MOVIE STAR INC /NY/
Form PRER14A
October 12, 2007
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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:

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PRELIMINARY PROXY STATEMENT SUBJECT TO COMPLETION, DATED OCTOBER 12, 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, 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 (we refer to this agreement, as amended, as the merger agreement) with Fred Merger Corp., a Delaware corporation and wholly-owned subsidiary of Movie Star, and FOH Holdings, Inc., a Delaware corporation, the parent and sole stockholder of Frederick’s of Hollywood, Inc. FOH Holdings is owned by Tokarz Investments, LLC and certain funds and accounts affiliated with, managed by, or over which Fursa Alternative Strategies LLC 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, 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, which we currently estimate to be approximately 37.7 million shares based upon an estimated price of $2.31 per share, which represents the average of the closing prices of our common stock for the 20 trading days ending on September 28, 2007, and after giving

effect to any applicable discounts or premiums;
- 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;

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- amended and restated 2000 performance equity plan proposal – a proposal to adopt an Amended and Restated 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 4,000,000 shares and to add a 500,000 share limit on grants to any individual in any one calendar year;
- 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, Fred Merger Corp. 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 September 28, 2007, the closing sale price of Movie Star common stock was $2.26.

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 17 of this proxy statement.

Our 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 amended and restated 2000 performance equity plan proposal, the director election proposal and the adjournment proposal are in the best interests of our shareholders. Our 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.

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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., 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, which we currently estimate to be approximately 37.7 million shares, based upon an estimated price of $2.31 per share, which represents the average of the closing prices of our common stock for the 20 trading days ending on September 28, 2007, and after giving effect to any applicable discounts or premiums. In connection with the merger, the rights offering and other

transactions contemplated by the Agreement and Plan of Merger and Reorganization (we refer to this agreement, as amended, as 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, and FOH Holdings, Inc., a Delaware corporation, 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 adopt an Amended and Restated 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 4,000,000 shares and to add a 500,000 share limit on grants to any individual in any one calendar year. We refer to this proposal as the amended and restated 2000 performance equity plan 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

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(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 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 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 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 amended and restated 2000 performance equity plan 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, Fred Merger Corp. 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.

Our board of directors 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 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 our 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. Our 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 amended and restated 2000 performance equity plan proposal, the adjournment proposal and the election of each of our nominees for director are in the best interests of our shareholders. Our 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.

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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 17.

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SUMMARY TERM SHEET

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 to this proxy statement as Annex A and Annex B, respectively. 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 (which name will change to Frederick’s of Hollywood Group Inc. upon consummation of 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. In this proxy statement, we sometimes refer to Fred Merger Corp. as Merger Sub, Fursa Alternative Strategies LLC as Fursa, Tokarz Investments, LLC as Tokarz Investments, TTG Apparel, LLC as TTG Apparel and Chanin Capital, LLC as Chanin.

- Parties to the Merger. The parties to the merger are Movie Star, Inc., a New York corporation, FOH Holdings, Inc., a Delaware Corporation, the parent and sole stockholder of Frederick’s of Hollywood, Inc., and Fred Merger Corp., a newly formed Delaware corporation and a wholly-owned subsidiary of Movie Star. See ‘‘Parties to the Transactions.’’
- The Merger. Upon closing of the merger, Fred Merger Corp. will merge with and into FOH Holdings and FOH Holdings will become our wholly-owned subsidiary. See ‘‘The Merger Agreement.’’
- The Merger Agreement. The merger agreement provides for our representations and warranties to FOH Holdings and FOH Holdings’ representations and warranties to us, covenants relating to the conduct of each of our businesses, consents and approvals required for and conditions to the completion of the merger and our ability to consider other acquisition proposals. The merger agreement also provides for the payment of merger consideration at the effective time of the merger. See ‘‘The Merger Agreement.’’
- Merger Consideration. 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.''

- Exemption from Registration. The issuance of our common stock to the FOH Holdings stockholders in the merger is exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended and/or Rule 506 of Regulation D under the Securities Act. See ''The Merger Agreement—Exemption from Registration.''

- Termination of the Merger Agreement. The merger agreement contains provisions addressing the circumstances under which FOH Holdings or we may terminate the merger agreement. In addition, the merger agreement provides that, in certain circumstances, we may be required to pay FOH Holdings a termination fee of $300,000 plus transaction expenses of FOH Holdings and its stockholders. See ''The Merger Agreement—Termination'' and ''—Effect of Termination.''
- Escrow Arrangements. 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.''
- Opinion of our Financial Advisor. On December 18, 2006, Chanin delivered a written opinion to a special committee of our board composed of independent directors, which we refer to as 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 full text of Chanin's opinion 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. You are encouraged to read this opinion in its entirety. See ''The Merger and Related Transactions—Opinion of Financial Advisor to Special Committee.''
- Rights Offering; Standby Purchase Agreement. As provided by 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 gross proceeds of $20 million. We have filed a Registration Statement on Form S-1 (No. 333-143619) with the Securities and Exchange Commission for the registration of such securities under the Securities Act of 1933, as amended. We have entered into a standby purchase agreement with Fursa and certain funds and accounts affiliated with, managed by, or over which Fursa or one of its affiliates exercises investment authority, including, without limitation, with respect to voting and dispositive rights, as specified in the standby purchase agreement (we collectively refer to these entities as the Fursa standby purchasers),

Tokarz Investments and 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. 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 commitments under the standby purchase agreement. 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,

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which hold approximately 50% of FOH Holdings common stock, and certain other entities affiliated with Fursa that hold FOH Holdings indebtedness (we refer to these entities as the Fursa debt holders). See ‘‘Other Transaction Documents—Standby Purchase Agreement’’ ‘‘Other Transaction Documents—Standby Purchase Agreement—Rights Offering’’ and ‘‘Other Transaction Documents—Standby Purchase Agreement—Guarantor Warrants.’’

- Stockholders Agreement. Following the execution and delivery of the merger agreement, we entered into a stockholders agreement with FOH Holdings, Fursa, the Fursa standby purchasers and the Fursa debt holders (we collectively refer to the Fursa standby purchasers and the Fursa debt holders as 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.’’
- Series A Preferred Stock. 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 (we refer to this preferred stock as the Series A Preferred Stock). See ‘‘Other Transaction Documents—FOH Holdings’ Stockholders Agreement—Series A Preferred Stock.’’
- 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 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.’’ Notwithstanding this voting agreement, based

on TTG Apparel's current ownership of Movie Star stock, approval of all matters presented at the special meeting is not assured. However, if a quorum is present and alternative directors are not proposed by any shareholder, our nominees will be elected.

- Shareholders Agreement. Pursuant to 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.''
- Board of 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. 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.''

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- Executive Officers. After the merger, in accordance with the merger agreement, the newly constituted board of directors will appoint Peter Cole (a current member of our board of directors) as Executive Chairman of the combined company, Thomas Rende (our current Chief Financial Officer) as Chief Financial Officer of the combined company, Melvyn Knigin (our current chairman of the board, President and Chief Executive Officer) as the President and Chief Executive Officer of the Movie Star division, and Linda LoRe (FOH Holdings' current President and Chief Executive Officer) 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.''
- 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 of Movie Star's directors and officers 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. Except as set forth below, Movie Star's directors and officers will not receive any compensation or benefits as a result of the merger and related transactions.
  - On April 9, 2007, we entered into a consulting agreement with Performance Enhancement Partners, LLC, pursuant to which Performance Enhancement Partners provides us with the personal services of Peter Cole, a current member of our board of directors and the sole member of Performance Enhancement Partners, 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. The consulting agreement provides for Performance Enhancement Partners to receive a base consulting fee at the annual rate of $400,000.

On the closing date of the merger, we will (i) issue to Performance Enhancement Partners 100,000 shares of our common stock under the 2000 Performance Equity Plan and (ii) grant to Performance Enhancement Partners 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. We also will grant to Performance Enhancement Partners 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. In order to issue the shares of common stock and grant the stock options to Performance Enhancement Partners 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 ''Amended and Restated 2000 Performance Equity Plan Proposal.''

The consulting agreement provides that, if the merger agreement is terminated or Performance Enhancement Partners terminates the consulting agreement for ''Good Reason'' (as defined in the consulting agreement) prior to the closing of the merger, we will pay Performance Enhancement Partners a certain fee, outlined in the consulting agreement. Additionally, options that have been granted but not yet vested will immediately vest upon such termination. See ''The Merger and Related Transactions—Interests of Movie Star Directors and Officers in the Merger and Related Transactions.''

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 Performance Enhancement Partners.

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- Following the closing of the merger, Thomas Rende, Movie Star's current Chief Financial Officer, will become the Chief Financial Officer of the combined company. Accordingly, we intend to enter into a new employment agreement with Mr. Rende to become effective upon the closing of the merger. We are in negotiation with Mr. Rende regarding the terms of his new employment agreement. See ''The Merger and Related Transactions—Interests of Movie Star Directors and Officers in the Merger and Related Transactions.''
- 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, upon the occurrence of certain events, 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 and the rights under the agreements. 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. See ‘‘The Merger and Related Transactions—Interests of Movie Star Directors and Officers in the Merger and Related Transactions.’’

- Following the closing of the merger, it is anticipated that the Movie Star Non-Employee Director Compensation Plan will be amended by our board to (i) increase the annual stipend from $20,000 to $30,000, payable quarterly in arrears, with additional annual stipends for committee chairpersons of $5,000 for the audit committee, $3,000 for the compensation committee and $2,000 for the nominating committee, payable quarterly in arrears and (ii) provide for payment of $2,500 per board or committee meeting attended in person (up from $2,000 per day), regardless of the number of meetings held that day. It is anticipated that payments for telephonic meetings and the ability for non-employee directors to elect to be paid in cash and/or Movie Star stock would remain unchanged. It is also contemplated that, upon the approval by our board of the amendment to the Movie Star Non-Employee Director Compensation Plan, 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 date of grant, which will be exercisable immediately and will remain exercisable until the tenth anniversary of the date of grant. See ‘‘The Merger and Related Transactions—Interests of Movie Star Directors and Officers in the Merger and Related Transactions’’ and ‘‘Executive Compensation—Compensation Arrangements for Directors.’’

- 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.’’
- The Proposals to be Considered at the Special Meeting. At the special meeting, our shareholders will be 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, which we currently estimate to be approximately 37.7 million shares based upon an estimated price of $2.31 per share, which represents the average of the closing prices of our common stock for the 20 trading days ending on September 28, 2007, and after giving effect to any applicable discounts or premiums. We refer to this proposal as the stock issuance proposal;

  - amend our certificate of incorporation to:
    - increase the number of authorized shares of common stock from 30,000,000 to 200,000,000 shares. We refer to this proposal as the increase of authorized common stock proposal;
    - change our name to Frederick’s of Hollywood Group Inc. We refer to this proposal as the name change proposal; 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. We refer to this proposal as the 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. We refer to this proposal as the reverse stock split proposal;
- adopt an Amended and Restated 2000 Performance Equity Plan to increase the number of shares of common stock available for issuance under the plan from 750,000 shares to 4,000,000 shares and to add a 500,000 share limit on grants to any individual in any one calendar year. We refer to this proposal as the amended and restated 2000 performance equity plan 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 until their successors are elected and qualified. We refer to this proposal as the director election proposal; 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. We refer to this proposal as the adjournment proposal.

See ''Increase of Authorized Common Stock Proposal,'' ''Name Change Proposal,'' ''Preferred Stock Proposal,'' ''Reverse Stock Split Proposal,'' ''Amended and Restated 2000 Performance Equity Plan Proposal,'' ''Director Election Proposal'' and ''Adjournment Proposal.''

- Voting Requirements.
    - Shareholder approval is not required for the merger itself under the New York Business Corporation Law. 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, currently estimated to be approximately 37.7 million shares (based upon an estimated price of $2.31 per share, which represents the average of the closing prices of our common stock for the 20 trading days ending on

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September 28, 2007, and after giving effect to any applicable discounts or premiums), 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 amended and restated 2000 performance equity plan 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 ''Amended and Restated 2000 Performance Equity Plan Proposal.''
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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.’’

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- 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 merger. The approval of the reverse stock split proposal, the amended and restated 2000 performance equity plan 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 or waived (where practical). 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. Accordingly, although we and FOH Holdings have the contractual right to waive these conditions, as a practical matter they may not be waived. 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.

We have entered into a voting agreement with TTG Apparel pursuant to which it has agreed to vote in favor of the transactions contemplated in the merger agreement. TTG Apparel currently owns approximately 21.5% of our outstanding common stock. Notwithstanding this voting agreement and based on TTG Apparel’s current ownership of Movie Star common stock, because the stock issuance proposal, the increase of authorized stock proposal, the name change proposal and the preferred stock proposal require the affirmative vote of both (i) the holders of a majority of the outstanding shares of Movie Star on the record date and (ii) the holders of the 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, and the preferred stock proposal requires the affirmative vote of the holders of a majority of the outstanding shares of Movie Star common stock on the record date, the vote with respect to any of such proposals is not assured.

Also, although the amended and restated 2000 performance equity plan proposal and the adjournment proposal require only the affirmative vote of the holders of the majority of shares of Movie Star common stock represented in person or by proxy and entitled to vote at the special meeting, and the election of each director requires a plurality vote of the shares of common stock represented in person or by proxy and entitled to vote at the special meeting, a quorum of a majority of the outstanding shares of Movie Star common stock represented in person or by proxy and entitled to vote at the special meeting is necessary to hold a valid meeting. Such quorum would not be obtained by the sole participation of TTG Apparel. Further, because TTG Apparel will not make up a majority of any quorum, the vote with respect to any of these proposals other than the director election proposal is not assured. If no shareholder nominates an alternative slate of directors, the

election of each of our nominees will be assured if a quorum is present at the special meeting and a valid meeting is held.

- Amendment to Bylaws. 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. This amendment to our bylaws has been approved by our board of directors, subject to its effectiveness upon the consummation of the merger, and will not require shareholder approval. See ‘‘The Merger Agreement—Amended and Restated Bylaws.’’
- 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, or the HSR Act, which we and FOH Holdings may be required to make.

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- 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, 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 will have 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 will have 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.’’
- 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.’’

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND 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 in this proxy statement. This proxy statement contains important information about the proposals and the special meeting of Movie Star shareholders. You should read it carefully.

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 amended and restated 2000 performance equity plan proposal and the adjournment proposal, abstentions will be counted towards the total votes for each proposal, and will have the same effect as ''AGAINST'' votes. Abstentions will not be counted towards the total votes for the amended and restated 2000 performance equity plan proposal and the adjournment proposal. Broker non-votes will have the same effect as ''AGAINST'' votes with respect to all proposals except for the amended and restated 2000 performance equity plan proposal and the adjournment proposal. Broker non-votes will not be counted towards the total votes for the amended and restated 2000 performance equity plan 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.

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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. 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 ''The Merger and Related

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

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 gross 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

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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 under the standby purchase agreement 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.

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 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.

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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. Our common stock is the only class of stock of Movie Star that has been issued and, therefore, is the only class of stock of Movie Star entitled to vote.

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. These votes by brokers are considered as votes cast in determining the outcome of any discretionary proposal. We believe that the adjournment proposal is discretionary. On non-discretionary items for which you do not give your broker instructions, the shares will be treated as broker non-votes. Broker non-votes are considered present in determining whether a quorum exists at the special meeting, but are not considered as votes cast in determining the outcome of any proposal. The stock issuance proposal, increase of authorized common stock proposal, name change proposal, preferred stock proposal, reverse stock split proposal, amended and restated 2000 performance equity plan proposal and director election proposal are all

non-discretionary.

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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.

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:

A:

How may I obtain Movie Star's Annual Report on Form 10-K for the year ended June 30, 2007?	We have enclosed with this proxy statement a copy of our Annual Report on Form 10-K for the fiscal year ended June 30, 2007. Our Annual Report on Form 10-K and our other filings with the Securities and Exchange Commission can be accessed through our website at www.moviestarinc.com.

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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 191.

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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;
- increased operating costs or an 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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PARTIES TO THE TRANSACTIONS

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.

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 operates 136 stores nationwide as of September 30, 2007, operates an online store at www.fredericks.com and, in its 2007 fiscal year mailed approximately 20 million catalogs. Frederick’s of Hollywood had net sales from continuing operations of approximately $155 million for the year ended July 28, 2007.

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.

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.

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.

The mailing address of Tokarz Investments’ principal executive office is 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 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.

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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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 ended September 28, 2007, our common stock traded in a range from a low of $0.75 to a high of $3.50 and ended that period at $2.26. See ''Price Range of Movie Star Common Stock and Dividends'' on page 188 for more detailed share price information.

The combined company may fail to realize some or all of the anticipated benefits of the merger, which could adversely affect the value of Movie Star common stock.

The merger involves the integration of two companies that have previously operated independently. Movie Star and FOH Holdings expect the combined company to realize financial and operational benefits, including enhanced earnings growth, overhead savings, operating cost savings and other synergies. However, to realize the anticipated benefits from the merger, the businesses of Movie Star and Frederick's of Hollywood must be combined in a manner that maximizes the potential for earnings growth and cost savings. If we are not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully, or at all, or may take longer to realize than expected.

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

Movie Star and Frederick's of Hollywood have operated as independent companies and will continue to do so until the completion of the merger. The process of consolidating functions and integrating organizations, procedures and operations could be more costly than expected or could result in the loss of key employees, the disruption of each company's ongoing business or inconsistencies in standards, controls, procedures and policies that could adversely affect the combined company's ability to maintain relationships with customers, suppliers, employees and others.

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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.''

The merger agreement contains provisions that might discourage a third party from making an alternative proposal that would be more financially beneficial to our shareholders than the FOH Holdings merger.

The merger agreement limits our ability to initiate, solicit, facilitate or encourage certain acquisition or merger proposals from a third party. Under the terms of the merger agreement, subject to limited exceptions, before we can terminate the merger agreement in favor of a superior proposal from a third party, we must give 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 out-of-pocket expenses in connection with the merger. These provisions might discourage a potential third party with 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. See ''The Merger Agreement—Termination'' and ''The Merger Agreement—Restrictions on Solicitations of Other Offers Concerning Movie Star.''

Our executive officers and directors 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, as well as the issuance of stock options and other stock-based awards relating to such continuing employment and service. 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 ''The Merger and Related Transactions—Interests of Movie Star Directors and Officers in the Merger and Related Transactions'' and ''Executive Compensation—Compensation Arrangements for Executive Officers.''

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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.''

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.

Under the merger agreement, the FOH Holdings stockholders are required to 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. 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 $9.1 million, respectively.

FOH Holdings has had two material weaknesses and other deficiencies in its internal accounting controls in the past, and additional material weaknesses or other deficiencies may be identified in the future. These material weaknesses could cause material weaknesses in the internal control over financial reporting of the combined company, which could hamper the combined company's ability to ensure timely and accurate financial reporting, causing investors to lose confidence and the stock price to decline.

In connection with the audit of FOH Holdings' consolidated financial statements for the fiscal year ended July 28, 2007, which did not include an audit of the effectiveness of FOH Holdings' internal control 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, finding that:

- 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.

If these weaknesses are not adequately remediated or were to recur, or if additional weaknesses are identified or new or improved controls are not implemented successfully in a timely manner, the combined company's ability to assure timely and accurate financial reporting may be adversely affected. As a result, errors in financial reporting may occur and the combined company may be required to restate its financial

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statements and shareholders could lose confidence in the accuracy and reliability of its financial statements. This could cause the market price of the combined company's stock to decline and could also lead to stockholder litigation.

Investor confidence and the combined company's stock price may be adversely impacted if the combined company has one or more material weaknesses in its internal control over financial reporting.

The SEC, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring public companies to include in their Annual Report on Form 10-K a report of management on the company's internal control over financial reporting that contains an assessment by management of the effectiveness of the company's internal control over financial reporting. The company's independent registered public accounting firm also must form an opinion on the effectiveness of internal control over financial reporting. The combined company will be required to comply with these rules following the consummation of the merger. Management and our independent registered accounting firm may conclude that the internal control over financial reporting are not effective. Furthermore, effective internal control over financial reporting is important to the production of reliable financial reports and to help prevent fraud. As a result, a failure to achieve and maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of the combined company's financial statements, which could harm the business and 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.

Risks Relating to the Rights Offering

Pursuant to the standby purchase agreement, our largest shareholder and the FOH Holdings stockholders 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.

Pursuant to the standby purchase agreement, 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 the unsubscribed shares, and TTG Apparel and Tokarz Investments have agreed to purchase the remaining 50%. 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 an aggregate of 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 an aggregate of % of the combined company's outstanding common stock, after giving effect to the shares purchased under their standby purchase commitments 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 commitments, the issuance of the guarantor warrants and the issuance of the Series A Preferred Stock. Following the 18-month period after the consummation of the merger during which TTG Apparel, Tokarz Investments and the Fursa standby purchasers are limited in their abilities to act together and are subject to those actions that will require a supermajority vote of the combined company's directors, this substantial ownership of the combined company's common stock would enable them to 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. 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.''

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Current Movie Star shareholders may suffer further dilution of their percentage ownership of Movie Star common stock by not purchasing shares in the rights offering, and a lack of participation by Movie Star common shareholders may result in our largest shareholder and the FOH Holdings stockholders holding a greater controlling interest in the outstanding shares of Movie Star common stock.

The issuance of shares of our common stock to the FOH Holdings stockholders in the merger will cause the percentage ownership of shares of our common stock held by Movie Star shareholders to decline significantly. If Movie Star shareholders do not fully participate in the rights offering, their proportionate voting and ownership interest will be further reduced and the percentage that their original shares represent of our expanded equity after exercise of the subscription rights will be diluted. For example, if a Movie Star shareholder owns 1% of our outstanding common stock (approximately shares) on the record date, the new shares to be issued in the merger will reduce that shareholder's ownership percentage to approximately % of the shares outstanding immediately after the merger. If Movie Star shareholders do not exercise any subscription rights, then the percentage ownership of that shareholder will be further reduced to approximately %. The magnitude of the reduction of your percentage ownership will depend upon the extent to which you participate in the rights offering.

The rights offering may cause the price of Movie Star common stock to decrease immediately, and this decrease may continue.

The subscription price per share of $ is 85% of the average of the closing prices of Movie Star common stock on the American Stock Exchange during the 20 trading days immediately preceding the record date. This discount, along with the number of shares we propose to issue and ultimately will issue through the rights offering and/or through the standby purchase commitments for the rights offering, may result in an immediate decrease in the market value of Movie Star common stock. This decrease may continue after the completion of the rights offering. On September 28, 2007, the closing price of Movie Star common stock was $2.26 per share.

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, 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. Many of these companies have greater financial, technical and sourcing capabilities than we do. 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 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

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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.

The 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 and the extended lead times may make it difficult to respond rapidly to new or changing product trends or price changes. If the combined company is unable to successfully anticipate, identify or react to changing styles or trends and misjudges the market for its products or its customers' purchasing habits, then its product offerings may be poorly received by the ultimate consumer and may require substantial discounts to sell, which would reduce sales revenue and lower profit margins. In addition, the combined company will incur additional costs if it needs to redesign its product offerings. Brand image also may suffer if customers believe that the combined company is unable to offer innovative products, respond to the latest fashion trends or maintain product quality.

The combined company will depend on key personnel and it may not be able to operate and grow the business effectively if it loses the services of any key personnel or is unable to attract qualified personnel in the future.

The combined company will be dependent upon the continuing service of key personnel and the hiring of other qualified employees. In particular, the combined company will be dependent upon the management and leadership of Peter Cole, who will be the Executive Chairman of the combined company, Melvyn Knigin, who will be the Chief Executive Officer of the Movie Star division, Linda LoRe, who will be the Chief Executive Officer of the Frederick's of Hollywood division, and Thomas Rende, who will be the Chief Financial Officer of the combined company. The loss of any of them or other key personnel could affect the combined company's ability to operate the business effectively. Other than a $5 million policy on the life of Mr. Knigin, neither we nor Frederick's of Hollywood carries key man insurance for any management or other key personnel. 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.

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 influenced, in part, by the volume of mall traffic. 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 malls 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 management's ability to operate retail stores in desirable locations with capital investments and lease costs that allow for the opportunity 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.

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Movie Star relies on one key customer, and a significant decrease in business from or the loss of this key customer could substantially reduce revenues.

Wal-Mart accounted for approximately 25% and 51% of our sales for fiscal years 2006 and 2007, respectively. We do not have a long-term contract with Wal-Mart and, therefore, our business is subject to significant unpredictable increases and decreases in sales depending upon the size and number of orders we receive from Wal-Mart. Accordingly, a significant decrease in business from or loss of Wal-Mart as a customer would have a material adverse effect on our business, financial condition and results of operations, which, in turn, would affect the business, financial condition and results of operations of the combined company.

The extent of our and Frederick's of Hollywood's foreign sourcing and manufacturing may adversely affect the combined company's business, financial condition and results of operations.

Substantially all of our and Frederick's of Hollywood's products are manufactured outside the United States. As a result of the magnitude of foreign sourcing and manufacturing, our respective businesses are, and the business of the combined company will be, subject to the following risks:

- political and economic instability in foreign countries, including heightened terrorism and other security concerns, which could subject imported or exported goods to additional or more frequent inspections, leading to delays in deliveries or impoundment of goods, or to an increase in transportation costs of raw materials or finished product;
- the imposition of regulations and quotas relating to imports, including quotas imposed by bilateral textile agreements between the United States and foreign countries, including China, where both companies conduct business;
- the imposition of duties, taxes and other charges on imports;
- significant fluctuation of the value of the U.S. dollar against foreign currencies;
- restrictions on the transfer of funds to or from foreign countries; and
- violations by foreign contractors of labor and wage standards and resulting adverse publicity.

If these risks limit or prevent us or Frederick's of Hollywood from selling, manufacturing or acquiring products from foreign suppliers, the operations of the combined company could be disrupted until alternative suppliers are found, which could negatively impact its business, financial condition and results of operations.

Both companies operate on very tight delivery schedules and, if there are delays and expected delivery dates cannot be met, it could negatively affect the combined company's profitability.

If there is a delay in the delivery of goods and delivery schedules cannot be met, 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 result 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. Both companies may also incur extra costs to meet customer delivery dates, 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 either company experiences disruptions at its distribution center that impede the timeliness or fulfillment of the products being distributed, or either distribution center is partially or

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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.

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, which are primarily utilized to manage information necessary to price and ship products, manage production and inventory and generate reports to evaluate each company's respective business operations, are dated and are comprised 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 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 calls for the opening of 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. Frederick's of Hollywood has historically operated its channels separately and accounts for sales and use tax separately. Currently, its mail order and Internet subsidiaries collect and pay sales tax to the relevant state taxing authority on sales made to residents in any state in which Frederick's of Hollywood has a physical presence. Frederick's of Hollywood and its subsidiaries are periodically audited by state government authorities. It is possible that one or more states may disagree with Frederick's of Hollywood's method of assessing and remitting these taxes, including sales tax on catalog and Internet sales. It is expected that the combined company 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 and use taxes, interest and penalties which could have an adverse effect on the profitability of the combined company.

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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 and believe these trademarks and product designs are important to each of our businesses and the combined company's competitive position and success. As appropriate, both companies rely on trademark and copyright laws to protect these designs even if not formally registered as marks, copyrights or designs. 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 which 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.

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 September 28, 2007 of $2.26 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 $4.52, 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 28, 2007 and July 29, 2006 and the consolidated statements of operations data for the years ended July 28, 2007 and July 29, 2006, the five months ended July 30, 2005 and the seven months ended March 3, 2005, 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 30, 2005, July 31, 2004, and July 26, 2003 and the consolidated statements of operations data for the year ended July 31, 2004, the seven months ended July 26, 2003 and the five months ended December 31, 2002 have been derived from FOH Holdings' audited consolidated financial statements, which are not included in this proxy statement.

Movie Star's consolidated balance sheet data as of June 30, 2007 and 2006 and the consolidated statements of operations data for each of the three years in the period ended June 30, 2007, 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, 2005, 2004 and 2003 and the consolidated statements of operations data for the years ended June 30, 2004 and 2003 have been derived from Movie Star's audited consolidated financial statements, which are not included in this proxy statement.

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.

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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 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. The results are further separated by a heavy black line to indicate the effective date of the new basis of accounting.

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 and permanently

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relocated 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 retail sales per square foot — Average monthly retail 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 July 28, 2007.
- Gross profit — FOH Holdings reports gross profit 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 benefits for the design, buying, and merchandising personnel, warehouse and distribution costs, and store occupancy costs. FOH Holdings' management uses product margin (net sales less cost of goods sold) as a primary measure to manage the business and assess the performance of its operations. 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]		
	Year ended July 28, 2007	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	$155,238	$136,705	$ 46,807	$ 76,785	$128,164	$ 61,066
Cost of goods sold, buying and occupancy	90,201	80,102	27,026	44,122	71,621	41,643
Gross profit	65,037	56,603	19,781	32,663	56,543	19,423
Selling, general and administrative expenses	61,996	57,579	20,279	35,173	54,931	19,422
Operating income (loss) from continuing operations	3,041	(976)	(498)	(2,510)	1,612	1
Interest expense, net	2,093	2,422	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)	948	(3,398)	(1,198)	(3,612)	20	(835)
Income tax provision (benefit)	548	127	(128)	(953)	8	557
Income (loss) from continuing operations	400	(3,525)	(1,070)	(2,659)	12	(1,392)
Income (loss) from discontinued operations[(c)]	41	240	(166)	440	950	2
Net income (loss)	$ 441	$ (3,285)	$ (1,236)	$ (2,219)	$ 962	$ (1,390)
	At July 28, 2007	At July 29, 2006	At July 30, 2005		At July 31, 2004	At July 26, 2003
Balance Sheet Data:						
Working capital (deficiency)	$ (4,638)	$ (299)	$ (1,562)		$ 2,080	$ 1,377
Goodwill	$ 6,678	$ 7,299	$ 7,299		$ 585	$ 585
Trademarks	$ 18,090	$ 18,090	$ 18,090		$ 13,900	$ 13,900
Total assets	$ 70,525	$ 60,734	$ 58,733		$ 39,848	$ 38,540
Total debt–related party	$ 19,429	$ 18,742	$ 18,095		$ 17,287	$ 17,309
Stockholders' equity (deficiency)	$ 12,641	$ 12,059	$ 11,344		$ 174	$ (788)

Store Operating Data[d]:						
Percentage increase (decrease) in comparable store sales[e]	9.2%	6.5%	(3.6)%	(4.1)%	11.4%	1.5%
Total square footage at the end of the period[f]	235,229	225,634	229,626	229,536	231,578	243,638
Average monthly retail sales per square foot	$ 33.00	$ 31.07	$ 21.41	$ 37.56	$ 32.00	$ 28.63
Number of retail stores:						
Open at beginning of period	134	140	140	145	155	166
Opened during the period	5	5	—	4	2	
Closed during the period	(6)	(11)	—	(9)	(12)	(11)
Open at the end of the period	133	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 net merchandise sales from new or permanently relocated store locations 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)

	Fiscal Years Ended June 30,				
	2007	2006	2005	2004	2003
Statement of Operations Data:					
Net sales	$63,493	$51,639	$58,533	$53,691	$64,916
Cost of sales	43,144	37,528	44,304	37,581	44,345
Selling, general and administrative expenses	17,434	16,310	19,024	15,824	14,623
Insurance recovery	—	(1,450)	—	—	—
Merger-related fees	2,391	246			
Gain on sale of property, plant and equipment	(496)	—	—	—	—
	62,473	52,634	63,328	53,405	58,968
Operating income (loss) from continuing operations	1,020	(995)	(4,795)	286	5,948
Interest income	(5)	(3)	(1)	(12)	(4)
Interest expense	609	476	282	76	351
Income (loss) from continuing operations before income tax provision (benefit)	416	(1,468)	(5,076)	222	5,601
Income tax provision (benefit)	270	(468)	(1,954)	94	2,170
Net income (loss)	$ 146	$ (1,000)	$ (3,122)	$ 128	$ 3,431
Basic net income (loss) per share	$ .01	$ (.06)	$ (.20)	$ .01	$ .23
Diluted net income (loss) per share	$ .01	$ (.06)	$ (.20)	$ .01	$ .22
Basic weighted average number of shares outstanding	16,089	15,700	15,625	15,574	15,133
Diluted weighted average number of shares outstanding	16,671	15,700	15,625	16,199	15,407

	At June 30,				
	2007	2006	2005	2004	2003
Balance Sheet Data:					
Working capital	$ 9,590	$ 8,932	$10,673	$16,543	$15,979
Total assets	$22,338	$23,221	$24,907	$20,779	$24,089
Short-term debt – Including current maturities of long-term debt and capital lease obligations	$ 4,183	$ 4,955	$ 4,794	$ —	$ 2,304
Long-term debt – Including deferred lease and other long-term liabilities	$ 379	$ 398	$ 390	$ 374	$ 325
Shareholders' equity	$14,605	$13,782	$14,677	$17,747	$17,264

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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 with a subsidiary of 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.’’ 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 year ended July 28, 2007 give effect to the merger and the other transactions contemplated by the merger agreement as if they had occurred on July 30, 2006. The Unaudited Pro Forma Condensed Consolidated Balance Sheets as of July 28, 2007 and June 30, 2007 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 July 28, 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.’’

	Year Ended July 28, 2007 (in thousands, except per share data)
Pro Forma Statement of Operations Information:	
Net sales	$ 215,530
Income from continuing operations	$ 230
Less: Preferred stock dividends	$ (563)
Loss available to common shareholders	$ (333)
Loss from continuing operations per share:	
— basic	$ (0.01)
— diluted	$ (0.01)
Shares used in computing basic and diluted loss per share:	
— basic	45,348
— diluted	45,348
	As of July 28, 2007 (in thousands)
Pro Forma Balance Sheet Information:	
Cash and cash equivalents	$ 20,251
Total current assets	$ 59,527
Total liabilities	$ 62,018
Shareholders’ equity	$ 53,667

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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 amended and restated 2000 performance equity plan 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 our Amended and Restated 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 4,000,000 shares of common stock and to add a 500,000 share limit on grants to any individual in any one calendar year (amended and restated 2000 performance equity plan 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 amended and restated 2000 performance equity plan 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 amended and restated 2000 performance equity plan 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 amended and restated 2000 performance equity plan 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 amended and restated 2000 performance equity plan 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 amended and restated 2000 performance equity plan 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 amended and restated 2000 performance equity plan 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 amended and restated 2000 performance equity plan 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 amended and restated 2000 performance equity plan 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

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 (which percentage does not include the stock currently owned by TTG Apparel).

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 initiated a meeting with our management team, consisting of Melvyn Knigin, our President and Chief Executive Officer, Thomas Rende, our Chief Financial Officer, and Saul Pomerantz, our Executive Vice President and Chief Operating Officer. During this meeting, Mr. Tokarz and our management team discussed, among other things, whether we would be interested in growing our business. During the discussion, Mr. Tokarz also asked our management team 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, Mr. Knigin 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, a meeting was held among the members of our management team; members of our board of directors, consisting of Messrs. Knigin, Rende and Pomerantz, Peter Cole, John L. Eisel, Michael Salberg and Joel Simon; members of FOH Holdings’ management team, consisting of Ms. LoRe and Donald Degner, FOH Holdings’ then Chief Financial Officer; members of FOH Holdings’ board of directors, consisting of Jean Flecheux, Gary Kania, Milton Walters and William F. Harley; Mr. Tokarz;

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Brian Ross and Peter Ziemba of Graubard Miller (‘‘Graubard’’), our legal counsel; and Marilyn Barrett then of Van Etten Suzumoto & Becket LLP, FOH Holdings’ legal counsel, 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 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 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 Messrs. Knigin, Rende and Pomerantz, to discuss the proposed business combination,

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Messrs. Jenkins and Keeney delivered to our management team a report by Allen & Company, FOH Holdings' financial advisor, as a basis for facilitating a discussion on relative value. The report 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.

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.

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 an opinion regarding fairness in connection with any transaction. At this meeting, 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 both higher and lower ownership percentages for our shareholders could be justified. The final 60%/40% equity allocation fell within the range suggested by Chanin's preliminary analysis.

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 (which percentage does not include the stock currently owned by TTG Apparel). 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, the members of our special committee and the FOH Holdings special committee, together with their legal and financial 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 a representative from Chanin had an informational meeting with Messrs. Jenkins, Keeney and Tokarz and Torys LLP (''Torys''), counsel to the FOH Holdings special committee.

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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 prior to November 13, 2006.

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, including that the stockholders of FOH Holdings were not willing to be responsible for indemnification obligations and that the refinancing of the indebtedness of FOH Holdings held by affiliates of Fursa must be a condition to closing of the proposed transaction. As a result of there being no initial flexibility shown by FOH Holdings on these two material 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, including the parties' agreement to include a share escrow to address the indemnity issues and to continue discussing the debt refinancing issues, 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, which included the following terms: (i) the establishment of an escrow account that would hold 20% of the shares of Movie Star common stock to be received by the FOH Holdings stockholders in

connection with the proposed transaction to cover indemnification obligations; (ii) a backstop fee to the rights offering standby purchasers in the form of warrants in an amount equal to 10.5% of the shares to be issued in the rights offering; (iii) representations and warranties of the standby purchasers in the standby purchase agreement with respect to availability of funds to backstop the rights offering; (iv) more limited exceptions to FOH Holdings' representations and warranties in the merger agreement than those previously proposed by the FOH Holdings special committee; (v) covenants of the FOH Holdings stockholders regarding non-solicitation of alternative transactions and non-transfer of their shares between signing and consummation

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of the merger; (vi) arbitration as the sole dispute resolution mechanism to handle indemnification claims and disbursements under the escrow; and (vii) certain provisions relating to the registration rights to be granted to the FOH Holdings stockholders.

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 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. The new proposal included that: (i) FOH Holdings agreed to the 20% escrow of its stockholders' merger consideration so long as it was used to cover all indemnification claims under the merger agreement; (ii) with regard to certain state sales tax issues: (A) any retroactive liability for state sales tax matters would be included under the 20% escrow and (B) the parties would agree to extend the indemnification

period for an additional six months if a liability was recorded on the balance sheet, but no claim was made or was still pending during the initial 18-month period; (iii) we would only have to contribute shares of our common stock in an amount equal to 7.5% of our outstanding shares into escrow; and (iv) the convertible preferred stock would have a $1.00 conversion price. In addition, this proposal accepted substantially all other proposals our special committee made on October 25, 2006.

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

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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 concerning alternative transactions and also responded to all unsolicited calls. These parties were selected following discussions among our management, board, special committee and Chanin. Eight of the selected parties were potential strategic partners generally engaged in apparel manufacturing and/or apparel retailing. These parties were selected based on a number of factors, including their size, lines of business and history of making acquisitions. Of the eight potential strategic partners contacted, none requested a confidentiality agreement. The remaining three parties were financial sponsors with portfolio companies similar to our company or that had previously expressed an interest in the acquisition of apparel companies. Of the three financial buyers contacted, only two of the parties requested a confidentiality agreement, and only one of these parties executed the agreement and subsequently received an information package. None of the parties contacted, or any other third party, 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, which presentation was an abbreviated version of Chanin's fairness opinion presentation that was delivered by Chanin on December 18, 2006.

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 members of the board of directors in the context of the proposed transaction and Chanin provided its abbreviated fairness opinion 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

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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 and agreed to reimburse us for certain fees to be paid to the consultant pursuant to such consulting agreement under certain circumstances.

On April 9, 2007, we entered into a consulting agreement with Performance Enhancement Partners, LLC, 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 Performance Enhancement Partners, LLC. The consulting agreement provides for Mr. Cole to act as the lead member of our board of directors to facilitate the timely and successful completion of the merger, the rights offering and other transactions contemplated by the merger agreement. In this capacity, Mr. Cole meets regularly with management of both Movie Star and FOH Holdings, manages filing deadlines and assists in the review of documents and other materials in connection with the filing and mailing of this proxy statement and other materials relating to the rights offering, organizes conference calls and drafting sessions and interfaces continuously with counsel for both companies and special committees with respect to maintaining such deadlines.

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 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,

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the preferred stock proposal, the reverse stock split proposal, the amended and restated 2000 performance equity plan 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:

- 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;
  - exercise greater control over the design, sourcing, manufacturing, distribution and sales processes, which would otherwise be more difficult to achieve by having to rely on outside third parties; and
  - expand and/or consolidate our respective distribution centers to lower overall distribution costs;
- the potential for Movie Star to increase its supply of product to Frederick's of Hollywood, whose need for finished goods will increase significantly as it rolls out its 50 store expansion plan;
- the potential for the combined company to reduce its expenses wherever redundancies exist or where the purchasing power of a larger company can be leveraged, particularly with respect to employee benefits, insurance and travel;
- 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;
- 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;
- the continuity of leadership through and beyond the post-merger integration period resulting from all five members of our board of directors and our current Chief Financial Officer becoming members of the initial board of directors of the combined company, and certain key members of our senior management team becoming part of the senior management team following the consummation of the merger would be expected to reduce potential complications involved in the process of consolidating functions and integrating organizations, procedures and operations due to their familiarity with the intimate apparel industry in general and our business in particular;
- the familiarity of our special committee and board of directors with our limited ability as a domestic manufacturer and importer to expand the business without partnering with a retailer due to increasing competitive pressures relating to increased reliance on foreign manufacturing, a shrinking customer base resulting from retail consolidation, and from our larger retail customers seeking to develop their own brands and obtain intimate apparel products directly from the same or similar sources from which we obtain our products;
- the process conducted by Chanin to seek alternative proposals to the proposed transactions revealed no interested parties; 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:

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- 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 contain certain changes that, in our reasonable judgment are 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:

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- 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 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 combination of the two businesses could lead existing and potential competitors to consider their own business combinations, resulting in further industry consolidation, which 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 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 possibility that the deep-rooted cultures of two very different companies—one a manufacturer and importer headquartered in New York; the other a specialty retailer headquartered in California—may not become one unified culture in a timely manner; 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.’’

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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.

The foregoing discussion of the information and factors considered by our special committee and board of directors includes all material information and factors considered by our special committee and board of directors in making their decisions. 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 presentations on December 14 and 15, 2006 were abbreviated versions of the presentation on December 18, 2006. The December 18, 2006 presentation also included the most up to date share prices for us and the other companies referenced in the materials.

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. 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 connection with its opinion, Chanin made certain reviews, analyses and inquiries as it deemed necessary and appropriate under the circumstances. Chanin also took into account its assessment of

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general economic, market and financial conditions, as well as its experience in securities and business valuation, in general, and with respect to similar transactions, in particular. Chanin's due diligence with regard to the merger included, but was not limited to, the items summarized below.

- 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;
- 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.

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 performing its analyses and rendering its opinion with respect to the merger, Chanin, with our consent:

- relied upon the accuracy, completeness, and fair presentation of all information, data, advice, opinions and representations obtained from public sources or provided to it from private sources, including our and FOH's management, and did not independently verify that information;
- assumed that the merger agreement, when executed, conformed to the drafts of such agreement that Chanin reviewed in all respects material to its analysis;
- assumed that the proposed merger contemplated by the merger agreement would be consummated in accordance with such agreement; and
- assumed that the financial forecasts provided to Chanin by us and FOH Holdings (and the assumptions and bases underlying such information) were 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 did not undertake any independent verification of the information provided to it by us or FOH Holdings nor did Chanin make 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

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FOH Holdings' properties or assets. With respect to the financial forecasts provided by us and FOH Holdings, 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 to solicit interest in a potential transaction with us. These parties were selected following discussions among

our management, the Board and Special Committee and Chanin. Eight of the selected parties were potential strategic partners generally engaged in apparel manufacturing and/or apparel retailing. These parties were selected based on a number of factors, including their size, lines of business and history of making acquisitions. Of the eight potential strategic partners contacted, none requested a confidentiality agreement. The remaining three parties were financial sponsors with portfolio companies similar to our company or that had previously expressed an interest in the acquisition of apparel companies. Of the three financial buyers contacted, only two of the parties requested a confidentiality agreement, and only one of these parties executed the agreement and subsequently received an information package. None of the parties contacted, or any other third party, proposed an alternative transaction. Chanin reported on December 15, 2006 that no serious offers were made by any of such parties or any other third party.

In arriving at its opinion, Chanin performed a variety of valuation, financial, and comparative analyses. No company, transaction or business used in Chanin's analyses for comparative purposes is identical to our company, FOH Holdings or the proposed transactions. The summary of the analyses as set forth below covers the material 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. As part of its financial analyses. 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 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. The analyses summarized below include information presented in tabular format. The tables

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alone do not constitute a complete description of the analyses. Considering the data in the tables below without considering the full narrative description of the analyses, as well as the methodologies underlying and the

assumptions, qualifications and limitations affecting each analysis, could create a misleading or incomplete view of Chanin's analyses.

Transaction Overview. Based upon the merger consideration of approximately 23.7 million shares of our common stock plus the assumption of approximately $25.9 million of FOH Holdings' net indebtedness, Chanin noted that the merger consideration implied a transaction value of approximately $44.7 million for FOH Holdings based on our closing common stock price on November 14, 2006, the date prior to our announcement that we were exploring strategic alternatives to maximize shareholder value. Based on our closing common stock price on December 15, 2006, Chanin noted that the merger consideration implied a transaction value of approximately $56.7 million for FOH Holdings.

For purposes of its analyses, Chanin reviewed a number of financial and operating metrics including:

- Enterprise Value – generally the value as of a specified date of the relevant company's outstanding equity securities (taking into account its outstanding warrants and other convertible securities) plus the value of its net debt (the value of its outstanding indebtedness, preferred stock and capital lease obligations less the amount of cash on its balance sheet) as of a specified date.
- EBITDA – generally the amount of the relevant company's earnings before interest, taxes, depreciation and amortization for a specified time period.

Unless the context indicates otherwise, enterprise values used in the selected companies analysis described below were calculated using the closing price of the common stock of the selected companies listed below as of December 15, 2006, and the enterprise values for the target companies used in the selected transactions analysis described below were calculated as of the announcement date of the relevant transaction based on the purchase prices paid in the selected transactions. Accordingly, this information does not necessarily reflect current or future market conditions. Estimates of 2007 revenue and EBITDA for the selected companies listed below were based on publicly available research analyst estimates for the selected companies and were calendarized to equate to our June 30, 2007 fiscal year.

Publicly Traded Companies Analysis. Chanin compared financial and operating information and ratios for FOH Holdings with the corresponding information for a selected group of publicly traded companies using publicly available information with respect to the selected group of publicly traded companies and certain financial data of FOH Holdings. Based on its experience in the specialty retail and apparel industries and without excluding any particular company from its review, Chanin selected these companies because they engage in businesses and have operating profiles reasonably similar to those of FOH Holdings. The selected companies, all of which had a market capitalization of less than $1.0 billion 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.

For each of the selected publicly traded companies and FOH Holdings, Chanin calculated multiples of enterprise value and considered certain financial data. The calculated multiples included:

- Enterprise Value as a multiple of net sales over the latest twelve months, or LTM;
- Enterprise Value as a multiple of projected 2007 net sales;

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- Enterprise Value as a multiple of LTM, EBITDA; and
- Enterprise Value as a multiple of projected 2007 EBITDA.

Below are summary multiples for the nine selected publicly traded companies and FOH Holdings:

	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.

Enterprise value as a multiple of LTM net sales ranged from 0.38x to 1.38x. Chanin noted that the implied multiples of the merger consideration to be paid to FOH Holdings based on our closing stock prices as of November 14, 2006 and December 15, 2006,were at or below the range suggested by the enterprise value to LTM net sales multiples in the publicly traded companies analysis. Enterprise value as a multiple of projected 2007 net sales ranged from 0.37x to 1.33x. Chanin noted that the implied multiples of the merger consideration to be paid to FOH Holdings based on our closing stock prices as of November 14, 2006 and December 15, 2006,were at or below the range suggested by the enterprise to projected 2007 net sales multiples in the publicly traded companies analysis.

Enterprise value as a multiple of LTM EBITDA ranged from 6.1x to 11.1x. Chanin noted that the implied multiples of the merger consideration to be paid to FOH Holdings based on our closing stock prices as of November 14, 2006 and December 15, 2006, were in the middle to high end of the range suggested by the enterprise value to LTM EBITDA multiples in the publicly traded companies analysis. Enterprise value as a multiple of projected 2007 EBITDA ranged from 5.7x to 9.8x. Chanin noted that the implied multiples of the merger consideration to be paid to FOH Holdings based on our closing stock prices as of November 14, 2006 and December 15, 2006, were in the middle to high end of the range suggested by the enterprise value to projected 2007 EBITDA multiples in the publicly traded companies analysis.

Precedent Transaction Analysis. Chanin conducted a precedent transaction analysis to assess how other transactions with an aggregate purchase price of less than $1.0 billion were valued within the specialty retail and apparel industries. Without excluding any particular transaction from its review and using publicly available information, Chanin reviewed information relating to the following selected acquisitions and announced offers to acquire, which Chanin deemed relevant to arriving at its opinion:

- the then pending acquisition of La Senza Corp. by Limited Brands, Inc. for $694.6 million;
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the pending acquisition of Eddie Bauer Holdings, Inc. by Sun Capital Partners and Golden Gate Capital for $283.2 million;

- the acquisition of J. Jill Group, Inc. by Talbots, Inc. for $ 519.7 million;
- the acquisition of OshKosh B'Gosh, Inc. by William Carter Co. for $ 312.2 million;
- the acquisition of Maurices Incorporated by Dress Barn, Inc. for $328.6 million;
- the acquisition of Barneys New York, Inc. by Jones Apparel Group, Inc. for $289.4 million;
- the acquisition of Ben Sherman Limited by Oxford Industries, Inc. for $146.0 million;

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- the acquisition of Vans, Inc. by VF Corp. for $396.0 million;
- the acquisition of Loehmanns Holdings, Inc. by Arcapita, Inc. for $178.1 million;
- the acquisition of Hat World Corporation by Genesco, Inc. for $177.4 million;
- the acquisition of Elder Beerman Stores Corp. by Bon-Ton Stores, Inc. for $97.7 million; and
- the acquisition of The White House, Inc. by Chico's FAS, Inc. for $90.2 million.

For each of the selected precedent transactions, Chanin calculated multiples of enterprise value and considered certain financial data for each target company in each transaction. The calculated multiples included:

- Enterprise Value as a multiple of LTM, net sales; and
- Enterprise Value as a multiple of LTM, EBITDA.

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

	Enterprises Value as a Multiple of:	
	LTM Net Sales	LTM 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.

Enterprise value as a multiple of LTM net sales ranged from 0.30x to 1.45x. Chanin noted that the implied multiples of the merger consideration to be paid to FOH Holdings based on our closing stock prices as of November 14, 2006 and December 15, 2006 were at or below the range suggested by the enterprise value to LTM net sales multiples in the precedent transactions analysis.

Enterprise value as a multiple of LTM EBITDA ranged from 5.9x to 17.9x. Chanin noted that the implied multiples of the merger consideration to be paid to FOH Holdings based on our closing stock prices as of November 14, 2006 and December 15, 2006 were within the range suggested by the enterprise value to LTM EBITDA multiples in the precedent transactions analysis.

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 by calculating the net present value of the unlevered, after-tax debt free cash flows of FOH Holdings 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 the Publicly Traded Companies Analysis and the Precedent Transaction Analysis, ranging from 7.5x to 8.5x, which approximated the median multiples implied by those analyses. 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 based on the estimated cost of capital of FOH Holdings using the Capital Asset Pricing Model and metrics

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derived from the Publicly Traded Companies Analysis. 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. Chanin noted that the merger consideration of $44.7 million, based on our closing common stock price on November 14, 2006, and of $56.7 million based on our closing common stock price on December 15, 2006, was below or at the lower end of the range implied by its Discounted Cash Flow analysis.

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			
						Fully Diluted			
	Historical				Projected	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%

(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.

In the net sales contribution comparison, FOH Holdings’ contribution to net sales ranged from 66.9% to 72.9%. Chanin noted that the merger consideration implied an equity ownership for FOH Holdings below this range and an enterprise value contribution for FOH Holdings at the low end of this range. In the EBITDA contribution comparison, FOH Holdings’ contribution to EBITDA ranged from 64.3% to 100.0%. Chanin noted that the merger consideration implied an equity ownership for FOH Holdings below this range and an enterprise value contribution at the low end of this range.

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.

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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 of Movie Star’s directors and officers 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. Except as set forth below, Movie Star’s directors and officers will not receive any compensation or benefits as a result of the merger and related transactions.

- On April 9, 2007, we entered into a consulting agreement with Performance Enhancement Partners, LLC, pursuant to which Performance Enhancement Partners provides us with the personal services of Peter Cole, a current member of our board of directors and the sole

member of Performance Enhancement Partners, 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 Performance Enhancement Partners 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 26, 2008, Performance Enhancement Partners 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 Performance Enhancement Partners 100,000 shares of our common stock under the 2000 Performance Equity Plan and (ii) grant to Performance Enhancement Partners 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 Performance Enhancement Partners 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 Performance Enhancement Partners 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 ‘‘Amended and Restated 2000 Performance Equity Plan Proposal.’’

The consulting agreement provides that if the merger agreement is terminated or Performance Enhancement Partners terminates the consulting agreement for ‘‘Good Reason’’ (as defined in the consulting agreement) prior to the closing of the merger, we will pay Performance Enhancement Partners the base consulting fee through September 30, 2007, net of any additional consulting fee awarded and paid to Performance Enhancement Partners for the year ending July 28, 2007. The consulting agreement also provides that if, following the closing of the merger, we terminate Performance Enhancement Partners without ‘‘Cause’’ or Performance Enhancement Partners terminates the consulting agreement for ‘‘Good Reason’’, we will pay to Performance Enhancement Partners 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

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applicable extension period, as the case may be. Additionally, options that have been granted but not yet vested will 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 Performance Enhancement Partners (or earned and previously unpaid to Performance Enhancement Partners) under the consulting agreement prior to such termination.

- Following the closing of the merger, Thomas Rende, Movie Star's current Chief Financial Officer, will become the Chief Financial Officer of the combined company. Accordingly, we intend to enter into a new employment agreement with Mr. Rende to become effective upon the closing of the merger. We are in negotiation with Mr. Rende regarding the terms of his new employment agreement.
- 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 and the rights under the agreements. 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.
- Each Movie Star non-employee director currently receives the following compensation under the Movie Star Non-Employee Director Compensation Plan: (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. Non-employee directors may elect to be paid in cash and/or Movie Star common stock. Following the closing of the merger, it is anticipated that the plan will be amended to (i) increase the annual stipend to $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 and (ii) provide for payment of $2,500 per board or committee meeting attended in person (up from $2,000 per day) regardless of the number of meetings held that day. It is anticipated that the payment for telephonic meetings and the ability for non-employee directors to elect to be paid in cash and/or Movie Star stock would remain unchanged. It is also contemplated that, upon the approval of the amendment to the Movie Star Non-Employee Director Compensation Plan, 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, which will be exercisable immediately and will remain exercisable until the tenth anniversary of the date of grant.

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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.

The following discussion is a summary of the material U.S. federal income tax consequences of the merger that are generally applicable to holders of Movie Star common stock that do not have a special tax status (as described below). 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. Further, this discussion does not address all aspects of U.S. federal income taxation that may be relevant to a Movie Star shareholder in light of his or her particular circumstances or particular tax status, including if the shareholder is:

- a shareholder who is not a citizen or resident of the U.S.;
- a financial institution;
- a tax-exempt organization;
- an S Corporation or other pass-through entity;
- an insurance company;
- a mutual fund;
- a dealer in securities or foreign currencies;
- a trader in securities who elects the mark-to-market method of accounting;
- a person that has a functional currency other than the U.S. dollar;
- a shareholder who acquired his or her shares in connection with the exercise of a stock option or in any other compensatory transaction; or
- a shareholder who holds his or her shares as part of a hedge, straddle or a constructive sale or conversion transaction.

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 will have 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 will have 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

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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 the filings of a certificate of merger with the Secretary of State of the State of Delaware and our amended and restated certificate of incorporation with the Department of State of the State of New York. In addition, in order to effect the transactions contemplated by the merger agreement, we may be required to submit notification and report forms to the Department of Justice and the Federal Trade Commission pursuant to the HSR Act. Such filings will be triggered if the merger satisfies the ''size of the transaction'' test under the HSR Act, which in our case depends on whether the consideration to be paid for FOH Holdings exceeds $59.8 million. Since the consideration to be paid for FOH Holdings is based on the value of our common stock, and such value fluctuates, it is possible that we may not be required to make such filings. If we are required to make such filings, based on the HSR Act's market price method of valuing the transaction within 45 days of the closing, or we otherwise decide to make such filings, FOH Holdings and we will be required to provide the Department of Justice and the Federal Trade Commission certain information and materials relating to the transaction and our respective businesses in order to allow the regulators to review the transaction and make a determination that it is unlikely to present any antitrust issues. If HSR filings become necessary, we would expect to receive clearance to the merger from these regulators within the initial 30 calendar day waiting period that runs from submission of both parties' filings.

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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 to this proxy statement as Annex A and Annex B, respectively. 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 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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Exemption from Registration

The issuance of Movie Star common stock to the FOH Holdings stockholders in the merger is exempt from registration pursuant to Section 4(2) of the Securities Act and/or Rule 506 of Regulation D under the Securities Act. FOH Holdings has only two stockholder groups – Tokarz Investments and the Fursa managed accounts. Representatives of both Tokarz Investments and the Fursa managed accounts have signed the merger agreement (solely for purposes of certain sections) and the FOH Holdings’ stockholders agreement. Pursuant to the FOH Holdings’ stockholders agreement, each FOH Holdings stockholder has represented that: (i) such stockholder is an ‘‘accredited investor’’ within the meaning of Rule 501(a) of Regulation D under the Securities Act, and has sufficient knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of its investment in Movie Star common stock, (ii) such stockholder is capable of bearing the economic risks of the investment, (iii) such stockholder is acquiring the shares of Movie Star common stock issuable in the merger for investment for its own account and not with a view toward or for sale in connection with any distribution thereof, or with any present intention of distributing or selling such stock and (iv) such stockholder understands that the shares of Movie Star common stock to be issued in connection with the merger have not been and will not be registered under the Securities Act and are being issued in a transaction exempt from registration under the Securities Act and may not be transferred without registration under the Securities Act except pursuant to an exemption from such registration available under the Securities Act. In addition, each such stockholder has had both the opportunity to ask questions and receive answers from the officers and directors of Movie Star and has had access to Movie Star’s SEC filed reports.

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 FOH Holdings’ 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

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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;
- 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;

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- 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.

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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:

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- 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 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

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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
- 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

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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.’’

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

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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;
- 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 were 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 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.

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:

- 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.

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;

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- 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:

- 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 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:

- 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;

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- 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' stockholders agreement and the shareholders agreement.

Each of the conditions to the consummation of the merger and the other transactions contemplated by the merger agreement are for the benefit of the respective party and may be waived by such party in whole or in part to the extent permitted by law, rule or regulation, or other governmental authorization and approval.

We can provide no assurance that all of the conditions precedent to the merger will be satisfied or waived by the party permitted to do so, although as of the date of this proxy statement, we are not aware of any material uncertainty as to the satisfaction of any of the conditions to complete the merger, except for FOH Holdings' breach of its obligation to deliver certain financial statements by January 31, 2007 as more fully described under the section entitled ''The Merger and Related Transactions—Background of the Merger and Related Transactions.''

We cannot at this point determine whether the waiver of any particular condition would materially change the terms of the merger or the other transactions contemplated by the merger agreement. If we determine that a waiver of a condition would change the terms of the merger and the other transactions contemplated by the merger agreement in a material manner, or we should otherwise be required by applicable law, we will re-solicit proxies. In making our determination of whether the waiver of a particular condition would change the terms of the merger and the other transactions contemplated by the merger agreement in a material manner, we would consider, among other factors:

- the reasons for the waiver;
- the effect of the waiver on the terms of the merger and the other transactions contemplated by the merger agreement;
- whether the requirement being waived was necessary in order to make the transaction fair to our stockholders from a financial point of view; and
- the availability of alternative transactions to us and our prospects as an independent entity.

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 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;
- 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

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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, 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

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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 Documents—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
    - 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:

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- 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 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.

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.

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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,

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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;

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- 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.

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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 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

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- 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 all shares offered through the rights offering are 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. 333-143619) with the SEC for the

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registration under the Securities Act of non-transferable subscription 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.

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 an 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 exceeds (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 exceeds 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 condensed consolidated balance sheets as of July 28, 2007 for FOH Holdings and as of June 30, 2007 for Movie Star and gives effect to the merger and the other transactions contemplated by the merger agreement as if they had occurred on July 28, 2007. The unaudited pro forma condensed consolidated statements of operations for the year ended July 28, 2007 give effect to the merger and the other transactions contemplated by the merger agreement as if they had occurred on July 30, 2006. 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 in connection with the merger;
- the issuance of approximately 10.2 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 1.1 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 3.3 million shares of Series A Preferred Stock that are convertible into approximately 2.7 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 intangible assets and certain assumed liabilities. These amounts will change from the amounts shown based on the final valuations. Upon the closing of the transactions, we do not expect the final allocation of the acquisition consideration to 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 $2.31 per share was calculated using an average of the closing prices of Movie Star common stock for the twenty trading days ending on September 28, 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.

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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. Although we do not expect the differences to be significant the final allocation of the acquisition consideration will result in differences from the pro forma amounts reflected in the unaudited pro forma financial statements. Included in the consideration being paid are an estimated $3,000,000 in transaction costs that are being capitalized.
- 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 $2,391,000 for the year ended June 30, 2007. 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 year ended June 30, 2007, 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.

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 year ended June 30, 2007. These items consist of:

- 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.

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Unaudited Pro Forma Condensed Consolidated Balance Sheet
As of July 28, 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	$ 1,898	$ 53	$ 18,300[a]	$ 20,251
Accounts receivable	858	8,266	(312)[b]	8,812
Merchandise inventories	16,683	6,816	165[b][c]	23,664
Prepaid expenses and other current assets	6,458	291	(2,600)[d]	4,149

Deferred income tax assets	1,133	1,518	—	2,651
Total current assets	27,030	16,944	15,553	59,527
Property, plant and equipment, net	17,365	943	644(c)	18,952
Goodwill	6,678	537	5,335(d)	12,550
Intangibles and other assets	19,452	3,914	8,790(e)	32,156
Total Assets	$ 70,525	$ 22,338	$ 30,322	$ 123,185
Liabilities and Shareholders' Equity:				
Current liabilities:				
Revolving line of credit and term loans	$ 6,740	$ 4,126	$ —	$ 10,866
Current portion of long-term debt	4,343	57	—	4,400
Accounts payable and accrued expenses	20,585	3,171	175(b)(c)(d)	23,931
Total current liabilities	31,668	7,354	175	39,197
Deferred rent	2,744	269	(269)(c)	2,744
Long-term debt	15,086	—	(7,500)(f)	7,586
Other	17	110	—	127
Deferred income tax liabilities	8,369	—	3,995(g)	12,364
Total Liabilities	57,884	7,733	(3,599)	62,018
Series A preferred stock	—	—	7,500(f)	7,500
Total shareholders' equity	12,641	14,605	26,421(a)	53,667
Total Liabilities and Shareholders' Equity	$ 70,525	$ 22,338	$ 30,322	$ 123,185

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 28, 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	$ 155,238	$ 63,493	$ (3,201)(h)	$ 215,530
Cost of goods sold	90,201	43,144	(3,091)(h)	130,254
Gross profit	65,037	20,349	(110)	85,276
Selling, general and administrative expenses	61,996	17,434	1,479(h)	80,909
Merger-related fees	—	2,391	—	2,391
Gain on sale of property, plant and equipment	—	(496)	—	(496)
Operating income	3,041	1,020	(1,589)	2,472
Interest expense, net	2,093	604	(608)(i)	2,089
Income before income taxes and discontinued operations	948	416	(981)	383
Income tax provision	548	270	(665)(j)	153

Income from continuing operations	$ 400	$ 146	$ (316)	$ 230
Income from continuing operations		$ 146		$ 230
Less: Preferred stock dividends		—		(563)[(k)]
Income (loss) available to common shareholders		$ 146		$ (333)
Basic net income (loss) per share		$ 0.01		$ (0.01)
Diluted net income (loss) per share		$ 0.01		$ (0.01)
Weighted average shares outstanding – basic		16,089		45,348[(k)]
Weighted average shares outstanding – diluted		16,671		45,348[(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:

Equity portion of the purchase price (note d)	$ 22,726
Cash raised from rights offering	20,000
Less: Estimated offering issuance costs	(1,700)
Less: Historical Movie Star equity prior to the transactions	(14,605)
Pro forma adjustment to stockholders' equity	$ 26,421

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 common stock for the 20 trading days immediately preceding the record date less a 15% discount. For convenience purposes, an estimated price of $2.31 per share was calculated using an average of the per share closing prices of Movie Star common stock for the twenty trading days ending on September 28, 2007. Based upon an average share price of $2.31 and expected gross proceeds of $20 million, Movie Star expects to issue approximately 10.2 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	$ (312)
Inventory: Elimination of intercompany profit included in FOH Holdings inventory	(206)
Inventory: Intercompany timing difference	138
Accounts Payable: Elimination of accounts payable due from FOH Holdings to Movie Star	174
	$ (206)

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

$3,201 of sales from Movie Star to FOH Holdings during the year ended July 28, 2007, as well as the elimination of $206 of profit included in FOH Holdings' ending inventory as of July 28, 2007.

(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	$ 233
Property, plant and equipment	644
Deferred rent – short term	51
Deferred rent – long term	269
	$ 1,197

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. Although the final allocation of the purchase price will result in differences from the pro forma amounts included herein, we do not expect the differences to be significant. 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 of Movie Star common stock issued and outstanding at $1.36 per share)	$ 21,478
Issuance of 100,000 shares of Movie Star common stock to Performance Enhancement Partners, LLC	231
Estimated transaction costs (of which $2,600 has been accrued and $400 is to be accrued)	3,000
Stock options	1,017
Total purchase price	$ 25,726
Historical Movie Star net assets acquired	$ 14,605
Adjustment to historical net assets due to the elimination of intercompany activity (note b)	(206)
Adjusted historical net assets	$ 14,399
Excess purchase price over adjusted historical net assets acquired	$ 11,327
Fair Value Adjustments:	
Step-up of net tangible assets acquired (see note c)	$ (1,197)
Elimination of historical goodwill	537
Record intangible assets (see note e)	(8,790)
Deferred income taxes associated with step-up adjustments (see note g)	3,995
Excess purchase price over fair value of net assets acquired	5,872
Less adjustment to remove historical goodwill	(537)

Pro forma adjustment to goodwill	$ 5,335

The fair value of the common stock issued is based upon 15,792,787 issued and outstanding shares of Movie Star common stock as of December 18, 2006, the day prior to the announcement of the execution of the merger agreement at a price of $1.36 per share, the average of the closing prices of Movie Star common stock on the two trading days before and two trading days after December 18, 2006.

Upon the successful closing of the merger, Performance Enhancement Partners, LLC will be awarded 100,000 fully vested shares of Movie Star common stock. The fair value of the shares to be awarded have been included as a pro forma adjustment to the purchase price and to stockholders' equity based upon the estimated fair value of the shares on the date of issuance. For convenience purposes, we have assumed that the fair value of the 100,000 shares to be issued will be $231,000 based on the average closing share price of $2.31 per share for the twenty trading days ending on September 28, 2007.

The purchase price attributable to stock options represents the fair value of Movie Star's vested and unvested options valued using the Black-Scholes option pricing model as of December 18, 2006, net of the fair value of the Movie Star stock options attributable to future vesting requirements as of the expected consummation date.

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(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)	$ 4,400
Customer relationships	3,900
Other intangibles	490
Pro forma adjustment to other assets	$ 8,790

(f) Long-term Debt: Represents the conversion of $7.5 million of FOH Holdings long-term debt into an estimated 3.3 million shares of Series A 7.5% convertible redeemable 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 estimated price of $2.31 per share, which represents the average of the per share closing prices of Movie Star common stock for the twenty trading days ending on September 28, 2007. These shares are convertible into shares of Movie Star common stock at a conversion rate of 1.2 shares of Series A Preferred Stock for 1 share of common stock. The conversion rate equals a conversion price of $2.77 per share, which is a 20% premium to the original estimated price of $2.31 per share. Because the redemption of the Series A Preferred Stock is outside of Movie Star's control, it is considered to be mezzanine equity and has been recorded separately from stockholders' equity.

(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)	$ 8,790
Fair value adjustments to net tangible assets resulting from the transactions (note c)	1,197
Purchase accounting adjustments resulting in temporary tax differences	9,987
Assumed statutory tax rate	40.0%

Pro forma adjustment to other non-current liabilities for deferred income taxes	$ 3,995

The deferred income tax liability adjustment has been determined by using the overall assumed statutory tax rate for the year ended July 28, 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.

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	Fiscal Year Ended July 28, 2007
Pro forma adjustment to net sales for the elimination of intercompany sales (note b)	$ (3,201)
Pro forma elimination of intercompany profit included in inventory (note b)	110
Pro forma elimination of intercompany cost of goods sold, buying and occupancy (note b)	(3,201)
Total pro forma adjustment to cost of goods sold, buying and occupancy	$ (3,091)
Pro forma depreciation of property, plant and equipment	$ 19
Pro forma amortization of customer relationship intangibles	975
Pro forma amortization of other intangibles	84
Pro forma elimination of management fee	(200)
Pro forma adjustment of compensation expense	601
Total pro forma adjustment to selling, general and administrative expenses	$ 1,479

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: $975, $731, $548, $411, $308, and $711 in total thereafter.

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 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 for the year ended July 28, 2007.

(j) Income Taxes: An assumed statutory tax rate of 40% was used to calculate the consolidated pro forma tax expense for the year ended July 28, 2007.

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

	Fiscal Year Ended July 28, 2007
Issuance of common stock in connection with the rights offering	10,208
Issuance of common stock in connection with the merger (less outstanding shares held in escrow)	18,951
Issuance of common stock to consultant	100
Pro forma adjustment to the number of basic shares outstanding	29,259
Plus: Historical basic shares outstanding	16,089
Pro forma basic shares outstanding	45,348
Pro forma adjustment to the number of basic shares outstanding	29,259
Dilutive impact of outstanding escrowed shares	4,738
Dilutive impact of FOH Holdings options	740
Dilutive impact of warrants issued	116
Pro forma adjustment to diluted shares outstanding	34,853
Plus: Historical weighted average diluted shares outstanding	16,671
Pro forma dilutive average shares outstanding	51,524

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. These escrowed shares have been excluded from the basic earnings per share calculation because as of the consummation date of the merger, all of the conditions necessary for the shares to be returned will not have been met.

The pro forma adjustments related to the rights offering reflect the assumed issuance of 10.2 million shares of Movie Star common stock in connection with the rights offering, and an offering price that is based upon the average of the per share closing prices of Movie Star common stock for the twenty trading days ending on September 28, 2007 less a 15% discount. 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 warrants that will be issued as compensation to the standby purchasers under the standby purchase agreement. These dilutive shares of common stock, the options and the guarantor warrants were not included in the computation of the diluted net loss per share available to common shareholders on a consolidated basis for the year ended July 28, 2007 since their effect would be antidilutive. 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 $2.77 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, which we currently estimate to be approximately 37.7 million shares (based upon an estimated price of $2.31 per share, which represents the average of the closing prices of our common stock for the 20 trading days ending on September 28, 2007, and after giving effect to any applicable discounts or premiums), 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 16,434,095 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 3,250,000 shares of common stock in connection with our amended and restated 2000 performance equity plan 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 September 28, 2007, there were 16,434,095 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 16,434,095 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	16,434,095	14,790,686
7-for-8	16,434,095	14,379,833
1-for-2	16,434,095	8,217,048

(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 September 28, 2007, the closing sale price of our common stock on the American Stock Exchange was $2.26 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 September 28, 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 September 28, 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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AMENDED AND RESTATED 2000 PERFORMANCE EQUITY PLAN PROPOSAL

Our 2000 Performance Equity Plan was adopted by the board of directors on February 22, 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 September 28, 2007, 114,880 shares of common stock are available under the Plan for future grants.

Proposed Amendments

The board of directors proposes to amend and restate the Plan to increase the number of shares issuable under the Plan from 750,000 shares to 4,000,000 shares, to add a 500,000 share limit on grants to any individual in any one calendar year in order for the Plan to comply with Section 162(m) of the Internal Revenue Code and to make other changes to comply with Section 409A of the Internal Revenue Code. The adoption of the Amended and Restated 2000 Performance Equity Plan is not a condition to the merger but the board believes that the proposed changes to the 2000 Performance Equity Plan, including the increase in the size of the Plan, is necessary in connection with the merger to cover 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.

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.

Currently, the Plan does not qualify as a performance-based plan under Internal Revenue Code section 162(m) because it does not contain a provision limiting the number of shares that may be awarded to any one holder in any one calendar year. We are now requesting that shareholders approve the amended and restated Plan to add a 500,000 share limit on grants to any individual in any one calendar year. We believe that this limit is appropriate given the proposed increase in the number of shares available for issuance 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

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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 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.

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 has amended the Plan to comply with Section 409A.

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

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reload options. The exercise price of stock reload options will be the fair market value of common stock as of the date the option is granted. 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.

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 expressly provided in an award agreement, the Compensation Committee may, if there is a ‘‘Change in Control’’ and if approved by the board of directors, (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. A ‘‘Change in Control’’ means (i) the acquisition by any person or group of more than 50% of the total fair market value or voting power of our outstanding stock, (ii) replacement of a majority of the board of directors which is not endorsed by a majority of the board; and (iii) a sale of more than 40% of our assets. 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

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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. 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.

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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 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.''

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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 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).

Stock and Option Transactions

The following table presents certain information with respect to common stock issued and options granted under the 2000 Performance Equity Plan as of September 28, 2007 to (i) Movie Star’s named executive officers, (ii) the named executive officers as a group, (iii) all non-executive officer employees as a group and (iv) all non-employee directors as a group.

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Stock and Option Transactions
2000 Performance Equity Plan

Name and Position	Number of Shares
Melvyn Knigin Chairman, President and Chief Executive Officer	9,615[(1)]
Saul Pomerantz Executive Vice President and Chief Operating Officer	130,000
Thomas Rende Senior Vice President and Chief Financial Officer	70,000
Executive Group	209,615
Non-Executive Director Group (4 persons)	240,505[(2)]
Non-Executive Officer Employee Group	95,000

(1) Represents shares of restricted stock, the number of which was determined by dividing $25,000 by the last sale price of a share of Movie Star common stock on June 29, 2007. Mr. Knigin also will be issued a number of shares of restricted stock determined by dividing $25,000 by the last sale price of Movie Star common stock on July 1, 2008. All such shares will vest on June 30, 2009 provided Mr. Knigin is employed by us on such date.

(2) Represents (i) 48,000 shares of common stock issued or issuable upon exercise of options under the 2000 Performance Equity Plan granted to non-employee directors pursuant to our Non-Employee Director Compensation Plan and (ii) 192,505 shares of common stock issued to non-employee directors under our Non-Employee Director Compensation Plan, which provides for each non-employee director to elect to receive their annual stipend and meeting fees in cash and/or shares of our common stock under our 2000 Performance Equity Plan in such proportion as is determined by each non-employee director at the beginning of each calendar year. 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.

New Plan Benefits

As of September 28, 2007, no options or other stock awards have been granted on the basis of the 3,250,000 share increase for which shareholder approval is sought under the amended and restated 2000 performance equity plan proposal. As of September 28, 2007, the closing price of our common stock was $2.26 per share. Since future issuances under the 2000 Performance Equity Plan will depend on the receipt of shareholder approval to: increase the number of shares authorized for issuance under the plan; the individuals selected at the discretion of the compensation committee to receive awards; the number of shares to be awarded; and the fair market value of our common stock at various future dates, it is not possible at this time to determine the benefits that will be received under the plan by all eligible employees, officers, directors or consultants. However, the board of directors has approved granting Performance Enhancement Partners, LLC, of which Peter Cole is the sole member, 100,000 shares of common stock and options to purchase 275,000 shares of 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, contingent upon completion of the merger and shareholder approval of the increase in shares under the 2000 Performance Equity Plan. It is also contemplated that, upon the approval by our board following the closing of the merger of an amendment to the Movie Star Non-Employee Director Compensation Plan, each of the seven non-employee directors will be granted an option under the 2000 Performance Equity Plan to purchase 15,000 shares of common stock at an exercise price equal to the last sale price of our common stock on the date of grant. The ''New Plan Benefits'' table below sets forth information regarding benefits to be provided under the 2000 Performance Equity Plan only to the extent as can reasonably be anticipated as of September 28, 2007.

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NEW PLAN BENEFITS
2000 Performance Equity Plan

Name and Position	Number of Shares	Dollar Value ($)
Peter Cole	100,000(1)	$ 226,000(2)
Executive Chairman	275,000(3)	345,000(4)
Thomas Rende	Unknown at this time	Unknown at this time
Chief Financial Officer		
Melvyn Knigin	Unknown at this time	Unknown at this time
CEO, Movie Star division		
Linda LoRe	Unknown at this time	Unknown at this time
CEO, Frederick's division		
Executive Group	Unknown at this time	Unknown at this time
Non-Executive Director Group (7 persons)	105,000(5)	146,000(6)
Non-Executive Officer Employee Group	Unknown at this time	Unknown at this time

(1) Represents 100,000 shares of our common stock to be issued on the closing date of the merger.
(2) Calculated based on $2.26 per share closing price of Movie Star common stock on September 28, 2007.
(3) Represents 275,000 shares of our common stock issuable upon exercise of options to be granted on the closing date of the merger.
(4) The estimated fair value of the options was calculated using the Black-Scholes option-pricing model with an assumed exercise price of $2.26 per share, which was the closing price of Movie Star common stock on September 28, 2007. The following weighted-average assumptions were used for the expected grant: risk-free interest rate 4.23%; expected life of 5 years; expected volatility 61% and expected dividends of zero. The fair value generated by the Black-Scholes model may not be indicative of the future benefit, if any, that may be received by the option holder.
(5) Represents an aggregate of 105,000 shares of our common stock issuable upon exercise of options to be granted to the non-employee directors following the closing of the merger.
(6) The estimated fair value of the options was calculated using the Black-Scholes option-pricing model with an assumed exercise price of $2.26 per share, which was the closing price of Movie Star's stock on September 28, 2007. The following weighted-average assumptions were used for the expected grant: risk-free interest rate 4.38%; expected life of 7 years; expected volatility 61% and expected dividends of zero. The fair value generated by the Black-Scholes model may not be indicative of the future benefit, if any, that may be received by the option holder.

Required Vote

The approval of the amended and restated 2000 performance equity plan 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 OUR AMENDED AND RESTATED 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	44	Director
Rose Peabody Lynch	58	Director
Thomas J. Lynch	39	Director
Michael A. Salberg	55	Director
Joel M. Simon	62	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 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,

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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 and 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 1985 through 1996, and a practicing CPA from 1967 through 1984. 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, 2007, the board of directors met nine times and acted by unanimous written consent on two occasions. We did not hold an annual meeting of shareholders in 2006, but all of our directors attended the 2005 annual meeting of shareholders. Although we do not have a 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 2007. 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 four times during fiscal 2007, 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 2007.

Principal Accountant Fees

The following table summarizes the aggregate fees (rounded to the nearest $1,000) billed to us for the fiscal years ended June 30, 2007 and 2006 for professional services rendered by our principal accountant, Mahoney Cohen &

Company, CPA, P.C.

	Years Ended June 30,	
	2007	2006
Audit Fees[(1)]	$ 93,000	$ 93,000
Audit Related Fees[(2)]	30,000	20,000
Tax Fees[(3)]	10,000	11,000
All Other Fees[(4)]	185,000	—
	$ 318,000	$ 124,000

(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 by our principal accountant in connection with the audit of our employee benefit plans, the review of our response to Securities and Exchange Commission's comments letter and the review of our Form 10-K/A for fiscal 2006.

(3) Represents the aggregate fees billed for professional services rendered by our principal accountant for tax compliance, tax advice and tax planning.

(4) Represents aggregate fees billed for due diligence related to the merger.

Audit Committee Report for the Fiscal Year Ended June 30, 2007

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.

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 for the fiscal year ended June 30, 2007, 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'' 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.

Nominating Committee Information

General

Our nominating committee, which held one meeting during fiscal 2007, 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 2007, 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.

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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

Compensation Discussion and Analysis

Introduction

Our compensation committee is currently comprised of Michael Salberg and Joel M. Simon, each an independent director under the American Stock Exchange listing standards. Peter Cole served as chairman of the compensation committee until April 2007, when we entered into the consulting agreement with Performance Enhancement Partners. During the fiscal year ended June 30, 2007, the compensation committee met six times and acted by unanimous consent on three occasions.

The responsibilities of the compensation committee include:

- establishing the general compensation policy for our executive officers, including the chief executive officer;

- administering the 1994 Incentive Stock Option Plan, 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
- determining who participates in each of these plans, establishing performance goals and target payouts, and determining specific grants and bonus awards to the participants.

General Philosophy

Our compensation policies, established by our compensation committee, are generally designed to provide competitive levels of compensation that integrate pay with Movie Star's annual performance and long-term business objectives, reward above average corporate performance, recognize individual initiative and achievements, and assist us in attracting, motivating and retaining highly qualified executives.

The compensation committee makes all final determinations with respect to compensation of executive officers based on its assessment of the value of each executive's contribution, 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 compensation levels at companies considered to be comparable to our company. Our compensation committee considers recommendations from our chief executive officer relating to the compensation of our other executive officers, but the chief executive officer does not make recommendations regarding his own compensation. Executive officers other than our chief executive officer generally are not involved in determining executive compensation.

We generally provide our executive officers with a compensation package consisting of a base salary, performance-based cash compensation and long-term compensation in the form of stock options and other stock-based awards. We also offer them participation in benefit plans generally available to other employees, as well as enhanced benefits such as life insurance, long-term disability insurance and an automobile allowance. We view the three components of executive compensation as related but distinct and maintain a philosophy that significant compensation derived from one component should not negate or reduce compensation from other components. In setting total compensation, the compensation committee considers individual and company performance, as well as market information regarding compensation paid by other companies in our industry. While the compensation committee has not established set percentages of total compensation that are allocated to salary, performance-based compensation and equity incentives, base salary historically has comprised a greater portion of an executive's overall compensation, which is in line with industry practice.

From time to time, our compensation committee also may utilize the services of third parties, including subscriptions to executive compensation surveys and other databases, to assist with their review of compensation for executive officers. Our compensation committee is charged with performing an annual review of the compensation of our executive officers to determine whether they are provided with adequate incentives and motivation, and whether they are adequately compensated relative to comparable-level officers in other companies in our industry.

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Benchmarking

Our compensation committee believes that it is important when making compensation-related decisions to be informed as to current practices of similarly situated publicly held apparel manufacturers. While the compensation committee does not engage in a formalized benchmarking process, it analyzes the cash and equity compensation

practices of a number of different publicly held apparel manufacturers deemed to be comparable to our company through the review of such companies' public reports and other resources. If the compensation committee determines to engage in benchmarking in the future, it is expected that any companies chosen for inclusion in any benchmarking group would have some business characteristics similar to ours, such as revenues, financial growth metrics, stage of development, employee headcount and market capitalization.

Compensation Components

Base Salary. Generally, executive base salaries are established by the compensation committee based on its assessment of the value of each executive's contribution and relative responsibilities and, to a lesser extent, prevailing compensation levels at companies considered to be comparable to our company. We seek to maintain base salary amounts at or near industry norms while avoiding paying amounts in excess of what we believe are necessary to motivate executives to meet corporate goals. Base salaries are generally reviewed annually, subject to terms of employment agreements, and our compensation committee will seek to adjust base salary amounts to realign such salaries with industry norms after taking into account individual responsibilities, performance and experience.

During fiscal 2007, we entered into new employment agreements with each of Melvyn Knigin, our Chief Executive Officer, Saul Pomerantz, our Chief Operating Officer, and Thomas Rende, our Chief Financial Officer. We collectively refer to these three executives as our ''named executive officers.'' Following an assessment of the contributions to our company by Messrs. Pomerantz and Rende and their respective current and anticipated future responsibilities, the compensation committee increased their annual base salaries as part of their extended employment terms. Due to Mr. Knigin's decision to transition to retirement and our desire to continue his employment through the transition period, the compensation committee determined to keep Mr. Knigin's annual base compensation for fiscal years 2007 through 2009 at the same level and then set his annual base compensation for fiscal years 2010 and 2011 to reflect both reduced responsibilities and a three-day-a-week schedule. Base salaries for the named executive officers for the fiscal year ended June 30, 2007 are reflected in the Summary Compensation Table below.

Bonuses. A component of each executive officer's potential short-term incentive compensation may take the form of a performance-based bonus. Bonus compensation to executive officers is primarily based upon our financial performance; however, in its discretion, the compensation committee also may award bonuses outside of this plan for individual performance based on each executive's relative position, responsibilities and contributions to our company.

Awards based upon our financial performance are made under our 1998 Senior Executive Incentive Plan, pursuant to which the compensation committee has the discretion to award cash compensation to senior executives up to an aggregate amount not to exceed 6.75% of net income before taxes over the base amount of $1,200,000. In fiscal 2007, our three executive officers were awarded an aggregate of 5.25% of net income before taxes (and excluding merger-related fees) over $1,200,000 and less than $3,200,000 and were awarded an aggregate of 6.75% of net income before taxes (and excluding merger-related fees) in excess of $3,200,000. Since the adoption of the plan in 1998, the compensation committee has awarded our executive officers participating in the plan the maximum amount permitted to be awarded based upon our pre-tax net income over the base amount.

Pursuant to their respective employment agreements, each of our named executive officers is entitled to a specified percentage of the amount available under the 1998 Senior Executive Incentive Plan. The individual percentages are determined in the discretion of the compensation committee based upon each executive officer's relative rank and level of responsibility. See Footnote 3 to the Summary Compensation Table below for a breakdown of the percentages. Awards to our named executive officers for the fiscal year ended June 30, 2007 under the 1998 Senior Executive Incentive Plan are reflected in the Summary

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Compensation Table below. Our named executive officers did not receive any bonuses in addition to those awarded under the 1998 Senior Executive Plan in fiscal 2007.

Long-Term Incentives. Long-term incentives are provided through equity awards, which reward executives and other employees through the growth in value of our stock. The compensation committee believes that employee equity ownership provides an incentive for employees to build shareholder value and serves to align the interests of employees with those of our shareholders. Grants of stock options and stock-based awards to executive officers are based upon each officer's relative position, responsibilities and contributions to Movie Star, with primary weight given to the individual's relative rank and responsibilities. Stock options are generally granted at an exercise price equal to or greater than the market price of our common stock on the date of grant and will provide value only to the extent that the price of our common stock increases over the exercise price. In order to provide an incentive for continued employment, stock options granted under our equity plans generally vest 20% on each of the first through fifth anniversaries of the date of grant, and generally expire ten years from the date of grant. This allows us to align long-term compensation with the appreciation of our stock price and the long-term performance of our company while effectively managing potential dilution.

Equity awards are granted under our Amended and Restated 1988 Non-Qualified Stock Option Plan and 2000 Performance Equity Plan.

- The 1988 Non-Qualified Stock Option Plan. This plan provides for grants of stock options to key management personnel. Grants may be made to such individuals upon their employment or at subsequent dates based on recommendations made by the chief executive officer to the compensation committee. To the extent permitted under the plan, the compensation committee has authority to determine the participants, allotment of shares, price and other conditions tied to awards.

During fiscal 2007, in connection with entering into employment agreements to continue their employment with Movie Star, we granted 500,000 options to Melvyn Knigin, 50,000 options to Saul Pomerantz and 150,000 options to Thomas Rende under the 1988 plan. The options granted to Messrs. Pomerantz and Rende contain the typical five-year vesting and ten-year expiration provisions. Due to Mr. Knigin's decision to transition toward retirement, his options vest 25% on each of the grant date, the six-month anniversary of the grant date, the first anniversary of the grant date and the second anniversary of the grant date.

- The 2000 Performance Equity Plan. This plan generally provides for grants of stock options, restricted stock awards and other stock-based awards to our employees, officers, directors and consultants. Grants may be made to such individuals upon their employment or at subsequent dates based on recommendations made by the chief executive officer to the compensation committee. To the extent permitted under the provisions of the plan, the compensation committee has authority to determine the participants, allotment of shares, price and other conditions tied to awards.

During fiscal 2007, we did not grant any stock options to executive officers under the 2000 plan. However, subsequent to June 30, 2007, pursuant to the terms of Melvyn Knigin's employment agreement, we issued him 9,615 shares of restricted stock under the 2000 plan. The number of shares was determined by dividing $25,000 by the last sale price of a share of our common stock on June 29, 2007. Provided that Mr. Knigin is employed by us on July 1, 2008, we will issue him additional shares of restricted stock, with the number of shares to be determined by dividing $25,000 by the last sale price of a share of our common stock on such date. Both the shares issued on July 1, 2007 and the shares

to be issued on July 1, 2008 will vest on June 30, 2009. The compensation committee determined to include this restricted stock grant in Mr. Knigin's compensation package in lieu of an annual base salary increase. This grant affords Mr. Knigin the opportunity to capitalize upon the growth in value of our stock.

Other Compensation. We have established and maintain various employee benefit plans, including medical, life insurance and 401(k) plans. These plans are available to all salaried employees and do not discriminate in favor of executive officers. We also generally provide our senior executives the following

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additional benefits, which vary in amount and value according to the executive's position and level of responsibility as determined by the compensation committee:

- a supplemental term life insurance policy;
- a disability insurance policy providing a monthly non-taxable benefit, payable to the senior executive in the event of his or her disability;
- payment of medical insurance premiums covering the senior executive and his or her dependent family members; and
- an automobile allowance.

We do not have pension or other retirement benefits or any type of nonqualified deferred compensation programs for our executives or other employees other than our Retired Senior Executive Medical Plan, in which the named executive officers are eligible to participate upon the attainment of a certain age and other eligibility requirements.

Severance benefits

We currently do not have a severance benefits plan. We may consider the adoption of a severance plan for executive officers and other employees in the future. The employment agreements with Thomas Rende and Saul Pomerantz provide for certain payments in the event of termination of their employment. For a detailed discussion of these payments, see ''Potential Termination Payments.''

Executive Equity Ownership

We encourage our executives to hold an equity interest in our company. However, we currently do not have specific share retention and ownership guidelines for our executives.

Performance-Based Compensation and Financial Restatement

We have not considered or implemented a policy regarding retroactive adjustments to any cash or equity-based incentive compensation paid to our executives and other employees where such payments were predicated upon the achievement of certain financial results that were subsequently the object of a financial restatement.

Tax and Accounting Considerations

Deductibility of Compensation. Internal Revenue Code Section 162(m) limits to $1,000,000 per officer the amount of annual compensation we may deduct when paid to the chief executive officer and the four other most highly

compensated officers. The law does, however, allow us to deduct compensation over $1,000,000 if it is ‘‘performance based’’ and paid under a formal compensation plan that meets the Internal Revenue Code’s requirements. The 1988 Non-Qualified Stock Option Plan and the 2000 Performance Equity Plan currently do not qualify as performance-based plans in accordance with Section 162(m). However, we are seeking shareholder approval in this proxy statement to qualify the 2000 Performance Equity Plan as a performance-based compensation plan under Section 162(m). To maintain flexibility, we have no policy requiring that all executive officer compensation be fully deductible. However, our compensation committee expects that we will be able to fully deduct all fiscal 2007 compensation expense.

Accounting for Stock-Based Compensation. Since we adopted Statement of Financial Accounting Standards No. 123(R), ‘‘Share-Based Payment,’’ on July 1, 2005, we are required to record the fair value of share-based stock option grants as a non-cash expense for financial reporting purposes utilizing an option pricing model, in our case the Black-Scholes model, to compute the amount of expense to be recognized. We are aware of the effect that this has on our, and other companies’ reported earnings per share and, in light of the accounting and tax treatment, our compensation committee reviews whether stock option grants to our executives and directors are an efficient means of providing appropriate long-term incentives.

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Compensation Committee Report

The compensation committee has reviewed and discussed with management the information contained in the ‘‘Compensation Discussion and Analysis’’ section of this proxy statement and, based upon the review and discussions, recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement.

Members of the Compensation Committee:

Michael Salberg

Joel M. Simon

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 2007 served, as a member of the compensation committee.

Summary Compensation Table

The following table sets forth the compensation paid to or earned by each of the named executive officers for the fiscal year ended June 30, 2007:

	Salary ($)	Total ($)

Name and Principal Position	Fiscal Year		Stock Awards ($)[1]	Option Awards ($)[2]	Non-Equity Incentive Plan Compensation ($)[3]	All Other Compensation($)[4]	
Melvyn Knigin President and Chief Executive Officer	2007	$575,000[5]	$13,636	$183,594	$50,930	$39,463	$862,623
Thomas Rende Senior Vice President and Chief Financial Officer	2007	231,616[6]	—	21,113	16,977	26,031	295,737
Saul Pomerantz Executive Vice President and Chief Operating Officer	2007	250,115[7]	—	10,325	21,220	25,743	307,403

(1) Represents stock-based compensation expense, as computed in accordance with Statement of Financial Accounting Standards No. 123(R) Share-Based Payment, (''SFAS 123(R)''), recorded during the year ended June 30, 2007 relating to restricted stock that is to be granted to Mr. Knigin on each of July 1, 2007 and July 1, 2008. Provided that Mr. Knigin is employed by us on each such date, we will issue to Mr. Knigin 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 of Mr. Knigin's shares vest on June 30, 2009.

(2) Represents the dollar amount recognized for financial statement reporting purposes during the fiscal year ended June 30, 2007, computed in accordance SFAS 123(R), except that, pursuant to the rules of the Securities and Exchange Commission relating to executive compensation disclosure, the amounts exclude the impact of estimated forfeitures related to service-based vesting conditions. Under SFAS 123(R), the amount recognized in fiscal year 2007 includes amounts related to options granted in prior fiscal years, as well as in fiscal year 2007. Assumptions used in the calculation of these amounts are disclosed in Note 1 to our audited consolidated financial statements for the year ended June 30, 2007 included elsewhere in this proxy statement.

(3) For fiscal 2007, each of the three named executive officers earned a bonus in accordance with the terms of our 1998 Senior Executive Incentive Plan, as amended. Under the 1998 Senior Executive Incentive Plan, the compensation committee has the discretion to award non-equity incentive

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compensation to senior executives in an amount not to exceed 6.75% of net income before taxes over the base amount of $1,200,000. The compensation earned by the named executive officers is based on a percentage of our net income before taxes and before the calculation of all compensation under the 1998 Senior Executive Incentive Plan for such fiscal year, and excludes the merger-related fees (''Net Income''). The compensation is calculated at two levels, the first level is based on Net Income in excess of $1,200,000 and up to $3,200,000, and the second level is based on Net Income in excess of $3,200,000. The following table shows the percentages that Messrs. Knigin, Pomerantz and Rende are entitled to receive under their respective employment agreements:

Named Executive Officer	Net Income From $1,200,000 to $3,200,000	Net Income in Excess of $3,200,000
Melvyn Knigin	3.0%	3.75%
Thomas Rende	1.0%	1.25%
Saul Pomerantz	1.25%	1.75%

(4) Represents payments that we made for the named executive officers as follows:

Named Executive Officer	Life Insurance	Long Term Disability Insurance	Group Health Insurance	Automobile Expenses	Matching Contribution Under the 401(k) Plan	Total
Melvyn Knigin	$ 9,102	$ 9,446	$ 14,990	$ 5,300	$ 625	$ 39,463
Thomas Rende	2,802	3,225	15,153	2,501	2,350	26,031
Saul Pomerantz	3,229	2,835	11,620	5,909	2,150	25,743

(5) In accordance with Mr. Knigin's amended and restated employment agreement dated October 3, 2006, his annual base salary increased from $550,000 to $575,000 effective July 1, 2006.

(6) In accordance with Mr. Rende's amended and restated employment agreement dated November 28, 2006, his annual base salary increased from $220,000 to $240,000 effective December 1, 2006.

(7) In accordance with Mr. Pomerantz's amended and restated employment agreement dated October 13, 2006, his annual base salary increased from $250,000 to $280,000 effective December 1, 2006.

Compensation Arrangements for Executive Officers

Current Movie Star Executive Officers

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 26, 2008, with corresponding adjustments, and the fiscal year ending 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

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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 the year ended June 30, 2007, the thirteen month period ending July 26, 2008 and the fiscal year ending 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. Mr. Knigin's employment agreement does not contain any change of control provisions.

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 26, 2008, with corresponding adjustments, and the fiscal years ending 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

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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 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. Mr. Rende’s employment agreement does not contain any change of control provisions.

Following the closing of the merger, Mr. Rende will become the Chief Financial Officer of the combined company. Accordingly, we intend to enter into a new employment agreement with Mr. Rende to become effective upon the closing of the merger. We are in negotiation with Mr. Rende regarding the terms of his new employment agreement.

Saul Pomerantz

On October 13, 2006, we entered into an amended and restated employment agreement with Saul Pomerantz, pursuant to which Mr. Pomerantz will continue to be employed as our Executive Vice President and Chief Operating Officer until June 30, 2009. Mr. Pomerantz’s employment agreement provides that he will receive (i) a base salary of $250,000 per year until November 30, 2006 and then a base salary of $280,000 per year commencing December 1, 2006 until June 30, 2009, and (ii) for each of the fiscal years ending June 30, 2007, 2008 and 2009, a bonus equal to 1.25% of Employment Agreement Net Income in excess of $1,200,000 and up to $3,200,000, and equal to 1.75% of Employment Agreement Net Income in excess of $3,200,000. In addition to his base salary, on October 13, 2006, we granted Mr. Pomerantz a ten-year non-qualified option to purchase 50,000 shares of our common stock under our Amended and Restated 1988 Stock Option Plan at a price of $1.00 per share, exercisable as to 10,000 shares on each of the first through fifth anniversaries of the date of grant. The employment agreement also provides that if, during the employment term, we terminate Mr. Pomerantz 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. Pomerantz’s employment agreement also provides for us to pay the premiums on a life insurance policy for him providing a death

benefit of $1,200,000 to Mr. Pomerantz's designated beneficiary and a disability insurance policy for Mr. Pomerantz providing a non-taxable benefit of at least $4,500 per month payable to Mr. Pomerantz in the event of his disability. Under the agreement, Mr. Pomerantz 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. Mr. Pomerantz's employment agreement does not contain any change of control provisions.

Combined Company Executive Officers

After the merger, in accordance with the merger agreement, the newly constituted board of directors will appoint Peter Cole as Executive Chairman of the combined company, Thomas Rende as Chief

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Financial Officer of the combined company, 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. The employment agreements for Messrs. Knigin and Rende are described above under ''Current Movie Star Executive Officers'' and the consulting agreement for Performance Enhancement Partners, LLC (of which Peter Cole is the sole member) and the employment agreement for Linda LoRe are described below.

Peter Cole

On April 9, 2007, we entered into a consulting agreement with Performance Enhancement Partners, LLC, pursuant to which Performance Enhancement Partners provides us with the personal services of Peter Cole, a current member of our board of directors and the sole member of Performance Enhancement Partners, 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 Performance Enhancement Partners 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 26, 2008, Performance Enhancement Partners 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 Performance Enhancement Partners 100,000 shares of our common stock under the 2000 Performance Equity Plan and (ii) grant to Performance Enhancement Partners 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 Performance Enhancement Partners 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 Performance Enhancement Partners 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 ''Amended and Restated 2000 Performance Equity Plan Proposal.''

The consulting agreement provides that if the merger agreement is terminated or Performance Enhancement Partners terminates the consulting agreement for ''good reason'' (as defined in the consulting agreement) prior to the closing of the merger, we will pay Performance Enhancement Partners the base consulting fee through September 30, 2007, net of any additional consulting fee awarded and paid to Performance Enhancement Partners for the year ended July 28, 2007. The consulting agreement also provides that if, following the closing of the merger, we terminate Performance Enhancement Partners without ''cause'' or Performance Enhancement Partners terminates the consulting agreement for ''good reason'', we will pay to Performance Enhancement Partners 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.

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Linda LoRe

FOH Holdings entered into a three-year 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. 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. 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. The initial term of the employment agreement ended on July 28, 2007 and was automatically renewed for an additional 12-month period. FOH Holdings is currently in negotiation with Ms. LoRe regarding the terms of a new employment agreement.

Grants of Plan-Based Awards

The following table sets forth information regarding awards to the named executive officers under our non-equity incentive compensation and stock option plans during the fiscal year ended June 30, 2007. There can be no assurance that the Grant Date Fair Value of the Option Awards will ever be realized by the individual. The amount of these awards that was expensed is included in the Summary Compensation Table:

Name

	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards[1] Target ($)	Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/sh)	Closing Market Price of Option Awards on the Grant Date ($/sh)[2]	Grant Date Fair Value of Option Awards ($)[3]
Melvyn Knigin	10/03/06	$ 50,930	500,000[4]	$ 1.00	$ 0.81	$ 235,000
Thomas Rende	10/13/06	16,977	150,000[5]	1.00	0.85	75,000
Saul Pomerantz	10/13/06	21,220	50,000[5]	1.00	0.85	25,000

(1) Messrs. Knigin, Rende and Pomerantz's respective employment agreements each provide for non-equity incentive plan compensation payments based on the percentages described in Footnote 3 to the Summary Compensation Table above. The agreements do not provide for a threshold or maximum amount. Because the target amount is not determinable, the actual amounts earned by Messrs. Knigin, Rende and Pomerantz during fiscal year 2007 under these provisions are reflected in this table.
(2) Represents the closing price of our common stock on the date of grant.
(3) The fair value of the options was calculated using the Black-Scholes option-pricing model with the following weighted-average assumptions used for each grant: risk-free interest rate 4.56%; expected life 7 years; expected volatility 57% and expected dividends of zero. The fair value generated by the Black-Scholes model may not be indicative of the future benefit, if any, that may be received by the option holder.

We account for our stock-based employee compensation arrangements under SFAS No. 123(R), which requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements.

The 500,000 options were granted to Mr. Knigin on October 3, 2006, with a fair value calculated at $0.47 per share. The 150,000 options and 50,000 options were granted to Messrs. Rende and Pomerantz, respectively, on October 13, 2006, with a fair value calculated at $0.50 per share.

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(4) These options vest 25% on the grant date, 25% on the six-month anniversary of the grant date, 25% on the first anniversary of the grant date and 25% on the second anniversary of the grant date.
(5) These options vest 20% on each of the first through fifth anniversaries of the grant date.

Outstanding Equity Awards at Fiscal Year-End

The following table summarizes the outstanding option awards as of June 30, 2007 for each of the named executive officers:

	Option Awards			
Name	Number of Securities	Number of Securities	Option Exercise	Option Expiration

	Underlying Unexercised Exercisable Options (#)	Underlying Unexercised Un-exercisable Options (#)	Price ($)	Date
Melvyn Knigin	250,000	250,000[1]	$ 1.00	10/02/16
Thomas Rende	35,000	—	0.63	11/03/08
	35,000	—	1.06	02/21/10
	35,000	—	0.69	06/29/10
	30,000	45,000[2]	1.45	12/09/14
	—	150,000[3]	1.00	10/12/16
Saul Pomerantz	75,000	—	0.63	11/03/08
	75,000	—	1.63	11/03/08
	65,000	—	1.06	02/21/10
	65,000	—	0.69	06/29/10
	20,000	30,000[4]	1.45	12/09/14
	—	50,000[5]	1.00	10/12/16

(1) This option vests in two equal installments of 125,000 shares on each of October 3, 2007 and October 3, 2008.

(2) These options vest in three equal annual installments of 15,000 shares beginning on December 10, 2007.

(3) These options vest in five equal annual installments of 30,000 shares beginning on October 13, 2007.

(4) These options vest in three equal annual installments of 10,000 shares beginning on December 10, 2007.

(5) These options vest in five equal annual installments of 10,000 shares beginning on October 13, 2007.

Option Exercises in Fiscal 2007

The following table sets forth certain information concerning stock options exercised by each of the named executive officers for the fiscal year ended June 30, 2007:

	Option Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise $[1]
Melvyn Knigin	—	—
Thomas Rende	50,000	$ 83,750
Saul Pomerantz	350,000	540,750

(1) For each option exercised, the value realized upon exercise represents the closing price of our common stock on the date the option was exercised less the option exercise price, multiplied by the number of shares underlying the option exercised.

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Potential Termination Payments

Melvyn Knigin, Thomas Rende and Saul Pomerantz, our named executive officers, each have employment agreements with us that provide for the following potential payments in the event of their termination. All such payments will be paid in accordance with our normal payroll procedures. None of their current employment agreements contain any change of control provisions.

Melvyn Knigin

Payment Upon Death or Disability. In the event of Mr. Knigin's death or termination due to ''disability'' (as defined in his employment agreement), he or his designated beneficiaries, as the case may be, will be entitled to receive:

- base salary through the date of death or disability;
- if death or disability occurs during the first half of the fiscal year, one-half of non-equity incentive compensation that would have become payable for the year and the entire amount of non-equity incentive compensation for the year if death or disability occurs during the second half of the fiscal year;
- all valid business expense reimbursements; and
- all accrued but unused vacation pay.

In addition, in the case of his death, Mr. Knigin's beneficiaries will be entitled to receive proceeds from a company-paid life insurance policy provided to him in his name. We also maintain a long-term disability insurance policy for Mr. Knigin, which will provide a non-taxable benefit of at least $10,000 per month payable to him.

Payment Upon Involuntary Termination Without Cause or Resignation for Good Reason. If Mr. Knigin resigns for ''good reason'' (as defined in his employment agreement) or is terminated by us without ''cause'' (as defined in his employment agreement), he will be entitled to receive the following:

- initial term base salary through the end of the initial term (June 30, 2009) if termination occurs during the initial term or additional term base salary through the end of the additional term (July 1, 2009 to June 30, 2011) if termination occurs during the additional term;
- any non-equity incentive compensation that would have become payable through the end of the initial term or the additional term, as the case may be;
- all valid business expense reimbursements; and
- all accrued but unused vacation pay.

In addition, stock options granted to and restricted stock issued or issuable to Mr. Knigin in connection with entering into his employment agreement will be issued, if not yet issued, and will continue to vest and remain exercisable as scheduled.

Thomas Rende and Saul Pomerantz

Payment Upon Death or Disability. In the event of death or termination due to ''disability'' (as defined in their respective employment agreements), Messrs. Rende and Pomerantz, or their designated beneficiaries, as the case may be, will be entitled to receive:

- base salary through the date of death or disability;
-

any non-equity incentive compensation that would have become payable for the year in which the employment was terminated, pro-rated for the number of months worked during the fiscal year of termination;

- all valid business expense reimbursements; and
- all accrued but unused vacation pay.

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In addition, in the case of death, their respective beneficiaries will be entitled to receive proceeds from company-paid life insurance policies provided to them in their names. We also maintain long-term disability insurance policies for each of Messrs. Rende and Pomerantz, which will provide a non-taxable benefit of at least $7,500 and $4,500 per month, respectively, payable to each of them.

Payment Upon Involuntary Termination Without Cause or Resignation for Good Reason. If either of Messrs. Rende or Pomerantz resigns for ‘‘good reason’’ (as defined in their respective employment agreements) or is terminated by us without ‘‘cause’’ (as defined in their respective employment agreements), each of them will be entitled to receive the following:

- base salary through the end of the employment term (December 31, 2009 in the case of Mr. Rende and June 30, 2009 in the case of Mr. Pomerantz);
- the sum of $200,000, payable in equal installments so that the entire amount will be received by March 15th of the calendar year following the date of termination;
- any non-equity incentive compensation that would have become payable through the end of the employment term;
- life, disability and health insurance benefits through the end of the employment term;
- continuation of medical coverage for one year after the end of the term;
- all valid business expense reimbursements; and
- all accrued but unused vacation pay.

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The following table reflects the amounts that would have been payable to each of the named executive officers had their employment terminated as of June 30, 2007:

Name	Benefits	Death or Disability	Involuntary Termination Without Cause or Resignation for Good Reason

Melvyn Knigin	Base Salary	$ —	$ 1,150,000
	Non-Equity Incentive Compensation[1]	50,930	50,930
	Restricted Stock	—	50,000[2]
	Accrued Vacation Pay	21,538	21,538
	Total	$ 72,468	$ 1,272,468
Thomas Rende	Base Salary	$ —	$ 620,000
	Severance	—	200,000
	Non-Equity Incentive Compensation[1]	16,977	16,977
	Medical Insurance	—	53,036
	Disability Insurance	—	8,063
	Life Insurance	—	7,005
	Accrued Vacation Pay	13,846	13,846
	Total	$ 30,823	$ 918,927
Saul Pomerantz	Base Salary	$ —	$ 560,000
	Severance	—	200,000
	Non-Equity Incentive Compensation[1]	21,220	21,220
	Medical Insurance	—	34,860
	Disability Insurance	—	5,670
	Life Insurance	—	6,458
	Accrued Vacation Pay	18,307	18,307
	Total	$ 39,527	$ 846,515

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(1) See Footnote 3 of the Summary Compensation Table for a detailed explanation of how the non-equity incentive compensation payment is calculated.
(2) Represents $25,000 of our common stock issued or issuable on each of July 1, 2007 and 2008, which will continue to vest as scheduled on June 30, 2009.

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 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. An aggregate of $89,127 was awarded under the plan to our named executive officers for fiscal 2007.

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

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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, 2007, we did not make a contribution to the Employee Stock Plan. As of September 28, 2007, the Employee Stock Plan owned 300,720 shares, or 1.8% 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 22, 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 September 28, 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 2008 (through September 28, 2007), 2007 and 2006, 1,154, 72,752 and 98,528 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 and 2006, 55,000 and 40,000 options, respectively, were granted under the 2000 Performance Equity Plan to our employees.

We are asking our shareholders to vote on a proposal to adopt an Amended and Restated 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 4,000,000 shares, to add a 500,000 share limit on grants to any individual in any one calendar year in order for the plan to comply with Section 162(m) of the Internal Revenue Code and to make other changes to comply with Section 409A of the Internal Revenue Code. The adoption of the Amended and Restated 2000 Performance Equity Plan is not a condition to the merger, but the board believes that the proposed changes to the 2000 Performance Equity Plan are necessary 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. See ‘‘Amended and Restated 2000 Performance Equity Plan Proposal.’’

Pursuant to the terms of a consulting agreement, dated April 9, 2007, with Performance Enhancement Partners, LLC, upon the closing of the merger, we will (i) issue to Performance Enhancement Partners 100,000 shares of our common stock under the 2000 Performance Equity Plan and (ii) grant to Performance Enhancement Partners 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 Performance Enhancement Partners 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

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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 Performance Enhancement Partners 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 ‘‘Amended and Restated 2000 Performance Equity Plan 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 September 28, 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 September 28, 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

2007 Management Bonus Plan

FOH Holdings' board of directors approved a bonus plan for fiscal year 2007 of up to $1 million for FOH Holdings' management employees representing less than 5% of the overall employee population. $800,000 of the bonus allotment is reserved for bonus awards based on (i) FOH Holdings meeting EBITDA targets approved in FOH Holdings' budget for fiscal year 2007 and (ii) eligible employees meeting their individual performance goals. In addition, $200,000 is reserved to reward for extraordinary performance on a discretionary basis. An aggregate of $822,000 was awarded to eligible employees under the plan for fiscal 2007 and an additional $178,000 was allocated on a discretionary basis outside of the plan.

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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 September 30, 2007, there were 109,500 options outstanding with a weighted average exercise price of $19.45. 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 and on April 30, 2007, 4,500 options were granted to key employees at an exercise price of $39.54 per share. 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 1,950,350 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 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.

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The following table summarizes the compensation of our non-employee directors for the year ended June 30, 2007. Directors who are employees or consultants of our company do not receive separate compensation for their service as a director.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)[1]	All Other Compensation ($)	Total ($)
Peter Cole	—	$23,000[2]	$200,000[3]	$223,000
John L. Eisel[4]	16,000	17,000	—	33,000
Michael A. Salberg[5]	88,000	—	—	88,000
Joel M. Simon[6]	73,000	14,000	—	87,000

(1) Represents the dollar value of the compensation that the director elected to receive in shares of our common stock in lieu of cash compensation.

(2) For the period July 1, 2006 through December 31, 2006, as compensation for his services as a director and for his attendance at board of director meetings and/or committee meetings, Mr. Cole received payments in common stock of 20,938 shares at a total value of $23,000.

(3) For the period January 1, 2007 through June 30, 2007, Mr. Cole received cash payments of $200,000 pursuant to the terms of our consulting agreement with Performance Enhancement Partners. Mr. Cole was also reimbursed for his reasonable out-of-pocket expenses.

(4) As compensation for his services as a director and for his attendance at board of director meetings and/or committee meetings, Mr. Eisel received cash payments of $16,000 and payments in common stock of 15,230 shares at a total value of $17,000. Mr. Eisel was also reimbursed for his reasonable out-of-pocket expenses.

(5) As compensation for his services as a director and for his attendance at board of director meetings and/or committee meetings, Mr. Salberg received cash payments of $43,000. In addition, he received

cash payments of $45,000 for serving as a member of a special committee of our board of directors.

(6) As compensation for his services as a director and for his attendance at board of director meetings and/or committee meetings, Mr. Simon received cash payments of $28,000 and payments in common stock of 10,107 shares at a total value of $14,000. In addition, he received cash payments of $45,000 for serving as a member of a special committee of our board of directors.

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 by our board 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 the audit committee, $3,000 for the compensation committee and $2,000 for the nominating committee, payable quarterly in arrears; (ii) $2,500 per 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. 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, upon the approval by our board of the amendment to the Movie Star Non-Employee Director Compensation Plan, 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 date of grant, 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, 2007 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, 2002
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 amended and restated 2000 performance equity plan 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 and Canada. 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 our fashion-forward designs, the desirability of our fabrics and styles, price, quality and the reliability of our service and delivery.

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. This acquisition 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 divided into four selling seasons per year. For each selling season, we create a new line of products that represents 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.

Raw Materials

We utilize a wide 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. However, if raw materials utilized to produce our products are damaged, destroyed or become inaccessible during the production process as a result of, among other things, a natural disaster, work stoppage, war or other event beyond our control, due to the lead time that a supplier requires to provide our contractors with raw materials, which varies depending upon the size and type of the order, we may not be able to replace these raw materials in a timely manner, which could cause the loss or a significant delay in the completion of an order.

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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 and 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 in which we manufacture products because we have established relationships with other contractors who are able to manufacture merchandise across all of our product categories at comparable prices.

If a contractor is unable to complete production of an order for us and we can access or replace the materials originally designated for that contractor to complete the order, we should be able to transition the order to one of our other contractors and deliver the order to our customer in a timely manner. To accomplish this, we may have to incur additional shipping expenses to move the goods from one contractor to another, overtime costs to expedite the production process to make up for any transition delays and air freight expenses to reduce transit time. However, if a contractor is unable to complete production of an order for us due to a natural disaster, work stoppage, war or other event beyond our control and we cannot access or replace the materials originally designated for that contractor to

complete the order, we would not be able to arrange for the completion and delivery of the order with alternate contractors, which, in turn, would cause us to lose the revenue from that order.

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 2007 and 2006 allocable to each country:

	Fiscal 2007				Fiscal 2006			
	CMT	Finished Good Purchases	Assisted Finished Good Purchases	Total	CMT	Finished Good Purchases	Assisted Finished Good Purchases	Total
Bangladesh	—	8%	24%	32%	—	19%	11%	30%
Cambodia	—	—	5%	5%	—	1%	14%	15%
China	—	36%	—	36%	—	14%	4%	18%
El Salvador	8%	—	—	8%	7%	—	—	7%
India	—	1%	—	1%	—	1%	—	1%
Mexico	—	1%	—	1%	—	1%	—	1%
Pakistan	—	—	—	—	—	3%	—	3%
Philippines	—	—	17%	17%	—	—	25%	25%
Total	8%	46%	46%	100%	7%	39%	54%	100%

We have a representative office in the Philippines to facilitate the coordination of our production there, which was 17% of total production in fiscal year 2007 and 25% in fiscal year 2006. This office is utilized primarily for administrative and manufacturing support functions, as well as sample making and pattern making.

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Quality Control

As of September 28, 2007, we had one independent representative in Bangladesh, one independent representative in China, one employee in El Salvador, and twelve employees in the Philippines supervising the production of finished products purchased by us or assembled for us by CMT contractors in those countries and others from where 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 fiscal 2007, approximately 58% of our sales were made to mass merchandisers, 14% to specialty stores, 10% to department stores and 6% to discount retailers. The balance of our sales were 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 that was 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 with our customers directed towards 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 and to reduce transit times from our contractors to meet customer deliveries. We also utilize a public warehouse in Canada to accommodate our customers there. Our overseas contractors perform sorting and packing functions to expedite 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. Sales are made without the right of return but, in certain instances, we may accept returns or agree to allowances. We believe this policy is in line with industry practice.

Our business is concentrated primarily with our largest customer, Wal-Mart. Sales to Wal-Mart accounted for approximately 51% of sales for fiscal 2007 and 25% of sales for fiscal 2006. No other customers accounted for 10% or more of our sales during fiscal 2007 and 2006. While we believe our relationship with Wal-Mart is good, because of the competitive nature of the intimate apparel industry and the availability of similar garments from many different sources of supply, as well as the potential for Wal-Mart to design, produce and sell its own products, it is possible that Wal-Mart could alter the amount of business it does with us. A significant decrease in business from, or the loss of Wal-Mart as a customer, could have a material adverse effect on our business, financial condition and results of operations.

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.

Inventory

We maintain sufficient inventories of raw materials and finished goods to meet our production requirements and the delivery demands of our customers. As a result, we rely on our short-term line of credit to supplement internally generated funds to fulfill our working capital needs.

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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 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

(in thousands, except for percentages)

Customer	Backlog of