the FOH Holdings stockholder representatives do not timely make such election, the escrow agent will deliver to us shares of our common stock that were deposited with the escrow agent to cover claims against FOH Holdings having a value equal to such tax liability. Any release or disbursement of the shares of our common stock that are being held in escrow by the escrow agent, including the shares of our common stock being held in escrow for such tax liability, will be made pursuant to and in accordance with the terms of the escrow agreement as described below in ''Other Transaction Agreements—Escrow Agreement.''

Termination

The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after the requisite approval of our shareholders has been obtained:

- by mutual written consent duly authorized by FOH Holdings and us;
- by either FOH Holdings or us if:
  - the merger shall not have been consummated by December 31, 2007;
  - there shall be any final and non-appealable judgment, decree, injunction, order, writ, law or other governmental action that makes consummation of the merger illegal or otherwise prohibited; or
  - the majority of our outstanding shares of common stock and the majority of the shares of our common stock that are held by our shareholders other than TTG Apparel and its affiliates or associates do not approve the proposed amendments to our certificate of incorporation that allow for the increase of authorized shares of our common stock to 200,000,000 and the issuance of shares of our common stock in connection with the merger and the rights offering and the other transactions contemplated thereby as set forth by this proxy statement at a duly held shareholders meeting (after giving effect to all adjournments or postponements thereof).
- by FOH Holdings if:
  - our board of directors shall have made an Adverse Recommendation Change or shall have approved a resolution or authorized or agreed to do so or if we have entered into an agreement that contains a Parent Acquisition Proposal; or
  - there is a breach of any representation, warranty, covenant or agreement made by us or Merger Sub in the merger agreement, or any such representation and warranty shall have become untrue or incorrect after the execution of the merger agreement such that:
    - such representation and warranty shall not be true and correct in all material respects (or in all respects for such representations and warranties qualified as to materiality or a material adverse effect with respect to us and our subsidiaries) on the date of the

merger agreement or on the date of the closing of the transactions contemplated by the merger agreement with the same effect as though such representations and warranties had been made on and as of such date (other than those conditions that by their nature are to be satisfied on such day) in which case such representation and warranty shall no longer be true and correct on and as of such day, or

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- neither we nor Merger Sub shall have performed or complied, in all material respects, with all obligations and covenants required to be performed or complied with by us under the merger agreement prior to the closing of the transactions contemplated thereby

and such breach or failure to be true and correct cannot be cured by December 31, 2007.

- by us if:
  - FOH Holdings' breaches any representation, warranty, covenant or agreement made by it in the merger agreement, or any such representation and warranty shall have become untrue or incorrect after the execution of the merger agreement such that:
    - such representation and warranty shall not be true and correct in all material respects (or in all respects for such representations and warranties qualified as to materiality or a material adverse effect with respect to FOH Holdings and its subsidiaries) on the date of the closing of the transactions contemplated by the merger agreement with the same effect as though such representations and warranties had been made on and as of such date (other than those conditions that by their nature are to be satisfied on such day) in which case such representation and warranty shall no longer be true and correct on and as of such day, or
    - FOH Holdings shall not have each performed or complied, in all material respects, with all obligations and covenants required to be performed or complied with by FOH Holdings under the merger agreement prior to the closing of the transactions contemplated thereby

and such breach or failure to be true and correct cannot be cured by December 31, 2007;

- at any time prior to obtaining the approval by our shareholders that we are required to obtain pursuant to the merger agreement, our board of directors (as approved by its special committee) resolves to enter into, in accordance with the provisions of the merger agreement, a definitive agreement containing a Parent Acquisition Proposal so long as: (i) we shall have complied with our obligations under the nonsolicitation provisions of the merger agreement; (ii) our board of directors shall have determined in good faith (after consultation with its independent financial advisors and outside counsel) that such Parent Acquisition Proposal constitutes a Superior Proposal and the failure to take such action is inconsistent with the fiduciary duties of our board of directors to our shareholders under applicable law; and (iii) prior to terminating the merger agreement to enter into an agreement with respect to such Superior Proposal, we shall have negotiated, and shall have caused our financial and legal advisors to negotiate with FOH Holdings in good faith (to the extent FOH Holdings desires to negotiate) to make such improvements in the terms and conditions of the merger agreement so that such Parent Acquisition Proposal ceases to constitute a Superior Proposal, which obligation to negotiate will expire five business days after the date on which we commence negotiating with FOH Holdings; or

- FOH Holdings fails to prepare and deliver, by January 31, 2007, to Merger Sub and us consolidated balance sheets as of July 31, 2004, July 30, 2005 and July 29, 2006, and the related consolidated statements of income and cash flows for the years ended July 31, 2004, July 30, 2005 and July 29, 2006 of FOH Holdings and its subsidiaries, together with a signed unqualified audit report from Deloitte & Touche LLP, or such audited financial statements delivered shall contain any change or changes, other than changes specified in the merger agreement, that, in our reasonable judgment, are material and adverse changes, when taken as a whole from the financial statements delivered by FOH Holdings concurrently with the execution of the merger agreement. As more fully described under the section entitled ‘‘The Merger and Related Transactions—Background of the Merger,’’ we have delivered a notice to FOH Holdings reserving our right to terminate the merger agreement prior to the effective time, as a result of FOH Holdings’ failure to deliver the aforementioned financial statements by January 31, 2007.

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Effect of Termination

Except as described below and in the next succeeding paragraph, in the event of a termination of the merger agreement and abandonment of the merger, the merger agreement will become void and of no effect with no liability on the part of any party (or of any of its directors, officers, employees, agents, legal and financial advisors or other representatives) and all costs and expenses incurred in connection with the merger agreement and the transactions contemplated by it will be paid by the party incurring such expense; except that the costs and expenses of printing and mailing the proxy statement and registration statement, and all filing and other fees paid to the SEC or otherwise, will be borne equally by FOH Holdings and us. No such termination will relieve any party to the merger agreement of any liability or damages resulting from any willful or intentional breach of the merger agreement.

If we or FOH Holdings terminate the merger agreement because our board of directors has made an Adverse Recommendation Change or has approved a resolution or authorized or agreed to do so or we have entered into an agreement that contains a Parent Acquisition Proposal, then we have agreed to pay FOH Holdings $300,000 within two business days following such termination and, promptly thereafter, FOH Holdings’ actual and reasonable documented out-of-pocket expenses and fees incurred by FOH Holdings and FOH Holdings’ stockholders on or prior to the termination of the merger agreement in connection with the transactions contemplated by the merger agreement.

Fees and Expenses

At the time the merger becomes effective, all costs and expenses incurred by FOH Holdings or any of its subsidiaries in connection with the merger agreement and the transactions contemplated by the merger agreement will be paid by us.

Amended and Restated Bylaws

The merger agreement provides for the amendment and restatement of our bylaws upon the consummation of the merger pursuant to which during the 18-month period following the merger, the following actions by us or any of our subsidiaries will require approval by at least 75% of the members of our board of directors:

- appointing or removing the Chairman, Chief Executive Officer, President, Chief Financial Officer or Chief Operating Officer;
- appointing or removing any directors or members of a board committee or creating any new board committee;
- amending the charter or bylaws or other organizational documents;
- engaging in any merger, consolidation, sale of a substantial amount of assets or similar transaction;
- approving the annual business plans/annual budgets and any material modifications to such plans/budgets;
- incurring any term indebtedness for borrowed money where the amount of such indebtedness incurred exceeds $20.0 million in the aggregate, or making any material modifications to the terms of such indebtedness, or guaranteeing or otherwise providing any financial accommodation with respect to any indebtedness for borrowed money of any other person;
- creating or issuing any securities other than: (a) in connection with compensation arrangements approved by our compensation committee; or (b) those contemplated by the merger agreement;
- modifying, in any material manner, our capital structure;
- redeeming, repurchasing, retiring or otherwise acquiring for value any of our equity securities or the equity securities of our subsidiaries;
- engaging in, amending or terminating any transaction or series of related transactions with or for the benefit of any shareholder, director or officer;

- making any proposal to wind up, dissolve, liquidate or file for, or consent to, any bankruptcy or similar proceeding;
- declaring or paying any dividend or other distribution (whether in cash or property) to our shareholders (other than dividends payable solely in shares of our common stock); or
- adopting any equity or other incentive plans for officers, directors and/or employees.

The proposed amendment and restatement of our bylaws will also change the end of our fiscal year from June 30 to the date corresponding with the final Saturday in the month of July.

Confidentiality; Access to Information

Subject to applicable laws relating to the sharing of information, upon reasonable notice, we have agreed with FOH Holdings to afford, and to cause our respective subsidiaries to afford, the other party, and its officers, employees, counsel, accountants, financial advisors and other authorized representatives, reasonable access, during normal business hours throughout the period prior to the time when the merger becomes effective or earlier termination of the merger agreement, to our or its properties, books, contracts and records.

Governing Law and Jurisdiction

The merger agreement is to be interpreted, construed and governed by and in accordance with the laws of the State of New York, without regard to New York's conflicts of law principles. Except in connection with disputes, claims, or controversies arising out of or relating to provisions of the merger agreement addressing indemnification matters, which are to be resolved solely and exclusively by binding arbitration to be conducted before JAMS in New York, New York before a single arbitrator pursuant to JAMS Comprehensive Arbitration Rules and Procedures, all disputes, claims or controversies arising out of or relating to the merger agreement and the documents referred to therein are to be resolved by the courts of New York and the Federal courts of the United States located in the County of New York.

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OTHER TRANSACTION DOCUMENTS

A number of other agreements have been entered into in connection with the signing of the merger agreement or will be entered into and will take effect upon consummation of the merger. These agreements include (i) a voting agreement covering certain aspects of our relationship with our largest shareholder, TTG Apparel, (ii) a stockholders agreement governing the actions of the FOH Holdings stockholders and certain of its debt holders, (iii) a standby purchase agreement between us, TTG Apparel, the stockholders of FOH Holdings and certain affiliates whereby such parties have committed to purchase shares that are not subscribed for pursuant to the rights offering, (iv) a shareholders agreement that will govern certain matters affecting the Fursa Managed Accounts and both Tokarz Investments and TTG Apparel during the 18-month period beginning immediately after the effective time of the merger, (v) an escrow agreement between us, the FOH Holdings stockholder representatives appointed pursuant to the FOH Holdings stockholders agreement and an escrow agent through which portions of both our treasury shares and shares the FOH Holdings stockholders are entitled to receive in connection with the merger will be held in escrow to address liabilities that occur within a certain timeframe after the merger, and (vi) a registration rights agreement that will require us, subject to certain exceptions, to register shares of our common stock that the Fursa Managed Accounts and both Tokarz Investments and TTG Apparel will receive, or that may be issued upon exercise or conversion of securities issued, in connection with the merger and the related transactions.

Voting Agreement

Concurrently with the execution of the merger agreement, TTG Apparel, which currently beneficially owns 21.5% of our outstanding common stock, entered into a voting agreement with us. Under the terms of this voting agreement, TTG Apparel agreed to vote all shares of our common stock that it holds in favor of the transactions contemplated by the merger agreement, including, without limitation, approval of the issuance of shares of our common stock in connection with the merger and pursuant to the rights offering and in favor of the proposed amendment to our certificate of incorporation that allows an increase of authorized shares of our common stock to 200,000,000. TTG Apparel also agreed to grant an irrevocable proxy to us to vote its shares in the manner contemplated above and to execute and deliver any additional documents necessary or desirable to carry out the purpose of such agreement. Subject to specified conditions, TTG Apparel further agreed not to transfer any shares of our common stock owned by it or the voting rights related to such common stock until the termination of this voting agreement. This voting agreement and the obligations of TTG Apparel, as well as the irrevocable proxy signed by TTG Apparel, will terminate upon the earlier to occur of (i) the effective time of the merger or (ii) the date of termination of the merger agreement in accordance with its terms.

The foregoing description of the voting agreement does not purport to be complete and is qualified in its entirety by reference to the full text of such agreement attached as Exhibit A to the merger agreement, a copy of which is attached to this proxy statement as Annex A.

FOH Holdings’ Stockholders Agreement

Immediately following the execution and delivery of the merger agreement, FOH Holdings, Fursa, the Fursa Managed Accounts and Tokarz Investments entered into a stockholders agreement with us. As beneficial holders of 100% of

FOH Holdings' outstanding common stock, the Fursa Managed Accounts holding FOH Holdings common stock and Tokarz Investments agreed, among other things:

- to vote the shares for which they have voting control in favor of the merger and the other transactions contemplated by the merger agreement;
- not to transfer any shares of FOH Holdings common stock owned by them or the voting rights related to such common stock, other than in connection with the merger or to their affiliates or managed funds and accounts;
- not to solicit or accept any third party proposals involving a merger or acquisition of FOH Holdings;

- to irrevocably constitute and appoint Patrick Brennan and Michael T. Tokarz as joint stockholder representatives to act on behalf of each of them with respect to the provisions of this stockholders agreement, the merger agreement, the escrow agreement (as described below) and any other agreements contemplated thereby, as well as generally to perform all acts deemed advisable to effectuating their respective duties as stockholder representatives; and
- to execute and deliver any additional documents necessary or desirable to carry out the purpose of such agreement.

The obligations with respect to voting, transfers and not soliciting alternative transactions expressly terminate upon the earlier to occur of (i) the effective time of the merger, or (ii) the date of termination of the merger agreement in accordance with its terms.

In addition, as part of this stockholders agreement, the Fursa Debt Holders, in their capacities as holders of FOH Holdings indebtedness, agreed to cancel $7.5 million of such indebtedness in exchange for the issuance of shares of our newly authorized Series A Preferred Stock at an initial issuance price of $ per share, which are convertible into shares of common stock. The share amounts and issue price will be adjusted proportionately if we effect a reverse stock split upon consummation of the merger. The material terms of the Series A Preferred Stock, the actual terms of which will be included in our amended and restated certificate of incorporation, are as follows:

Series A Preferred Stock

Dividends. Holders of Series A Preferred Stock, in preference to the holders of common stock or any other junior securities, will be entitled to receive, when, as and if declared by our board of directors, but only out of funds that are legally available therefor, cumulative dividends at the rate of 7.5% per annum of the sum of the original issue price and any accumulated and unpaid dividends thereon on each outstanding share of Series A Preferred Stock. Such dividends will be payable in additional shares of Series A Preferred Stock or in cash, at our option, only when, as and if declared by our board of directors and will be payable in arrears in equal amounts (with the first payment to be prorated based on the actual issue date) on the tenth business day after the end of each of our fiscal quarters of each year commencing on the first of these dates to occur after the first issuance of Series A Preferred Stock.

Liquidation preference. In the event that we are a party to an acquisition or asset transfer or upon any liquidation, dissolution, or winding up, whether voluntary or involuntary, before any distribution or payment will be made to the holders of any securities junior to the Series A Preferred Stock, subject to the right of any series of preferred stock that may from time to time come into existence, the holders of Series A Preferred Stock will be paid out of the proceeds of such acquisition or asset transfer or the assets legally available for distribution for each share of Series A Preferred Stock held by them, the greater of (i) the amount equal to the original issue price of the Series A Preferred Stock plus all accumulated but unpaid dividends on the Series A Preferred Stock or (ii) the amount of cash, securities or other property to which such holder would be entitled to receive in the event of a liquidation, dissolution or winding up with respect to such shares if such shares had been converted to common stock immediately prior to such event.

Conversion by Holder. Holders of our Series A Preferred Stock may convert their shares of Series A Preferred Stock at any time into fully-paid and non-assessable shares of our common stock. The number of shares of our common stock to which a holder of our Series A Preferred Stock will be entitled upon conversion will be equal to the product obtained by multiplying the conversion rate then in effect by the number of shares of Series A Preferred Stock being converted. Based on the initial conversion rate of (determined by dividing the original issue price of the Series A Preferred Stock by the product of 1.2 multiplied by the conversion price), one share of common stock will be issuable for every 1.2 shares of Series A Preferred Stock converted.

Conversion Price. The initial per share conversion price for our Series A Preferred Stock will be equal to the original issue price for the Series A Preferred Stock, subject to adjustments for (i) stock splits of our common stock, (ii) combinations of our common stock into a smaller aggregate number, (iii) dividends paid or distributions made on our common stock without a corresponding dividend paid or distribution made to holders of our Series A Preferred Stock or (iv) other specified changes in our capitalization.

Anti-Dilution. In addition to the proportional adjustments for stock dividends, stock splits and other similar changes in our capitalization, the conversion price will also be subject to an anti-dilution adjustment in the event of issuances of our common stock (or securities convertible into common stock) without consideration or at a price below the then effective conversion price of the Series A Preferred Stock. The conversion price will not be adjusted for (i) shares of common stock issued upon conversion of the Series A Preferred Stock, (ii) common stock or convertible securities issued to our employees, directors or advisors pursuant to stock option plans or other arrangements approved by the our board of directors, (iii) common stock issued pursuant to the exercise of convertible securities outstanding on the date of issuance of the Series A Preferred Stock, (iv) common stock or convertible securities issued for consideration other than cash pursuant to a merger, consolidation, acquisition or similar business combination, (v) common stock issued pursuant to any debt refinancing with a financial institution or equipment or real property leasing we may choose to enter into, (vi) common stock or convertible securities issued to third-party service providers in exchange for or as partial consideration for services rendered to us, or (vii) common stock or convertible securities issued in connection with strategic transactions involving us and other entities, including (A) joint ventures, manufacturing, marketing or distribution arrangements or (B) technology transfer or development arrangements; provided that the issuance of shares therewith has been approved by our board of directors.

Automatic Conversion. Upon the occurrence of any liquidation, dissolution, or winding up of our company, in which the amount of cash, securities or other property a holder of the Series A Preferred Stock would be entitled to receive is greater than the amount equal to the original issue price plus all accumulated but unpaid dividends on the Series A Preferred Stock, each share of our Series A Preferred Stock will automatically be converted into fully-paid and non-assessable shares of our common stock, based on the then-effective conversion price and in an amount immediately prior to such liquidation, dissolution, or winding up.

Redemption. On the later to occur of (A) January 7, 2010 and (B) the six-month anniversary of the maturity date (or any extensions thereof) of our credit facility, we will be required to redeem all of our then outstanding Series A Preferred Stock by paying in cash in exchange for the shares of Series A Preferred Stock to be redeemed on such date a sum equal to the original issue price per share of Series A Preferred Stock (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like after the filing date hereof) plus accumulated but unpaid dividends with respect to such shares; provided, that if, on the 60th day prior to the date of redemption, the current market value (or the fair market value as determined in good faith by our board of directors in the event that the common stock is not publicly traded on the American Stock Exchange or other national securities exchange) is greater than the original issue price (as adjusted for stock dividends, combinations, splits, recapitalizations and the like) plus accumulated and unpaid dividends with respect to such shares, then all of our outstanding shares of Series A Preferred Stock shall be automatically converted to our common stock on the date of redemption. At least 30 days but no more than 60 days prior to the redemption date, we will send a notice of redemption to all holders of Series A Preferred Stock. There is no restriction on the redemption of Series A Preferred Stock due to any arrearage in the payment of dividends.

Voting Rights. Each holder of shares of our Series A Preferred Stock will be entitled to the number of votes equal to the number of shares of our common stock into which such shares of Series A Preferred Stock could be converted. Holders of our Series A Preferred Stock will vote together with the common stock at any annual or special meeting of the shareholders and not as a separate class, and may act by written consent in the same manner as our common stock; provided, however, that for so long as any shares of Series A Preferred Stock remain outstanding, the vote or written consent of the holders of at least a majority of such shares will be necessary for effecting or validating the following actions:

- any amendment, alteration, or repeal of any provision of our certificate of incorporation that alters or changes the voting or other powers, preferences, or other special rights, privileges or restrictions of our Series A Preferred Stock so as to affect the holders adversely; or

- any authorization or any designation, whether by reclassification or otherwise, of any new class or series of stock or any other securities convertible into equity securities ranking on a parity with or senior to the Series A Preferred Stock in right of redemption, liquidation preference, voting or dividend rights or any increase in the authorized or designated number of any such new class or series.

Assignment. The FOH Holdings' stockholders agreement and the obligations of each of the Fursa Managed Accounts holding FOH Holdings common stock and Tokarz Investments thereunder may be assigned, delegated or transferred, in whole or in part, by such party to any affiliate of such party or to any other person, managed fund or managed client account over which such party or any of its affiliates exercises investment authority, including, without limitation, with respect to voting and dispositive rights, provided, that any such assignee, as a condition to the effectiveness of any such assignment, delegation or transfer, assumes within five business days of any such assignment, the obligations of such transferring party under the stockholders agreement and agrees in writing to be bound by the terms of the stockholders agreement in the same manner as such transferring party.

The foregoing description of the stockholders agreement does not purport to be complete and is qualified in its entirety by reference to the full text of such agreement attached as Exhibit M to the merger agreement, a copy of which is attached to this proxy statement as Annex A. The foregoing description of the Series A Preferred Stock does not purport to be complete and is qualified in its entirety by reference to the full text of the proposed amended and restated certificate of incorporation, a copy of which is attached hereto as Annex D.

Standby Purchase Agreement

Concurrently with the execution of the merger agreement, the Fursa Standby Purchasers, Tokarz Investments and TTG Apparel entered into a standby purchase agreement with us. The standby purchase commitment under the standby purchase agreement ensures that we raise an aggregate of $20 million of gross proceeds through the issuance of shares of our common stock whether or not the full number of shares offered through the rights offering is purchased. Pursuant to the standby purchase agreement, if and to the extent any shares of our common stock are unsubscribed for in the rights offering, the Fursa Standby Purchasers, Tokarz Investments and TTG Apparel will purchase from us, at $ per share, which is the subscription price in the rights offering, these unsubscribed shares through the private placement of such shares. The Fursa Standby Purchasers have agreed to purchase, on a several but not on a joint and several basis, 50% of such amount of unsubscribed shares, and TTG Apparel and Tokarz Investments have agreed to purchase the remaining 50% of such amount of unsubscribed shares. In addition, TTG Apparel has agreed that it and its affiliates will not purchase from us any shares of our common stock that will be available for purchase by TTG Apparel and/or any of its affiliates in the rights offering in their capacities as Movie Star shareholders. The only condition to our obligations and the obligations of the Fursa Standby Purchasers, Tokarz Investments and TTG Apparel under the standby purchase agreement is the consummation of the merger.

None of our securities acquired by the parties entering into the standby purchase agreement in connection with the standby purchase agreement can be resold by any of them by means of the Registration Statement that we filed with the SEC in connection with the rights offering. We have provided each of these parties with certain registration rights to enable them to elect to transfer and sell their securities following such acquisition. See also ‘‘Other Transaction Documents—Registration Rights Agreement.’’

The foregoing description of the standby purchase agreement does not purport to be complete and is qualified in its entirety by reference to the full text of such agreement attached as Exhibit B to the merger agreement, a copy of which is attached to this proxy statement as Annex A.

Rights Offering

In connection with the transactions contemplated by the merger agreement and the standby purchase agreement, we have filed a Registration Statement on Form S-1 (No. 333-) with the SEC for the

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registration under the Securities Act of our issuance and distribution to our current stockholders (other than TTG Apparel and its affiliates) of shares of our common stock issuable upon the exercise of non-transferable rights to purchase new shares of our common stock. Our shareholders will be entitled to receive one right per share held by them as of the record date for the rights offering. Each right will be exercisable for the purchase of that number of shares of our common stock at the subscription price equal to the following:

D
N = S
O

Where: N is: The number of shares of our common stock per right,
D is: $20,000,000,

S is: The subscription price,

O is: The total number of shares of our common stock outstanding (as adjusted to the date of the calculation)

The subscription price will be equal to the product of 0.85 and the average closing price of our shares during the twenty trading days immediately preceding the record date for the rights offering. Our shareholders who exercise their rights in full will have the right to oversubscribe for and purchase at the subscription price an additional number of whole shares of our common stock in an amount not exceeding, in the aggregate, the number of unexercised rights as of the expiration time of the rights offering, on a pro rata basis; provided, however, that no stockholder will be entitled to subscribe for shares that would result in that holder owning more than 4.9% of the total outstanding shares of our common stock after giving effect to the merger and related transactions.

Guarantor Warrants

As sole consideration for the commitments by the parties entering into the standby purchase agreement with us, we will issue warrants representing the right to purchase, in the aggregate, shares of our common stock, which we refer to as the guarantor warrants. The material terms of these warrants are as follows:

Term. Each guarantor warrant will expire three years following its issuance.

Exercise Price. The guarantor warrants will have an exercise price equal to $ per share. The exercise price will be subject to adjustment pursuant to adjustment and anti-dilution provisions, which are summarized below.

At the option of the holders of the guarantor warrants, the guarantor warrants may be exercised on a cashless net-exercise basis.

Transfer. The guarantor warrants will not be transferable or assignable by their holders, except that the guarantor warrants may be transferred to any affiliate of a holder, any wholly owned subsidiary of such holder or any other person, managed fund or managed client account over which such holder or any of its affiliates exercises investment authority, including, without limitation, with respect to voting and dispositive rights, in a private offering. In order to effect such transfer or assignment, such holder will be obligated to deliver to us a written notice countersigned by the relevant assignee, containing specific information required under the guarantor warrant, including the assignee's representations and warranties as to its accredited investor status and its investment intent and its understanding as to the transfer restrictions.

Adjustments, Anti-dilution. The guarantor warrants will have weighted-average anti-dilution protection for issues of equity by us that are below the exercise price and other adjustments in connection with a reclassification, subdivision or combination of our common stock, our consolidation, merger or share exchange with or into another corporation, a sale transfer or lease of all or substantially all of our assets or a distribution of our assets or common stock or a liquidating dividend to our shareholders.

The foregoing description of the guarantor warrants does not purport to be complete and is qualified in its entirety by reference to the full text of the form of guarantor warrant attached as Exhibit L to the merger agreement, a copy of which is attached to this proxy statement as Annex A.

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Shareholders Agreement

In connection with, and as a condition to, the consummation of the transactions contemplated by the merger agreement, we will enter into a shareholders agreement with Fursa (acting on its behalf and on behalf of the Fursa Managed Accounts), Tokarz Investments and TTG Apparel. Pursuant to this shareholders agreement, for a period of 18 months following the consummation of the merger, each of such parties will agree, subject to certain exceptions, to not:

- acquire or enter into any agreement, arrangement or undertaking the purpose of which is to acquire, directly or indirectly, except with respect to the shares of our common stock or any of our securities convertible into or exchangeable or exercisable for our common stock that such party will acquire in connection with the merger or the related transactions, or any shares of our common stock issuable under such convertible, exchangeable or exercisable securities, any direct or indirect interest in any of our securities or the securities of any of our affiliates or successors, unless, after giving effect to such acquisition, such party's beneficial ownership does not exceed 1.0% more than the percentage of outstanding shares of our common stock that will be beneficially owned in the aggregate by such party and its affiliates after giving effect to the shares of our common stock such party received, or that may be issued upon exercise or conversion of our securities issued, in connection with the merger and the related transactions, or such acquisition is approved by a majority of the independent members of our board of directors who are also not an affiliate or nominee of such party involved in the proposed transaction;
- sell or enter into any agreement, arrangement or undertaking of any kind the purpose of which is to sell, directly or indirectly, or transfer, assign, pledge, encumber, contribute, give or otherwise dispose of, grant a proxy or power of attorney with respect to, deposit in any voting trust, or create or permit to exist any liens of any nature with respect to, any direct or indirect ownership interests in shares of our common stock, except as described in the next succeeding paragraph or except in compliance with Rule 144 under the Securities Act or with the approval by a majority of the independent members of our board of directors who are also not an affiliate or nominee of such party involved in the proposed transaction; and
- act together with such other parties as a group within the meaning of the Exchange Act with respect to any of our securities.

Notwithstanding the foregoing limitations, any such party or group of such parties will be allowed to make and consummate a proposal or a tender offer to acquire all, but not less than all, shares of our common stock not owned by such parties. Further, such party will be able to transfer its shares of our securities in a private transaction to any affiliate of such party or to any other person, managed fund or managed client account over which such party or any of its affiliates exercises investment authority, including, without limitation, with respect to voting and dispositive rights, provided, that any such transferee, as a condition to the effectiveness of any such transfer, executes within five business days of any such transfer, a counterpart to the shareholders agreement assuming all of the obligations of such transferring party with respect to such transferred securities and agreeing to be treated as if an original party to the shareholders agreement.

The parties entering into the shareholders agreement with us will also agree, for the same 18-month period, to vote their shares of common stock or direct their shares of common stock to be voted by proxy in favor of the directors who will initially serve on the board of directors immediately following the consummation of the merger (and their duly appointed successors) and take all necessary action to maintain that board of directors. Furthermore, each of the parties entering into the shareholders agreement with us will not, during the same 18-month period, directly or indirectly, make or direct, encourage or in any way participate in any solicitations of proxies to vote or seek to advise or influence any person with respect to the voting of any of our securities, to contest, object or to vote the shares of our common stock that they own against or frustrate the intent of this shareholders agreement or take any action to prevent or disable us or any of the other parties to this shareholders agreement from performing any of our or their respective obligations under this shareholders agreement.

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The foregoing description of the shareholders agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the form of such agreement attached as Exhibit J to the merger agreement, a copy of which is attached to this proxy statement as Annex A.

Escrow Agreement

In connection with the consummation of the transactions contemplated by the merger agreement, we will enter into an escrow agreement with an escrow agent and the FOH Holdings stockholder representatives. The release and distribution of the treasury shares and the shares of our common stock that are being deposited with the escrow agent pursuant to the merger agreement to satisfy any indemnification claims made under the merger agreement, as described above in ‘‘The Merger Agreement—Escrow Arrangements,’’ will be governed pursuant to the terms of this agreement.

The record owner of the shares of our common stock that will be deposited with the escrow agent pursuant to the merger agreement will be entitled to exercise all voting rights with respect to such shares. Any income earned, including any ordinary cash dividends or other property paid as a distribution in respect of such shares, will not be distributed to the beneficial owners of such shares but will be held in escrow by the escrow agent and will become part of the appropriate escrow fund.

While the escrow agreement is in effect, the escrow agent will only release shares after receiving (i) a joint written instruction from both FOH Holdings stockholder representatives and us, (ii) an arbitration decision or award, or (iii) a court order relating to the release of shares being held in escrow as directed by such instruction, decision, award or order.

In addition, the escrow agent will release the shares of our common stock that it holds in escrow, as follows:

Release of Escrow with respect to Potential Tax Liability

- Within five business days following the 18-month anniversary of the closing under the merger agreement, we will provide the escrow agent and the FOH Holdings stockholder representatives with a notice setting forth the amount of any tax liability, as of the date of such 18-month anniversary, for which we are being indemnified under the merger agreement. The FOH Holdings stockholder representatives will have 30 days from the delivery of such notice to elect to extend the payment of any such tax liability until the 24-month anniversary of the closing under the merger agreement. In the event that the FOH Holdings stockholder representatives do not make such election during such 30 day period, the escrow agent will deliver to us shares of our common stock that were deposited with the escrow agent to cover claims against FOH Holdings having a value equal to such tax liability, within 10 business days of the expiration of such period. For purposes of valuing shares of our common stock under the escrow agreement, the per share value will be based upon the average daily closing price of the shares of our common stock, rounded to two decimal places, for the 10 trading days ending two business days prior to the date of any distribution thereof. If the shares of our common stock then held in escrow that were deposited with the escrow agent to cover claims against FOH Holdings are valued at an amount that is less than the tax liability amount, the escrow agent will deliver to us all of such shares, together with any other cash or property deposited, accrued or earned in respect of such shares up to the amount due. If any such shares, cash or property remain after payment of the tax liability then (x) if there are any claims remaining against such shares, cash or property, the escrow agent will reserve an amount equal in value to 120% of the amount of any such claims and will distribute to the FOH Holdings stockholders the balance of such shares, cash or property on a pro rata basis as instructed by the FOH Holdings stockholder representatives and (y) if there are no claims that have not been finally resolved or paid against such shares, cash or property, the escrow agent will distribute the balance of such shares, cash or property to the FOH Holdings stockholders on a pro rata basis as instructed by the FOH Holdings stockholder representatives.

- If the FOH Holdings stockholder representatives have timely elected to extend the payment of any such tax liability until the 24-month anniversary of the closing under the merger agreement,

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within five business days of the expiration of such 24-month period, we will deliver a notice to the escrow agent and the FOH Holdings stockholder representatives setting forth the amount, as of such 24-month anniversary, of the final tax liability amount for which we are being indemnified under the merger agreement. Within 10 business days after our delivery of such notice, the escrow agent will deliver to us shares of our common stock that were deposited with the escrow agent to cover claims against FOH Holdings in amount equal to such final tax liability. If the shares then held in escrow that were deposited with the escrow agent to cover claims against FOH Holdings are valued at an amount that is less than the final tax liability amount, the escrow agent will deliver to us all of the shares of our common stock that were deposited with the escrow agent to cover claims against FOH Holdings, together with any other cash or property deposited, accrued or earned in respect of such shares up to the amount due. If any such shares, cash or property remain after payment of the final tax liability then (x) if there are any claims remaining against such shares, cash or property, the escrow agent will reserve an amount equal in value to 120% of the amount of any such claims and will distribute to the FOH Holdings stockholders the balance of such shares, cash or property on a pro rata basis as instructed by their representatives and (y) if there are no claims that have not been finally resolved or paid against such shares, cash or property, the escrow agent will distribute the balance of such shares, cash or property to the FOH Holdings stockholders on a pro rata basis as instructed by their representatives.

- If the FOH Holdings stockholder representatives elect to extend the payment of any such tax liability until the 24-month anniversary of the closing under the merger agreement, to the extent that the value of the shares of our common stock that was deposited with the escrow agent to cover claims against FOH Holdings, cash and other property deposited, accrued or earned in respect of such shares exceed (x) the tax liability amount and (y) an amount equal in value to 120% of any claims against such shares, cash and property that have not been finally resolved and paid as of the 18-month anniversary of the closing under the merger agreement, the escrow agent will, within 10 business days of such election, distribute to the FOH Holdings stockholders on a pro rata basis such shares, cash and property equal in value to such excess, as instructed by the FOH Holdings stockholder representatives.

Release of Treasury Shares Held in Escrow

- Within 10 business days following the 18-month anniversary of the closing under the merger agreement, if there are no claims against the treasury shares of our common stock that were deposited with the escrow agent to cover claims against us or against any other cash or property deposited, accrued or earned in respect of such shares, the escrow agent will deliver to us the balance of such shares, cash or property. If on such 18-month anniversary there are claims against the treasury shares of our common stock that were deposited with the escrow agent to cover claims against us or against any other cash or deposited, accrued or earned in respect of such shares, the escrow agent will distribute to us the excess, if any, by which the amount of such shares, cash or property exceed an amount equal to 120% of the amount of any such claims.

Disputes

All disputes, claims or controversies arising out of or relating to the provisions of the escrow agreement described above, including any disputes, claims or controversies as to the amount of the shares in escrow to be released or the timing of the release of the shares in escrow, that are not resolved by mutual agreement between us and the FOH Holdings stockholder representatives, as directed by our Indemnity Claims Committee, will be resolved solely and exclusively by binding arbitration to be conducted before JAMS, as described in ‘‘The Merger Agreement—Escrow Arrangements.’’

Distributions

Whenever a distribution of shares of our common stock is to be made pursuant to the escrow agreement, the escrow agent will requisition the appropriate number of shares from our transfer agent, delivering to the transfer agent the appropriate stock certificates accompanied by the respective stock

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powers, together with appropriate instructions. No fractional shares will be issued in connection with any distribution of our common stock pursuant to the escrow agreement. Within five business days prior to any distribution of shares or other property by the escrow agent to the FOH Holdings stockholders pursuant to the escrow agreement, the escrow agent will notify the FOH Holdings stockholder representatives and request them to update the then current Schedule 1 to the escrow agreement, which schedule provides names and addresses of the FOH Holdings stockholders who are entitled to receive distributions under the escrow agreement as well as the number and percentage of their respective escrowed shares. The escrow agent will not be obligated to make any distribution to the FOH Holdings stockholders unless it has received from the FOH Holdings stockholder representatives such an updated schedule.

Assignment

Each of the FOH Holdings stockholders and its permitted assigns will be able to assign, delegate or transfer its rights under the escrow agreement, in whole or in part, to any affiliate of such party or to any other person, managed fund or managed client account over which such party or any of its affiliates exercises investment authority, including, without limitation, with respect to voting and dispositive rights.

The foregoing description of the escrow agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the form of such agreement attached as Exhibit H to the merger agreement, a copy of which is attached to this proxy statement as Annex A.

Registration Rights Agreement

In connection with the consummation of the transactions contemplated by the merger agreement, we will enter into a registration rights agreement with Fursa (on its behalf and on behalf of the Fursa Managed Accounts), Tokarz Investments and TTG Apparel. Pursuant to this agreement, we will, subject to certain conditions and exceptions, agree to register the resale of shares of our common stock held by these entities under the Securities Act. Subject to the specific conditions, the Fursa Managed Accounts as a group and TTG Apparel and Tokarz Investments as a group, will each be allowed to request such a registration with respect to an underwritten offering of their shares of our common stock up to two times. In connection with any such requested registration, we will select the underwriters for such registration, subject to the reasonable consent of the requesting party, and we may preempt such a demand to register shares if we elect to effect an underwritten primary registration in lieu thereof.

The holders of our securities that are registrable pursuant to the registration rights agreement, subject to certain conditions and exceptions, will also be allowed to include their shares of our common stock on registration statements effected by us pursuant to certain of their ‘‘piggyback’’ registration rights.

Each of the holders of our securities that are registrable pursuant to the registration rights agreement will agree not to effect any public sale or distribution of any of its shares of our common stock or any of its securities convertible into or exchangeable or exercisable for our common stock during the 30 days prior to and up to 120 days after the effective date of any registration statement filed by us in connection with a public offering (or for such longer period of time as required by the managing underwriter (or us if in a non-underwritten offering)), if and to the extent requested by such managing underwriter or us, as the case may be, except as part of such registration statement, whether or not such party participates in such registration. Similarly, we will agree not to effect any public sale or distribution of our equity securities, or any securities convertible into or exchangeable or exercisable for such securities, during the 30 days prior to and the 120 days after the effective date of the registration statements filed in connection with an underwritten offering made pursuant to a demand by Fursa (on its behalf and on behalf of the Fursa Managed Accounts), or Tokarz Investments and TTG Apparel (or for such longer period of time as is sufficient and appropriate, in the opinion of the managing underwriter, in order to complete the sale and distribution of such securities), except as part of such underwritten registration and except pursuant to registration on Form S-4 or Form S-8 promulgated by the SEC or similar form thereto.

Subject to certain conditions, the ‘‘piggyback’’ registration rights will not be assignable by any of the Fursa Managed Accounts or TTG Apparel and Tokarz Investments except to (i) a person that acquires

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from such party in a private offering such party’s shares of our common stock equal to at least five percent of the total outstanding shares of our common stock or (ii) any affiliate (as defined in Rule 12b-2 under the Exchange Act) of such party or any other person, managed fund or managed client account over which such party or any of its affiliates exercises investment authority in a private offering. Demand rights will only be assignable to a party’s wholly owned subsidiary, affiliate or any other person, managed fund or managed client account over which such party or any of its affiliates exercises investment authority. As a condition to the effectiveness of any assignment under the registration rights agreement, the assignee will be required to execute a counterpart to the registration rights agreement assuming all of the obligations of the transferring party and agreeing to be treated as if an original party to the registration rights agreement. We will not be able to assign any of our rights or delegate any of our duties under the registration rights agreement without the prior written consent of Fursa (on its behalf and on behalf of the Fursa Managed Accounts), Tokarz Investments and TTG Apparel.

The registration rights agreement will contain customary indemnification provisions. In addition, pursuant to the registration rights agreement, we will be contractually obligated to file reports in compliance with the Exchange Act and comply with all rules and regulations of the SEC applicable in connection with the use of Rule 144 and take such other actions and furnish the holders of our securities registrable pursuant to the registration rights agreement with such other information as such holder may request in order to avail itself of such rule in order to sell such securities. If at any time we are not required to file reports pursuant to either Section 13 or Section 15(d) of the Exchange Act, we will at our expense, upon such holder’s written request, make available our current public information within the meaning of Rule 144.

The foregoing description of the registration rights agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the form of such agreement attached as Exhibit K to the merger agreement, a copy of which is attached to this proxy statement as Annex A.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated financial information gives effect to the merger of FOH Holdings, the accounting acquirer, with Merger Sub, a wholly owned subsidiary of Movie Star, in a reverse acquisition transaction accounted for as a purchase by FOH Holdings. The unaudited pro forma condensed consolidated balance sheet combines the historical consolidated balance sheets as of January 27, 2007 for FOH Holdings and as of December 31, 2006 for Movie Star and gives effect to the merger and the other transactions contemplated by the merger agreement as if they had occurred on January 27, 2007. The unaudited pro forma condensed consolidated statements of operations for the six months ended January 27, 2007 and the year ended July 29, 2006 give effect to the merger and the other transactions contemplated by the merger agreement as if they had occurred on July 31, 2005. Because FOH Holdings is the accounting acquirer, the pro forma reporting periods have been conformed to FOH Holdings’ reporting periods. The unaudited pro forma consolidated financial statements reflect the following events:

- the issuance to FOH Holdings’ stockholders of 23,689,181 shares of Movie Star common stock (fair value of $21.1 million, based on the assumptions described below) in connection with the merger;
- the issuance of approximately 11.3 million shares of Movie Star common stock (with a market value of $20.0 million, based on the assumptions described below) for cash in the rights offering and warrants to purchase approximately 1.2 million shares of Movie Star common stock to the standby purchasers; and
- the conversion of $7.5 million of FOH Holdings’ long-term debt into an estimated 3.6 million shares of Series A Preferred Stock that are convertible into approximately 3.0 million shares of our common stock.

The merger will be accounted for using the purchase method of accounting as a reverse acquisition. As such, Movie Star will be treated as the accounting acquiree. The pre-acquisition financial statements of FOH Holdings will be treated as the historical financial statements of the combined company and Movie Star’s historical stockholders’ equity will not be carried forward to the merged company as of the date of the merger. The fair value of Movie Star’s assets and related assumed liabilities are based on preliminary estimates. Additional analysis will be required to determine the fair value of Movie Star's assets and assumed liabilities, primarily with respect to inventory, property, plant and equipment, intangible assets and certain assumed liabilities. These amounts will change from the amounts shown based on the final valuations. The final allocation of the acquisition consideration may result in significant differences from the pro forma amounts reflected in the unaudited pro forma consolidated financial statements. The pro forma consolidated financial statements should be read in conjunction with ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and the historical consolidated financial statements, including related notes covering the relevant periods, for each of Movie Star and FOH Holdings, included elsewhere in this proxy statement.

The unaudited pro forma financial statements are based on assumptions that we and FOH Holdings believe are reasonable under the circumstances and are intended for informational purposes only. They are not necessarily indicative of our future financial position or results of operations or of the financial positions or results of operations that would have actually occurred had the acquisition of Movie Star taken place as of the dates or for the periods presented. The combined pro forma results do not reflect the conforming of Movie Star's accounting policies with the accounting policies of FOH Holdings that will be made subject to the consummation of the merger. The following assumptions were made:

- For convenience, an estimated price of $2.08 per share was calculated using an average of the closing prices of Movie Star common stock for the five trading days ending on May 16, 2007 and is being used to calculate:
  - the number of shares of Movie Star common stock to be issued in the rights offering (and the number of guarantor warrants to be issued to the standby purchasers); and

  - the number of shares of Series A Preferred Stock (and the number of shares of Movie Star common stock to be issued upon conversion of the Series A Preferred Stock) to be issued in connection with the merger and the other transactions contemplated by the merger agreement.

The share price used as a basis for the actual amounts will be calculated based on the average of the closing prices of Movie Star common stock for the 20 trading days immediately preceding the record date for our special meeting of shareholders.

- The merger will be accounted for using the purchase method of accounting and Movie Star's assets and related assumed liabilities will be valued at fair value based on preliminary estimates. The final allocation of the acquisition consideration may result in significant differences from the pro forma amounts reflected in the unaudited pro forma financial statements. Included in the consideration being paid are estimated transaction costs that are being capitalized. Currently, we have estimated these transaction costs to be $2,500,000.
- In connection with the merger, Movie Star will also enter into an escrow agreement with designated stockholder representatives of the holders of FOH Holdings common stock. Pursuant to the escrow agreement, 20% of the shares of Movie Star's common stock to be issued to each stockholder of FOH Holdings in connection with the merger will be held in escrow to cover indemnification claims that may be brought by Movie Star for certain matters, including breaches of representations, warranties and covenants of FOH Holdings under the merger agreement. Shares remaining in escrow will be released following the 18-month anniversary of

the effective time of the merger, subject to extension under certain circumstances. Similarly, treasury shares of Movie Star's common stock representing 7.5% of the aggregate number of issued and outstanding shares of our common stock prior to the effective time of the merger will be deposited into escrow to cover any indemnification claims that may be brought by FOH Holdings' stockholders against Movie Star, which shares will be returned to us following the 18-month anniversary of the effective time of the merger, subject to certain conditions and to the extent not used to satisfy these indemnification claims. We have assumed that all of the escrowed shares will be returned to their respective parties.

Included in the Movie Star historical financial statements are material non-recurring items that consist of:

- Merger related fees of $1,342,000 for the six months ended December 31, 2006 and $246,000 for the year ended June 30, 2006. Included in the merger related fees are legal fees, costs associated with Movie Star's financial advisor, which included the issuance of a fairness opinion to Movie Star's special committee, and accounting costs for due diligence. These fees are being expensed as a result of the merger being treated as a reverse acquisition.
- Movie Star recorded a gain on the sale of property, plant and equipment of $496,000 for the six months ended December 31, 2006, which resulted primarily from the sale of its closed distribution facility in Petersburg, Pennsylvania. On October 17, 2006, the transaction was completed for approximately $683,000 in cash. As a result of this transaction, a gain of approximately $482,000 was recorded, net of related costs.
- Movie Star recorded a gain of $1,450,000 for the year ended June 30, 2006, which was the result of resolving an insurance claim with respect to the Poplarville, Mississippi distribution facilities, which were damaged by hurricane Katrina in Movie Star's first quarter of fiscal 2006.

In addition, the following non-recurring expenses attributable to the transactions contemplated by the merger agreement have been excluded from the unaudited pro forma condensed consolidated statements of operations of Movie Star for the six months ended December 31, 2006 and for the fiscal year ended June 30, 2006. These items consist of:

- A one-time engagement fee of 100,000 shares of Movie Star common stock to be issued on the closing date of the merger to Performance Enhancement Partners, LLC in connection with its consulting agreement with Movie Star. Performance Enhancement Partners, LLC is required to provide Movie Star with the personal services of Peter Cole to act as Executive Chairman of the combined company.

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- A grant to Performance Enhancement Partners, LLC, on the closing date of the merger, of non-qualified options to purchase 275,000 shares of Movie Star common stock at an exercise price equal to the fair market value of a share of Movie Star common stock on the grant date. These options will vest within one year of the closing date of the merger.

Unaudited Pro Forma Condensed Consolidated Balance Sheet
As of January 27, 2007
(amounts in thousands)

	FOH Holdings	Movie Star	Pro forma Adjustments	FOH Holdings and Movie Star Pro Forma Consolidated
Assets:				
Current Assets				
Cash and equivalents	$ 1,861	$ 90	$ 19,000[(a)]	$ 20,951
Accounts Receivable	777	10,090	(788)[(b)]	10,079
Merchandise inventories	19,128	10,168	308[(b)(c)]	29,604
Prepaid expenses and other current assets	6,309	244	—	6,553
Deferred income tax assets	944	1,728	—	2,672
Total current assets	29,019	22,320	18,520	69,859
Property, and equipment, net	15,479	1,028	644[(c)]	17,151
Goodwill	7,131	537	6,357[(d)]	14,025
Intangibles and other assets	19,570	3,368	7,320[(e)]	30,258
Total Assets	$ 71,199	$ 27,253	$ 32,841	$ 131,293
Liabilities and Shareholders' Equity:				
Current liabilities:				
Revolving line of credit and term loans	$ 6,861	$ 7,651	$ —	$ 14,512
Current portion of long-term debt	3,257	55	—	3,312
Accounts payable and accrued expenses	20,147	4,074	706[(b)(c)(d)]	24,927
Total current liabilities	30,265	11,780	706	42,751
Deferred rent	2,228	295	(295)[(c)]	2,228
Long-term debt	15,826	—	(7,500)[(f)]	8,326
Other	34	139	—	173
Deferred income tax liabilities	8,827	0	3,311[(g)]	12,138
Total Liabilities	57,180	12,214	(3,778)	65,616
Series A Preferred Stock	—	—	7,500[(f)]	7,500
Total Shareholders' Equity	14,019	15,039	29,119[(a)]	58,177
Total Liabilities and Shareholders' Equity	$ 71,199	$ 27,253	$ 32,841	$ 131,293

See Accompanying Notes to Unaudited Condensed Consolidated Pro Forma Financial Statements

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Unaudited Pro Forma Condensed Consolidated Statement of Operations
For the year ended July 29, 2006
(amounts in thousands, except per share amounts)

	FOH Holdings	Movie Star	Pro forma Adjustments	FOH Holdings and Movie Star Pro Forma

				Consolidated
Net sales	$ 137,968	$ 51,639	$ (1,211)[h]	$ 188,396
Cost of goods sold	80,839	37,528	(1,115)[h]	117,252
Gross profit	57,129	14,111	(96)	71,144
Selling, general and administrative expenses	57,985	16,310	1,342[h]	75,637
Merger related fees		246	—	246
Insurance recovery		(1,450)	—	(1,450)
Operating loss	(856)	(995)	(1,438)	(3,289)
Interest expense, net	2,421	473	(608)[i]	2,286
Loss before income taxes and discontinued operations	(3,277)	(1,468)	(830)	(5,575)
Income tax provision (benefit)	121	(468)	468[j]	121
Loss from continuing operations	$ (3,398)	$ (1,000)	$ (1,298)[j]	$ (5,696)
Loss from continuing operations		$ (1,000)		$ (5,696)
Less: Preferred stock dividends		—		(563)[k]
Loss available to common shareholders		$ (1,000)		$ (6,259)
Basic earnings per share		$ (0.06)		$ (0.12)
Diluted earnings per share		$ (0.06)		$ (0.12)
Weighted average shares outstanding – basic		15,700		50,788[k]
Weighted average shares outstanding – diluted		15,700		50,788[k]

See Accompanying Notes to Unaudited Condensed Consolidated Pro Forma Financial Statements

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Unaudited Pro Forma Condensed Consolidated Statement of Income
For the six months ended January 27, 2007
(amounts in thousands, except per share amounts)

	FOH Holdings	Movie Star	Pro forma adjustments	FOH Holdings and Movie Star Pro Forma Consolidated
Net sales	$ 80,228	$ 36,214	$ (2,059)[h]	$ 114,383
Cost of goods sold	46,244	24,329	(1,851)[h]	68,722
Gross profit	33,984	11,885	(208)	45,661
Selling, general and administrative expenses	30,216	9,067	562[h]	39,845
Merger related fees	—	1,342	—	1,342
Gain on sale of property, plant and equipment	—	(496)	—	(496)
Operating income	3,768	1,972	(770)	4,970
Interest expense, net	1,096	399	(306)[i]	1,189

Income before income taxes and discontinued operations	2,672	1,573	(464)	3,781
Income tax provision (benefit)	802	629	(297)	1,134
Income (loss) from continuing operations	$ 1,870	$ 944	$ (167)	$ 2,647
Income from continuing operations		$ 944		$ 2,647
Less: Preferred stock dividends		—		(281)[(k)]
Net Income available to common shareholders		$ 944		$ 2,366
Basic earnings per share		$ 0.06		$ 0.05
Diluted earnings per share		$ 0.06		$ 0.05
Weighted average shares outstanding – basic		15,786		50,874[(k)]
Weighted average shares outstanding – diluted		16,090		51,589[(k)]

See Accompanying Notes to Unaudited Condensed Consolidated Pro Forma Financial Statements

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Notes to the Unaudited Pro Forma Condensed Consolidated Financial Information
(amounts in thousands, except where the context indicates otherwise)

(a) Stockholders' Equity: Stockholders' equity is computed as follows:

Purchase price (note d)	$ 25,158
Cash raised from rights offering	20,000
Less: Estimated offering issuance costs	(1,000)
Less: Historical Movie Star equity prior to the transactions	(15,039)
Pro forma adjustment to stockholders' equity	$ 29,119

Movie Star assumes raising aggregate gross proceeds of $20 million in cash from the rights offering. The offering price will be based upon the average of the per share closing prices of Movie Star's common stock for the 20 trading days immediately preceding the record date less a 15% discount. For convenience purposes, an estimated price of $2.08 per share was calculated using an average of the per share closing prices of Movie Star's common stock for the five trading days ending on May 16, 2007. Based upon an average share price of $2.08 and expected proceeds of $20 million, Movie Star expects to issue approximately 11.3 million shares.

(b) Intercompany Transactions: The following represents the pro forma adjustments to eliminate the impact of intercompany sales between FOH Holdings and Movie Star:

Accounts Receivable: Elimination of receivable due to Movie Star from FOH Holdings	$ (788)
Inventory: Elimination of intercompany profit included in FOH Holdings inventory	(304)
Inventory: Intercompany timing difference	629
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Accounts Payable: Elimination of accounts payable due from FOH Holdings to Movie Star	$ (304)

In the normal course of business, Movie Star sells apparel goods to FOH Holdings. The adjustments reflected above are to eliminate the impact of these intercompany sales on the unaudited pro forma condensed consolidated balance sheet. In addition, the unaudited pro forma condensed consolidated statements of operations reflect the elimination of $1,211 and $2,059 of sales from Movie Star to FOH Holdings during the year ended July 29, 2006 and six months ended January 27, 2007, respectively, as well as the elimination of $96 and $304 of profit included in FOH Holdings' ending inventory as of July 29, 2006 and January 27, 2007, respectively.

(c) Net Tangible Assets: The following represents the estimated purchase accounting adjustments attributable to net tangible assets resulting from the transactions contemplated by the merger agreement:

Inventory	$ (17)
Property, plant and equipment	644
Deferred rent – short term	35
Deferred rent – long term	295
	$ 957

The purchase accounting adjustment to inventory is to adjust the inventory to fair value less the estimated selling and distribution costs plus a normal profit margin. The purchase accounting adjustment to property, plant and equipment primarily relates to the step-up of land and a building. The adjustment to deferred rent is to eliminate the historical deferred rent recorded by Movie Star due to the application of purchase accounting.

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(d) Goodwill and Intangible Assets: A preliminary allocation of the purchase price has been made to the major categories of assets acquired and liabilities assumed in the accompanying pro forma financial statements. The final allocation of the purchase price may result in significant differences from the pro forma amounts included herein. The following represents the estimated value attributable to goodwill and intangibles resulting from the transactions contemplated by the merger agreement:

Fair value of common stock issued (15,792,787 shares at $1.36 per share)	$ 21,478
Estimated transaction costs	2,500
Stock options (1,258,000 vested stock options at $0.94 per share)	1,180
Total purchase price	$ 25,158
Historical Movie Star net assets acquired	$ 15,039
Adjustment to historical net assets due to the elimination of intercompany activity (note b)	(304)
Adjusted historical net assets	$ 14,735
Excess purchase price over adjusted historical net assets acquired	$ 10,423

Fair Value Adjustments:

Step-up of net tangible assets acquired (see note c)	$ (957)
Elimination of historical goodwill	537
Establishment of intangible assets (see note e)	(7,320)
Deferred income taxes associated with step-up adjustments (see note g)	3,311
Accrual for estimated transaction costs to be incurred	900
Excess purchase price over fair value of net assets acquired	6,894
Less adjustment to remove historical goodwill	(537)
Pro forma adjustment to goodwill	$ 6,357

The fair value of the common stock issued is based upon the issuance of 15,792,787 shares of common stock based upon $1.36 per share, which represents the average share price two days before and two days after December 18, 2006, the day prior to the announcement of the execution of the merger agreement.

The purchase price attributable to stock options represents the fair value of Movie Star's vested options valued using the Black-Scholes option pricing model.

(e) Intangible and other assets: Represents the establishment of indefinite-lived and definite-lived intangible assets resulting from the transactions contemplated by the merger agreement:

Trademark (indefinite-lived)	$ 4,300
Customer relationships	2,700
Other intangibles	320
Pro forma adjustment to other assets	$ 7,320

(f) Long-term Debt: Represents the conversion of $7.5 million of FOH Holdings' long-term debt into an estimated 3.6 million shares of Series A Preferred Stock that will be issued upon the closing of the transactions contemplated by the merger agreement. This debt was converted utilizing an estimated conversion rate that was based on an original issue price of $2.08 per share, which represents the average of the closing prices of Movie Star common stock for the five trading days ending on May 16, 2007. Because the redemption of Series A Preferred Stock is outside of the control of the combined company, Series A Preferred Stock is considered to be mezzanine equity and has been recorded separately from stockholders' equity.

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(g) Deferred income tax liabilities: Represents deferred income taxes corresponding to estimated temporary differences resulting from the transactions contemplated by the merger agreement. Deferred income taxes are computed as follows:

Identifiable intangible assets resulting from the transactions (note e)	$7,320
Fair value adjustments to net tangible assets resulting from the transactions (note c)	957
Purchase accounting adjustments resulting in temporary tax differences	8,277
Assumed statutory tax rate	40.0%
Pro forma adjustment to other non-current liabilities for deferred income taxes	$3,311

The deferred income tax liability adjustment has been determined by using the overall assumed statutory tax rate for the year ended July 29, 2006 and for the six months ended January 27, 2007. For purposes of the pro forma financial statements it has been assumed that goodwill is not tax deductible.

(h) Sales, cost of goods sold and selling, general and administrative expenses: Reflects the impact of the elimination of intercompany sales activity, the effects of purchase accounting adjustments and adjustments to consulting and compensation expenses.

	Fiscal Year Ended July 29, 2006	Six Months Ended January 27, 2007
Pro forma adjustment to net sales for the elimination of intercompany sales (note b)	$ (1,211)	$ (2,059)
Pro forma elimination of intercompany profit included in inventory (note b)	96	208
Pro forma elimination of intercompany cost of goods sold, buying and occupancy (note b)	(1,211)	(2,059)
Total pro forma adjustment to cost of goods sold, buying and occupancy	$ (1,115)	$ (1,851)
Pro forma depreciation of property, plant and equipment	$ 19	$ 10
Pro forma amortization of customer relationship intangibles	675	253
Pro forma amortization of other intangibles	30	15
Pro forma elimination of management fee	(200)	(100)
Pro forma adjustment of compensation expense	818	384
Total pro forma adjustment to selling, general and administrative expenses	$ 1,342	$ 562

The pro forma adjustment related to the elimination of intercompany profit included in ending inventory is to reverse profit recognized by Movie Star on the sale of inventory to FOH Holdings that had not yet been sold to the end customer.

It has been assumed that the pro forma adjustment to fixed assets relates to land and a building. The building has a weighted average remaining life of 25 years, and the associated depreciation expense would be included in selling, general and administrative expenses. It also has been assumed that the customer relationships and other intangibles will have an estimated life of 10 and 4 years, respectively, and that the amortization expense would be included in selling, general and administrative expenses. There is no amortization expense associated with the trademark because it has an indefinite life. The customer relationships are being amortized by an accelerated method based upon customer retention rates and other intangible assets are amortized on a straight line basis. Upon the consummation of the transactions contemplated by the merger agreement, estimated yearly amortization expense to be recorded for the customer relationships is expected to be as follows: $675, $506, $380, $285, $214, and $640 in total thereafter.

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Management fees reflect an adjustment to selling, general and administrative expenses for the elimination of management fees paid by FOH Holdings. All management fee agreements will be terminated upon the closing of the transactions contemplated by the merger agreement.

Compensation expense reflects an adjustment to selling, general and administrative expenses for incremental stock compensation expense to be recorded in connection with the revaluation of Movie Star's unvested stock options outstanding as of the effective time of the merger, and additional annual expenses of $500 for consulting services to be provided by the new Executive Chairman.

(i) Interest Expense: The pro forma adjustment to interest expense reflects the elimination of FOH Holdings' interest expense on its $7.5 million of long-term debt that is being converted into Series A Preferred Stock in connection with the transactions contemplated by the merger agreement. Interest expense incurred on the $7.5 million of long term debt was $608 and $306 for the year ended July 29, 2006 and the six months ended January 27, 2007, respectively.

(j) Income Taxes: Due to the cumulative losses incurred by FOH Holdings during the year ended July 29, 2006, it has been assumed for pro forma purposes that it would be more likely than not that the combined company would not be able to realize the benefit of its existing deferred taxes during the year ended July 29, 2006. As a result, a pro forma adjustment has been made to eliminate the income tax benefit recorded by Movie Star during the year ended July 29, 2006. The combined company will evaluate its ability to realize the future benefit of its deferred income tax asset at the end of each of its reporting periods. During the six months ended January 27, 2007, the assumed statutory tax rate of 30% was used to calculate the pro forma tax expense.

(k) Earnings per share: The following is the calculation of the pro forma number of basic and diluted shares:

	Fiscal Year Ended July 29, 2006	Six Months Ended January 27, 2007
Issuance of common stock in connection with the rights offering	11,299	11,299
Issuance of common stock in connection with the merger	23,689	23,689
Issuance of common stock to consultant	100	100
Pro forma adjustment to the number of basic shares outstanding	35,088	35,088
Plus: Historical basic shares outstanding	15,700	15,786
Pro forma basic shares outstanding	50,788	50,874
Pro forma adjustment to the number of basic shares outstanding		35,088
Dilutive impact of FOH Holdings options		382
Dilutive impact of warrants issued		29
Pro forma adjustment to diluted shares outstanding		35,499
Plus: Historical weighted average diluted shares outstanding		16,090
Pro forma dilutive average shares outstanding		51,589

The pro forma adjustments related to the rights offering reflect the assumed issuance of 11.3 million shares of Movie Star common stock in connection with the rights offering, and an offering price that is 15 percent below such price. We have assumed that 23.7 million shares of common stock will be issued in connection with the merger. The basic average shares also have been adjusted for the issuance of 100,000 shares of Movie Star common stock to be issued upon the closing of the transactions contemplated by the merger agreement to Performance Enhancement Partners, LLC in connection with its consulting agreement with Movie Star.

The pro forma adjustment to the diluted shares outstanding reflects the dilutive impact of FOH Holdings options that will be assumed by Movie Star, as well as the dilutive impact of guarantor

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warrants that will be issued as compensation to the standby purchasers under the standby purchase agreement. The income available to common shareholders has been reduced to reflect dividends of 7.5 percent accumulated on the Series A Preferred Stock.

For pro forma purposes, it has been assumed that the Series A Preferred Stock to be issued upon the closing of the transactions contemplated by the merger agreement will not have a dilutive impact because it has been assumed that the holders of the Series A Preferred Stock would not exercise their conversion right until the Movie Star common stock price exceeds $2.50 per share.

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STOCK ISSUANCE PROPOSAL

Shareholder approval is not required for the merger itself under the NYBCL. However, under the rules of the American Stock Exchange, shareholder approval is required prior to the issuance of common stock in any transaction if (i) the number of shares of common stock, or securities convertible into common stock, to be issued will be, upon issuance, equal to or in excess of 20% of the number of shares of common stock outstanding prior to such issuance, (ii) the common stock, or securities convertible into common stock, to be issued will be issued as consideration for an acquisition of the stock or assets of another company, provided that any director, officer or substantial shareholder of the acquiring listed company, directly or indirectly, has a 5% or greater interest in the acquired company or in the consideration to be paid in such transaction and the present or potential issuance of common stock, or securities convertible into common stock, could result in an increase in outstanding common shares of 5% or more, or (iii) such transaction would involve the application of Section 341 of the American Stock Exchange Company Guide, which requires that a listed company being effectively acquired by an unlisted company as a result of a plan of acquisition, merger, or consolidation meet the American Stock Exchange’s original listing standards.

Because the shares to be issued in connection with the merger and the rights offering and pursuant to the standby purchase agreement, together with the shares underlying the warrants that will be issued as consideration for the commitments of the Fursa Standby Purchasers, Tokarz Investments and TTG Apparel under the standby purchase agreement and Series A Preferred Stock that will be issued in exchange for the cancellation of certain indebtedness of FOH Holdings, will be in excess of 20% of the number of shares of our common stock outstanding prior to such issuances, your vote is required. Additionally, your vote is required because (i) the American Stock Exchange has informed us that Section 341 of the American Stock Exchange Guide would apply to the transactions contemplated by the merger agreement due to the structure of the proposed merger and (ii) an affiliate of TTG Apparel, our substantial shareholder, owns more than 5% of FOH Holdings.

If the stock issuance proposal or the increase of authorized common stock proposal is not approved, we cannot effect the merger or the other transactions contemplated by the merger agreement. If the name change proposal or the preferred stock proposal is not approved, absent a waiver by FOH Holdings and us, we cannot effect the merger or the other transactions contemplated by the merger agreement.

For the reasons previously discussed, our board of directors has determined that the stock issuance proposal is desirable and in the best interest of our shareholders. The approval of the stock issuance proposal will require the affirmative vote of both (i) the holders of a majority of the outstanding shares of our common stock on the record date and (ii) the holders of a majority of the shares of our common stock that are held by our shareholders other than TTG Apparel and its affiliates and associates on the record date.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT OUR SHAREHOLDERS VOTE ''FOR'' THE STOCK ISSUANCE PROPOSAL.

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INCREASE OF AUTHORIZED COMMON STOCK PROPOSAL

Pursuant to the merger agreement, we are proposing to amend our certificate of incorporation to increase the number of authorized shares of our common stock from 30,000,000 shares to 200,000,000 shares. The additional common stock to be authorized by adoption of this proposal would have rights identical to the currently outstanding common stock of Movie Star. Adoption of the proposed amendment and issuance of the common stock in connection with the merger, the rights offering and other transactions contemplated by the merger agreement would not affect the rights of the holders of currently outstanding common stock of Movie Star, except for effects incidental to increasing the number of shares of Movie Star common stock outstanding, such as dilution of the earnings per share and voting rights of current holders of common stock. If the amendment is adopted, it will become effective upon filing of the restated certificate of incorporation with the Secretary of State of the State of New York. The approval of the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal and the preferred stock proposal are conditions to the consummation of the merger. If the stock issuance proposal or the increase of authorized common stock proposal is not approved, we cannot effect the merger or the other transactions contemplated by the merger agreement. If the name change proposal or the preferred stock proposal is not approved, absent a waiver by FOH Holdings and us, we cannot effect the merger or the other transactions contemplated by the merger agreement.

In the judgment of our board of directors, the increase in our capitalization is desirable and in the best interest of our shareholders. Currently, we have 16,423,326 shares of our common stock outstanding and we will be issuing an additional shares of common stock upon consummation of the merger and rights offering. We will also need to reserve (i) an aggregate of 6,250,000 shares of common stock in connection with our 2000 performance equity plan amendment proposal discussed below, (ii) shares of common stock into which the shares of Series A Preferred Stock will be convertible and (iii) shares of common stock issuable upon the exercise of the guarantor warrants to be issued as consideration for the commitments by the parties entering into the standby purchase agreement with us. The authorization of additional shares of common stock will also enable us to have the flexibility to issue shares of common stock in the future for financing our business, for acquiring other businesses, for forming strategic partnerships and alliances, for stock dividends, stock splits and exercise of convertible securities and for other purposes determined to be proper by the board of directors of the combined company.

The approval of the increase of authorized common stock proposal will require the affirmative vote of both (i) the holders of a majority of the outstanding shares of our common stock on the record date and (ii) the holders of a majority of the shares of our common stock that are held by our shareholders other than TTG Apparel and its affiliates and associates on the record date.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT OUR SHAREHOLDERS VOTE ''FOR'' THE APPROVAL OF THE INCREASE OF AUTHORIZED COMMON STOCK PROPOSAL.

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NAME CHANGE PROPOSAL

Pursuant to the merger agreement, we are proposing to amend our certificate of incorporation to change our corporate name from ‘‘Movie Star, Inc.’’ to ‘‘Frederick’s of Hollywood Group Inc.’’ upon consummation of the merger. The approval of the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal and the preferred stock proposal are conditions to the consummation of the merger. If the stock issuance proposal or the increase of authorized common stock proposal is not approved, we cannot effect the merger or the other transactions contemplated by the merger agreement. If the name change proposal or the preferred stock proposal is not approved, absent a waiver by FOH Holdings and us, we cannot effect the merger or the other transactions contemplated by the merger agreement.

In the judgment of our board of directors, the change of our corporate name is desirable to reflect our merger with FOH Holdings. The Frederick’s of Hollywood name has been a widely recognized name in the intimate apparel industry for over sixty years.

Shareholders will not be required to exchange their outstanding stock certificates for new stock certificates if the name change proposal is approved.

The approval of the name change proposal will require the affirmative vote of both (i) the holders of a majority of the outstanding shares of our common stock on the record date and (ii) the holders of a majority of the shares of our common stock that are held by our shareholders other than TTG Apparel and its affiliates and associates on the record date.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT OUR SHAREHOLDERS VOTE ‘‘FOR’’ THE APPROVAL OF THE NAME CHANGE PROPOSAL.

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PREFERRED STOCK PROPOSAL

Pursuant to the merger agreement, we are proposing to amend our certificate of incorporation to authorize the issuance of up to 10,000,000 shares of preferred stock, par value $.01 per share, and to establish the terms, rights, preference and privileges of the Series A Preferred Stock, upon consummation of the merger. The approval of the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal and the preferred stock proposal are conditions to the consummation of the merger. If the stock issuance proposal or the increase of authorized common stock proposal is not approved, we cannot effect the merger or the other transactions contemplated by the merger agreement. If the name change proposal or the preferred stock proposal is not approved, absent a waiver by FOH Holdings and us, we cannot effect the merger or the other transactions contemplated by the merger agreement. In the judgment of our board of directors, the authorization of the preferred stock proposal is desirable and in the best interest of our shareholders.

In addition to issuing shares of Series A Preferred Stock to the Fursa Debt Holders in exchange for the cancellation of $7.5 million of FOH Holdings' indebtedness as contemplated by the FOH Holdings' stockholders agreement, we believe that the availability of additional shares of preferred stock may prove useful in connection with financing the capital needs of the combined company, employee incentive or compensation plans or other purposes. The flexibility vested in the board of directors would, in particular, allow us to consider and, if in the best interests of the shareholders, take advantage of acquisition opportunities. The authorization will enable us to act promptly if appropriate circumstances arise which require the issuance of such shares.

The preferred stock will have such designations, preferences and dividend, conversion, cumulative, relative, participating, optional and other rights, including voting rights, qualifications, limitations and restrictions as are determined by the board of directors. Thus, if the preferred stock proposal is approved by the shareholders, subject to the provisions of our restated certificate of incorporation, the board of directors would be entitled to authorize the creation and issuance of up to 10,000,000 shares of preferred stock (which includes the shares to be designated as Series A Preferred Stock) in one or more series with such rights, limitations and restrictions, including dividend rights, dividend rates, terms of redemption, conversion rights and liquidation preferences, as may be determined in the board's sole discretion, without the expense and delay of a special shareholders meeting, except as may be required by applicable law or stock market or exchange requirements. In fact, the terms of the Series A Preferred Stock already have been determined and are described under the section entitled ''Other Transaction Documents—FOH Holdings' Stockholders Agreement—Series A Preferred Stock.''

The authorization of the shares of preferred stock will not, by itself as a general matter, have any effect on the rights of the holders of shares of common stock. Nonetheless, the issuance of one or more series of preferred stock could, depending upon the board's determination of the rights and preferences of the series of preferred stock (and in the case of the Series A Preferred Stock, as described under the section entitled ''Other Transaction Documents—FOH Holdings' Stockholders Agreement—Series A Preferred Stock,'' will): (i) restrict the payment of dividends to holders of common stock; (ii) dilute voting power of the holders of common stock to the extent that the holders of preferred stock are given voting rights; (iii) dilute the equity interests and voting power of the holders of common stock if the preferred stock is convertible into common stock; and (iv) restrict the distribution of assets to the holders of the common stock upon liquidation or dissolution and until the satisfaction of any liquidation preference granted to the holders of preferred stock.

Although the board has no present intention of doing so, it could issue shares of preferred stock in addition to the contemplated Series A Preferred Stock (within the limits imposed by applicable law) that could, depending on the terms of such series, make more difficult or discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or other means. When in the judgment of the board such action would be in the best interests of the shareholders and us, the issuance of shares of preferred stock could be used to create voting or other impediments or to discourage persons seeking to gain control of us, for example, by the sale of preferred stock to purchasers favorable to the board of directors. In addition, the board could authorize holders of a series of preferred stock to vote either separately as a class or with the holders of common stock, on any merger, sale or exchange of assets by

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us or any other extraordinary corporate transaction. The issuance of new shares could also be used to dilute the stock ownership of a person or entity seeking to obtain control of us should the board consider the action of such entity or person not to be in the best interests of the shareholders and Movie Star. While the authorization of the issuance of preferred stock may have anti-takeover ramifications, the board believes that the financial flexibility offered by the amendment and various advantages of the merger outweigh any disadvantages.

The approval of the preferred stock proposal will require the affirmative vote of both (i) the holders of a majority of the outstanding shares of our common stock on the record date and (ii) the holders of a majority of the shares of our common stock that are held by our shareholders other than TTG Apparel and its affiliates and associates on the record date.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT OUR SHAREHOLDERS VOTE ‘‘FOR’’ THE APPROVAL OF THE PREFERRED STOCK PROPOSAL.

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REVERSE STOCK SPLIT PROPOSAL

General

Our board of directors has unanimously approved a proposal, subject to shareholder approval, to amend our certificate of incorporation if our board of directors elects to consummate a reverse stock split of our outstanding common stock simultaneous with the closing of the merger within a range to be determined by our board of directors from 9 for 10 to 1 for 2, in order to satisfy the minimum price requirement of $2.00 per share for continued listing on the American Stock Exchange. This means that if our board of directors were to select a ratio of 9 for 10, for every 10 shares of common stock held by a shareholder before the reverse stock split, such shareholder would receive nine shares of common stock immediately after the reverse stock split. If the board of directors were to select a ratio of 1 for 2, for every 2 shares of common stock held by a shareholder before the reverse stock split, such shareholder would receive one share of common stock immediately after the reverse stock split. Based on the proposed range of ratio, as few as 1.1 shares or as many as 2 shares of common stock would be combined into one new share. Our board also may choose not to implement the reverse stock split at all in its sole discretion, without further direction by our shareholders.

If our board determines to effect a reverse stock split, after the filing of an amendment to our certificate of incorporation with the New York Secretary of State, the reverse stock split will be effective, and each certificate representing shares of common stock outstanding immediately prior to the reverse stock split will be deemed automatically without any action on the part of the shareholders to represent a fraction of the number of shares of common stock after the reverse stock split. No fractional shares will be issued as a result of a reverse stock split. Instead, each shareholder whose old shares are not evenly divisible will receive one additional new share for the fractional new share that such shareholder would otherwise be entitled to receive as a result of a reverse stock split. After the reverse stock split becomes effective, shareholders will be asked to surrender certificates representing old shares in accordance with the procedures set forth in a letter of transmittal that we will send to you. Upon such surrender, new certificates will be issued and forwarded to the shareholders. However, each certificate representing old shares will continue to be valid and represent new shares equal to a fraction of the number of old shares (plus one additional new share where such old shares are not evenly divisible).

The number of shares of capital stock authorized by our certificate of incorporation will not change as a result of the proposed reverse stock split. The common stock issued pursuant to the reverse stock split will be fully-paid and non-assessable. The voting and other rights that presently characterize the common stock will not be altered by the reverse stock split.

Purpose of Reverse Stock Split

Pursuant to Section 341 of the American Stock Exchange Company Guide, the American Stock Exchange requires that a listed company being effectively acquired by an unlisted company as a result of a plan of acquisition, merger, or consolidation meet the American Stock Exchange's original listing standards. Due to the structure of the proposed merger, through which FOH Holdings' stockholders will be the majority shareholders of the combined company immediately following the effective time of the merger, the American Stock Exchange informed us that we would be obligated to satisfy the American Stock Exchange's original listing standards which, among other things, require that our common stock have a bid price of at least $2.00 per share. A reverse stock split would reduce the number of issued and outstanding shares of common stock and, assuming that the market price of our common stock is below $2.00 per share when the reverse stock split is effected, could cause the market price of our common stock to increase above the $2.00 per share minimum threshold. A range for the reverse stock split is being proposed instead of a specific ratio since the price at which our common stock trades may fluctuate between now and the time any reverse stock split is implemented, if at all.

However, there can be no assurance that our stock price will exceed or remain above $2.00 per share. If, for example, a 1-for-2 reverse stock split is implemented, there can be no assurance that the market price per share after the reverse stock split would be twice the market price per share before the reverse stock split, or that such price would either exceed or remain in excess of market price before effecting the

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reverse stock split. Shareholders should note that our board of directors cannot predict what effect a reverse stock split would have on the market price of our common stock.

If the reverse stock split proposal is approved by our shareholders, the reverse stock split will be effected, if at all, only upon a determination by our board of directors that a reverse stock split is in the best interests of the combined company and its shareholders, and only to satisfy the minimum price requirement of $2.00 per share for American Stock Exchange listing upon the completion of the merger. Our board's determination as to whether the reverse stock split will be effected and, if so, at which ratio, will be based upon certain factors, including existing and expected marketability and liquidity of the combined company's common stock, prevailing stock market conditions, business developments affecting the combined company, actual or forecasted results of operations and the likely effect on the market price of the combined company's common stock.

The reverse stock split proposal is not a condition to the merger, but is being proposed in connection with the merger and will not be presented at the meeting for a vote if any of the proposals that are conditions to the merger are not approved. Under the merger agreement, we are obligated to use our reasonable best efforts to cause our common stock to continue trading on the American Stock Exchange.

Material Effect of a Reverse Stock Split

A reverse stock split will be effected by means of filing an amendment to our certificate of incorporation with the New York Secretary of State. We currently are authorized to issue 30,000,000 shares of common stock, and we are seeking approval to increase the number of authorized shares to 200,000,000 in a separate proposal contained in this proxy statement. As of May 15, 2007, there were 16,423,326 shares of common stock issued and outstanding. The number of shares of our authorized capital stock will not be changed by reason of the reverse stock split. However, the number of our outstanding shares of capital stock will decrease by reason of the reverse stock split. Consequently, the reverse stock split will permit our board to issue additional shares of Movie Star common stock without prior shareholder approval, which could dilute the interests of current shareholders. The following table illustrates the principal effect of the proposed reverse stock split and decrease in outstanding shares of common stock assuming that, as of the date of the reverse stock split, (i) there are 16,423,326 shares of common stock outstanding, (ii) our authorized capital stock consists of 30,000,000 shares and (iii) no additional shares of common stock are issued prior to the effective date of the reverse stock split as a result of the exercise of any options or warrants under all possible scenarios:

Reverse Stock Split	Shares Outstanding Prior to Reverse Stock Split	Shares Outstanding After Reverse Stock Split(1)
9-for-10	16,423,326	14,780,993
7-for-8	16,423,326	14,370,410
1-for-2	16,423,326	8,211,663

(1) Does not take into account additional shares to be issued in lieu of fractional shares.

The reverse stock split will affect all our shareholders uniformly and, accordingly, will not affect any shareholder's percentage ownership interest in Movie Star or the proportionate voting power of our common stock, except to the extent that the reverse stock split results in any of our shareholders owning a fractional share.

The reverse stock split will not affect the par value of shares of our common stock. As a result, on the effective date of the reverse stock split, the stated capital on our balance sheet attributable to our common stock will be reduced by the appropriate amount based on the reverse stock split ratio determined by the board, and the additional paid-in capital account will be credited with the amount by which the stated capital is reduced. The per share net income or loss and per share net book value of our common stock will be increased as a result of the reverse stock split, because there will be fewer shares of our common stock outstanding.

Our common stock currently is registered under Section 12(b) of the Exchange Act and, as a result, the Company is subject to the periodic reporting and other requirements of the Exchange Act. The reverse stock split will not affect the registration of our common stock under the Exchange Act.

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Effect on Market for Common Stock. On June 6, 2007, the closing sale price of our common stock on the American Stock Exchange was $2.21 per share. By decreasing the number of shares of common stock outstanding (including the shares to be issued in connection with the merger and the other transactions contemplated by the merger agreement) without altering the aggregate economic interest in Movie Star represented by such shares, the board of directors believes that the trading price may increase.

Effect on Outstanding Options and Warrants. As of May 15, 2007, we had outstanding options to purchase 1,341,000 shares of common stock with per-share exercise prices ranging from $0.625 to $1.45. In addition, as of May 15, 2007, we had outstanding 50,000 warrants with an exercise price of $0.4375 per share. Upon the completion of a reverse stock split, the 1988 Non-Qualified Stock Option Plan, the 1994 Incentive Stock Option Plan, the 2000 Performance Equity Plan, FOH Holdings' 2003 Employee Equity Incentive Plan and the warrants provide for a proportional downward adjustment to the number of shares subject to outstanding options and warrants and a corresponding upward adjustment in the per-share exercise prices to reflect the reverse stock split.

Effect on Guarantor Warrants. As previously mentioned in the section entitled ''Other Transaction Documents—Standby Purchase Agreement—Guarantor Warrants,'' as sole consideration for the Standby Purchase Commitments, we will issue warrants representing the right to purchase, in the aggregate, shares of our common stock. Upon the completion of a reverse stock split, the guarantor warrants will be subject to a proportional downward adjustment to the number of shares subject to outstanding guarantor warrants and a corresponding upward adjustment in the per-share exercise price to reflect the reverse stock split.

Effect on Series A Preferred Stock. As previously mentioned in the section entitled ''Other Transaction Documents—FOH Holdings' Stockholders Agreement—Series A Preferred Stock,'' the Fursa Debt Holders, in their capacities as holders of FOH Holdings indebtedness, agreed to cancel $7.5 million of such indebtedness in exchange for shares of our newly authorized Series A Preferred Stock. Upon the completion of a reverse stock split, Series A Preferred Stock will be subject to a proportional downward adjustment to the number of shares of Series A Preferred Stock to be issued in such exchange, a proportional downward adjustment to the number of shares of common stock issuable upon conversion and a corresponding upward adjustment in the per-share conversion price to reflect the reverse stock split.

Effect on Legal Ability to Pay Dividends. The reverse stock split will have no material impact on our legal ability to pay dividends.

No Appraisal Rights

Under the NYBCL, our shareholders will not be entitled to appraisal rights with respect to the reverse stock split.

Exchange of Stock Certificates

As soon as practicable after the effective date of a reverse stock split, we will send a letter of transmittal to each holder of record of shares outstanding on the effective date. The letter of transmittal will contain instructions for the surrender of certificate(s) representing such shares to American Stock Transfer & Trust Company, our exchange agent. Upon proper completion and execution of the letter of transmittal and its return to the exchange agent, together with the certificate(s) representing shares, a shareholder will be entitled to receive a certificate representing the number of new shares into which his or her current shares have been reclassified and changed as a result of the reverse stock split.

Shareholders should not destroy any certificates or submit any certificates until requested to do so. No new certificate will be issued to a shareholder until he or she has surrendered his or her outstanding certificate(s) together with the properly completed and executed letter of transmittal to the exchange agent. If your shares of our common stock are deposited in book entry form, your shares automatically will be converted to reflect the reverse stock split without any action on your part.

Material Federal Income Tax Consequences

The following summary of the federal income tax consequences of a reverse stock split is not, and should not be relied on as, a comprehensive analysis of the tax issues arising from or relating to the

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proposed reverse stock split. ACCORDINGLY, SHAREHOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS FOR AN ANALYSIS OF THE EFFECT OF THE TRANSACTION CONTEMPLATED BY THE PROPOSED REVERSE STOCK SPLIT ON THEIR RESPECTIVE TAX SITUATIONS.

The transactions contemplated by the reverse stock split constitute a ‘‘recapitalization’’ to Movie Star and its shareholders to the extent that issued shares of common stock are exchanged for a reduced number of shares of common stock. Therefore, neither Movie Star nor its shareholders will recognize any gain or loss for federal income tax purposes as a result thereof.

The shares of common stock to be issued to each shareholder will have an aggregate basis, for computing gain or loss, equal to the aggregate basis of the shares of common stock held by such shareholder immediately prior to the effective date of the reverse stock split. A shareholder’s holding period for the shares of common stock to be issued will include the holding period for the shares of common stock held immediately prior to the effective date of the reverse stock split provided that such shares were held by the shareholder as capital assets on the effective date.

Required Vote

The approval of the reverse stock split proposal will require the affirmative vote of the holders of a majority of the outstanding shares of our common stock on the record date.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT OUR SHAREHOLDERS VOTE ‘‘FOR’’ THE APPROVAL OF THE REVERSE STOCK SPLIT PROPOSAL.

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2000 PERFORMANCE EQUITY PLAN AMENDMENT PROPOSAL

Our 2000 Performance Equity Plan was adopted by the board of directors on February 21, 2000 and by our shareholders on November 28, 2000. Under this Plan, our officers, directors, employees and consultants are eligible to receive incentive or non-qualified stock options, stock appreciation rights, restricted stock awards, deferred stock, stock reload options and other stock-based awards. As of May 15, 2007, 125,649 shares of common stock are available under the Plan for future grants.

Proposed Amendment

The board of directors proposes to amend the Plan to increase the number of shares issuable under the Plan from 750,000 shares to 7,000,000 shares. The amendment to the Plan is not a condition to the merger but the board believes that the increase in the size of the Plan is necessary in connection with the merger to cover currently outstanding FOH Holdings options, the shares of common stock to be issued and the options to be granted to Performance Enhancement Partners, LLC under the consulting agreement with Performance Enhancement Partners, LLC and to enable us to continue to attract and retain employees, consultants and board members of the highest caliber, and provide increased incentive for them to promote our well-being through the grant of options and other stock-based awards. Under the merger agreement, each outstanding option to purchase shares of FOH Holdings common stock under FOH Holdings' Amended and Restated 2003 Employee Equity Incentive Plan will be assumed by us and will represent options to acquire an aggregate of 2,066,124 shares of Movie Star common stock at a weighted average exercise price of $1.09 per share.

Summary of the Plan

The following summary of the 2000 Performance Equity Plan does not purport to be complete, and is subject to and qualified in its entirety by reference to the Plan, which we filed with the SEC as Exhibit 4.1 to our registration statement on Form S-8 on April 1, 2005.

Administration

The Plan is administered by the board or, at its discretion, by our compensation committee or such other committee as may be designated by the board. All references herein to the ''Compensation Committee'' mean the Compensation Committee, or such other committee as may be designated by the board to administer the Plan, or the board, as applicable. The Compensation Committee has full authority, subject to the provisions of the Plan, to award any of the following, either alone or in tandem with each other:

- stock options
- restricted stock
- deferred stock
- stock reload options
- other stock-based awards

Subject to the provisions of the Plan, the Compensation Committee determines, among other things, the persons to whom from time to time awards may be granted, the specific type of award to be granted, the number of shares subject to each award, share prices, any restrictions or limitations on such awards, and any vesting, exchange, deferral, surrender, cancellation, acceleration, termination, exercise or forfeiture provisions related to such awards. The interpretation and construction by the Compensation Committee of any provisions of, and the determination by the Compensation Committee of any questions arising under, the Plan or any rule or regulation established by the Compensation Committee pursuant to the Plan will be final and binding on all persons interested in the Plan. Awards under the Plan are evidenced by written agreements.

Stock Subject to the Plan

The Plan currently authorizes the granting of awards, whose exercise would allow up to an aggregate of 750,000 shares of common stock to be acquired by the holders of such awards. In order to prevent the

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dilution or enlargement of the rights of holders under the Plan, the number of shares of common stock authorized by the Plan is subject to adjustment by the Compensation Committee in the event of any increase or decrease in the number of shares of outstanding common stock resulting from a stock dividend, stock split, reverse stock split, merger, reorganization, consolidation, recapitalization or other change in corporate structure affecting our common stock. The shares of common stock acquirable pursuant to the awards will be made available, in whole or in part, from authorized and unissued shares of common stock or treasury shares of common stock. If any award granted under the Plan is forfeited or terminated, the shares of common stock that were available pursuant to such award shall again be available for distribution in connection with awards subsequently granted under the Plan.

Eligibility

Subject to the provisions of the Plan, awards may be granted to all directors, officers, employees and consultants who are deemed to have rendered or to be able to render significant services to us and who are deemed to have contributed or to have the potential to contribute to our success. Incentive stock options may be awarded only to persons who are our employees at the time of grant of such awards. The number of directors, officers, employees and consultants who are eligible for awards under the Plan is determined by the Compensation Committee from time to time.

Types of awards

Options. The Plan provides both for ‘‘incentive’’ stock options as defined in Section 422 of the Internal Revenue Code of 1986, as amended, and for options not qualifying as incentive stock options, both of which may be granted with any other stock-based award under the Plan. The Compensation Committee determines the exercise price per share of common stock purchasable under an incentive or non-incentive stock option. The exercise price of stock options may not be less than 100% of the fair market value on the day of the grant or, in the case of an incentive stock option granted to a person possessing more than 10% of the total combined voting power of all classes of our stock (‘‘10% stockholder’’), not less than 110% of such fair market value. In the case of an incentive stock option, the aggregate fair market value, determined on the date of grant, of the shares of common stock with respect to which incentive stock options become exercisable for the first time by a holder during any calendar year may not exceed $100,000. An incentive stock option may only be granted within a ten-year period from the date the Plan is adopted and approved and may only be exercised within ten years from the date of the grant or within five years in the case of an incentive stock option granted to a 10% stockholder. Subject to any limitations or conditions the Compensation Committee may impose, stock options may be exercised, in whole or in part, at any time during the term of the stock option by providing us with written notice of exercise specifying the number of shares of common stock to be purchased. Such notice must be accompanied by payment in full of the purchase price, either in cash or, if provided in the agreement, in our securities, or in a combination of the two.

Stock options granted under the Plan are exercisable only by the holder, or to the extent of legal incapacity or incompetency, the holder’s guardian or legal representative, during his or her lifetime. Stock options granted under the Plan may not be transferred other than by will or by the laws of descent and distribution.

Generally, if the holder is an employee, no stock options granted under the Plan may be exercised by the holder unless he or she is employed by us or a subsidiary of ours at the time of the exercise and has been so employed continuously from the date the stock options were granted. However, in the event the holder’s employment is terminated due to the holder’s death or disability, the unvested portion of the option automatically terminates and the holder (or, in the case of the holder’s death, his or her legal representative or legatee under his or her will) may still exercise the portion of his or her stock options that have vested on the date of death or disability for a period of one year from the date of such termination (or such other greater or lesser period as the Compensation Committee may specify at the time of grant) or until the expiration of the stated term of the stock option, whichever period is shorter. Unless otherwise determined by the Compensation Committee at the time of grant and set forth in the stock option agreement, if the holder's employment is terminated for any reason other than death or

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disability, the stock option shall automatically terminate, except that if the holder's employment is terminated by us without cause or due to normal retirement upon the holder attaining the age of 65, then the portion of any stock option that has vested on the date of termination may be exercised for the lesser of three months after termination or the balance of the stock option's term.

Restricted stock. The Compensation Committee may award shares of restricted stock either alone or in addition to other awards granted under the Plan. The Compensation Committee determines the persons to whom grants of restricted stock are made, the number of shares to be awarded, the price, if any, to be paid for the restricted stock by the person receiving such stock, the restriction period within which awards of restricted stock may be subject to forfeiture, the vesting schedule and rights to acceleration thereof, and all other terms and conditions of the restricted stock awards.

Restricted stock awarded under the Plan may not be sold, exchanged, assigned, transferred, pledged, encumbered or otherwise disposed of other than to us during the applicable restriction period. Other than regular cash dividends and other cash equivalent distributions as the Compensation Committee may designate, pay or distribute, we will retain custody of all distributions made or declared with respect to the restricted stock during the restriction period. A breach of any restriction regarding the restricted stock will cause a forfeiture of such restricted stock and any retained distributions with respect thereto. Except for the foregoing restrictions, the holder shall, even during the restriction period, have all of the rights of a shareholder, including the right to receive and retain all regular cash dividends and other cash equivalent distributions as the Compensation Committee may designate, pay or distribute on such restricted stock and the right to vote such shares.

In order to enforce the foregoing restrictions, the Plan requires that all shares of restricted stock awarded to the holder remain in our physical custody until the restrictions on such shares have terminated and all vesting requirements with respect to the restricted stock have been fulfilled.

Deferred stock. The Compensation Committee may award shares of deferred stock either alone or in addition to other awards granted under the Plan. The Compensation Committee determines the eligible persons to whom, and the time or times at which, deferred stock will be awarded, the number of shares of deferred stock to be awarded, the duration of the period during which, and the conditions under which, receipt of the stock will be deferred, and all the other terms and conditions of such deferred stock awards.

Deferred stock awards granted under the Plan may not be sold, exchanged, assigned, transferred, pledged, encumbered or otherwise disposed of other than to us during the applicable deferral period. The holder shall not have any rights of a shareholder until the expiration of the applicable deferral period and the issuance and delivery of the certificates representing such common stock. The holder may request to defer the receipt of a deferred stock award for an additional specified period or until a specified event. Such request must generally be made at least one year prior to the expiration of the deferral period for such deferred stock award.

Certain Awards Deferring or Accelerating the Receipt of Compensation. To the extent applicable, all awards granted under the Plan are intended to comply with Section 409A of the Internal Revenue Code, which was added by the

American Jobs Creation Act of 2004 relating to deferred compensation under nonqualified deferred compensation plans. The Compensation Committee, in administering the Plan, intends on restricting provisions of any awards made under the Plan permitting deferred receipt of an award, or acceleration of vesting, in order to comply with or avoid the application of Section 409A. Our board of directors may amend the Plan to comply with Section 409A in the immediate future.

Stock reload options. The Compensation Committee may grant stock reload options to a holder who tenders shares of common stock to pay the exercise price of a stock option, and/or arranges to have a portion of the shares otherwise issuable upon exercise withheld to pay the applicable withholding taxes. A stock reload option is the grant of a new stock option to purchase that number of shares of common stock equal to the number of shares tendered to pay the exercise price and withholding tax. The Compensation Committee determines the terms, conditions, restrictions and limitations of the stock reload options. The exercise price of stock reload options will be the fair market value of common stock as of the date of exercise of the exchanged option. Unless the Compensation Committee determines otherwise, a stock reload option may be exercised commencing one year after it is granted and expires on the expiration date of the exchanged option.

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Other stock-based awards. The Compensation Committee may grant other stock-based awards, subject to limitations under applicable law, that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of common stock, as deemed by the Compensation Committee to be consistent with the purposes of the Plan, including purchase rights, shares of common stock awarded which are not subject to any restrictions or conditions, convertible or exchangeable debentures or other rights convertible into shares of common stock and awards valued by reference to the value of securities of or the performance of specified subsidiaries. Subject to the terms of the Plan, the Compensation Committee has complete discretion to determine the terms and conditions of other stock-based awards. Other stock-based awards may be awarded either alone, in addition to, or in tandem with any other awards under the Plan or any other Plan in effect.

Competition

Except as otherwise expressly provided in an award agreement, if (a) a holder’s employment is terminated as a result of the voluntary resignation of the holder, and within one hundred and eighty (180) days after the date of termination, such holder either: (i) accepts employment with any of our competitors or otherwise engages in competition with us or (ii) uses or discloses to anyone outside Movie Star any confidential information or material in violation of our policies or any agreement with the holder or (b) a holder’s employment is terminated for cause, the Compensation Committee, in its sole discretion, may require the holder to return to us the economic value of any award that was realized or obtained by the holder at any time during the period beginning on the date that is one hundred and eighty (180) days prior to the date the holder’s employment was terminated.

Accelerated Vesting and Exercisability

Except as otherwise provided in an award agreement, if any person acquires substantially all of our assets or at least 50% of the combined voting power of our outstanding securities, and the Compensation Committee authorizes or otherwise approves such acquisition, then, the Compensation Committee may (i) accelerate the vesting of all awards outstanding and (ii) require a holder to relinquish the award to us in exchange for cash in an amount equal to the value of the award. The Compensation Committee has determined that none of the options that have been granted under the

Plan will be impacted by these provisions in connection with the transactions contemplated by the merger agreement.

Withholding taxes

Upon the exercise of any award granted under the Plan, the holder may be required to remit to us an amount sufficient to satisfy all federal, state and local withholding tax requirements prior to delivery of any certificate or certificates for shares of common stock. Subject to certain stringent limitations under the Plan, and at our discretion, the holder may satisfy these requirements by electing to have us withhold a portion of the shares to be received upon the exercise of the award having a value equal to the amount of the withholding tax due under applicable federal, state and local laws.

Agreements; Transferability

Stock options, restricted stock, deferred stock, stock reload options and other stock-based awards granted under the Plan will be evidenced by written agreements consistent with the Plan in such form as the Compensation Committee may prescribe. Neither the Plan nor agreements thereunder confer any right to continued employment upon any holder of a stock option, restricted stock, deferred stock, stock reload option or other stock-based award. Further, all agreements will provide that the right to exercise stock options, receive restricted stock after the expiration of the restriction period or deferred stock after the expiration of the deferral period or receive payment under other stock-based awards cannot be transferred except by will or the laws of descent and distribution.

Term and amendments

Unless terminated by the board, the Plan will continue to remain effective until such time as no further awards may be granted and all awards granted under the Plan are no longer outstanding.

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Notwithstanding the foregoing, grants of incentive stock options may only be made during the ten-year period following the date the Plan becomes effective. The board may at any time, and from time to time, amend the Plan, provided that no amendment may be made that would impair the rights of a holder under any agreement entered into pursuant to the Plan without the holder’s consent.

Federal Income Tax Consequences

The following discussion of the federal income tax consequences of participation in the Plan is only a summary of the general rules applicable to the grant and exercise of stock options and other awards and does not give specific details or cover, among other things, state, local and foreign tax treatment of participation in the Plan. The information contained in this section is based on present law and regulations, which are subject to being changed prospectively or retroactively.

Incentive stock options

Participants will generally recognize no taxable income upon the grant or exercise of an incentive stock option. We will generally not qualify for any deduction in connection with the grant or exercise of incentive stock options. Upon a disposition of the shares after the later of two years from the date of grant and one year after the transfer of the shares to a participant, the participant will recognize the difference, if any, between the amount realized and the exercise price as long-term capital gain or long-term capital loss, as the case may be. The excess, if any, of the fair market value of the shares on the date of exercise of an incentive stock option over the exercise price will be treated as an item of adjustment for purposes of calculating the alternative minimum tax for a participant's taxable year in which the exercise occurs and may result in an alternative minimum tax liability for the participant.

If common stock acquired upon the exercise of an incentive stock option is disposed of prior to the expiration of the two-year and one-year holding periods described above:

- the participant will recognize ordinary compensation income in the taxable year of disposition in an amount equal to the excess, if any, of the lesser of the fair market value of the shares on the date of exercise or the amount realized on the disposition of the shares, over the exercise price paid for the shares; and
- we will qualify for a deduction equal to any amount recognized, subject to the limitation that the compensation be reasonable.

Non-incentive stock options

With respect to non-incentive stock options:

- upon grant of the stock option, the participant will recognize no income provided that the exercise price was not less than the fair market value of our common stock on the date of grant;
- upon exercise of the stock option, if the shares of common stock are not subject to a substantial risk of forfeiture, the participant will recognize ordinary compensation income in an amount equal to the excess, if any, of the fair market value of the shares on the date of exercise over the exercise price, and we will qualify for a deduction in the same amount, subject to the requirement that the compensation be reasonable and the provisions of Section 162(m) of the Code; and
- we will be required to comply with applicable federal income tax withholding requirements with respect to the amount of ordinary compensation income recognized by the participant.

On a disposition of the shares, the participant will recognize gain or loss equal to the difference between the amount realized and the sum of the exercise price and the ordinary compensation income recognized upon exercise. Any gain or loss will be treated as capital gain or loss and as short-term or long-term capital gain or loss, depending upon the length of time that the participant held the shares.

If the shares acquired upon exercise of a non-incentive stock option are subject to a substantial risk of forfeiture, the participant will recognize ordinary income at the time the substantial risk of forfeiture is removed, unless the participant timely elects under Section 83(b) of the Code to be taxed upon the

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receipt of the shares. We will qualify generally for a corresponding deduction at the time the participant recognizes ordinary income. The amount of ordinary income recognized will be equal to the excess of the fair market value of the shares at the time of such election over the amount, if any, paid for the shares.

Restricted stock

Generally, a participant who receives restricted stock will recognize no income on the grant of the restricted stock and we will not qualify for any deduction. At the time the restricted stock is no longer subject to a substantial risk of forfeiture, a participant will recognize ordinary compensation income in an amount equal to the excess, if any, of the fair market value of the restricted stock at the time the restriction lapses over the consideration paid for the restricted stock. A participant’s shares are treated as being subject to a substantial risk of forfeiture so long as his or her sale of the shares at a profit could subject him or her to a suit under Section 16 (b) of the Exchange Act. The holding period to determine whether the participant has long-term or short-term capital gain or loss begins when the restriction period expires, and the tax basis for the shares will generally be the fair market value of the shares on that date.

A participant may elect under Section 83(b) of the Code, not later than 30 days of the date of transfer of the restricted stock, to recognize ordinary compensation income in the taxable year of the transfer in an amount equal to the excess, if any, of the fair market value on the date of transfer of the shares of restricted stock, as determined without regard to the restrictions, over the consideration paid for the restricted stock. If a participant makes an election and thereafter forfeits the shares, no ordinary loss deduction will be allowed. A forfeiture will be treated as a sale or exchange upon which there is recognized loss equal to the excess, if any, of the consideration paid for the shares over the amount realized on the forfeiture. The loss will be a capital loss if the shares are capital assets. If a participant makes an election under Section 83(b), the holding period will commence just after the date of transfer and the tax basis will equal the fair market value of shares, as determined without regard to the restrictions, on the date of transfer.

On disposition of the shares, a participant will recognize gain or loss equal to the difference between the amount realized and the tax basis for such shares.

Whether or not the participant makes an election under Section 83(b), we generally will qualify for a deduction, subject to the reasonableness of compensation limitation and the provisions of Section 162(m) of the Code, equal to the amount that is taxable as ordinary income to the participant, in our taxable year in which the income is included in the participant’s gross income. The income recognized by the participant will be subject to applicable withholding tax requirements.

Dividends paid on restricted stock which is subject to a substantial risk of forfeiture generally will be treated as compensation that is taxable as ordinary compensation income to the participant and will be deductible by us subject to the reasonableness limitation. If, however, the participant makes a Section 83(b) election, the dividends will be treated as dividends and taxable as such to the participant, but will not be deductible by us.

Deferred stock

A participant who receives an award of deferred stock will recognize no income on the grant of the award. However, he or she will recognize ordinary compensation income on the transfer of the deferred stock, or the later lapse of a substantial risk of forfeiture to which the deferred stock is subject, if the participant does not make a Section 83(b) election, in accordance with the same rules as discussed above under the caption ‘‘Restricted stock.’’

Other stock-based awards

The federal income tax treatment of other stock-based awards will depend on the nature of and restrictions applicable to, the award.

Potential Limitation on Company Deductions.

Section 162(m) of the Code denies a deduction to any publicly held corporation for compensation paid to certain ‘‘covered employees’’ in a taxable year to the extent that compensation to such covered

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employee exceeds $1 million. It is possible that compensation attributable to awards, when combined with all other types of compensation received by a covered employee from us, may cause this limitation to be exceeded in any particular year.

Certain kinds of compensation, including qualified ‘‘performance-based compensation,’’ are disregarded for purposes of the deduction limitation. Awards under the Plan may not qualify as ‘‘performance-based compensation.’’ In accordance with Treasury Regulations issued under Section 162(m), compensation attributable to stock options and stock appreciation rights will qualify as performance-based compensation if the award is granted by a compensation committee comprised solely of ‘‘outside directors’’ and either (i) the plan contains a per-employee limitation on the number of shares for which such awards may be granted during a specified period, the per-employee limitation is approved by the stockholders, and the exercise price of the award is no less than the fair market value of the stock on the date of grant, or (ii) the award is granted (or exercisable) only upon the achievement (as certified in writing by the compensation committee) of an objective performance goal established in writing by the compensation committee while the outcome is substantially uncertain, and the award is approved by stockholders.

Awards to purchase restricted stock and stock bonus awards will qualify as performance-based compensation under the Treasury Regulations only if (i) the award is granted by a compensation committee comprised solely of ‘‘outside directors,’’ (ii) the award is granted (or exercisable) only upon the achievement of an objective performance goal established in writing by the compensation committee while the outcome is substantially uncertain, (iii) the compensation committee certifies in writing prior to the granting (or exercisability) of the award that the performance goal has been satisfied and (iv) prior to the granting (or exercisability) of the award, stockholders have approved the material terms of the award (including the class of employees eligible for such award, the business criteria on which the performance goal is based, and the maximum amount—or formula used to calculate the amount—payable upon attainment of the performance goal).

Required Vote

The approval of the 2000 performance equity plan amendment proposal will require the affirmative vote of the holders of a majority of the shares of Movie Star common stock represented in person or by proxy and entitled to vote at the special meeting.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT OUR SHAREHOLDERS VOTE ‘‘FOR’’ THE APPROVAL OF AN AMENDMENT TO OUR 2000 PERFORMANCE EQUITY PLAN.

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DIRECTOR ELECTION PROPOSAL

Election of Directors

Pursuant to our bylaws, our board of directors has previously set the number of directors constituting the full board at seven directors. In connection with its approval of the merger and other transactions contemplated by the merger agreement, our board of directors approved the increase of the number of directors constituting the full board from seven to eleven which will be effective at the effective time of the merger. All directors elected at the special meeting will hold office from the effective time of the merger until the next annual meeting of shareholders and their successors have been elected and qualified. If the merger is not consummated, our existing directors will continue to serve as directors of Movie Star until the next annual meeting of shareholders and their successors have been elected and qualified.

The election of directors requires a plurality vote of the shares of common stock present in person or represented by proxy and entitled to vote at the special meeting. ''Plurality'' means that the individuals who receive the highest number of votes cast ''FOR'' election are elected as directors. Any shares not voted ''FOR'' a particular nominee (whether as a result of abstentions, a direction to withhold authority or a broker non-vote) will not be counted in the nominee's favor.

Unless authority is withheld, the proxies solicited by the board of directors will be voted ''FOR'' the election of these nominees. In case any of the nominees becomes unavailable for election to the board of directors, an event that is not anticipated, the persons named as proxies, or their substitutes, will have full discretion and authority to vote or refrain from voting for any other candidate in accordance with their judgment.

If the merger is consummated and assuming the election of the individuals set forth below, the board of directors and executive officers of the combined company will be as follows:

Name	Age	Position
Peter Cole	58	Executive Chairman and Director
Thomas Rende	46	Chief Financial Officer and Director
Melvyn Knigin	64	Director and President and Chief Executive Officer of the Movie Star division
Linda LoRe	53	Director and President and Chief Executive Officer of the Frederick's of Hollywood division
John L. Eisel	58	Director
William F. Harley	43	Director
Rose Peabody Lynch	57	Director
Thomas J. Lynch	38	Director
Michael A. Salberg	55	Director
Joel M. Simon	61	Director
Milton J. Walters	65	Director

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT OUR SHAREHOLDERS VOTE ''FOR'' THE ELECTION OF EACH OF THE FOLLOWING NOMINEES.

Peter Cole has been a member of the board of directors of Movie Star since April 2004 and the lead director to facilitate the timely and successful completion of the merger since January 2007. Since October 2005, Mr. Cole has been the managing member of Performance Enhancement Partners, LLC, a private consulting firm that he founded. From April 2001 through July 2005, Mr. Cole served as Chairman of the board and Chief Executive Officer of Qwiz, Inc., a leading provider of pre-employment competency assessment solutions and training needs analysis. Prior to joining Qwiz, Inc., Mr. Cole was a Managing Director at Citibank where he was responsible for one of its global capital markets businesses. At both Qwiz and Citibank, Mr. Cole successfully integrated acquired companies into existing core businesses. Mr. Cole serves as a director and member of the audit committee of Qwiz Holdings, LLC. Mr. Cole earned his B.A. degree in economics from the University of Vermont.

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Thomas Rende has served as Chief Financial Officer of Movie Star since February 1999 and as a member of the board of directors of Movie Star from April 2004 to April 2007. Since joining Movie Star in 1989, Mr. Rende has held various positions within the finance department.

Melvyn Knigin has served as President of Movie Star since September 1997 and Chief Executive Officer since February 1999. He has been a member of the board of directors of Movie Star since February 1997. From February 2004 to December 2004, he served as interim Chairman of our board of directors and has served as Chairman of our board since December 2004. From February 1997 to September 1997, Mr. Knigin served as Senior Vice President and Chief Operating Officer. Since joining Movie Star in 1987 and until February 1997, he was President of Cinema Etoile, our upscale intimate apparel division. Prior to joining Movie Star, he had spent most of his career in the intimate apparel industry.

Linda LoRe has served as President and Chief Executive Officer of FOH Holdings, Inc. and its subsidiaries since August 1999. Prior to joining Frederick's of Hollywood, Ms. LoRe was President and Chief Executive Officer of Giorgio Beverly Hills for eight years. Ms. LoRe has 35 years experience in retail and wholesale including 16 years as a Chief Executive Officer. Ms. LoRe has been a member of the board of directors of FOH Holdings, Inc. since October 1998 and of its subsidiaries since 1999. Ms. LoRe also serves on the Board of Directors for the Trusteeship of the International Women's Forum, The Women's Leadership Board for the Kennedy School of Government at Harvard University, the Board of Advisors for the Fashion Institute of Design Merchandising (FIDM), the United States Air Force, as their Entertainment and Industry Liaison emeritus, the National Association of Women Business Owners (NAWBO) Enterprise Institute, and the Executive Woman's Alliance (EWA). In addition, Ms. LoRe is the founding Board Member of the Youth Mentoring Connection, which serves at-risk youth in Southern California.

John L. Eisel has been a member of the board of directors of Movie Star since April 2004. Since 1980, Mr. Eisel has been a partner at Wildman, Harrold, Allen & Dixon LLP, a law firm located in Chicago, Illinois that he joined in 1975. Mr. Eisel's primary areas of practice are mergers and acquisitions and securities regulation and he is the chairman of his firm's Transactional Department and a member of his firm's Executive Committee. Mr. Eisel earned his B.S. degree in accounting and his Juris Doctor degree from the University of Illinois.

William F. ''Mickey'' Harley, III is President and Chief Investment Officer of Fursa. Mr. Harley is principally responsible for Fursa's investment decisions. Mr. Harley co-founded Fursa in April 1999 (as HBV Capital Management, LLC) and then sold Fursa to Mellon Financial Corporation in July 2002 (at which time it was re-named Mellon HBV Alternative Strategies LLC). Mr. Harley served as Chief Investment Officer and Chief Executive Officer of Fursa from July 2002 until he purchased it from Mellon in December 2006. Before co-founding Fursa, Mr. Harley was the Head of Research at Milton Partners, L.P. (''Milton''), a hedge fund manager specializing in arbitrage funds. Mr. Harley joined Milton in June 1996 and concentrated on analyzing investment opportunities, developing new investment strategies and managing the overall direction of its risk arbitrage portfolio. At the same time, he managed a proprietary event driven distressed fund for Milton. Before joining Milton, Mr. Harley was a Vice President and Director of Allen & Company, where he was responsible for the day-to-day management and investment strategies of the arbitrage department, which had over $150 million of assets under management. During his tenure at Allen & Company, Mr. Harley also had investment banking responsibilities and co-managed proprietary funds focusing on turnarounds and banking. From January 2003 to April 2006, Mr. Harley served as a director of FOH Holdings, Inc. He was reappointed as a director of FOH Holdings, Inc. in April 2007. Mr. Harley also serves on the board of directors of Metromedia International Group, Inc., Integral Systems, Inc., Coastal Greenland Limited, Frederick's of Hollywood and Interboro Insurance. Mr. Harley graduated with a Masters in public and private management from Yale University's School of Management in 1990 and Mr. Harley also holds a Bachelor of Science degree in chemical engineering and a Bachelor of Arts degree in economics from Yale University, which he earned in 1986.

Rose Peabody Lynch has most recently operated her own consulting business, Market Strategies, LLC, focusing on strategic marketing and operating issues for small and medium size companies in

branded, image-oriented product categories, which she founded in 1999. From April 1993 to August 1996, Ms. Lynch served as EVP/GMM of Victoria's Secret Fragrance based in Columbus, Ohio. Before joining Victoria's Secret Fragrance, Ms. Lynch served as Chief Operating Officer of LeRoi Princeton from March 1991 to July 1992 and as President of Danskin from 1986 to 1989. Ms. Lynch has 23 years of experience in brand management and spent 15 years in the health and beauty care industry and seven years in the fashion business. Since January 2003, Ms. Lynch has served as a director of FOH Holdings, Inc. Ms. Lynch has also served on a number of other boards, both corporate, including the Harmony Group-LeRoi Princeton, Salant Corporation (Perry Ellis Menswear), and not-for-profit, including The Manhattan Theatre Club, The Wildlife Trust, The Bridge Fund of New York and the Resurrection Episcopal Day School. Ms. Lynch is a member of the U.S. Foreign Policy and Women Advisory Committee at the Council on Foreign Relations. Ms. Lynch received her B.A. from Princeton University, where she has served on the Alumni Committee and is currently a class officer, and earned her M.B.A. from Harvard University. Ms. Lynch and Thomas J. Lynch are not related by blood, marriage or otherwise.

Thomas J. Lynch is Chief Executive Officer of Fursa. Prior to joining Fursa in February 2007, Mr. Lynch was a Managing Director at UBS, an investment bank and global asset management business, a position he held from July 2006 to January 2007. Prior to joining UBS, Mr. Lynch was Managing Director and Senior Vice-President of Mellon Asset Management from August 2000 to May 2006. Mr. Lynch was a member of the Mellon Asset Management Senior Management Committee and was a thought leader in global distribution strategies and strategic planning. Mr. Lynch had direct management responsibility for a $356 billion (Assets Under Management) institutional asset management business. From 1995 to 2000, Mr. Lynch was Northeast Regional Vice President for Fortis Inc. and was responsible for strategic management, training, marketing and thought leadership. From 1990 to 1995, Mr. Lynch was employed by Phoenix Inc. and The Paul Revere Insurance Group serving in various strategic and management roles. Mr. Lynch earned a BA from St. Anselm College and attended The Brandeis University International Business School. Mr. Lynch is a former board member of The Massachusetts Society for the Prevention of Cruelty to Children. Mr. Lynch and Rose Peabody Lynch are not related by blood, marriage or otherwise.

Michael A. Salberg has been a member of the board of directors of Movie Star since 2001. From November 2003 through July 2006, he served as General Counsel of the Anti-Defamation League, an international not-for-profit organization. In addition to his duties as General Counsel, Mr. Salberg served as Deputy Chief Operating Officer from November 2003 until December 2004 and then as Special Assistant to the National Director until July 2006. Since July 2006, he has served as Associate National Director and Director of International Affairs of the Anti-Defamation League. From April 1989 to November 2003, he was a partner in the New York law firm of Graubard Miller and its predecessors. The Graubard Miller firm and its predecessors have represented Movie Star as legal counsel for many years. Mr. Salberg received his Juris Doctor degree from New York Law School and a B.A. degree from the University of Cincinnati.

Joel M. Simon has been a member of the board of directors of Movie Star since 1996. Since July 2000, Mr. Simon has been a principal of XRoads Solutions Group, LLC, a financial consulting and advisory firm. Mr. Simon was the President and Chief Executive Officer of Starrett Corporation, a real estate construction, development and management company from March 1998 to December 1998. Prior to that, Mr. Simon was a private investor from 1996 to 1998, Executive Vice President and Chief Operating Officer of Olympia & York Companies (U.S.A.) from 1984 through 1996, and a practicing CPA from 1967 through 1983. Mr. Simon serves as a director and Chairman of the Audit Committee of Avatar Holdings, Inc., a residential real estate company. Mr. Simon has a B.S. degree in Accounting from Queens College of the City University of New York.

Milton J. Walters has been the President and Chief Executive Officer of Tri-River Capital, an investment banking financial management and valuation service provider which he founded, since August 1999. Mr. Walters is currently a director of FOH Holdings. Mr. Walters is also a director of DecisionOne and Sun Healthcare Group. He has more than 40 years of investment banking experience including AG Becker and its successor Warburg Paribas Becker (1965-1984), Smith Barney (1984-1988), Prudential Securities (1997-1999) and Tri-River Capital (1988-1997 and 1999 to present). Mr. Walters is

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a member of the Economics Club of New York and the National Association of Corporate Directors. He is a former Trustee of Hamilton College, Clinton, New York and Friends Academy, Locust Valley, New York.

Meetings and Committees of the Board of Directors of Movie Star

During the fiscal year ended June 30, 2006, the board of directors met five times and acted by unanimous written consent on three occasions. All of our directors attended the 2005 annual meeting of shareholders. Although we do not have any formal policy regarding director attendance at annual shareholder meetings, we attempt to schedule annual meetings so that all directors can attend. In addition, we expect our directors to attend all board and committee meetings and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. No member of the board of directors attended fewer than 75% of the total number of meetings of the board and committees thereof upon which they served during fiscal 2006. We have standing compensation, audit and nominating committees.

Independence of Directors

As Movie Star's common stock is listed on the American Stock Exchange, Movie Star is subject to the rules of this exchange applicable to determining whether a director is independent. The board of directors also consults with our counsel to ensure that the board's determinations are consistent with those rules and all relevant securities and other laws and regulations regarding the independence of directors. The American Stock Exchange listing standards define an ''independent director'' generally as a person, other than an officer of a company, who does not have a relationship with the company that would interfere with the director's exercise of independent judgment. The exchange requires that a majority of the board of directors of a company be independent, as determined by the board. Consistent with these considerations, the board of directors affirmatively has determined that, upon election to the board of directors of Movie Star on the closing of the merger, Messrs. Eisel, Lynch, Harley, Salberg, Simon, Walters and Ms. Lynch will be the independent directors of Movie Star. The other remaining directors are not independent because they are currently employed by us or will become employed by us upon the completion of the merger.

Audit Committee Information and Report

General

Our audit committee, which met five times during fiscal 2006, consists of Joel M. Simon (chairman), John L. Eisel and Michael Salberg, each an independent director under the American Stock Exchange listing standards. Upon consummation of the merger in accordance with the merger agreement, the members of the audit committee will be Joel M. Simon (chairman), John L. Eisel and Milton J. Walters. As required by the American Stock Exchange standards, our audit committee is and will be comprised of at least three independent directors who are also ''financially literate.'' The American Stock Exchange standards define ''financially literate'' as being able to read and understand fundamental financial statements, including a company's balance sheet, income statement and cash flow statement.

Financial Expert on Audit Committee

We must certify to the American Stock Exchange that the audit committee has, and will continue to have, at least one member who has past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background that results in the individual's financial sophistication. The board of directors has determined that Joel Simon satisfies the American Stock Exchange's definition of financial sophistication and also qualifies as an ''audit committee financial expert,'' as defined under the rules and regulations of the SEC. Our board has determined that, following the completion of the merger, Mr. Simon will satisfy the American's Stock Exchange's definition of financial sophistication and also qualify as an ''audit committee financial expert,'' as defined under the rules and regulations of the SEC.

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Audit Committee Pre-Approval Policies and Procedures

In accordance with Section 10A(i) of the Securities Exchange Act of 1934, before we engage our independent registered public accounting firm to render audit or permitted non-audit services, the engagement is approved by the audit committee. The audit committee approved all of the fees referred to in the section below entitled ''Principal Accountant Fees and Services'' for fiscal 2006.

Principal Accountant Fees and Services

The following table summarizes the aggregate fees (rounded to the nearest $1,000) billed to us for the years ended June 30, 2006 and 2005 for professional services rendered by our principal accountant, Mahoney Cohen & Company, CPA, P.C.

	Years Ended June 30, 2006	2005
Audit Fees(1)	$ 93,000	$ 85,000
Audit Related Fees(2)	20,000	20,000
Other Fees(3)	11,000	25,000
	$ 124,000	$ 130,000

(1) Represents the aggregate fees billed for professional services rendered by our principal accountant in connection with the audit of our consolidated financial statements and review of the consolidated financial statements included in our Quarterly Reports on Form 10-Q.
(2) Represents the aggregate fees billed for professional services rendered our principal accountant in connection with the audit of our employee benefit plans, and in fiscal 2005, services related to the acquisition of the assets of Sidney Bernstein & Son Lingerie, Inc. and the review of our Form S-8 filing.
(3) Represents the aggregate fees billed for professional services rendered by our principal accountant for tax compliance, tax advice and tax planning.

Audit Committee Report for the Fiscal Year Ended June 30, 2006

The audit committee reviews Movie Star's financial reporting process on behalf of the board of directors. Management has the primary responsibility for the financial statements and reporting process. The independent registered public accounting firm is responsible for auditing those financial statements and expressing an opinion on the fairness of the audited financial statements based on the audit conducted in accordance with the standards of the Public Company Accounting Oversight Board.

In this context, the audit committee has met and held discussions with management and the independent registered public accounting firm. Management represented to the audit committee that Movie Star's consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States of America, and the audit committee has reviewed and discussed the consolidated financial statements with management and the independent registered public accounting firm. The audit committee discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees). The independent registered public accounting firm also provided the audit committee with the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and the audit committee discussed with the independent registered public accounting firm and management the auditor's independence, including with regard to fees for services rendered during the fiscal year and all other professional services rendered by the independent registered public accounting firm.

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In reliance on the reviews and discussions referred to above, the audit committee recommended to the board of directors, and the board has approved, that Movie Star's audited financial statements be included in the Annual Report on Form 10-K as amended for the fiscal year ended June 30, 2006, for filing with the Securities and Exchange Commission.

Audit Committee
Joel M. Simon
Michael A. Salberg
John L. Eisel

Notwithstanding anything to the contrary set forth in our previous filings under the Securities Act or the Exchange Act that might incorporate future filings that we make under those statutes, the sections set forth above under the captions entitled ‘‘Audit Committee Information and Report’’ and below under the captions entitled ‘‘Compensation Committee

Report on Executive Compensation'' and ''Stock Price Performance Graph'' will not be incorporated by reference in any of those prior filings or any of our future filings.

Code of Ethics

In September 2004, the board of directors adopted a code of ethics that applies to our directors, officers and employees as well as those of our subsidiary. The code of ethics was filed with the SEC on October 22, 2004 as Appendix A to our definitive Proxy Statement used in connection with our Annual Meeting of Shareholders held on December 6, 2004. Requests for copies of the code of ethics should be sent in writing to Movie Star, Inc., 1115 Broadway, New York, New York 10010, Attention: Corporate Secretary.

Compensation Committee Information and Report

Our compensation committee is currently comprised of Michael Salberg and Joel M. Simon, each an independent director under the American Stock Exchange listing standards. During the fiscal year ended June 30, 2006, the compensation committee met one time and acted by unanimous consent on one occasion.

Upon consummation of the merger in accordance with the merger agreement, the members of the compensation committee will be Rose Peabody Lynch (chairman), Thomas J. Lynch and Michael Salberg, each an independent director or expected to be an independent director under the American Stock Exchange listing standards.

Compensation Committee Report on Executive Compensation for the Fiscal Year Ended June 30 2006

This report is made by Movie Star's compensation committee for the fiscal year ended June 30, 2006, which consisted of Peter Cole (chairman), then an independent director under the American Stock Exchange listing standards, Michael Salberg and Joel M. Simon, each an independent director under the American Stock Exchange listing standards. Mr. Cole resigned from the compensation committee at the time we entered into the consulting agreement with Performance Enhancement Partners. The responsibilities of the compensation committee include:

- establishing the general compensation policy for Movie Star's executive officers, including the chief executive officer;
- administering the 1998 Senior Executive Incentive Plan, the Employee Stock Plan, the 2000 Performance Equity Plan and the Amended and Restated 1988 Non-Qualified Stock Option Plan; and
- In administering each of these plans, determining who participates in the plans, establishing performance goals, if any, and determining specific grants and bonuses to the participants.

The compensation committee's executive compensation policies are generally designed to provide competitive levels of compensation that integrate pay with Movie Star's annual performance and

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long-term business objectives, reward above average corporate performance, recognize individual initiative and achievements, and assist Movie Star in attracting and retaining qualified executives. Salaries are generally determined based on the compensation committee's assessment of the value of each executive's contribution to Movie Star, the results of recent past fiscal years in light of prevailing business conditions, our goals for the ensuing fiscal year and, to a lesser extent, prevailing levels at companies considered to be comparable to, and competitors of, Movie Star. Bonus compensation, if any, to executive officers is based generally upon our financial performance and the availability of resources, as well as the executive officer's individual performance and level of responsibility.

The 1998 Senior Executive Incentive Plan is a discretionary performance-based compensation plan which provides for the payment of bonuses to senior executives in an amount not to exceed 6.75% of any incremental net income before taxes over the base amount of $1,200,000. During fiscal 2005, we entered into employment agreements with Saul Pomerantz, Chief Operating Officer, and Thomas Rende, Chief Financial Officer. Their employment agreements provide for each of them to receive for the fiscal years ended June 30, 2005 and 2006, a bonus equal to 1.25% and 1.0%, respectively, of net income in excess of $1,200,000 and up to $3,200,000, and equal to 1.75% and 1.25%, respectively, of net income in excess of $3,200,000. For the fiscal years ended June 30, 2006 and 2005, no awards were made under this plan.

Our 1988 Non-Qualified Stock Option Plan, 1994 Incentive Stock Option Plan and 2000 Performance Equity Plan were adopted by our shareholders and generally provide for grants of stock options, stock appreciation rights, restricted stock awards and other stock based awards to our officers, directors, key employees and consultants. We may make grants to such individuals upon their employment or at subsequent dates based on recommendations made by our senior management to the compensation committee. In connection with entering into employment agreements with each of Saul Pomerantz, Chief Operating Officer, and Thomas Rende, Chief Financial Officer, during the fiscal year ended June 30, 2005, we granted to Saul Pomerantz and Thomas Rende ten-year options to purchase 50,000 and 75,000 shares of our common stock, respectively, under the 1988 Non-qualified Stock Option Plan at a price of $1.45 per share, exercisable as to 10,000 and 15,000 shares, respectively, on each of the first through fifth anniversaries of the date of grant.

The Employee Stock Plan is a long-term incentive plan in which all employees are eligible to participate after meeting certain minimum service requirements. We maintain the Employee Stock Plan for the benefit of our employees, which enables them to share in our growth. The Employee Stock Plan provides that participants will receive allocations of our common stock at least equal to a portion of their annual compensation, subject to certain statutory maximums. We have the ability to make contributions to the Employee Stock Plan, which contributions are solely in our discretion. Each Employee Stock Plan participant becomes fully vested in his or her common stock Employee Stock Plan account after the fifth year of his or her employment with us. During the fiscal year ended June 30, 2006, we did not make a contribution to the Employee Stock Plan.

Compensation of the Chief Executive Officer

Melvyn Knigin served as our Chairman, President and Chief Executive Officer during the fiscal year ended June 30, 2006. Mr. Knigin's base salary for such year was determined in accordance with the amended employment agreement that we entered into with him in January 2003. Mr. Knigin's base salary was at the rate of $550,000 for the fiscal year ended June 30, 2006, increasing to a base salary of $575,000 for the fiscal year ending June 30, 2007.

Compensation Committee
Peter Cole
Michael A. Salberg
Joel M. Simon

Movie Star Compensation Committee Interlocks and Insider Participation

No officers who are directors participated in deliberations regarding executive officer compensation and there are no ''interlocks'' with respect to any director who serves or for any part of fiscal year 2006 served as a member of the compensation committee.

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Nominating Committee Information

General

Our nominating committee, which held one meeting during fiscal 2006, is currently comprised of Michael Salberg and John L. Eisel, each an independent director under the American Stock Exchange listing standards. Peter Cole, who was a member of the nominating committee during fiscal 2006, resigned from the nominating committee at the time we entered into the consulting agreement with Performance Enhancement Partners. Upon consummation of the merger in accordance with the merger agreement, the members of the nominating committee will be Michael Salberg (chairman), John L. Eisel and Thomas J. Lynch, each an independent director or expected to be an independent director under the American Stock Exchange listing standards. The nominating committee is responsible for overseeing the selection of persons to be nominated to serve on the board of directors. The nominating committee considers persons identified by its members, management, shareholders, investment bankers and others.

In September 2004, the board of directors adopted a written charter and established guidelines for selecting nominees and a method by which shareholders may propose to the nominating committee candidates for selection as nominees for directors. The nominating committee charter and guidelines were filed with the SEC on October 22, 2004 as Appendix B to Movie Star's definitive Proxy Statement.

Guidelines for Selecting Director Nominees

The guidelines for selecting nominees generally provide that persons to be nominated should be actively engaged in business endeavors, have an understanding of financial statements, corporate budgeting and capital structure, be familiar with the requirements of a publicly traded company, be familiar with industries relevant to our business endeavors, be willing to devote significant time to the oversight duties of the board of directors of a public company, and be able to promote a diversity of views based on the person's education, experience and professional employment. The nominating committee evaluates each individual in the context of the board as a whole, with the objective of recommending a group of persons that can best implement our business plan, perpetuate our business and represent shareholder interests. The nominating committee may require certain skills or attributes, such as financial or accounting experience, to meet specific board needs that arise from time to time. The nominating committee does not distinguish among nominees recommended by shareholders and other persons.

Pursuant to the shareholders agreement, the Fursa Managed Accounts, TTG Apparel and Tokarz Investments will agree, for a period of 18 months following the consummation of the merger, to vote their shares of common stock or direct their shares of common stock to be voted by proxy in favor of the directors who will initially serve on the board of directors immediately following the consummation of the merger (and their duly appointed successors) and take all necessary action to maintain that board of directors. See ''Other Transaction Documents—Shareholders Agreement.''

Procedure for Shareholders to Recommend Director Candidates

Shareholders and others who wish to recommend candidates to the nominating committee for consideration as directors must submit their written recommendations to the nominating committee and include all of the information described in the section ''Shareholder Proposals and Nominations.''

Indemnity Claims Committee Information

Upon consummation of the merger in accordance with the merger agreement, an Indemnity Claims Committee will be formed consisting of Joel M. Simon and Milton J. Walters (co-chairmen), each an independent director or expected to be an independent director under the American Stock Exchange listing standards. The Indemnity Claims Committee will be responsible for making determinations regarding pursuing and responding to indemnification claims under the merger agreement.

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EXECUTIVE COMPENSATION

The following table sets forth information concerning compensation for the fiscal years indicated for services in all capacities awarded to, earned by or paid to our Chief Executive Officer and the other executive officers whose compensation exceeded $100,000 during the fiscal year ended June 30, 2006.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensation
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Number of Options (#)
Melvyn Knigin	2006	551,385	—	27,761(1)	—
Chairman, President and	2005	527,437	—	28,714(1)	—
Chief Executive Officer	2004	505,127	—	1,094,508(2)	—
Saul Pomerantz	2006	250,961	—	12,037(1)	—
Executive Vice President and	2005	250,961	—	12,039(1)	50,000(3)
Chief Operating Officer	2004	251,922	—	9,878(1)	—
Thomas Rende	2006	216,577	—	6,026(4)	—
Chief Financial Officer	2005	211,440	—	4,239(4)	75,000(3)
	2004	168,843	—	3,009(4)	—

(1) Represents amounts for automobile expenses and life and disability insurance policies paid for by Movie Star.

(2) Represents a payment of $1,068,748 made to Mr. Knigin as a result of Mark M. David, our retired Chairman of the board, and members of his family selling all of their shares of our common stock for a purchase price of $1.70 per share. The sale activated a provision under Mr. Knigin's prior employment agreement, which required us to make the lump sum payment to Mr. Knigin. Also includes $25,760 for automobile expenses and life and disability insurance policies paid for by Movie Star.

(3) Represents options to purchase shares of common stock granted under our 1988 Non-Qualified Stock Option Plan.

(4) Represents amounts for automobile expenses and a disability insurance policy paid for by Movie Star.

Compensation Arrangements for Executive Officers

Peter Cole

On April 9, 2007, we entered into a consulting agreement with Performance Enhancement Partners, LLC (''Consultant''), pursuant to which the Consultant provides us with the personal services of Peter Cole, a current member of our board of directors and the sole member of the Consultant, to (i) act as the lead member of our board to facilitate the timely and successful completion of the merger, the rights offering and other transactions contemplated by the merger agreement and (ii) serve as the Executive Chairman of the combined company following the closing of the merger until July 26, 2008. We have the option to extend the consulting agreement for up to two additional six-month periods. The consulting agreement provides for the Consultant to receive a base consulting fee at the annual rate of $400,000, payable in four equal quarterly installments in arrears, the first payment having been made on April 12, 2007. For the year ending July 28, 2007, the Consultant will be entitled to receive an additional consulting fee, as determined on a discretionary basis by our board. For the year ending July 26, 2008, the Consultant will be entitled to receive an additional consulting fee of a minimum of $100,000 in accordance with the terms of a bonus plan expected to be adopted by the compensation committee following the

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closing of the merger. Mr. Cole is required to devote substantially all of his business time, energies and attention to the business and affairs of Movie Star (and the combined company following the merger) in the performance of his duties under the consulting agreement.

On the closing date of the merger, we will (i) issue to the Consultant 100,000 shares of our common stock under the 2000 Performance Equity Plan and (ii) grant to the Consultant a five-year option to purchase 275,000 shares of our common stock under the 2000 Performance Equity Plan at an exercise price equal to the last sale price of our common stock on the closing date of the merger. 75,000 of the shares underlying the option will vest on the date of grant and 100,000 shares will vest on each of January 3, 2008 and July 26, 2008. We also will grant to the Consultant under the 2000 Performance Equity Plan five-year non-qualified options to purchase an aggregate of 100,000 shares of our common stock, with each grant of 50,000 shares to be made on the commencement date of each six month extension period, if applicable, at an exercise price equal to the last sale price of our common stock on the date of grant. Each grant of 50,000 shares will vest on the six-month anniversary of the commencement date of the applicable extension period. In order to issue the shares of common stock and grant the stock options to the Consultant in accordance with the terms of the consulting agreement, the 2000 Performance Equity Plan must be amended to increase the number of shares available for issuance thereunder, which amendment will require shareholder approval, which is being sought at the special meeting. See ''2000 Performance Equity Plan Amendment Proposal.''

The consulting agreement provides that if the merger agreement is terminated or the Consultant terminates the consulting agreement for ''Good Reason'' (as defined in the consulting agreement) prior to the closing of the merger, we will pay the Consultant the base consulting fee through September 30, 2007, net of any additional consulting fee awarded and paid to the Consultant for the year ending July 28, 2007. The consulting agreement also provides that if, following the closing of the merger, we terminate the Consultant without ''Cause'' or the Consultant terminates the consulting agreement for ''Good Reason'', we will pay to the Consultant the base consulting fee through July 26, 2008 or the end of the applicable extension period, as the case may be, and any additional consulting fee which would have become payable under the consulting agreement for the year ending July 26, 2008 or the applicable extension period, as the case may be. Additionally, options that have been granted and would otherwise have vested shall immediately vest upon such termination.

Melvyn Knigin

On October 3, 2006, we entered into an amended and restated employment agreement with Melvyn Knigin, which provides that Mr. Knigin will continue to be employed as our President and Chief Executive Officer (or as President and Chief Executive Officer of the Movie Star division in the event of a Significant Acquisition (as defined in the employment agreement and will include the merger with FOH Holdings)) until June 30, 2009 (''Initial Term'') and will then serve as our Senior Vice President of Global Wal-Mart Corporate Sales from July 1, 2009 until June 30, 2011 (''Additional Term''). Mr. Knigin's employment agreement provides that he will receive a base salary of $575,000 per year during the Initial Term and a base salary of $280,000 per year during the Additional Term. During the Initial Term, Mr. Knigin will be required to devote substantially all of his business time and attention to the performance of his duties under the employment agreement, and during the Additional Term, he will be required to devote no less than three days per week to the performance of his duties under the employment agreement. Mr. Knigin is also entitled to receive an annual bonus during the Initial Term under our 1998 Senior Executive Incentive Plan equal to 3% of our net income before taxes and before calculation of all bonuses for each fiscal year during the Initial Term (which, if the merger is consummated, shall mean the thirteen month period ending July 28, 2007, with corresponding adjustments, and the fiscal years ending July 26, 2008 and July 25, 2009), and excluding the expenses that we record for accounting purposes as transaction expenses associated with a Significant Acquisition or a proposed Significant Acquisition in accordance with Generally Accepted Accounting Principles (''Employment Agreement Net Income'') in excess of $1,200,000 and up to $3,200,000, and equal to 3.75% of Employment Agreement Net Income in excess of $3,200,000. During the Additional Term, Mr. Knigin will be entitled to receive an annual bonus equal to the excess of 1.5% (''Bonus Percentage'') of Wal-Mart Net Sales (as defined in the employment agreement) over Mr. Knigin's annual base salary. The Bonus Percentage will be increased or decreased for

each year during the Additional Term in which our gross margin for Wal-Mart Net Sales during such period exceeds or is less than the blended average gross margin for Wal-Mart Net Sales for the three fiscal years ending June 30, 2007, 2008 and 2009 (which, if the merger is consummated, shall mean that thirteen month period ending July 28, 2007 and the fiscal years ending July 26, 2008 and July 25, 2009).

In addition to his base salary, we granted Mr. Knigin a ten-year option to purchase 500,000 shares of our common stock under our Amended and Restated 1988 Stock Option Plan at an exercise price of $1.00 per share, 125,000 shares of which will vest on each of (i) the date of grant, (ii) the six-month anniversary of the date of grant, (iii) the first anniversary of the date of grant and (iv) the second anniversary of the date of grant.

Additionally, on each of July 1, 2007 and 2008, provided that Mr. Knigin is employed by us on each such date (except as otherwise set forth in the employment agreement), we will issue Mr. Knigin shares of restricted stock equal to the number of shares of our common stock determined by dividing $25,000 by the last sale price of a share of our common stock on each such date. All such shares will vest on June 30, 2009.

Mr. Knigin's employment agreement also provides for us to pay the premiums on a life insurance policy for him providing a death benefit of $1,500,000 to Mr. Knigin's designated beneficiary and a disability insurance policy for

Mr. Knigin providing a non-taxable benefit of at least $10,000 per month payable to Mr. Knigin in the event of his disability. Mr. Knigin is also entitled to participate in our group medical insurance and Retired Senior Executive Medical Plan for the duration of the term of the employment agreement. Pursuant to the employment agreement, Mr. Knigin is prohibited from disclosing confidential information about us and prohibited from seeking employment with a competitor during the term of the employment agreement and, if he terminates his own employment other than for Good Reason (as defined in the employment agreement) prior to the expiration of the term of the employment agreement or we terminate his employment for Cause (as defined in the employment agreement) prior to the expiration of the term of the employment agreement, for an additional period of two years following the date of termination.

Movie Star currently has a key man insurance policy on the life of Mr. Knigin in the amount of $5.0 million under which Movie Star is the beneficiary.

Thomas Rende

On November 28, 2006, we entered into an employment agreement with Thomas Rende, pursuant to which Mr. Rende will continue to be employed as our Senior Vice President and Chief Financial Officer until December 31, 2009. Mr. Rende's employment agreement provides that he will receive (i) a base salary of $240,000 per year commencing December 1, 2006 until December 31, 2008 and $260,000 per year from January 1, 2009 until December 31, 2009 and (ii) for each of fiscal years ending June 30, 2007, 2008, 2009 and 2010 (pro-rated for partial year) (which, if the merger is consummated, shall mean the thirteen month period ending July 28, 2007, with corresponding adjustments, and the fiscal years ending July 26, 2008, July 25, 2009 and July 31, 2010), a bonus equal to 1.0% of Employment Agreement Net Income in excess of $1,200,000 and up to $3,200,000, and equal to 1.25% of Employment Agreement Net Income in excess of $3,200,000. The employment agreement also provides that if, during the employment term, we terminate Mr. Rende without ''cause'' or he terminates his employment for ''good reason'' (as such terms are defined in the employment agreement), or if we do not continue his employment at the end of the employment term upon substantially similar terms, we will be required to pay to him (i) his base salary through the end of the employment term, (ii) any bonus which would have become payable under his employment agreement through the end of the employment term, (iii) the insurance benefits provided in his employment agreement through the end of the employment term, (iv) the sum of $200,000, which will be paid in equal installments in accordance with our normal payroll procedures, so that the entire $200,000 will be received by him by March 15th of the calendar year following the date of termination of employment and (v) medical coverage at our expense for one year commencing on either (a) the last day of the employment term if his employment is terminated during the employment term or (b) the date of termination if his employment is terminated after the end of the employment term. Mr. Rende's employment agreement also provides for us to pay the premiums on a life insurance policy for him

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providing a death benefit of $1,000,000 to Mr. Rende's designated beneficiary and a disability insurance policy for Mr. Rende providing a non-taxable benefit of at least $7,500 per month payable to Mr. Rende in the event of his disability. Mr. Rende is also entitled to participate in our group medical insurance and Retired Senior Executive Medical Plan for the duration of the term of the employment agreement. Under the agreement, Mr. Rende is prohibited from disclosing confidential information about us and employing or soliciting any of our current employees to leave our company during his employment and for a period of one year thereafter.

Linda LoRe

FOH Holdings entered into an employment agreement effective August 1, 2004, with Ms. LoRe that outlines the terms of her employment with FOH Holdings. Under the employment agreement, Ms. LoRe serves as FOH Holdings' President and Chief Executive Officer. Ms. LoRe serves on the board of directors of FOH Holdings and reports directly to such board. Her salary was initially set at $500,000 per year, and increases at the beginning of each fiscal year by the greater of (i) 5% or (ii) the Consumer Price Index for the Los Angeles-Long Beach metropolitan area. Ms. LoRe's current base salary is $551,250. The employment agreement provides for a performance bonus ranging from 20% to 30% of her base salary, depending on FOH Holdings' achieving certain targeted earning projections and discretionary bonuses. The initial term of the employment agreement ends July 28, 2007. The employment agreement automatically renews for successive 12-month periods unless earlier terminated or either FOH Holdings or Ms. LoRe gives the other notice of its or her intent to terminate the contract at least 90 days prior to the end of an employment period.

Upon termination of the employment agreement by FOH Holdings for any reason other than for ''cause'' or by Ms. LoRe for ''good reason,'' Ms. LoRe is entitled to a severance payment of $250,000, in addition to any other compensation payable to her.

Aggregated Option Exercises and Fiscal Year End Option Values

The following table summarizes the number of exercisable and unexercisable options held by the following executive officers of Movie Star at June 30, 2006, and their value at that date if such options were in-the-money:

2006 Fiscal Year-End Option Values

	Number of securities underlying unexercised options at June 30, 2006		Value of securities underlying unexercised in-the-money options at June 30, 2006[(1)]	
Name	Exercisable	Unexercisable	Exercisable	Unexercisable
Melvyn Knigin	—	—	$ —	$ —
Saul Pomerantz	640,000[(2)]	40,000	72,213[(2)]	—
Thomas Rende	170,000	60,000	14,013	—

(1) Represents the total gain that would be realized if all in-the-money options held at June 30, 2006 were exercised, determined by multiplying the number of shares underlying the options by the difference between the per share option exercise price and $0.76, the closing price of our common stock on June 30, 2006.

(2) Includes options to purchase 50,000 shares of Movie Star common stock owned by Mr. Pomerantz's spouse.

There were no option grants to any of the executive officers listed above during the fiscal year ended June 30, 2006.

Movie Star Compensation Plans

1998 Senior Executive Incentive Plan

In September 1998, our compensation committee adopted an incentive compensation plan. Under the 1998 Senior Executive Incentive Plan, as amended, the compensation committee has the discretion to

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award bonus compensation to senior executives in an amount not to exceed 6.75% of any excess pre-tax income over the base amount of $1,200,000. No awards were made under the plan for fiscal 2006.

Employee Stock Ownership Plan

We adopted an Employee Stock Ownership and Capital Accumulation Plan (‘‘Employee Stock Plan’’) as of July 1, 1983. The Employee Stock Plan is intended to comply as a stock bonus plan with the provisions of the Employee Retirement Income Security Act of 1974, as amended, the Tax Equity and Fiscal Responsibility Act of 1982, the Deficit Reduction Act of 1984 and the Retirement Equity Act of 1984. A favorable determination letter was initially issued by the Internal Revenue Service with regard to the Employee Stock Plan in February 1985. From time to time, the Employee Stock Plan is amended as required to comply with amendments to the applicable statutes. Contributions that we make to the Employee Stock Plan are discretionary. The allocation of the contribution made in any year to eligible employees is based on their earnings. All employees over the age of 18 years who have been employed for one year are eligible to participate in the Employee Stock Plan. Participants in the Employee Stock Plan become vested after five years of employment. For the fiscal year ended June 30, 2006, we did not make a contribution to the Employee Stock Plan. As of April 30, 2007, the Employee Stock Plan owned 319,636 shares, or 1.95% of the outstanding shares of our common stock. Withdrawal of vested balances by participants can take place upon death, disability or early or normal retirement. Vested benefits will be paid to participants who have terminated their employment for reasons other than death, disability or early or normal retirement as quickly as possible after the third June 30th following their departure.

Stock Option Plans

2000 Performance Equity Plan

On February 21, 2000, the board of directors adopted the 2000 Performance Equity Plan covering 750,000 shares of common stock under which the our officers, directors, key employees and consultants are eligible to receive incentive or non-qualified stock options, stock appreciation rights, restricted stock awards, deferred stock, stock reload options and other stock based awards. Shareholders approved the 2000 Performance Equity Plan on November 28, 2000. The 2000 Performance Equity Plan will terminate when no further awards may be granted and awards granted are no longer outstanding, provided that incentive options may only be granted until February 21, 2010. To the extent permitted under the provisions of the 2000 Performance Equity Plan, the compensation committee has authority to determine the selection of participants, allotment of shares, price and other conditions of awards. As of May 15, 2007, there were options outstanding to purchase 331,000 shares, exercisable at prices ranging from $0.63 per share to $1.36 per share. During fiscal 2007 (through May 15, 2007), 2006 and 2005, 72,752, 98,528 and 20,071 shares, respectively, of common stock were issued under the 2000 Performance Equity Plan to non-employee directors pursuant to our Non-Employee Director Compensation Plan. During fiscal 2007 (through May 15, 2007) and 2006, 55,000 and 40,000 options, respectively, were granted under the 2000 Performance Equity Plan to our employees and in fiscal 2005, 48,000 options were granted under the 2000 Performance Equity Plan to non-employee directors pursuant to our Non-Employee Director Compensation Plan.

We are asking our shareholders to vote on a proposal to approve an amendment to the 2000 Performance Equity Plan to increase the number of shares issuable under the 2000 Performance Equity Plan from 750,000 shares to 7,000,000 shares. The amendment to the 2000 Performance Equity Plan is not a condition to the merger but the board believes that the increase in the size of the 2000 Performance Equity Plan is necessary in connection with the merger to cover currently outstanding FOH Holdings options and to enable us to continue to attract and retain employees, consultants and board members of the highest caliber, and provide increased incentive for them to promote our well-being through the grant of options and other awards. Under the merger agreement, each outstanding option to purchase shares of FOH Holdings common stock under FOH Holdings' Amended and Restated 2003 Employee Equity Incentive Plan, whether or not exercisable, vested or unvested, will become exercisable for shares of Movie Star common stock. See ''2000 Performance Equity Plan Amendment Proposal.''

Pursuant to the terms of a consulting agreement, dated April 9, 2007, with Performance Enhancement Partners, LLC (''Consultant''), upon the closing of the merger, we will (i) issue to the Consultant

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100,000 shares of our common stock under the 2000 performance equity plan and (ii) grant to the Consultant a five-year option to purchase 275,000 shares of our common stock under our 2000 performance equity plan at an exercise price equal to the last sale price of our common stock on the closing date of the merger. 75,000 of the shares underlying the option will vest on the date of grant and 100,000 shares will vest on each of January 3, 2008 and July 26, 2008. We also will grant to the Consultant under the 2000 performance equity plan five-year non-qualified options to purchase an aggregate of 100,000 shares of our common stock, with each grant of 50,000 shares to be made upon the commencement date of each six month extension period, if applicable, at an exercise price equal to the last sale price of our common stock on the date of grant. Each grant of 50,000 shares will vest on the six-month anniversary of the commencement date of the applicable extension period. In order to issue the shares of common stock and grant the stock options to the Consultant in accordance with the terms of the Consulting Agreement, the 2000 performance equity plan must be amended to increase the number of shares available for issuance thereunder. See ''2000 Performance Equity Plan Amendment Proposal.''

1994 Incentive Stock Option Plan

In 1994, we adopted an Incentive Stock Option Plan. Our shareholders approved the 1994 Plan on December 8, 1994. The purpose of the 1994 Plan was to enable us to attract and retain key employees by providing them with an opportunity to participate in our ownership. The compensation committee makes awards under the 1994 Plan. The 1994 Plan is intended to comply with Section 422A of the Internal Revenue Code of 1986, as amended. All options are granted at market value as determined by reference to the price of shares of our common stock on the American Stock Exchange. As of May 15, 2007, there were options outstanding to purchase 110,000 shares, exercisable at $0.625 per share. Effective July 15, 2004, options can no longer be granted under the 1994 Plan.

1988 Non-Qualified Stock Option Plan

On December 13, 1988, our shareholders approved the 1988 Non-Qualified Stock Option Plan covering up to 1,666,666 shares of common stock to provide an additional continuing form of long-term incentive to selected officers. Unless terminated by the board, the 1988 Plan shall remain effective until no further options may be granted and all options granted under the 1988 Plan are no longer outstanding. As of May 15, 2007, there were options outstanding to purchase 900,000 shares, exercisable at prices ranging from $0.625 per share to $1.45 per share. During the fiscal year ended June 30, 2005, we granted 50,000 options to Saul Pomerantz and 75,000 options to Thomas Rende, two of our executive officers. No options were granted in fiscal 2006. On October 3, 2006, we granted 500,000 options to Melvyn Knigin, our Chief Executive Officer, and on October 13, 2006, we granted 50,000 options to Saul Pomerantz, our Chief Operating Officer, and 150,000 options to Thomas Rende, our Chief Financial Officer.

On September 19, 2006, our board of directors approved the Amended and Restated 1988 Non-Qualified Stock Option Plan, which (i) increased the time period in which an employee terminated for any reason other than death or disability has to exercise the portion of the option which is exercisable on the date of termination from 30 days to 90 days following the date of termination; (ii) provides for continued exercisability of options after termination in the discretion of the compensation committee as set forth in the stock option agreement at the time of grant; (iii) increased the time period in which an employee terminated due to disability has to exercise the option from 180 days to one year from the date of termination; and (iv) increased the time period in which the legal representative or legatee under the will of an employee who dies within 90 days (instead of 30 days) after the date of termination of employment or while employed by Movie Star or a subsidiary has to exercise the decedent employee's option from 180 days to one year from the date of death.

FOH Holdings Compensation Plans

Senior Executive 2007 Bonus Plan

FOH Holdings' board of directors approved a bonus plan of up to $1 million for FOH Holdings' top six executives for fiscal year 2007. A substantial portion of the bonus awards will be based on FOH

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Holdings meeting EBIDTA and EBIT targets approved in FOH Holdings' budget for fiscal year 2007 and the executives meeting their individual performance goals. FOH Holdings' board of directors anticipates that $800,000 of bonus awards will be made if such targets and performance goals are met. $200,000 of the bonus allotment is reserved to reward such top six executives for extraordinary performance on a discretional basis.

Amended and Restated 2003 Employee Equity Incentive Plan

FOH Holdings adopted the 2003 Employee Equity Incentive Plan on December 1, 2003. The plan authorized FOH Holdings to issue incentive stock options or nonqualified stock options for up to 70,000 shares to its employees and officers. The plan was amended and restated as of December 1, 2006, primarily to increase the number of shares covered under the plan to 120,000 and to permit issuance of nonqualified stock options to independent directors. As of January 27, 2007, there were 115,500 options outstanding with a weighted average exercise price of $18.68. On December 8, 2006, 58,000 options were granted, at an exercise price of $21.91 per share, to key employees (including options granted to Ms. LoRe described below) and independent directors. Subsequent to January 27, 2007 and through June 6, 2007, an additional 4,500 options were granted at an exercise price of $39.54 per share and 4,000 options were forfeited. Pursuant to the merger agreement, upon consummation of the merger, these options will be assumed by Movie Star and will represent options to acquire an aggregate of 2,066,124 shares of Movie Star common stock at a weighted average exercise price of $1.09 per share.

Ms. LoRe was issued a stock option dated December 2, 2003, which entitles her to purchase up to 27,500 shares of FOH Holdings common stock at $16.92 per share. This option is fully vested. On December 8, 2006, Ms. LoRe was issued a stock option to purchase up to 27,000 shares at $21.91 per share. This option will vest with respect to 25% of the total shares covered by the option on the last Saturday of January each year, commencing January 26, 2008. Pursuant to the merger agreement, Ms. LoRe's options will be assumed by us upon consummation of the merger and such assumed options will entitle Ms. LoRe to receive an aggregate of 970,722 shares of our common stock upon an exercise of such options at a weighted average exercise price of $1.09 per share.

Compensation Arrangements for Directors

Current Compensation Arrangements

Effective January 1, 2005, we began paying our outside directors in accordance with the terms of Movie Star's Non-Employee Director Compensation Plan. Each non-employee director currently receives (i) an annual stipend of $20,000, payable quarterly in arrears, (ii) $2,000 per day for board or committee meetings attended in person, regardless of the number of meetings held that day and (iii) $1,000 per meeting for board or committee meetings attended telephonically, unless two or more teleconference call meetings are held back-to-back on the same call, in which case each non-employee director will receive $1,000 for the entire call. Payment of the annual stipend and meeting fees are made, at the election of each non-employee director, in cash and/or shares of common stock under our 2000 Performance Equity Plan in such proportion as is determined by each non-employee director. If a non-employee director elects to be paid in stock, either in full or in part, the number of shares of common stock to be issued is determined by dividing the dollar amount of the stipend and meeting fees earned during the quarter (or a percentage thereof, if the non-employee director elects to receive stock payment in part) by the last sale price of our common stock on the last trading day of each calendar quarter in which the fees were earned.

On June 30, 2006, we entered into an agreement with two independent directors who comprise our special committee. Pursuant to the agreement, each committee member received a fee of $7,500 per month commencing with the month ended June 30, 2006 for a period of up to four months. Following the approval of the merger agreement, our board (excluding the two independent directors) approved an extension of the payment of monthly fees to these same two independent directors through December 31, 2006.

We also pay or reimburse each non-employee director for all transportation, hotel and other expenses reasonably incurred by the non-employee director in connection with attendance at board and

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committee meetings against itemized reports and receipts submitted with respect to any such expenses and approved in accordance with our customary procedures.

On December 6, 2004, each of our non-employee directors received a one-time grant of non-qualified options to purchase 12,000 shares of common stock under our 2000 Performance Equity Plan, at an exercise price of $1.36 per share, exercisable immediately and until the close of business on December 5, 2014.

Compensation Arrangements Following the Closing of the Merger

Following the closing of the merger, it is anticipated that the Movie Star Non-Employee Director Compensation Plan will be amended to provide for the following compensation to non-employee directors: (i) an annual stipend of $30,000, payable quarterly in arrears, with additional annual stipends for committee chairpersons of $5,000 for audit committee chairperson, $3,000 for compensation committee chairperson and $2,000 for nominating committee chairperson, payable quarterly in arrears; (ii) $2,500 per board or committee meetings attended in person and (iii) $1,000 per meeting for board or committee meetings attended telephonically, unless two or more teleconference call meetings are held back-to-back on the same call, in which case each non-employee director will receive $1,000 for the entire call. If a non-employee director elects to be paid in stock, either in full or in part, the number of shares of common stock to be issued is determined by dividing the dollar amount of the stipend and meeting fees earned during the quarter (or a percentage thereof, if the non-employee director elects to receive stock payment in part) by the last sale price of our common stock on the last trading day of each calendar quarter in which the fees were earned.

It is also contemplated that each non-employee director will receive a one-time grant of non-qualified options to purchase 15,000 shares of common stock under our 2000 Performance Equity Plan, at an exercise price equal to the last sale price of our common stock on the closing date of the merger, exercisable immediately and until the tenth anniversary of the date of grant.

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STOCK PRICE PERFORMANCE GRAPH

The following graph compares Movie Star's performance for the five-year period ending June 30, 2006 with the performance of the NASDAQ market index and the average performance of companies comprising the Dow Jones Industry Group – DJ US Clothing & Accessories Index (Peer Group Index), which for this year numbered 68 companies. The index reflects reinvested dividends. The stock price performance shown on the graph below is not necessarily indicative of future price performance.

COMPARES 5-YEAR CUMULATIVE TOTAL RETURN
AMONG MOVIE STAR, INC.,
NASDAQ MARKET INDEX AND PEER GROUP INDEX

ASSUMES $100 INVESTED ON JULY 1, 2001
ASSUMES DIVIDENDS REINVESTED

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ADJOURNMENT PROPOSAL

In the event there are not sufficient votes at the time of the special meeting to adopt any of the stock issuance proposal, the increase of authorized common stock proposal, the name change proposal, the preferred stock proposal, the reverse stock split proposal or the 2000 performance equity plan amendment proposal, the board of directors may submit a proposal to adjourn the special meeting to a later date, or dates, if necessary, to permit further solicitation of proxies.

The adoption of the adjournment proposal will require the affirmative vote of the holders of a majority of the shares of Movie Star common stock represented in person or by proxy and entitled to vote at the special meeting.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT OUR SHAREHOLDERS VOTE ''FOR'' THE APPROVAL OF THE ADJOURNMENT PROPOSAL.

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OTHER INFORMATION RELATED TO MOVIE STAR

Business of Movie Star

General

Movie Star designs, manufactures (through independent contractors), imports, markets and distributes an extensive line of women’s intimate apparel to mass merchandisers, specialty and department stores, discount retailers, national and regional chains and direct mail catalog marketers throughout the United States. Our products include pajamas, nightgowns, baby dolls, nightshirts, dusters, shifts, caftans, sundresses, rompers, short sets, beachwear, peignoir ensembles, robes, leisurewear, panties and daywear consisting of bodysuits, soft bras, slips, half-slips, teddies, camisoles and cami tap sets. These products are manufactured in various fabrics, designs, colors and styles depending upon seasonal requirements, changes in fashion and customer demand. Retail prices for our products range from approximately $5.00 for products such as nightshirts, to approximately $85.00 for products such as peignoir sets. We maintain an in-house design staff, which affords us the flexibility to work with merchandise buyers on fashion design and price points. Since our incorporation in 1935, we have competed on the basis of price, quality, the desirability of our fabrics and designs, and the reliability of our delivery and service.

In August 2004, we acquired certain assets of Sidney Bernstein & Son Lingerie, Inc., a company engaged in the design, marketing and sale of women’s lingerie and related apparel and accessories. The Sidney Bernstein acquisition has enabled us to broaden our customer base to include discount chains and other retailers that sell similar products at lower price points than our other product lines.

The intimate apparel business for department stores, specialty stores and regional chains is broken down into four selling seasons per year. For each selling season, we create a new line of products that represent our own brand name Cinema Etoile®. Our brand name does not have widespread consumer recognition, although it is well known to our customers. We sell our brand name products primarily during these selling seasons. We also develop specific products for some of our larger accounts, mass merchandisers and national chains, and make between five and eight presentations throughout the year to these accounts. Since we do not have long-term contracts with any of our customers, our business is subject to unpredictable increases and decreases in sales depending upon the size and number of orders that we receive each time we present our products to our customers.

Raw Materials

We utilize a large variety of fabrics made from natural and man-made fibers, including cotton, broadcloth, stretch terry, brushed terry, flannel, brushed flannel, nylon, polyester, spun polyester, velour, satin, tricot, jersey, fleece, jacquard, lace, stretch lace, charmeuse, chambray, microfiber, spandex and various knit fabrics. These fabrics are available in most countries in which we contract for production and are easily imported to those countries that do not have an internal supply of such materials. The sources of these materials are highly competitive with each other and we expect these competitive conditions to continue in the foreseeable future. Generally, we have long-standing relationships with our suppliers and purchase our raw materials in anticipation of orders, or as a result of need based on orders received. Our ability to purchase raw materials in high volume, together with the competitive prices offered by our suppliers, provide us with the opportunity to buy these materials at relatively low prices. In turn, we are able to take advantage of these lower prices in the pricing of our finished goods. We are not dependent on a single source of supply for material that is not readily replaceable.

Sourcing and Supply

All of the products that we sell are manufactured outside the United States. Contracting with foreign entities enables us to take advantage of prevailing lower labor rates. We arrange for the production of garments with suppliers on a purchase order basis. We do not have any long-term contractual arrangements with contractors. This provides us with flexibility in the selection of contractors for the future production of goods. We believe that we could replace the loss of any particular contractor in any country within a reasonable time period. However, the loss of a major contractor would cause a temporary interruption in supply.

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In order to maximize our opportunities to obtain superior quality product at the most competitive prices with reliable and efficient service, we source our products in three different ways:

- Cut, Make and Trim (CMT) Contractors. We contract with CMT contractors to assemble the materials that we purchase from other sources.
- Finished Good Purchases. We purchase products directly from finished package manufacturers.
- Assisted Finished Good Purchases. We hire contractors to assemble the products for which these contractors purchase the fabrics with our extensive input on type and source of such fabrics and we purchase some of the trim and embellishments.

The following table shows each country from which we have (1) contracted for the assembly of products using our materials, (2) purchased finished goods and (3) contracted for the assembly of products using fabrics purchased by the contractor with our input on the type and source of such fabrics, and the approximate percentage of our total cost of production during fiscal years 2006 and 2005 allocable to each country:

	Fiscal 2006				Fiscal 2005			
	CMT	Finished Good Purchases	Assisted Finished Good Purchases	Total	CMT	Finished Good Purchases	Assisted Finished Good Purchases	Total
Bangladesh	—	19%	11%	30%	—	10%	8%	18%
Cambodia	—	1%	14%	15%	—	—	8%	8%
China	—	10%	4%	14%	—	7%	—	7%
Dominican Republic(1)	—	—	—	—	12%	—	—	12%
El Salvador	7%	—	—	7%	1%	—	—	1%
India	—	1%	—	1%	—	22%	—	22%
Mexico	—	1%	—	1%	—	4%	—	4%
Pakistan	—	3%	—	3%	—	3%	—	3%
Philippines	—	—	25%	25%	—	—	21%	21%
Taiwan	—	4%	—	4%	—	2%	—	2%

Other	—	—	—	—	—	2%	—	2%
Total	7%	39%	54%	100%	13%	50%	37%	100%

(1) In the second half of fiscal 2005, we exited the Dominican Republic as a source of production and moved this production in its entirety to El Salvador.

We have a representative office in the Philippines to facilitate the coordination of our production there, which was 25% of total production in fiscal year 2006 and 21% in fiscal year 2005. This office is utilized primarily for administrative and manufacturing support functions, as well as sample making and pattern making.

Quality Control

We currently have two independent representatives in Bangladesh, one employee in El Salvador, and eight employees in the Philippines supervising the production of finished products purchased by us or assembled for us by CMT contractors in those countries and the other countries from which we source our products. These employees and representatives assist in maintaining quality and on-time delivery. Management personnel travel to El Salvador and Asia throughout the year to monitor the performance of our offshore contractors.

Marketing and Distribution

Our products are sold through an established sales network consisting of both in-house sales personnel and independent sales representatives. Employees in our showroom in New York City represent our company in soliciting orders nationally. In general, in fiscal 2006, approximately 34% of our

sales are made to mass merchandisers, 16% to department stores, 15% to specialty stores and 14% to discount retailers. The balance of our sales are unevenly distributed among national chain stores, regional chain stores and direct mail catalog marketers.

Our wholly-owned subsidiary, Cinejour Lingerie Inc., is a Canadian corporation, formed in May 2004 to market and sell our products throughout Canada. We have an agreement with an independent representative to provide sales representation for us in Canada and to supervise the operations of our office there.

We generally limit the promotion of our products to cooperative advertising in conjunction with our retail customers directed to the ultimate retail consumer of our products. Under our license agreement with Maidenform Inc., we also engage in limited direct advertising of the Maidenform brand in the form of print ads in trade publications.

Garments are shipped directly by contractors to our warehouse in Mississippi, where they are stored and packed for distribution to our customers. We utilize a public warehouse in California to accommodate our largest customer, to reduce transit times from our contractors and to accommodate our requirements during peak shipping periods. We also utilize a public warehouse in Canada to accommodate our customers in Canada. Our overseas contractors perform sorting and packing functions to expedite the delivery time to our customers and to reduce our overall costs.

All sales have terms that generally require payment within 30 to 60 days from the date the goods are shipped. Although sales are made without the right of return, in certain instances, we may accept returns or agree to allowances.

Our business is concentrated on certain significant customers. Sales to Wal-Mart accounted for approximately 48% of sales for the nine months ended March 31, 2007, 25% of sales for fiscal 2006 and 20% for fiscal 2005. Target accounted for 15% of our sales in fiscal 2005. While we believe our relationships with our major customers are good, because of competitive changes, the availability of the types of garments we sell from a number of other contractors and an increase in retailers who design, produce and sell their own products directly to consumers, there is the possibility that any customer could alter the amount of business it does with us.

Purchasing decisions by our customers with respect to each group of our products and, in some instances, products within a group, generally are made by different buyers and purchasing departments. We believe that the loss of orders from any one buyer or purchasing department would not necessarily result in the loss of sales to other buyers or purchasing departments of those customers.

Trademarks and Licenses

We have several registered trademarks, of which Movie Star®, Movie Star Loungewear®, Cinema Etoile®, Seductive Wear®, Meant To Be®, Cine Jour®, Private Property®, Heather Nicole® and Night Magic® are material to the marketing of our products. In February 2006, we applied for the trademark, Cinema Studio™, and a statement of use was filed in March 2007. In March 2007, we applied for the trademark, Knickers by Cinema Etoile™.

In addition to our own branded products, we design, produce and market a line of ladies' sleepwear and robes under the Maidenform® name through a licensing agreement with Maidenform Inc. Our Maidenform Collection is available to department stores, chains and high-end specialty stores nationally. We also actively market a line of sleepwear, robes and daywear under the Maidenform trademarks Sweet Nothings®, Self Expressions® and Rendezvous®.

Imports and Import Restrictions

Transactions with our foreign contractors and suppliers are subject to the risks of doing business abroad. Our import and offshore operations are subject to restraints imposed by agreements between the United States and certain foreign countries, primarily China, in which we do business. These agreements impose quotas on the amount and type of goods that can be imported into the United States from these countries. Our imported products are also subject to United States customs duties and, in the ordinary

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course of business, we are from time to time subject to claims by the United States Customs and Border Protection for duties and other charges. The United States and other countries in which our products are manufactured may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adversely adjust presently prevailing quotas, duty or tariff levels, which, in turn, could adversely affect our operations and ability to continue to import products at current or increased levels. We cannot predict the likelihood or frequency of any of these events occurring.

Backlog

At March 31, 2007, our backlog of orders was approximately $17,700,000 as compared to $27,400,000 at March 31, 2006. This decrease in our backlog was due to a shift in the timing of orders booked from the third to the fourth 2007 fiscal quarter. Orders booked for April 2007 were $13,600,000 as compared to $3,000,000 for April 2006. We believe that the current backlog is firm and will be filled. Orders are booked upon receipt.

Seasonality

We manufacture a wide variety of intimate apparel in many different styles and sizes and for use in all seasons and climates in the United States. Because of our product mix, we are subject to seasonal variations in sales. Historically, more than 50% of our sales have been made in the first six months of our fiscal year (i.e., the second half of the calendar year).

Competition

The intimate apparel business is fragmented and highly competitive. The industry is characterized by a large number of small companies manufacturing and selling unbranded merchandise, and by several large companies which have developed widespread consumer recognition of the brand names associated with merchandise manufactured and sold by these companies. In addition, some of the larger retailers to whom we have historically sold our products have sought to expand the development and marketing of their own brands and to obtain intimate apparel products directly from the same or similar sources from which we obtain our products.

The intimate apparel industry is further characterized by competition on the basis of price, quality, efficient service and prompt delivery. Because of this competitive pressure, we no longer rely on domestic manufacturing, but rather rely entirely on offshore contractors. Accordingly, changes in import quotas, currency valuations and political conditions in the countries from which we import products could adversely affect our business.

Employees

As of May 15, 2007, we had 289 full-time and 7 part-time employees. Of our full-time employees, approximately 11 are executive and senior management, 86 are in design, design support and sample making, 12 are in sales and sales support, 47 are administrative personnel and office support, 98 are in production, manufacturing and offshore support and 42 are in distribution and warehousing.

We have never experienced an interruption of our operations because of a work stoppage. Even though we are subject to certain seasonal variations in sales, significant seasonal layoffs are rare.

We believe our relationship with our employees to be good. We are not a party to any collective bargaining agreement with any union.

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Properties

The following table sets forth all of the facilities that we owned or leased as of May 15, 2007.

Location	Use	Annual Rent

		Owned or Leased	Square Footage		Expiration of Lease
1115 Broadway, New York, NY	Corporate Offices	Leased	11,000	$1,109,000	12/2010
	Divisional Sales Office and Showroom		8,000		
	Production Staff and Design		12,000		
			31,000		
180 Madison Ave., New York, NY	Sales Office and Showroom	Leased	3,000	$ 90,000	5/2011
Poplarville, MS	Manufacturing Support	Leased	24,000	$ 8,000	11/2010
	Warehousing and Distribution		172,000		
	Office		16,000		
			212,000		
	Warehousing	Owned	27,000		N/A
	Office		2,000		
			29,000		
Makati, Philippines	Administrative and Manufacturing Support, Sample and Pattern Making	Leased	3,800	$ 15,000	4/2008
Montreal, Canada	Office	—	1,000	$ 9,000	Month to Month

Period Reporting and Audited Financial Statements

Movie Star has registered its securities under the Exchange Act and has reporting obligations, including the requirement to file annual and quarterly reports with the SEC. In accordance with the requirements of the Exchange Act, Movie Star's annual reports contain financial statements audited and reported on by Movie Star's independent registered public accounting firm. Movie Star has filed with the SEC a Form 10-K, as amended, covering the fiscal year ended June 30, 2006 and Forms 10-Q covering the fiscal quarters ended September 30, 2006, December 31, 2006 and March 31, 2007.

Legal Proceedings

There are no legal proceedings pending which we consider to be material.

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MOVIE STAR'S MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This following discussion and analysis should be read in conjunction with Movie Star's consolidated financial statements and notes thereto included elsewhere in this proxy statement.

Overview

The intimate apparel business is highly competitive. The industry is characterized by a large number of small companies selling unbranded merchandise, and by several large companies that have developed widespread consumer recognition of the brand names associated with the merchandise sold by these companies. In addition, retailers to whom we sell our products have sought to expand the development and marketing of their own brands and to obtain intimate apparel products directly from the same or similar sources from which we obtain our products.

The intimate apparel business for department stores, specialty stores and regional chains is divided into four selling seasons per year. For each selling season, we create a new line of products that represent our own brand name Cinema Etoile®. Our brand name does not have widespread consumer recognition, although it is well known by our customers. We sell our brand name products primarily during these selling seasons. We also develop specific products for some of our larger accounts, mass merchandisers and national chains, and make between five and eight presentations throughout the year to these accounts. We do not have long-term contracts with any of our customers and therefore our business is subject to unpredictable increases and decreases in sales depending upon the size and number of orders that we receive each time we present our products to our customers.

Hurricane Katrina impacted our business operations during the quarter ended September 30, 2005 and, to a lesser extent, the quarter ended December 31, 2005. Our distribution center in Poplarville, Mississippi was forced to close from August 29, 2005 to September 6, 2005 as a result of the hurricane. Because some of our employees were unable to return to work, the facility operated at less than full capacity until mid-October 2005. We have resolved all of our insurance claims relating to hurricane Katrina. The claim for our loss of inventory was resolved in the third quarter of fiscal 2006 and did not result in any significant financial adjustment. The claim for the physical damage to our distribution facilities also was resolved in the third and fourth quarters of fiscal 2006 and resulted in a gain of $1,450,000. The final claim of additional expenses incurred was resolved in the fourth quarter of fiscal 2006 and did not have a material impact on our results of operations.

On December 18, 2006, we entered into the merger agreement with FOH Holdings and Merger Sub, our wholly-owned subsidiary. Under the terms of the merger agreement, Merger Sub will be merged with and into FOH Holdings, with FOH Holdings continuing as the surviving corporation as our wholly-owned subsidiary. Upon the consummation of the merger, we will change our name to ‘‘Frederick’s of Hollywood Group Inc.’’

Our board of directors unanimously approved the merger agreement and the transactions contemplated thereby on the unanimous recommendation our special committee. The special committee engaged special legal counsel and Chanin to serve as its financial advisor. On December 18, 2006, Chanin delivered its opinion to the special committee on which our board of directors was entitled to rely, stating that, as of the date of the opinion, the consideration to be paid by us to the holders of FOH Holdings’ common stock is fair to the holders of our common stock from a financial point of view.

As a result of the merger, we anticipate issuing approximately 23.7 million shares of our common stock to the stockholders of FOH Holdings as merger consideration. Approximately 50% of FOH Holdings common stock is owned by Tokarz Investments, an affiliate of TTG Apparel, which is a current shareholder of Movie Star and owns 3,532,644 shares of our common stock. The other approximately 50% of FOH Holdings common stock is owned by accounts and funds managed by and/or affiliated with Fursa.

In connection with the merger agreement, we have agreed to issue to our shareholders shares of our common stock upon the exercise of non-transferable subscription rights. To the extent that our shareholders do not purchase, on an aggregate basis, their pro rata percentage of our common stock in the rights offering, TTG Apparel and its affiliates, including Tokarz Investments, and funds affiliated with Fursa have agreed to purchase, on an equal basis, any such shortfall.

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The completion of the merger and the rights offering are subject to various conditions, including obtaining the requisite approval by our shareholders of (i) the issuance of shares of our common stock in connection with the transactions contemplated by the merger agreement and (ii) an amendment to our certificate of incorporation to (a) increase the number of authorized shares of our common stock to 200,000,000 shares and (b) authorize the issuance of up to 10,000,000 shares of preferred stock. The merger agreement also includes customary termination provisions for both Movie Star and FOH Holdings and provides that, in connection with the termination of the merger agreement under specified circumstances relating to our receipt of a proposal that is superior to the transaction with FOH Holdings, we may be required to pay FOH Holdings a termination fee of $300,000 plus the reimbursement of the reasonable fees and expenses of FOH Holdings and its stockholders relating to the merger.

On April 9, 2007, we entered into a consulting agreement with Performance Enhancement Partners, LLC, pursuant to which it will provide Movie Star with the personal services of Peter Cole, a current member of our board of directors, to (i) act as the lead member of our board of directors to facilitate the timely and successful completion of the merger and (ii) serve as the Executive Chairman of the combined company following the closing of the transactions contemplated by the merger agreement until July 26, 2008.

On June 8, 2007, we entered into an amendment to the merger agreement with FOH Holdings and Merger Sub, pursuant to which the parties agreed to, among other things, extend the termination date under the merger agreement from September 1, 2007 to December 31, 2007 and amend the form of our amended and restated certificate of incorporation to authorize the issuance of up to 10,000,000 shares of preferred stock, $.01 par value per share. A copy of the amendment to the merger agreement is attached hereto as Annex B.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the appropriate application of certain accounting policies, many of which require estimates and assumptions about future events and their impact on amounts reported in the financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates. Such differences could be material to the financial statements.

Our management believes the application of accounting policies, and the estimates inherently required by the policies, are reasonable. These accounting policies and estimates are constantly re-evaluated, and adjustments are made when facts and circumstances dictate a change. Historically, management has found the application of accounting policies to be appropriate, and actual results generally do not differ materially from those determined using necessary estimates.

Our accounting policies are more fully described in Note 1 to our consolidated financial statements for the fiscal year ended June 30, 2006, included in this proxy statement. Our management has identified certain critical accounting policies and estimates that are described below.

Inventory – Inventory is carried at the lower of cost or market on a first-in, first-out basis. Our management writes down inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand, market conditions and the age of the inventory. If actual market conditions are less favorable than those projected by our management, additional inventory write-downs may be required. Historically, our management has found its write down of inventory to be appropriate, and actual results generally do not differ materially from those determined using necessary estimates. Inventory reserves were $1,085,000 at March 31, 2007, $1,015,000 at June 30, 2006 and $900,000 at March 31, 2006.

Accounts Receivable/Allowance for Doubtful Accounts and Sales Discounts – Accounts receivable is net of allowance for doubtful accounts and sales discounts. An allowance for doubtful accounts is determined through the analysis of the aging of accounts receivable at the date of the financial statements. An assessment of the accounts receivable is made based on historical trends and an evaluation of the impact of economic conditions. This amount is not significant, primarily due to our history of minimal bad

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debts. An allowance for sales discounts is based on discounts relating to open invoices where trade discounts have been extended to customers, costs associated with potential returns of products, as well as allowable customer markdowns and operational charge backs, net of expected recoveries. These allowances are included as a reduction to net sales and are part of the provision for allowances included in accounts receivable. The foregoing results from seasonal negotiations and historic deduction trends, net of expected recoveries and the evaluation of current market conditions. As of March 31, 2007, June 30, 2006 and March 31, 2006, accounts receivable was net of allowances of $1,301,000, $950,000 and $1,578,000, respectively. Historically, our management has found its allowance for doubtful accounts and sales discounts to be appropriate, and actual results generally do not differ materially from those determined using necessary estimates. However, if the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. If market conditions were to decline, our management may take actions to increase customer incentive offerings, possibly resulting in an incremental allowance at the time the incentive is offered.

Deferred Tax Valuation Allowance – In assessing the need for a deferred tax valuation allowance, we consider future taxable income and ongoing prudent and feasible tax planning strategies. Since we were able to determine that we should be able to realize our deferred tax assets in the future, a deferred tax asset valuation allowance was not deemed necessary. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

Results of Operations

Three and Nine Months Ended March 31, 2007 compared to Three and Nine Months Ended March 31, 2006

The following table shows each specified item as a dollar amount and as a percentage of net sales in each fiscal period, and should be read in conjunction with our consolidated financial statements included elsewhere in this proxy statement (in thousands, except for percentages):

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2007		2006		2007		2006	
Net sales	$ 13,786	100.0%	$ 11,940	100.0%	$ 50,000	100.0%	$ 43,444	100.0
Cost of sales	9,472	68.7	8,689	72.8	33,801	67.6	31,199	71.8
Gross profit	4,314	31.3	3,251	27.2	16,199	32.4	12,245	28.2

Selling, general and administrative expenses		4,301	31.2		4,114	34.5		13,368	26.7		12,426	28.6
Insurance recovery		—	—		(1,424)	(11.9)		—	—		(1,424)	(3.3
Merger related fees		610	4.4		—	—		1,952	3.9		—	
Gain on sale of property, plant and equipment		—	—		—	—		(496)	(1.0)		—	
(Loss) income from operations		(597)	(4.3)		561	4.7		1,375	2.8		1,243	2.9
Interest expense		127	0.9		99	0.8		526	1.1		383	0.9
(Loss) income before (benefit from) provision for income taxes		(724)	(5.3)		462	3.9		849	1.7		860	2.0
(Benefit from) provision for income taxes		(289)	(2.1)		186	1.6		340	0.7		345	0.8
Net (loss) income	$	(435)	(3.2)%	$	276	2.3%	$	509	1.0%	$	515	1.2

Percent amounts may not add due to rounding.

Net sales for the three months ended March 31, 2007 increased $1,846,000 to $13,786,000 from $11,940,000 in the comparable period in 2006. Net sales for the nine months ended March 31, 2007

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increased by $6,556,000 to $50,000,000 from $43,444,000 in the comparable period in 2006. The increase for the three and nine-month periods was primarily due to an increase in shipments to our largest customer of approximately $4,767,000 and $13,492,000, an increase in shipments to Frederick's of Hollywood of approximately $313,000 and $2,032,000, partially offset by an approximate net overall decrease in shipments to other customers of $3,234,000 and $8,968,000, respectively.

We expect sales for the fourth quarter of fiscal 2007 to be higher than the fourth quarter of fiscal 2006. At March 31, 2007, our backlog of orders was approximately $17,700,000 as compared to $27,400,000 at March 31, 2006. This decrease in our backlog was due to a shift in the timing of orders booked from the third to the fourth 2007 fiscal quarter. Orders booked for April 2007 were $13,600,000 as compared to $3,000,000 for April 2006.

The gross profit percentage increased to 31.3% and 32.4% for the three and nine months ended March 31, 2007, respectively, from 27.2% and 28.2% in the same periods in the prior year. The higher overall margin resulted from a better product mix in the current year, which created a higher initial gross margin. The margin also improved as a result of lower allowances and markdowns in the current year.

As a result of differences among the accounting policies of companies in the apparel industry relating to whether certain items of expense are included in cost of sales rather than being included as selling expenses, the reported gross profits of different companies, including our own, may not be directly comparable. For example, we record the costs of preparing merchandise for shipment, including warehousing costs and shipping and handling costs, as a selling expense, rather than a cost of sale. Therefore, our gross profit is higher than it would be if such costs were included in cost of sales.

Selling, general and administrative expenses were $4,301,000, or 31.2% of net sales for the three months ended March 31, 2007, as compared to $4,114,000, or 34.5% of net sales for the same period in 2006. This increase of $187,000 resulted primarily from an increase in salary and related costs of $148,000 and a net overall increase in other selling, general and administrative expenses. The increase in salary expense and related costs was the result of an increase in the number of employees in the current year, which primarily related to employees added to service the expected increase in business with Frederick's of Hollywood.

Selling, general and administrative expenses were $13,368,000, or 26.7% of net sales for the nine months ended March 31, 2007, as compared to $12,426,000, or 28.6% of net sales for the same period in 2006. This increase of $942,000 resulted primarily from an increase in salary and related costs of $456,000, stock compensation expense of $196,000, general corporate legal expense of $95,000, shipping expense and related costs of $88,000 and a net overall increase in other selling, general and administrative expenses, partially offset by expenses related to hurricane Katrina in the prior year of $139,000. The increase in salary expense and related costs was the result of an increase in the number of employees in the current year, which primarily related to employees added to service the expected increase in business with Frederick's of Hollywood. The increase in stock compensation expense was the result of options being issued to six employees in the second quarter, three of whom are executive officers. The increase in shipping expense and related costs was the result of higher sales.

In connection with our previously announced merger with FOH Holdings, we have incurred merger related fees of $610,000 and $1,952,000, respectively, for the three and nine months ended March 31, 2007. Included in the merger related fees are legal fees, costs associated with our financial advisor, which included the issuance of a fairness opinion to our special committee, and accounting costs for due diligence. These fees are being expensed as a result of the merger being treated as a reverse acquisition.

We recorded a gain on the sale of property, plant and equipment in the second quarter of fiscal 2007 of $496,000, which resulted primarily from the sale of our closed distribution facility in Petersburg, Pennsylvania. On August 14, 2006, we entered into a contract for the sale of the land, building and contents of that facility. On October 17, 2006, we completed the sale for approximately $683,000 in cash. As a result of that transaction, we recorded a gain of approximately $482,000, net of related costs.

During the third quarter of fiscal 2006, we resolved our insurance claim related to hurricane Katrina on the Poplarville, Mississippi distribution facilities which resulted in a gain of $1,424,000, net of expenses.

For the three months ended March 31, 2007, we recorded a loss from operations of $597,000 compared to income from operations of $561,000 for the same period in the prior year. For the nine

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months ended March 31, 2007, we recorded income from operations of $1,375,000 compared to income from operations of $1,243,000 for the same period in the prior year. The decrease for the three-month period was due primarily to higher selling, general and administrative and expenses, the merger related fees and the insurance gain in the prior year, offset by higher sales and gross margin. The increase for the nine-month period was due to higher sales, a higher gross margin and the gain on the sale of property, plant and equipment, partially offset by higher selling, general and administrative expenses, the merger related fees and the insurance gain in the prior year.

Net interest expense for the three and nine months ended March 31, 2007 increased to $127,000 and $526,000, as compared to $99,000 and $383,000 in the comparable periods in 2006, respectively. These increases were due primarily to higher interest rates for the current fiscal year's three and nine-month periods, as compared to the prior year.

We recorded an income tax benefit of $289,000 and an income tax provision of $340,000 for the three and nine months ended March 31, 2007, as compared to an income tax provision of $186,000 and $345,000 for the same periods in the prior year, respectively. We utilized an estimated income tax rate of 40% in all periods.

We had a net loss of $435,000 and net income of $509,000 for the three and nine months ended March 31, 2007, as compared to net income of $276,000 and $515,000 for the same periods in the prior year, respectively. The decrease for the three-month period was due primarily to higher selling, general and administrative and expenses, the merger related fees, higher interest costs and the insurance gain in the prior year, offset by higher sales, a higher gross margin and a tax benefit in the current year as compared to a tax provision in the prior year. The decrease for the nine-month period was due to higher selling, general and administrative expenses, the merger related fees, higher interest costs and the insurance gain in the prior year, offset by higher sales, a higher gross margin and the gain on the sale of property, plant and equipment.

Fiscal Years Ended June 30, 2006, 2005 and 2004

The following table shows each specified item as a dollar amount and as a percentage of net sales in each fiscal period, and should be read in conjunction with our consolidated financial statements included elsewhere in this proxy statement (in thousands, except for percentages):

	Years Ended June 30,					
	2006		2005		2004	
Net sales	$ 51,639	100.0%	$ 58,533	100.0%	$ 53,691	100.0%
Cost of sales	37,528	72.7%	44,304	75.7%	37,581	70.0%
Gross profit	14,111	27.3%	14,229	24.3%	16,110	30.0%
Selling, general and administrative expenses	16,556	32.1%	19,024	32.5%	15,824	29.5%
Insurance recovery	(1,450)	(2.8)%	—	—	—	—
(Loss) income from operations	(995)	(1.9)%	(4,795)	(8.2)%	286	0.5%
Interest income	(3)	—	(1)	—	(12)	—
Interest expense	476	0.9%	282	0.5%	76	0.1%
(Loss) income before income tax (benefit) provision	(1,468)	(2.8)%	(5,076)	(8.7)%	222	0.4%
Income tax (benefit) provision	(468)	(0.9)%	(1,954)	(3.4)%	94	0.2%
Net (loss) income	$ (1,000)	(1.9)%	$ (3,122)	(5.3)%	$ 128	0.2%

Percent amounts may not add due to rounding.

Fiscal 2006 Compared to Fiscal 2005

Net sales for the year ended June 30, 2006 were $51,639,000 compared to $58,533,000 in the comparable period in 2005. The Sidney Bernstein & Son (SB&S) division accounted for $14,124,000 and

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$12,964,000 of net sales for the years ended June 30, 2006 and 2005, respectively. Absent the sales from the SB&S division, we had net sales of $37,515,000 for the year ended June 30, 2006 compared to net sales of $45,569,000 in the comparable period in 2005. The reduction in net sales was primarily due the shipment of a $7,800,000 low margin order in the prior year. We declined to bid on the low margin program in the current year. This reduction was partially offset by the full year of shipping for the SB&S division in the current year as compared to eleven months in the prior year. At June 30, 2006, our backlog of orders was approximately $41,686,000 as compared to $28,363,000 at June 30, 2005.

The low margin order of $7,800,000, as mentioned above, was shipped in the second and third quarters of fiscal 2005. This order was for one major retailer and the expected gross margin was considerably lower than Movie Star's regular business. The costs to prepare this order for shipment were significantly higher than we originally anticipated. In addition, a significant portion of the merchandise arrived late at our distribution centers from India and, in some cases, to meet our customer's delivery dates, goods were air shipped at a much higher cost.

The gross profit percentage was 27.3% for the year ended June 30, 2006 as compared to 24.3% for the year ended June 30, 2005. The higher overall margin resulted primarily from not having the large low margin order that we shipped in the second and third quarters of fiscal 2005.

Selling, general and administrative expenses were $16,556,000, or 32.1% of net sales, for the year ended June 30, 2006 compared to $19,024,000, or 32.5% of net sales, for the similar period in 2005. This decrease of $2,468,000 resulted from a decrease in salary expense and salary related costs of $857,000, consulting fees of $639,000, shipping expense and shipping related costs of $520,000, samples and design related costs of $411,000, and a net overall reduction in other general overhead expenses, partially offset by an increase in professional fees of $173,000 and royalty expense of $121,000. The decrease in salary expense and salary related costs was the result of changes in the composition of personnel. The decrease in samples and design related costs was the result of lower purchases of sample fabrics and trims and increased usage of in-house resources related to design and artwork. The decrease in shipping expense is primarily the result of lower sales, the elimination of the SB&S distribution center in January 2005 and the Pennsylvania distribution facility in December 2005. The decisions to eliminate these two facilities were made by us to enhance our competitiveness, to reduce expenses and to improve efficiencies. The decrease in consulting fees is related to the termination of our prior Chairman's services in connection with our consulting agreement with him. The increase in professional fees is primarily related to our continuing exploration of strategic alternatives. The increase in royalty expense is primarily due to the Maidenform license agreement.

During the third and fourth quarter of fiscal 2006, we resolved our insurance claim on the Poplarville, Mississippi distribution facilities which resulted in a gain of $1,450,000, net of expenses. A portion of the proceeds has been and will be used to replace certain portions of the facility that were damaged during hurricane Katrina.

We recorded a loss from operations of $995,000 for the year ended June 30, 2006, compared to a loss from operations of $4,795,000 for the similar period in 2005. This improvement was primarily due to the insurance recovery, higher gross profit margins and the net overall reduction in selling, general and administrative expenses, partially offset by lower sales volume.

Interest income for the year ended June 30, 2006 was $3,000 as compared to $1,000 for 2005.

Interest expense for the year ended June 30, 2006 was $476,000 as compared to $282,000 for 2005. This increase was due primarily to higher interest rates and higher borrowing levels.

We provided for an income tax benefit of $468,000 for the year ended June 30, 2006, as compared to an income tax benefit of $1,954,000 for the similar period in 2005. The decrease in income tax benefit is due to the lower loss in fiscal 2006.

We recorded a net loss for the year ended June 30, 2006 of $1,000,000 as compared to a net loss of $3,122,000 for the same period in 2005. This improvement was primarily due to the insurance recovery, higher gross profit margins and the net overall reduction in selling, general and administrative expenses, partially offset by lower sales volume, an increase in interest expense, and a lower income tax benefit in the current period as compared to the same period last year.

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Fiscal 2005 Compared to Fiscal 2004

Net sales for the year ended June 30, 2005 were $58,533,000 as compared to $53,691,000 in the comparable period in 2004. The increase in sales was due to the sales contribution of $12,964,000 of the SB&S division and the shipment of a $7,800,000 low margin order partially offset by a reduction in orders from some of our larger customers. The revenues of the Movie Star division declined by approximately $8,122,000 and were adversely impacted by higher than expected markdown allowances due to a highly promotional retail environment as well as lower than anticipated product performance at retail.

The low margin order of $7,800,000, as mentioned above, was shipped in the second and third quarters of fiscal 2005. This order was for one major retailer and the expected gross margin was considerably lower than Movie Star's regular business. The costs to prepare this order for shipment were significantly higher than we originally anticipated. In addition, a significant portion of the merchandise arrived late at our distribution centers from India and, in some cases, to meet the delivery dates of our customer, goods were shipped via air at a much higher cost and we also incurred additional costs to prepare the goods for shipment to our customer. We declined to bid on this order for fiscal 2006.

The gross profit percentage was 24.3% for the year ended June 30, 2005 as compared to 30.0% for the year ended June 30, 2004. The lower overall margin resulted primarily from the addition of the SB&S division, which operated at 23.2% (which was lower than the anticipated margin due to the sale of closeouts), the low margin order that was shipped in the second and third quarters of fiscal 2005 and the higher sale of closeouts. Also contributing to the reduction in gross margins were the additional costs to exit the Dominican Republic as a source of production and move the production of the product being produced there to El Salvador.

Selling, general and administrative expenses were $19,024,000, or 32.5% of net sales, for the year ended June 30, 2005 as compared to $15,824,000, or 29.5% of net sales, for the similar period in 2004. This increase of $3,200,000 is a result of an increase in salary expense and salary related costs of $411,000, shipping expense and shipping related costs of $725,000, consulting fees of $520,000, samples and design related costs of $351,000, outbound freight expense of $214,000, commissions of $174,000, a greater recovery of bad debts in the prior year of $308,000 and a net increase in other general overhead expenses. The increase in salaries was primarily the result of the additional personnel for the SB&S division and costs associated with personnel changes, partially offset by a one-time expense of $1,084,000 related to a lump sum payment to President and Chief Executive Officer, Mel Knigin, in the prior year. Absent this one-time expense in the prior year, salaries would have increased approximately $1,495,000. The payment to Mr. Knigin occurred as a result of a stock ownership sale by the former Chairman of the Company, which activated a provision in Mr. Knigin's employment agreement. Under the terms of the agreement with

Mr. Knigin, this payment is to be applied against any severance obligations of the Company owed to Mr. Knigin under his employment contract, which, in accordance with its terms, expires on June 30, 2007. The increase in shipping expense is the result of the addition of the SB&S division, unanticipated costs for the large low margin order and the increased use of a West Coast public warehouse. Also, utilizing the SB&S distribution center created excess shipping capacity and as of January 2005, we closed this facility and began shipping the SB&S orders from our distribution centers in Mississippi and Pennsylvania. We also decided in June 2005 to close the Pennsylvania distribution center. In September 2005, we temporarily reopened the Pennsylvania facility to handle some of the backlog of orders caused by the hurricane in Mississippi. The increase in samples and design related costs was the result of the addition of the SB&S division and the new Maidenform line. The increase in outbound freight expense was due to the expediting of the large order discussed earlier. The increase in consulting fees was primarily due to termination of our prior Chairman's services in connection with our consulting agreement with him in the amount of $450,000 and the addition of our consulting agreement with LLI, Inc. to provide the sales representation for us in Canada and supervise the operations of our office in Montreal. The increase in commissionable sales was the result of commissions paid on the SB&S division's sales and an increase in commissionable sales in the remaining business. The recovery of bad debts in the prior year resulted primarily from one customer in bankruptcy that resolved our claim more favorably than we had anticipated.

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We recorded a loss from operations of $4,795,000 for the year ended June 30, 2005, as compared to operating income of $286,000 for the similar period in 2004. This decrease was due to, lower gross margins and higher selling, general and administrative expenses partially offset by higher sales.

Interest income for the year ended June 30, 2005 was $1,000 as compared to $12,000 for 2004.

Interest expense for the year ended June 30, 2005 was $282,000 as compared to $76,000 for 2004. This increase was due primarily to higher borrowing levels, which were the result of the acquisition of the SB&S division and higher sales, which required higher inventories and accounts receivable.

We provided for an income tax benefit of $1,954,000 for the year ended June 30, 2005, as compared to a provision for income taxes of $94,000 for the similar period in 2004. The tax benefit was the result of the loss in fiscal 2005.

We recorded a net loss for the year ended June 30, 2005 of $3,122,000 as compared to net income of $128,000 for the same period in 2004. This reduction was due to lower gross margins, higher selling, general and administrative expenses and higher interest costs, partially offset by higher sales and an income tax benefit in the current year as compared to an income tax provision for the prior year.

Liquidity and Capital Resources

Net cash provided by operating activities for the nine months ended March 31, 2007 was $495,000, resulting primarily from net income of $509,000, non-cash expenses of $261,000 for depreciation and amortization, $356,000 for the provision for sales allowances and doubtful accounts and $204,000 of stock-based compensation expenses, the decrease in inventory of $866,000 and the decrease in the prepaid expenses and other current assets of $655,000 partially offset by the increase in accounts receivable of $931,000 and the decrease in accounts payable and other liabilities of $1,274,000. The decrease in inventory is primarily due to a reduction in finished goods in-transit. The decrease in prepaid expenses and other current assets is primarily due to the receipt of payment of the insurance receivable for hurricane Katrina. The increase in accounts receivable is due to higher sales in the current quarter as compared to the prior year's fourth quarter and the decrease in accounts payable is primarily due to less finished goods in-transit.

Net cash provided by investing activities of $485,000 consisted of proceeds from the sales of property, plant and equipment of $698,000 and insurance proceeds of $26,000 associated with damage to our Poplarville, Mississippi distribution facilities from hurricane Katrina, offset by purchases of property, plant and equipment of $239,000.

Net cash used in financing activities of $1,092,000 resulted from the net repayments of short-term borrowings of $1,477,000 and the repayments of capital lease obligations of $31,000, offset by proceeds of $416,000 from the exercise of stock options.

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Contractual Obligations and Commercial Commitments

To facilitate an understanding of our contractual obligations and commercial commitments, the following data is provided as of March 31, 2007 (in thousands):

	Payments Due by Period				
	Total	Within 1 Year	2-3 Years	4-5 Years	After 5 Years
Contractual Obligations					
Note Payable[1]	$ 3,477	$ 3,477	$ —	$ —	$ —
Note Payable Interest[2]	261	261	—	—	—
Capital Lease Obligation	132	61	71	—	—
Licensing Agreement	142	142	—	—	—
Operating Leases	5,024	1,300	2,643	1,081	—
Employment Contracts	3,476	1,345	1,781	350	—
Consulting Agreement[3]	633	400	233	—	—
Long-term Liability	92	17	39	36	—
Total Contractual Obligations	$ 13,237	$ 7,003	$ 4,767	$ 1,467	$ —

	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Within 1 Year	2-3 Years	4-5 Years	After Years 5
Other Commercial Commitments					
Letters of Credit	$ 2,359	$ 2,359	$ —	$ —	$ —
Total Commercial Commitments	$ 2,359	$ 2,359	$ —	$ —	$ —

(1) Note Payable is a less than one-year obligation because the financial institution may demand payment at any time. Interest on outstanding borrowings is payable at a variable rate per annum, equal to the prime rate less 0.75% (our current borrowing rate at March 31, 2007 was 7.50%).
(2) Note Payable Interest assumes that the principal amount outstanding on our line of credit is paid in full on March 31, 2007, that the principal amount to be repaid on that date will be $3,477,000 and that the interest rate will be 7.50% (our current borrowing rate at March 31, 2007).
(3) Includes agreement that was executed subsequent to March 31, 2007.

We have no obligations that have a provision for increased or accelerated payments, except in respect of defaults.

Note Payable

Effective June 30, 2006, we obtained a new revolving line of credit of up to $30,000,000. This revolving line of credit and letter of credit facility expires on June 30, 2008 and is sufficient for our projected needs for operating capital and letters of credit to fund the purchase of imported goods through June 30, 2008. Direct borrowings under this line bear interest at the J.P. Morgan Chase Bank prime rate less .75 percent per annum. Availability under the line of credit is subject to our compliance with certain agreed upon financial formulas. We were in compliance with our requirements under this facility at March 31, 2007. This line of credit is secured by substantially all of our assets.

Future Financing Requirements

For the nine months ended March 31, 2007, our working capital increased by $1,318,000 to $10,250,000 from $8,932,000 at June 30, 2006, primarily due to income from operations and the sale of property, plant and equipment.

We believe the available borrowing under our revolving line of credit, along with anticipated operating cash flows, will be sufficient to cover our working capital requirements through June 30, 2008.

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We anticipate that capital expenditures for fiscal 2007 will be less than $500,000.

Off-Balance Sheet Arrangements

We have not created, and are not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating our business. We do not have any arrangements or relationships with entities that are not consolidated into our financial statements that are reasonably likely to materially affect our liquidity or the availability of capital resources.

Effect of New Accounting Standards

In July 2006, the Financial Accounting Standards Board (''FASB'') issued SFAS Interpretation No. 48, ''Accounting for Uncertainty in Income Taxes—An Interpretation of SFAS No. 109'' (''FIN 48''). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The evaluation of a tax position in accordance with FIN 48 is a two-step process. We first will be required to determine whether it is more likely than not that a tax position, if any, will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. A tax position that meets the ‘‘more likely than not’’ recognition threshold will then be measured to determine the amount of benefit to recognize in the financial statements based upon the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the effect that FIN 48 may have on our financial statements.

Inflation

We do not believe that our operating results have been materially affected by inflation during the preceding three years. There can be no assurance, however, that our operating results will not be affected by inflation in the future.

Quantitative and Qualitative Disclosures About Market Risk

We are subject to changes in the J.P. Morgan Chase Bank prime rate based on the Federal Reserve actions and general market interest fluctuations. We believe that moderate interest rate increases or decreases will not have a material impact on our results of operations, or financial position, in the foreseeable future. For the nine months ended March 31, 2007, borrowings peaked during the period at $15,831,000 and the average daily amount of borrowings was $8,523,000.

Imports

Transactions with our foreign manufacturers and suppliers are subject to the risks of doing business outside of the United States. Our import and offshore operations are subject to constraints imposed by agreements between the United States and the foreign countries in which we do business. These agreements often impose quotas on the amount and type of goods that can be imported into the United States from these countries. Such agreements also allow the United States to impose, at any time, restraints on the importation of categories of merchandise that, under the terms of the agreements, are not subject to specified limits. Our imported products are also subject to United States customs duties and, in the ordinary course of business, we are from time to time subject to claims by the United States Customs Service for duties and other charges. The United States and other countries in which our products are manufactured may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adversely adjust presently prevailing quotas, duty or tariff levels, which could adversely affect our operations and our ability to continue to import products at current or increased levels. We cannot predict the likelihood or frequency of any such events occurring.

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FOH HOLDINGS’ BUSINESS AND FINANCIAL INFORMATION

General

FOH Holdings is a privately-held company headquartered in Hollywood, California that has four subsidiaries that operate under the brand name ‘‘Frederick’s of Hollywood.’’ Frederick’s of Hollywood is a mall-based specialty retailer of women’s intimate apparel and related products in the United States, and a direct retailer of intimate apparel and other women’s apparel through its catalog and Internet operations. Frederick’s of Hollywood currently operates 133 stores nationwide, operates an online store at www.fredericks.com and, in its 2006 fiscal year mailed approximately

27 million catalogs. FOH Holdings anticipates that it will mail approximately 20 million catalogs during fiscal 2007.

Frederick’s of Hollywood develops the majority of its products under its proprietary Frederick’s of Hollywood® brand and various sub-brands, exclusively for sales through its retail stores, which we refer to as ‘‘Stores,’’ and through its catalog and website, which we refer to, collectively, as ‘‘Direct.’’ Although many aspects of the Stores and Direct divisions are distinct and operated separately, Frederick’s of Hollywood believes it is able to achieve economies of scale in purchasing as well as other operating efficiencies across these two divisions. Frederick’s of Hollywood’s merchandising objective is to be a primary provider of its customers’ special occasion and everyday intimate apparel, personal care and accessory needs.

Frederick’s of Hollywood believes it is one of the world’s most widely recognized intimate apparel brands. Frederick’s of Hollywood ranked 59th in Women’s Wear Daily’s 2006 top global 100 brands, and ranked ninth in consumer awareness among innerwear brands. A recent national consumer research study by Lieberman Research Worldwide measured unaided recognition of the Frederick’s of Hollywood brand at over 80%. The catalog and website serve as the primary advertising vehicles for the brand. Frederick’s of Hollywood maintains a consistent brand image across its Stores and Direct divisions and believes the concurrent operation of retail stores, a catalog and a website provides advantages in brand development and exposure.

Company History

Frederick’s of Hollywood, Inc., a Delaware corporation, was incorporated in 1962 as a successor to a business founded in 1946 by Frederick Mellinger. The purpose was to design sexy, beautiful lingerie that emulated European trends in the 1940s. Frederick’s of Hollywood is known for its innovative introductions into the intimate apparel market in the United States and is generally credited with introducing black lingerie into the American market in 1946, the padded bra in the late 1940s, the push-up bra in 1950, the thong panty in 1982 and the first water bra in the 1990s.

Frederick’s of Hollywood, Inc. went public in 1969. In 1996, a financial advisor was hired to explore strategic alternatives that would include the sale of the shares owned by the founding family stockholders’ trusts. After operating as a public company for over two decades, Frederick’s of Hollywood, Inc. was taken private by an investor group in September 1997 that formed FOH Holdings (formerly known as Royalty Corporation) for this purpose and Frederick’s of Hollywood, Inc. became a wholly owned subsidiary of FOH Holdings. In June 2000, a new investor group purchased substantially all of the outstanding capital stock of FOH Holdings. Shortly thereafter, in July 2000, FOH Holdings (excluding its subsidiary Fredericks.com, Inc.) filed for voluntary protection under Chapter 11 of the United States Bankruptcy Code. In January 2003, FOH Holdings emerged from bankruptcy.

Since its emergence from bankruptcy in January 2003, Frederick’s of Hollywood has embarked on initiatives to improve the image and acceptance of the brand, align its operations and improve efficiencies. In particular, Frederick’s of Hollywood focused its merchandising and marketing efforts on targeting a younger, more affluent, fashion-conscious customer and implemented a unified, merchandise buying approach across its sales channels.

Growth Strategy

To build upon increased brand awareness, Frederick’s of Hollywood has focused on enhancing its management team and making significant improvements in its merchandising approach, creative store

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design and direct marketing and customer service programs. These operational improvements, combined with Frederick's of Hollywood's continued high level of brand awareness, provided the support for the following elements of its growth strategy:

New Store Expansion Program. From fiscal 2003 through fiscal 2006, in order to strengthen its core business, direct its focus on selected geographic markets and maximize cash flow and working capital, Frederick's of Hollywood opened twelve new stores focusing on strategic locations and favorable real estate opportunities and closed 44 underperforming stores. These new store openings were used as an opportunity to develop and test new store formats (including the relocation and redesign of its flagship store on Hollywood Boulevard) as well as to reposition the Frederick's of Hollywood® brand in the various markets. With increased access to capital, Frederick's of Hollywood will open approximately 50 new stores over the three years commencing with the closing of the merger. While specific sites may vary in size and configuration, Frederick's of Hollywood's new ''Modern Hollywood'' stores feature a store design with a sexy and contemporary Modern Hollywood image and an average store size of approximately 2,300 gross square feet, with selling space representing approximately 75% of the gross square footage. The new store expansion program primarily targets Frederick's of Hollywood's existing core geographic markets.

Direct Marketing Strategies. Frederick's of Hollywood has reduced its annual catalog circulation since fiscal 2006 from approximately 27 million to approximately 20 million expected in fiscal 2007. This reduction shifted funding from catalog circulation to the Internet in an effort to increase profitability and to focus on Frederick's of Hollywood's core customers. As a result of this initiative, since the beginning of fiscal 2006, Frederick's of Hollywood's twelve month house file (i.e., customers that have made a direct purchase in the past twelve months) increased and now totals over 600,000 names. Frederick's of Hollywood also plans to launch a redesigned website in the Summer of 2007, which is expected to provide additional functionality and an improved online customer experience.

Market and Products

Frederick's of Hollywood sells its merchandise primarily under the Frederick's of Hollywood® brand and sub-brands. Its customer target is women primarily between the ages of 18 and 35. According to the NPD Group/NPD Fashionworld, 2005 report, the intimate apparel industry is a $12.6 billion industry with large growth potential.

Frederick's of Hollywood's primary merchandise categories consist of foundations (including bras, corsets and panties), lingerie (including daywear and sleepwear), Ready to Wear (dresses and sportswear, offered primarily in the Direct Division), fragrance and accessories (including personal care products and novelties).

The following table provides information regarding sales of Frederick's of Hollywood's products by those product categories for the fiscal year ended July 29, 2006:

Product Category	% of Sales
Foundations	49%
Lingerie	33%
Fragrance and Accessories	12%
Ready to Wear	6%

Certain merchandise categories, especially in foundations and lingerie, are marketed as collections of related items to increase the average transaction value.

Merchandising and Product Development

Frederick’s of Hollywood’s product development efforts focus on satisfying customer demand for current trends and identifying new fashion trends and opportunities. In this regard, some of its employees travel throughout the United States, Europe and Asia in an effort to identify fashion trends and new product opportunities. Those employees then work with merchandise vendors to develop products consistent with those trends and with the broad seasonal merchandising themes that are created.

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Planning and Allocation Systems. Separate inventories are held and managed for each of the two channels: Stores and Direct. In fiscal 2005, Frederick’s of Hollywood implemented new planning and allocation systems that enable it to better control purchasing, distribution and replenishment of merchandise to retail stores. New operating systems for the Direct division were also implemented to further improve inventory tracking and monitoring.

Catalog and Website Merchandising. Frederick’s of Hollywood’s merchandise planners monitor the sales performance of products offered via the catalog and website to seek to maximize profitability on a per page and per square inch basis (for catalog) and a per frame basis (for featured website items). Frederick’s of Hollywood also uses its catalog and website to test new items and promotional strategies.

Corporate Brand Marketing

Over the past five years, Frederick’s of Hollywood’s brand marketing group has emphasized a re-positioning of the brand as more contemporary, hip and ‘‘Modern Hollywood.’’ Frederick’s of Hollywood’s primary advertising vehicles are its catalogs and website. Frederick’s of Hollywood has also allocated resources to public relations activities, including supporting new product launches and new store openings and the relocation of its flagship store on Hollywood Boulevard. Recent product launches have included the following: the Hollywood Extreme Cleavage bra, the Hollywood Triple Feature bra, Seduction by Frederick’s of Hollywood and the Premiere Line Solutions kit.

Sales Channels

Stores Division

Frederick’s of Hollywood operated 133 stores as of May 15, 2007. These stores are primarily located in shopping malls in 30 states, with approximately one-third of the stores in California. Over 50% of those stores are situated in its other key operating states, including Florida, Texas, Arizona and Nevada. Frederick’s of Hollywood operates its flagship store on Hollywood Boulevard in Hollywood, California.

The new store designs in Frederick’s of Hollywood’s new and remodeled stores seek to maximize the sales and margin performance of its selling space while creating a unique and attractive shopping experience for its customers. Frederick’s of Hollywood’s retail stores range in size from 900 to 3,200 square feet. A typical store uses approximately 75% of the square footage as selling space. Frederick’s of Hollywood operates a variety of store prototypes in addition to the ‘‘Modern Hollywood’’ store format. Frederick’s of Hollywood has relocated two stores, opened four new stores and closed five underperforming stores to date in fiscal 2007 and plans to open three additional stores before the end of the fiscal year.

Frederick’s of Hollywood’s store expansion plan is to open approximately 50 new stores over the three years commencing with the closing of the merger. The majority of these stores are planned for regional shopping malls in geographic markets where Frederick's of Hollywood currently operates. New store locations are typically selected on the basis of local demographics, overall mall performance in terms of traffic, average sales per square foot and store location within the mall.

Direct Division

Frederick's of Hollywood has an extensive history – dating back to the first catalog it produced in 1947 – of offering provocative, intimate women's apparel directly to the consumer. Today, Frederick's of Hollywood continues to market directly to consumers through its catalog and Internet operations, including actively marketing to its house file of recent direct purchasers of Frederick's of Hollywood's products. Frederick's of Hollywood estimates that over 70% of all Direct orders are placed through the Internet. Frederick's of Hollywood currently mails five major catalogs (fall, holiday, spring preview, spring and summer) as well as several sale and re-mail catalogs to approximately 20 million households annually.

Frederick's of Hollywood began selling intimate apparel on its website, www.fredericks.com, in 1997. It is currently upgrading the website to increase its functionality and enhance the customer experience. Frederick's of Hollywood believes its upgraded website, combined with improved customer acquisition and retention capabilities, will enable www.fredericks.com to continue to be a destination for intimate apparel online sales.

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All creative and copy design for Frederick's of Hollywood's catalogs and website is coordinated by Frederick's of Hollywood's staff. Catalogs are designed approximately four months before their respective mailing dates. Photography is conducted on location or in studios to create the ''Modern Hollywood'' image. Printing and mailing of catalogs is performed by outside vendors. Frederick's of Hollywood mails catalogs only within the United States.

Customer Service and Distribution

Frederick's of Hollywood operates a customer contact center, distribution center and information technology center in Phoenix, Arizona. The customer contact center provides toll-free order placement and customer services as well as email customer support services. The customer contact center is open seven days per week. Frederick's of Hollywood believes its contact center capacity is adequate to handle projected call volumes for the next several years.

The Phoenix Operations Center is a 130,000 square foot distribution facility that serves both the Stores and Direct divisions. The inventory systems and stock-keeping unit numbers for Stores and Direct are currently maintained separately. The majority of shipments received for Stores are allocated to individual stores and shipped within a few days; as part of its merchandising strategy, a portion of inventory is held in the distribution center as replenishment inventory to be distributed based on sales performance. Frederick's of Hollywood believes its distribution center capacity is adequate to meet Frederick's of Hollywood's projected sales volume for the next several years. Catalog and Internet orders are typically processed within 24 hours. In fiscal 2006, Frederick's of Hollywood switched its delivery service to United Parcel Service without significant disruption. Frederick's of Hollywood believes its distribution center's capacity is adequate to meet its projected sales volume for the next several years.

Sourcing

Frederick's of Hollywood does not own or operate any manufacturing facilities. It generally issues purchase orders to third-party vendors for sourcing and manufacturing its merchandise. Orders are typically placed with vendors approximately four to six months prior to the initial sale date for new products, and approximately three months for reorders. Separate purchase orders are issued for Stores and Direct purchases. Frederick's of Hollywood believes its sourcing strategy allows it to maintain high quality standards, while enhancing the speed of its order fulfillment process.

In fiscal 2006, Frederick's of Hollywood purchased product from over 100 vendors. Its top ten vendors accounted for approximately 74% of the dollar value of those purchases. Movie Star accounted for approximately 3% of the dollar value of the purchases in fiscal 2006. There are three major suppliers that individually exceeded 10% of total purchases in fiscal 2006. On a combined basis, these suppliers represented 49% of all purchases and individually accounted for 21%, 15% and 13% of total purchases in the fiscal year ended July 29, 2006. Although Frederick's of Hollywood has no long term manufacturing contracts, it believes that it has good relationships with its vendors and that, as its number of stores increases, there will be adequate sources to produce a sufficient supply of quality goods in a timely manner and on satisfactory economic terms.

Information Technology

Frederick's of Hollywood maintains information technology systems to support its product development, merchandising, marketing, planning, store operations, sourcing, finance, accounting, call centers, Internet, inventory distribution and order fulfillment.

In Frederick's of Hollywood's retail stores, sales are updated daily in the merchandise reporting systems by polling sales information from each store's point of sale terminals. Through automated nightly communication with each store, sales information and payroll hours are uploaded to the host system, and stock changes are downloaded through the terminals. Frederick's of Hollywood evaluates information obtained through daily reporting to implement merchandising decisions regarding markdowns and allocation of merchandise.

Competition

The sale of intimate apparel, personal care and beauty products is a highly competitive business with numerous competitors, including individual and chain fashion specialty stores, department stores and

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discount retailers. Brand image, marketing, fashion design, price, service, fashion assortment and quality are the principal competitive factors in retail store sales. Frederick's of Hollywood's Direct division competes with numerous national and regional catalog and online merchants. Image presentation, fulfillment and the factors affecting retail store sales discussed above are the principal competitive factors in catalog and online sales.

The retail industry for women's apparel, intimate apparel, beauty products and personal care products is multi-faceted and operates through various channels; primarily retail stores, catalog and e-commerce. A leading competitor is Victoria's Secret, a division of Limited Brands, which reported sales of approximately $5.1 billion in 2006.

Frederick's of Hollywood believes it has significant competitive strengths relative to its competition because of its widely recognized brand, its presence in regional shopping malls, its direct marketing expertise and the experience of its management team. However, a number of Frederick's of Hollywood's competitors are larger and have significantly greater financial, marketing and other resources than Frederick's of Hollywood, and there can be no assurance that Frederick's of Hollywood will be able to compete successfully with them in the future. For information on the risks Frederick's of Hollywood faces from competition, see ''Risk Factors—Risks Related to the Businesses of Movie Star and Frederick's of Hollywood.''

Seasonality

Frederick's of Hollywood's business is seasonal, with sales and earnings peaking during its second and third fiscal quarters, particularly driven by the November/December holiday periods and the month of February, which includes Valentine's Day. As a result of these seasonal sales patterns, Frederick's of Hollywood maintains higher inventory levels during these peak selling periods.

Trademarks and Service Marks

Frederick's of Hollywood has a variety of trademark applications and registrations in the United States and foreign countries. Frederick's of Hollywood believes that its products and services are identified by its intellectual property. Frederick's of Hollywood has and intends to maintain its intellectual property by vigorously protecting its intellectual property against infringement.

Employees

As of May 15, 2007, Frederick's of Hollywood had approximately 609 full-time employees and 607 part-time employees in the United States. As a result of seasonal sales patterns, Frederick's of Hollywood hires additional temporary staff at its retail stores and at its distribution and contact centers during peak sales periods. Employees are not represented by unions and are not covered by any collective bargaining agreements. Frederick's of Hollywood considers its relations with its employees to be good.

Import and Import Restrictions

Frederick's of Hollywood engages in transactions with foreign contractors and suppliers, which are subject to the risks of doing business abroad. Its import and offshore operations are subject to restraints imposed by agreements between the United States and certain foreign countries. These agreements impose quotas on the amount and type of goods that can be imported into the United States from these countries. Imported products purchased by Frederick's of Hollywood from its vendors are also subject to United States customs duties. The United States and other countries in which Frederick's of Hollywood products are manufactured may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adversely adjust presently prevailing quotas, duty or tariff levels, which could adversely affect its operations and ability to continue to purchased imported products at current or increased levels.

Properties

Frederick's of Hollywood leases its corporate headquarters in Hollywood, California and its operations center in Phoenix, Arizona. The corporate headquarters is approximately 22,462 square feet, while the operations center has a 130,000 square foot distribution center.

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The following table sets forth information, as of May 15, 2007 regarding FOH Holdings' leased facilities, excluding retail stores.

Location	Use	Owned or Leased	Square Footage	Annual Rent	Expiration of Lease
6255 Sunset Boulevard	Corporate Offices	Leased	22,462	$ 548,146(1)	2/28/2015
Los Angeles, CA	Storage space		73	876	month to month
	Storage space		256	3,840	month to month
			22,791	$ 552,862	
5005 S. 40th Street	Operations Center				
Phoenix, AZ	and corporate offices	Leased	130,000	$ 826,956	9/30/2009

(1) Annual rent escalates in subsequent years

Frederick's of Hollywood's 133 retail stores are located in leased facilities, primarily in shopping malls in 30 states. A substantial portion of these lease commitments consist of store leases with an initial term of ten years. The leases expire at various dates between 2007 and 2017. Rental terms for new locations often include a fixed minimum rent plus a percentage of sales in excess of a specified amount. Certain operating costs such as common area maintenance, utilities, insurance and taxes are typically paid by Frederick's of Hollywood. As a part of its normal-course operations, Frederick's of Hollywood will continue to close certain underperforming retail stores upon the expiration of such store leases. See ''FOH Holdings' Business and Financial Information—Sales Channels—Stores Division.''

The following table sets forth the locations of Frederick's of Hollywood's retail stores as of May 15, 2007.

Arizona	7	Massachusetts	4	Ohio	4
California	43	Maryland	1	Oklahoma	2
Connecticut	1	Michigan	4	Oregon	2
Florida	14	Minnesota	1	Pennsylvania	2
Georgia	5	Missouri	1	South Carolina	2
Hawaii	1	New Hampshire	2	Tennessee	2
Illinois	4	New Jersey	1	Texas	12
Indiana	1	New Mexico	1	Virginia	3