

MOVIE STAR INC /NY/  
Form S-1/A  
November 27, 2007

Table of Contents

As filed with the Securities and Exchange Commission on November 27, 2007

Registration No. 333-143619

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Amendment No. 4  
to  
Form S-1

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

Movie Star, Inc.

(Exact name of Registrant as specified in its charter)

13-5651322 (State or other jurisdiction of  
incorporation or organization) (Primary Standard Industrial  
Classification Code number) (I.R.S. Employer  
Identification Number)

New York 2340

1115 Broadway  
New York, NY 10010  
(212) 798-4700

(Address, including zip code, and telephone number,  
including area code, of Registrant's principal executive offices)

Melvyn Knigin  
President and Chief Executive Officer  
Movie Star, Inc.  
1115 Broadway  
New York, NY 10010  
(212) 798-4700

(Name, address, including zip code, and telephone number,  
including area code, of agent for service)

Copies to:

David Alan Miller

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Cooley Godward Kronish LLP  
1114 Avenue of the Americas  
New York, New York 10036  
(212) 479-6000

Approximate date of commencement of proposed sale to the public: From time to time after the registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

THIS REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE AN

AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 27, 2007

PROSPECTUS

11,363,636 Shares

Common Stock

We are distributing to our shareholders, at no charge, non-transferable subscription rights to purchase up to an aggregate of 11,363,636 shares of Movie Star common stock at a cash subscription price of \$1.76 per share, which represents the average of the closing prices of our common stock for the 20 trading days ending on November 26, 2007, less a 15% discount. Each shareholder will receive one subscription right for each share of Movie Star common stock owned of record on November 27, 2007. Each subscription right will entitle the holder to purchase 0.691417 shares of Movie Star common stock, rounded down in the aggregate to the nearest whole number. We refer to this as the “basic subscription privilege.” Each subscription right will carry with it an over-subscription privilege for shares that are not otherwise purchased by other shareholders through the exercise of their basic subscription privilege.

The subscription rights will expire if they are not exercised by 5:00 p.m. Eastern Time on January 16, 2008, the expected expiration date of the rights offering. We may extend the period for exercising the subscription rights and we will only accept subscriptions once the conditions to the closing of the rights offering, as more fully described in this prospectus, have been satisfied or waived. Subscription rights that are not exercised by the expiration date of the rights offering will expire and will have no value. As the subscription rights are irrevocable, you should carefully consider whether or not to exercise your subscription rights before the expiration date.

Fursa Alternative Strategies LLC and certain funds and accounts affiliated with, managed by, or over which Fursa or any of its affiliates exercises investment authority, including, without limitation, with respect to voting and dispositive rights, and Tokarz Investments, LLC and TTG Apparel, LLC, have agreed, pursuant to the terms of a standby purchase agreement that we have entered into with them, to act as standby purchasers and in such capacities to purchase directly from us, after the subscription rights expire on January 16, 2008, at the same subscription price, the shares of our common stock offered but not purchased through the rights offering. Accordingly, even if the subscription rights are not exercised in full, we are assured of receiving \$20 million in cash proceeds, before deducting the expenses of this rights offering. As consideration for these commitments, we will issue warrants with an exercise price equal to the subscription price of the shares offered in the rights offering, representing the right to purchase, in the aggregate, 1,193,182 shares of our common stock, or 10.5% of the total number of shares being offered in the rights offering. None of the standby purchasers, including Tokarz Investments, LLC and TTG Apparel, LLC, will acquire any of our common stock in the rights offering, and any shares that they may acquire following the expiration of the rights offering, will be purchased pursuant to their commitments under the standby purchase agreement.

					Per Share	Total
Purchase price to public	\$ 1.76	\$ 20,000,000	Estimated expenses	\$ 0.15	\$ 1,700,000	Proceeds, after
expenses, to Movie Star	\$ 1.61	\$ 18,300,000				

Investing in Movie Star common stock involves risks. You should consider carefully the risk factors beginning on page 15 before deciding whether to exercise your subscription rights.

Our common stock is listed on the American Stock Exchange under the symbol "MSI." On November 26, 2007, the closing price for Movie Star common stock was \$1.93 per share.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is \_\_\_\_\_, 2007

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TABLE OF CONTENTS

	Page
QUESTIONS & ANSWERS ABOUT THE RIGHTS OFFERING	1
PROSPECTUS SUMMARY	6
RISK FACTORS	15
Risks Relating to the Rights Offering	15
Risks Related to the Reverse Stock Split	17
Risks Relating to the Merger	17
Risks Related to the Businesses of Movie Star and Frederick's of Hollywood	20
Risks Related to Movie Star Common Stock	24
USE OF PROCEEDS	26
PRICE RANGE OF MOVIE STAR COMMON STOCK AND DIVIDENDS	27
Holders	27
Dividend Policy	27
Equity Compensation Plan Information	28
DILUTION	29
SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA	30
FOH Holdings' Selected Historical Consolidated Financial and Other Data	30
Fiscal 2003 Presentation	30
Fiscal 2005 Presentation	31
Financial Operations Overview	31
FOH Holdings' Selected Historical Consolidated Financial and Other Data	33
Movie Star Selected Historical Consolidated Financial Data	35
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION	36
MOVIE STAR'S MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	45
Overview	45
Merger with FOH Holdings, Inc.	46
Critical Accounting Policies and Estimates	47
Results of Operations	49
Liquidity and Capital Resources	57
Contractual Obligations and Commercial Commitments	59
Note Payable	60
Future Financing Requirements	60
Off-Balance Sheet Arrangements	60
Effect of New Accounting Standards	60
Inflation	61
Seasonality	61
Quantitative and Qualitative Disclosures About Market Risk	61
Imports	61
MOVIE STAR'S BUSINESS	62
Business of Movie Star	62

TABLE OF CONTENTS

	Page
Employees	66
Properties	67
Period Reporting and Audited Financial Statements	67
Legal Proceedings	67
FOH HOLDINGS' MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	68
Overview	68
Critical Accounting Policies and Estimates	68
New Accounting Pronouncements Not Yet Adopted	72
Results of Operations	72
Liquidity and Capital Resources	79
Seasonality and Inflation	81
Quantitative and Qualitative Disclosures About Market and Interest Rate Risk	81
Contractual Obligations and Commercial Commitments	82
Off Balance Sheet Arrangements	82
FOH HOLDINGS' BUSINESS	83
General	83
Company History	83
Growth Strategy	84
Market and Products	84
Merchandising and Product Development	85
Corporate Brand Marketing	85
Sales Channels	85
Customer Service and Distribution	86
Sourcing	86
Information Technology	87
Competition	87
Seasonality	88
Trademarks and Service Marks	88
Employees	88
Import and Import Restrictions	88
Properties	88
Legal Proceedings	89
MANAGEMENT	91
Directors and Executive Officers	91
Independence of Directors	93
Committees of the Board of Directors of Movie Star	94
Audit Committee	94
Compensation Committee	94
Nominating Committee	94
Indemnity Claims Committee	95

TABLE OF CONTENTS

	Page
EXECUTIVE COMPENSATION	96
Compensation Discussion and Analysis	96
Compensation Committee Interlocks and Insider Participation	100
Summary Compensation Table	100
Compensation Arrangements for Executive Officers	101
Grants of Plan-Based Awards	105
Outstanding Equity Awards at Fiscal Year-End	106
Option Exercises in Fiscal 2007	107
Potential Termination Payments	107
Movie Star Compensation Plans	109
FOH Holdings Compensation Plans	111
Compensation Arrangements for Directors	112
CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS	114
Movie Star Related Party Transactions	114
FOH Holdings Related Party Transactions	115
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	117
THE RIGHTS OFFERING	120
Background	120
The subscription rights	120
Expiration date; amendments and termination	121
Conditions to Closing the Rights Offering	121
Subscription rights	124
Record date	125
Subscription agent	125
Exercise of subscription rights	125
Method of payment	126
Receipt of Payment	126
Clearance of uncertified checks	126
Delivery of subscription materials and payment	127
Calculation of subscription rights exercised	127
Your funds will be held by the Subscription Agent until shares of Movie Star common stock are issued	127
Medallion guarantee may be required	127
Notice to beneficial holders	127
Beneficial owners	128
Instructions for completing your subscription rights certificate	128
Determinations regarding the exercise of your subscription rights	128
Regulatory limitation	129
Questions about exercising subscription rights	129
No revocation	129

TABLE OF CONTENTS

	Page
Procedures for DTC participants	129
Determination of subscription price	129
No recommendations to subscription rights holders	130
Non-U.S. and certain other shareholders	130
Issuance of common stock	130
Shares of common stock outstanding after the rights offering	131
Other matters	131
THE STANDBY PURCHASE COMMITMENT AND OTHER TRANSACTIONS	132
The Standby Purchase Commitment	132
Guarantor Warrants	132
Registration Rights	133
Voting Agreement	135
FOH Holdings' Stockholders Agreement	135
Shareholders Agreement	138
Escrow Arrangements	139
Amended and Restated Bylaws	142
MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES	143
Issuance of the subscription rights	143
Basis and holding period of the subscription rights	143
Expiration of the subscription rights	144
Exercise of the subscription rights, basis and holding period of acquired shares	144
Sale or exchange of common stock	144
Information reporting and backup withholding	144
DESCRIPTION OF CAPITAL STOCK	145
Common Stock	145
Preferred Stock	145
Warrants	145
Anti-Takeover Provisions	145
Transfer Agent and Registrar	147
Listing	147
PLAN OF DISTRIBUTION	148
LEGAL MATTERS	149
EXPERTS	149
WHERE YOU CAN FIND MORE INFORMATION	149
INDEX TO FINANCIAL STATEMENTS	F-1

iv

## Table of Contents

In this prospectus, 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 of Fred Merger Corp., a Delaware corporation and wholly-owned subsidiary of Movie Star, with and into FOH Holdings Inc., a Delaware corporation, as described below under the “Questions & Answers About the Rights Offering” and “Prospectus Summary” 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 prospectus, 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 prospectus, 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 prospectus, 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 prospectus, 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.

You should rely only on the information and representations provided in this prospectus. We have not authorized anyone to provide you with supplemental information or to make any different representations in connection with any offering made by this prospectus. This prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, in any state where the offer or sale is prohibited. Neither the delivery of this prospectus, nor any sale made under this prospectus shall, under any circumstances, imply that the information in this prospectus is correct as of any date after the date of this prospectus.

Table of Contents

QUESTIONS & ANSWERS ABOUT THE RIGHTS OFFERING

What is the rights offering?

The rights offering is a distribution, at no charge, of non-transferable subscription rights on a pro rata basis to all of our shareholders. We are distributing subscription rights for every share of Movie Star common stock held on November 27, 2007, the record date. We will issue 11,363,636 shares of Movie Star common stock in the rights offering and pursuant to the commitments of the standby purchasers, and will raise net proceeds of approximately \$18.3 million after deducting estimated offering expenses. The closing of the rights offering is conditioned on (i) the satisfaction or waiver of the conditions specified in the merger agreement to the filing of the certificate of merger, as described below, other than the actual delivery of the various closing documents and (ii) our acceptance of subscriptions, which would occur immediately prior to the merger (and prior to any reverse stock split effected in connection with the merger).

What is the purpose of the rights offering?

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. The merger agreement provides for a business combination transaction by means of a merger of Fred Merger Corp. with and into FOH Holdings in which FOH Holdings will be the surviving entity and become our wholly-owned subsidiary. In connection with the transactions contemplated by the merger agreement, we are distributing these subscription rights.

The rights offering is being made primarily to raise working capital to fund the expansion of new Frederick's of Hollywood stores, the renovation of certain existing Frederick's of Hollywood stores and other general corporate purposes. See "Use of Proceeds."

To ensure that we raise an aggregate of \$20 million of gross proceeds through the issuance of shares of our common stock, we have entered into a standby purchase agreement with Fursa and certain funds and accounts affiliated with, managed by, or over which Fursa or any of its affiliates exercises investment authority, including, without limitation, with respect to voting and dispositive rights, as specified in the standby purchase agreement (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 this 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 shares being offered through the rights offering, representing the right to purchase in the aggregate 1,193,182 shares of our common stock, or 10.5% of the total number of new shares to be offered in this rights offering (we refer to these warrants as the guarantor warrants).

None of the standby purchasers, Tokarz Investments or TTG Apparel, will acquire any of our common stock in the rights offering, and any shares that they may acquire following the expiration of the rights offering will be purchased pursuant to their commitments under the standby purchase agreement. None of the shares of our common stock to be

acquired by the standby purchasers is being covered by this prospectus and the sale of any of our common stock to the standby purchasers is not being registered under this prospectus.

1

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## Table of Contents

If I am a shareholder, how does the merger affect my ownership interest in Movie Star?

The issuance of shares of our common stock to the holders of FOH Holdings common stock in the merger will cause your percentage ownership of our outstanding shares of common stock to decline significantly. 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 7.5% Convertible Preferred Stock (we refer to this preferred stock as the Series A Preferred Stock) to be issued to certain Fursa affiliated entities that hold FOH Holdings indebtedness (we refer to these entities as the Fursa debt holders, and together with the Fursa standby purchasers, the Fursa managed accounts) in exchange for cancellation of \$7.5 million of such indebtedness, our outstanding common stock will be owned as follows: (a) existing holders of Movie Star common stock, excluding TTG Apparel, will own approximately 32.2% of the outstanding common stock of Movie Star; (b) TTG Apparel, together with Tokarz Investments, will own approximately 38.3% of the outstanding common stock of Movie Star and (c) the Fursa managed accounts will beneficially own approximately 29.5% of the outstanding common stock of Movie Star.

To the extent that existing Movie Star shareholders participate in the rights offering, the number of shares of Movie Star common stock held by existing Movie Star shareholders, other than TTG Apparel, following the merger will increase. If no Movie Star shareholder participates in the rights offering, (i) TTG Apparel, together with Tokarz Investments, will beneficially own approximately 38.8% 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, the issuance of the guarantor warrants as consideration for the commitments of the standby purchasers thereunder and the issuance of the Series A Preferred Stock and (ii) the Fursa managed accounts will beneficially own approximately 37.9% 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 of the guarantor warrants as consideration for the standby purchase commitment under the standby purchase agreement and the issuance of the Series A Preferred Stock.

If I am a shareholder, how will my ownership interest in Movie Star be affected by a potential 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.

If we believe that at the time of the closing of the merger our stock price will be below \$2.00 per share, we intend to consummate a reverse stock split of our outstanding common stock immediately prior to the closing of the merger and following the closing of the rights offering, 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.

Any reverse stock split would become effective after the closing of the rights offering and prior to the closing of the merger. Accordingly, if the reverse stock split is effected, the number of shares each shareholder purchases through the rights offering will be reduced to reflect the reverse split.

2

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## Table of Contents

### What is a subscription right?

Each full subscription right entitles a shareholder to purchase 0.691417 shares of Movie Star common stock, rounded down in the aggregate to the nearest whole number, at a subscription price of \$1.76 per share and carries with it a basic subscription privilege and an over-subscription privilege.

### What is the basic subscription privilege?

The basic subscription privilege of the subscription rights entitles you to purchase 0.691417 shares of Movie Star common stock, rounded down in the aggregate to the nearest whole number, at the subscription price for every subscription right that you hold; provided, however, that no holder will be entitled to subscribe for shares of Movie Star common stock in this rights offering that would result in such holder, together with its affiliates and associates (within the meanings set forth in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, or the Exchange Act) and any person who formed, joined or in any way participates in a group (within the meaning of Section 13d-5(b)(1) of the Exchange Act) with such holder, owning more than 4.9% of the total outstanding shares of Movie Star common stock immediately following the consummation of the transactions contemplated by the merger agreement.

### What is the over-subscription privilege?

The over-subscription privilege included with the subscription rights entitles you, if you fully exercise your basic subscription privilege, to subscribe for additional shares of Movie Star common stock at the subscription price to the extent that other subscription rights holders do not exercise their subscription rights. If sufficient shares are available, we will honor all over-subscription requests in full; provided, however, that no holder will be entitled to subscribe for shares of Movie Star common stock in this rights offering that would result in such holder, together with its affiliates and associates (within the meanings set forth in Rule 12b-2 under the Exchange Act) and any person who formed, joined or in any way participates in a group (within the meaning of Section 13d-5(b)(1) of the Exchange Act) with such holder, owning more than 4.9% of the total outstanding shares of Movie Star common stock immediately following the consummation of the transactions contemplated by the merger agreement. If over-subscription requests exceed the shares available, we will allocate the available shares pro rata among those who exercise their over-subscription privilege based on the number of shares of Movie Star common stock held as of the record date.

### When does the rights offering expire?

The rights offering expires at 5:00 p.m. Eastern Time on January 16, 2008. We may extend the expiration date in our sole discretion (subject to obtaining FOH Holdings' consent) and for any reason. See "The Rights Offering — Expiration Date; Amendments and Termination."

### If I properly exercise my subscription rights prior to the expiration of the rights offering, will I be assured of receiving shares of common stock in the rights offering?

No. After the expiration of the rights offering, we will not accept subscriptions until the conditions to the closing of the rights offering have been satisfied or waived. The closing of the rights offering is conditioned on (i) the satisfaction or waiver of the conditions specified in the merger agreement to the filing of the certificate of merger, other than the actual delivery of the various closing documents and (ii) our acceptance of subscriptions, which would occur immediately prior to the merger (and prior to any reverse stock split effected in connection with the merger).

Am I required to subscribe in the rights offering?

No.

What happens if I choose not to exercise my subscription rights?

If you do not exercise any of your subscription rights, you will own the same number of shares that you owned immediately prior to the rights offering. However, your percentage equity ownership

3

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## Table of Contents

in the combined company will be reduced because the merger will reduce the percentage ownership of the persons who hold Movie Star common stock at the effective time of the merger and any shares of our common stock that are not subscribed by you in the rights offering will be purchased by other shareholders or by the standby purchasers directly from us following the expiration of the rights offering. Accordingly, for you to retain the equity percentage you owned in Movie Star immediately prior to the rights offering (without taking into account the dilutive effect of the merger), you must exercise all of your subscription rights. See “The Standby Purchase Commitment and Other Transactions” at page 132.

Will my percentage ownership of common stock be reduced by any other known issuance of Movie Star’s common stock?

Your percentage ownership of our common stock may be further reduced as follows:

- If the standby purchasers elect to exercise the guarantor warrants to purchase up to 1,193,182 shares of our common stock, which will be issued to them by us as compensation for their standby purchase obligation.
- We have also authorized, subject to shareholder approval, the issuance of 100,000 shares of our common stock, in accordance with our 2000 Performance Equity Plan, as amended.
- In connection with the merger, 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 3,629,329 shares of our Series A Preferred Stock which will be convertible into 3,024,437 shares of our common stock.

May I sell or transfer my subscription rights if I do not want to purchase any shares?

No. The subscription rights are not transferable. Only shareholders on the record date may exercise the subscription rights that are distributed.

How do I exercise my subscription rights if my shares are held in my name?

If you hold shares directly, you will receive a subscription rights certificate. You may exercise your subscription rights by completing and signing the purchase form that appears on the back of each subscription rights certificate. You must then send the completed and signed form, along with payment in full of the subscription price for all shares of Movie Star common stock to be purchased through the basic subscription privilege and, if exercised, the over-subscription privilege, to American Stock Transfer & Trust Company, the Subscription Agent.

The Subscription Agent must receive these documents and the subscription payment by no later than the time and date the rights offering expires.

We have provided more detailed instructions on how to exercise your subscription rights under “The Rights Offering — Exercise of Subscription Rights” beginning on page 125 and with the subscription rights certificate accompanying this prospectus.

How do I exercise my subscription rights if my shares are held in the name of my broker, custodian bank or other nominee?

If you hold your shares in a brokerage account, custodian bank or by another nominee, you will not receive a subscription rights certificate. We will ask your broker, custodian bank or other nominee to notify you of the rights offering. If you wish to exercise your subscription rights, you will need to have your broker, custodian bank or other nominee act for you. To indicate your decision, you should complete and return to your broker, custodian bank or other nominee the form entitled "Beneficial Owner Election Form." You should receive this form from your broker, custodian bank or other nominee with the other rights offering materials. You should contact your broker, custodian bank or other nominee if you do not receive this form, but you believe you are entitled to participate in this offering.

4

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## Table of Contents

What should I do if I want to participate in the rights offering and I am a shareholder in a foreign country or in the armed services?

The Subscription Agent will mail subscription certificates to you if you are a rights holder whose address is outside the United States or if you have an army post office or a fleet post office address. To exercise your subscription rights, you must notify the Subscription Agent on or prior to 5:00 p.m. Eastern Time on January 16, 2008, and take all other steps that are necessary to exercise your subscription rights, on or prior to that time. If you do not follow these procedures prior to the expiration of the rights offering, your subscription rights will expire.

If I exercise my subscription rights in the rights offering, may I cancel or change my decision?

No. All exercises of subscription rights are irrevocable.

Will I be charged a sales commission or a fee if I exercise my subscription rights?

We will not charge a brokerage commission or a fee to subscription rights holders for exercising their rights. However, if you exercise your subscription rights through a broker or nominee, you will be responsible for any fees charged by your broker or nominee.

If I am a current Movie Star shareholder, what are the United States federal income tax consequences of exercising my subscription rights?

A holder of Movie Star common stock generally should not recognize income or loss for federal income tax purposes in connection with the receipt or exercise of subscription rights in the rights offering. We urge you to consult your own tax advisor with respect to the particular tax consequences of the rights offering or the related share issuance to you. See “Material United States Federal Income Tax Consequences” beginning on page 143.

Are there risks involved in exercising my subscription rights?

Yes. You should read and carefully consider the information set forth under “Risk Factors” beginning on page 15 and the information contained elsewhere in this prospectus. You should decide whether to subscribe for Movie Star common stock based upon your own assessment of your best interests.

What is the recommendation of Movie Star’s board of directors regarding the rights offering?

Movie Star’s board of directors makes no recommendation as to whether or not you should subscribe for additional shares of Movie Star common stock.

Whom should I contact with questions?

If you have questions or need assistance on how to subscribe for shares, you may contact Morrow & Co. Inc., our Information Agent for the rights offering, at the following telephone number and address:

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



## Table of Contents

### PROSPECTUS SUMMARY

You should read the following summary together with the entire prospectus, including the more detailed information in our and FOH Holdings' financial statements and related notes referred to elsewhere in this prospectus. You should carefully consider, among other things, the matters discussed in "Risk Factors."

### MOVIE STAR, INC.

#### Our Business

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.

#### Our Corporate Information

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.

On December 18, 2006, we entered into a merger agreement with FOH Holdings and Fred Merger Corp., our wholly-owned subsidiary. Under the terms of the merger agreement, Fred Merger Corp. will be merged with and into FOH Holdings, with FOH Holdings continuing as the surviving corporation as our wholly-owned subsidiary. Upon the consummation of the merger, we will change our name to "Frederick's of Hollywood Group Inc."

Our board of directors unanimously approved the merger agreement and the transactions contemplated thereby on the unanimous recommendation of a special committee. The special committee engaged special legal counsel and Chanin

Capital, LLC to serve as its financial advisor. On December 18, 2006, Chanin Capital, LLC delivered its opinion to the special committee on which our board of directors was entitled to rely, stating that, as of the date of the opinion, the consideration to be paid by us to the holders of FOH Holdings common stock is fair to the holders of our common stock from a financial point of view.

6

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Table of Contents

Approximately 50% of FOH Holdings common stock is owned by Tokarz Investments, an affiliate of TTG Apparel, which is a current shareholder of Movie Star owning 3,532,644 shares of our common stock. The other approximately 50% of FOH Holdings common stock is owned by accounts and funds managed by and/or affiliated with Fursa Alternative Strategies, LLC.

The completion of the merger and this rights offering is subject to various conditions, including obtaining the requisite approval by our shareholders of (i) the issuance of shares of our common stock in connection with the transactions contemplated by the merger agreement and (ii) an amendment to our certificate of incorporation to (a) increase the number of authorized shares of our common stock to 200,000,000 shares and (b) authorize the issuance of up to 10,000,000 shares of preferred stock as more fully described below. The merger agreement also includes customary termination provisions for both Movie Star and FOH Holdings and provides that, in connection with the termination of the merger agreement under specified circumstances relating to our receipt of a proposal that is superior to the transaction with FOH Holdings, we may be required to pay FOH Holdings a termination fee of \$300,000 plus the reimbursement of the reasonable fees and expenses of FOH Holdings and its stockholders relating to the merger.

In connection with the merger and related transactions, we have filed a proxy statement on Schedule 14A with the Securities and Exchange Commission, which we refer to as the proxy statement. Pursuant to the proxy statement, we are calling a special meeting of our shareholders in lieu of our annual meeting and asking our shareholders to vote on proposals to:

- approve the issuance of 39,370,436 shares of our common stock in connection with the merger, this rights offering and other transactions contemplated by the merger agreement;
- amend our certificate of incorporation to:
  - increase the number of authorized shares of common stock from 30,000,000 to 200,000,000 shares;
  - change our name to Frederick's of Hollywood Group Inc.; and
  - authorize the issuance of up to 10,000,000 shares of our preferred stock and to establish the terms, rights, preference and privileges of the Series A Preferred Stock.
- authorize our board of directors, in its discretion, to amend our certificate of incorporation to effect a reverse stock split of our outstanding common stock immediately prior to 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;
- 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;
- elect eleven directors to our board of directors to serve from the effective time of the merger until the annual meeting to be held in 2008 and until their successors are elected and qualified; and
- approve an adjournment of the special meeting to a later date or dates, if necessary, to permit further solicitation and vote of proxies in the event there are insufficient votes at the time of the special meeting.

On April 9, 2007, we entered into a consulting agreement with Performance Enhancement Partners, LLC, to provide Movie Star with the personal services of Peter Cole, a current member of our board of directors, to (i) act as the lead member of our board of directors to facilitate the timely and successful completion of the merger and (ii) serve as the Executive Chairman of the combined company following the closing of the transactions contemplated by the merger agreement until July 26, 2008.

7

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## Table of Contents

The mailing address of our principal executive office is 1115 Broadway, New York, New York 10010, and our telephone number is (212) 798-4700. Our website address is [www.moviestarinc.com](http://www.moviestarinc.com). The information on, or that can be accessed through, our website is not part of this prospectus.

## FOH HOLDINGS

### FOH Holdings' Business

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 138 stores nationwide as of October 31, 2007, operates an online store at [www.fredericks.com](http://www.fredericks.com) and, in its 2007 fiscal year, mailed approximately 20 million catalogs.

### FOH Holdings' Corporate Information

Frederick's of Hollywood, Inc., a Delaware corporation, was incorporated in 1962 as a successor to a business founded in 1946 by Frederick Mellinger. The purpose was to design sexy, beautiful lingerie that emulated European trends in the 1940s. Frederick's of Hollywood is known for its innovative introductions into the intimate apparel market in the United States and is generally credited by the media with introducing black lingerie into the American market in 1946, the padded bra and the push-up bra in the late 1940s, the bikini in the 1950s, the thong panty in 1981 and the first water bra in the 1990s.

Frederick's of Hollywood, Inc. went public in 1969. In 1996, a financial advisor was hired to explore strategic alternatives that would include the sale of the shares owned by the founding family stockholders' trusts. After operating as a public company for over two decades, Frederick's of Hollywood, Inc. was taken private by an investor group in September 1997 that formed FOH Holdings (formerly known as Royalty Corporation) for this purpose and Frederick's of Hollywood, Inc. became a wholly-owned subsidiary of FOH Holdings. In June 2000, a new investor group purchased substantially all of the outstanding capital stock of FOH Holdings. Shortly thereafter, in July 2000, FOH Holdings (excluding its subsidiary Fredericks.com, Inc.) filed for voluntary protection under Chapter 11 of the United States Bankruptcy Code. In January 2003, FOH Holdings emerged from bankruptcy.

Since its emergence from bankruptcy in January 2003, Frederick's of Hollywood has embarked on initiatives to improve the image and acceptance of the brand, align its operations and improve efficiencies. In particular, Frederick's of Hollywood focused its merchandising and marketing efforts on targeting a younger, more affluent, fashion-conscious customer and implemented a unified, merchandise buying approach across its sales channels.

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. FOH Holdings' website address is [www.fredericks.com](http://www.fredericks.com). The information on, or that can be accessed through, FOH Holdings' website is not part of this prospectus.

Table of Contents

RIGHTS OFFERING SUMMARY

Rights

Granted We have granted to each holder of Movie Star common stock on the record date, “subscription rights,” which we also refer to as “rights,” consisting of a basic subscription privilege and an over-subscription privilege for each share of Movie Star common stock held by such record holder. Each basic subscription privilege will entitle the shareholder to subscribe for and purchase 0.691417 shares of Movie Star common stock, rounded down in the aggregate to the nearest whole number, at a subscription price of \$1.76 per share.

To exercise your rights, you must deliver a properly completed subscription rights certificate to the Subscription Agent along with payment of the applicable subscription price in immediately available funds before 5:00 p.m. Eastern Time on January 16, 2008.

Securities

Offered We are offering shares of Movie Star common stock, the rights of which are described below and in greater detail under “Description of Capital Stock,” beginning on page 145.

Exercise some or all of your subscription rights You may exercise some or all of your subscription rights, or you may choose not to exercise any of your subscription rights.

Record date November 27, 2007

Expiration date and time The subscription rights expire at 5:00 p.m. Eastern Time on January 16, 2008, unless we extend the subscription rights offering. Subscription rights not exercised by the expiration date will become null and void.

Conditions to Closing the Rights Offering The closing of the rights offering is conditioned on (i) the satisfaction or waiver of the conditions specified in the merger agreement to the filing of the certificate of merger, other than the actual delivery of the various closing documents and (ii) our acceptance of subscriptions, which would occur immediately prior to the merger (and prior to any reverse stock split effected in connection with the merger).

Subscription Agent By mail:

American Stock Transfer & Trust Company  
Operations Center  
Attn: Reorganization Department  
P.O. Box 2042  
New York, New York 10272-2042

Table of Contents

By hand or courier:

American Stock Transfer & Trust Company  
Operations Center  
Attn: Reorganization Department  
6201 15th Avenue  
Brooklyn, New York 11219

Reasons for the rights offering/Use of proceeds The merger agreement provides for a business combination transaction by means of a merger of Merger Sub with and into FOH Holdings in which FOH Holdings will be the surviving entity and become our wholly-owned subsidiary. In connection with the transactions contemplated by the merger agreement, we are distributing at no charge, non-transferable subscription rights to purchase our common stock. The net proceeds of the rights offering will be used for working capital to fund the expansion of new Frederick's of Hollywood stores, the renovation of certain existing Frederick's of Hollywood stores and other general corporate purposes. See "Use of Proceeds."

No board recommendation Our board of directors makes no recommendation regarding the exercise of rights under this offering. Shareholders who exercise subscription rights risk the complete loss of their investment. We refer you to the section entitled "Risk Factors" beginning on page 15.

Non-transferability of rights The rights are not transferable and may be exercised only by the shareholder of record on the record date.

No revocation If you exercise any rights, you are not allowed to revoke or change your exercise or request a refund of monies paid.

U.S. federal income tax consequences A holder of Movie Star common stock generally should not recognize income or loss for federal income tax purposes in connection with the receipt or exercise of subscription rights in the rights offering. We urge you to consult your own tax advisor with respect to the particular tax consequences of the rights offering or the related share issuance to you. See "Material United States Federal Income Tax Consequences."

Termination, withdrawal, amendment and extension We may withdraw, amend or extend the rights offering at any time prior to the expiration date. After the expiration date, we will terminate the rights offering only if the merger agreement is terminated. If we withdraw or terminate the rights offering, we will return all funds received in the rights offering, without interest, to those persons who exercised their rights and subscribed for shares in the rights offering.

## Table of Contents

### Selected 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, including the rights offering.

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 prospectus.

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 prospectus.

Movie Star's consolidated balance sheet data as of September 30, 2007 and the consolidated statements of operations data for the three months ended September 30, 2007 and September 30, 2006 are derived from Movie Star's unaudited interim condensed consolidated financial statements which are included elsewhere in this proxy statement. In the opinion of Movie Star's management, the unaudited condensed consolidated interim financial statements include all adjustments (consisting of normal recurring adjustments) that are necessary for a fair presentation of such financial statements.

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

### FOH Holdings' Selected Historical Consolidated Financial and Other Data

The 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 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 debtholder, 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 FOH Holdings as of these transactions. 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 FOH Holdings 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.

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.

11

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## Table of Contents

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

Year  
ended  
July 28,  
2007 Year  
ended  
July 29,  
2006 Five  
Months  
ended  
July 30,  
2005 Seven  
Months  
ended  
March 3,

2005 Statement of Operations Data:	Net sales	\$ 155,238	\$ 136,705	\$ 46,807	\$ 76,785	Cost of goods sold, buying and occupancy	90,201	80,102	27,026	44,122	Gross profit	65,037	56,603
	19,781	32,663	Selling, general and administrative expenses	61,996	57,579	20,279	35,173	Operating income (loss) from continuing operations	3,041	(976)	(498)	(2,510)	Interest expense, net
	2,093	2,422	700	1,102	Income (loss) from continuing operations before income tax provision (benefit)	948	(3,398)	(1,198)	(3,612)	Income tax provision (benefit)	548	127	(128)
	948	(3,398)	(1,198)	(3,612)	Income (loss) from continuing operations	400	(3,525)	(1,070)	(2,659)	Income (loss) from discontinued operations(a)	41	240	(166)
	41	240	(166)	440	Net income (loss)	\$ 441	\$ (3,285)	\$ (1,236)	\$ (2,219)				

At

July 28,  
2007 At  
July 29,  
2006 At  
July 30,  
2005

2005 Balance Sheet Data:	Working capital (deficiency)	\$ (4,638)	\$ (299)	\$ (1,562)				
Goodwill	\$ 6,678	\$ 7,299	\$ 7,299	Trademarks	\$ 18,090	\$ 18,090	\$ 18,090	Total assets
	\$ 70,525	\$ 60,734	\$ 58,733	Total debt-related party	\$ 19,429	\$ 18,742	\$ 18,095	
Stockholders' equity	\$ 12,641	\$ 12,059	\$ 11,344	Store Operating Data(b):				Percentage
increase (decrease) in comparable store sales(c)	9.2 %	6.5 %	(3.6)%	(4.1)%	Total square footage at the end of the			
period(d)	235,229	225,634	229,626	229,536	Average monthly retail sales per square foot	\$ 33.00		
\$ 31.07	\$ 21.41	\$ 37.56	Number of retail stores:	Open at beginning of period	134	140		
140	145	Opened during the period	5	5	—	4	Closed during the period	(6)
140	134	140	140					(11)
								(9)

(a)

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. (b) Represents financial measures used by FOH Holdings' management to assess business performance. (c) 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. (d) Represents total retail store gross square footage at the end of each reported period.

12

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## Table of Contents

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

Three Months Ended										
September 30,	Fiscal Years Ended June 30,			2007	2006	2007	2006	2005	Statement of Operations Data:	
	Net sales	\$ 11,939	\$ 18,690	\$ 63,493	\$ 51,639	\$ 58,533	Cost of sales	8,577		
12,867	43,144	37,528	44,304	Selling, general and administrative expenses	4,502	4,487	17,434			
16,310	19,024	Insurance recovery	—	—	(1,450)	—	Merger-related fees	358	539	2,391
246	—	Gain on sale of property, plant and equipment	—	—	(496)	—	—	13,437	17,893	62,473
52,634	63,328	Operating (loss) income from continuing operations	(1,498)	797	1,020	(995)				
(4,795)	Interest income	—	—	(5)	(3)	(1)	Interest expense	112	187	609
	(Loss) income from continuing operations before income tax (benefit) provision	(1,610)	610	416	(1,468)					
(5,076)	Income tax (benefit) provision	(644)	244	270	(468)	(1,954)	Net (loss) income	\$		
(966)	\$ 366	\$ 146	\$ (1,000)	\$ (3,122)	Basic net (loss) income per share	\$(.06)	\$.02	\$.01	\$	
(.06)	\$.20	Diluted net (loss) income per share	\$(.06)	\$.02	\$.01	\$(.06)	\$(.20)	Basic weighted		
	average number of shares outstanding	16,432	15,763	16,089	15,700	15,625	Diluted weighted			
	average number of shares outstanding	16,432	15,950	16,671	15,700	15,625				

At September 30,	At June 30,	2007	2007	2006	Balance Sheet Data:			Working capital	\$ 7,954
\$ 9,590	\$ 8,932	Total assets	\$ 27,581	\$ 22,338	\$ 23,221	Short-term debt – Including current maturities of			
		long-term debt and capital lease obligations	\$ 9,660	\$ 4,183	\$ 4,955	Long-term debt – Including deferred lease			
		and other long-term liabilities	\$ 345	\$ 379	\$ 398	Shareholders' equity	\$ 13,681	\$ 14,605	\$ 13,782

## Table of Contents

## 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 prospectus. 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. 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 prospectus. 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."

Ended	Year
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 46,504 — diluted 46,504	

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 \$ 53,643

## Table of Contents

### RISK FACTORS

You should carefully consider the following factors, together with the other information contained in this prospectus, before exercising subscription rights to purchase the shares of Movie Star common stock that we are offering. An investment in Movie Star common stock involves a high degree of risk and may not be appropriate for investors who cannot afford to lose some or all of their investment.

#### 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 1,193,182 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 38.8% 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, and the Fursa standby purchasers would then beneficially own in the aggregate 37.9% 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.

As a holder of Movie Star common stock, you may suffer further dilution of your percentage ownership of Movie Star common stock if you do not purchase shares in this 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 holders of FOH Holdings common stock in the merger will cause your percentage ownership of our outstanding shares of common stock to decline significantly. If you do not fully exercise your subscription rights, your proportionate voting and ownership interest will be further reduced and the percentage that your original shares represent of our expanded equity after exercise of the subscription rights will be diluted. For example, if you owned 1% of our outstanding common stock (approximately 164,353 shares) on the record date, the new shares to be issued in the merger will reduce your ownership percentage to approximately 0.41% of the shares outstanding immediately after the merger. If you do not exercise any of your subscription rights, then your percentage ownership will be further reduced to approximately 0.32%. The magnitude of the reduction of your percentage ownership will depend upon the extent to which you participate in the rights offering.

The subscription price per share is not an indication of our value, and you may not be able to sell shares purchased upon the exercise of your subscription rights at a price equal to or greater than the subscription price.

The subscription price per share does not necessarily bear any relationship to the value of our assets, operations, cash flows, earnings, financial condition or any other established criteria for value.

15

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## Table of Contents

As a result, you should not consider the subscription price as an indication of the current value of our company or Movie Star common stock. You may not be able to sell shares purchased in this offering at a price equal to or greater than the subscription price.

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 \$1.76 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 if the rights offering is completed, 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 November 26, 2007, the closing price of Movie Star common stock was \$1.93 per share.

If you exercise your subscription rights, you may not revoke the exercise of your subscription rights even if there is a decline in Movie Star common stock prior to the expiration date of the subscription period, and you may be unable to sell any shares you purchase at a profit.

The public trading market price of Movie Star common stock may decline after you elect to exercise your subscription rights. If that occurs, you may have committed to buy shares of common stock at a price above the prevailing market price and you may not revoke or change your exercise rights. Following the exercise of your subscription rights, you may not be able to sell your shares of Movie Star common stock at a price equal to or greater than the subscription price.

Your ability to sell shares of Movie Star common stock purchased in the rights offering may be delayed by the time required to deliver the corresponding stock certificates to you.

Until shares are delivered following the closing of the rights offering, you may not be able to sell the shares of Movie Star common stock that you purchase in the rights offering. Certificates representing shares of Movie Star common stock purchased will be delivered as soon as practicable after the closing of the rights offering.

You may not revoke the exercise of your subscription rights even if we decide to extend the expiration date of the subscription period.

We may, in our sole discretion (subject to obtaining FOH Holdings' consent), extend the expiration date of the subscription period. During any potential extension of time, the public trading market price of Movie Star common stock may decline below the subscription price and result in a loss on your investment upon the exercise of rights to acquire shares of Movie Star common stock. If the expiration date is extended after you send in your subscription forms and payment, you still may not revoke or change your exercise of rights.

You will not receive interest on subscription funds returned to you.

If we withdraw or terminate the rights offering, neither we nor the Subscription Agent will have any obligation with respect to the subscription rights except to return, without interest, any subscription payments to you.

The subscription rights are not transferable, and there is no market for the subscription rights.

You may not sell, give away or otherwise transfer your subscription rights. The subscription rights are only transferable by operation of law. Because the subscription rights are non-transferable, there is no market or other means for you to directly realize any value associated with the subscription rights.

Because we may terminate the offering, your participation in the offering is not assured.

Once you exercise your subscription rights, you may not revoke the exercise for any reason unless we amend the rights offering under certain circumstances. If we decide to withdraw the rights offering or the rights offering is terminated, we will not have any obligation with respect to the subscription rights except to return any subscription payments, without interest.

## Table of Contents

If you do not act promptly and follow all of the subscription instructions, your subscription rights may be rejected.

Shareholders who desire to purchase shares in the rights offering must act promptly to ensure that all required forms and payments are actually received by the Subscription Agent prior to 5:00 p.m. Eastern Time on January 16, 2008, the expiration date of the rights offering. If you fail to complete and sign the required subscription forms, send an incorrect payment amount, or otherwise fail to follow the subscription procedures that apply to your desired transaction, the Subscription Agent may, depending on the circumstances, reject your subscription or accept it to the extent of payment received. If you are making your payment of the subscription price by an uncertified check, your payment will be deemed to have been received by the Subscription Agent only upon clearance of such uncertified check. Neither we nor our Subscription Agent will undertake to contact you concerning, or attempt to correct, an incomplete or incorrect subscription form or payment. We have the sole discretion to determine whether a subscription exercise properly follows subscription procedures.

## 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. Any reverse stock split would become effective after the closing of the rights offering. Accordingly, if the reverse stock split is effected, the number of shares each shareholder purchases through the rights offering will be reduced to reflect the reverse split. 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 November 26, 2007 of \$1.93 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 \$3.86, 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.

## 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 prospectus, 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

17

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## Table of Contents

considerably higher than we originally anticipated when the merger agreement was executed. During the 12-month period ended November 26, 2007, our common stock traded in a range from a low of \$1.09 to a high of \$3.50 and ended that period at \$1.93. See “Price Range of Movie Star Common Stock and Dividends” on page 27 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.

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 prospectus. 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.

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.

18

---

## Table of Contents

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 recommended that our shareholders vote to adopt the proposals set forth in the proxy statement that we filed with the SEC. 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 the 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 "Executive Compensation—Compensation Arrangements for Executive Officers."

The unaudited pro forma financial information included in this prospectus 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 prospectus 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 prospectus. 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.

19

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## Table of Contents

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 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 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

20

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## Table of Contents

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 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.



## Table of Contents

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.

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;

transfer of funds to or from foreign countries; and

foreign contractors of labor and wage standards and resulting adverse publicity.

- restrictions on the
- violations by

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.

22

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## Table of Contents

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 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

23

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## Table of Contents

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.

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 Movie Star Common Stock

Our stock price has been highly volatile.

The trading price of Movie Star common stock has been highly volatile. For example, the trading price of Movie Star common stock has ranged from \$1.28 per share on December 18, 2006, the day prior to our announcement of the merger, to \$1.93 per share on November 26, 2007, with intraday low and high prices ranging from \$1.28 to \$3.50 per share. Our stock price is subject to wide fluctuations in response to a variety of factors, including:

24

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Table of Contents

in operating results;

conditions; and

factors that are beyond our control.

- quarterly variations
- general economic
- other events or

In addition, our stock has been subject to significant price and volume fluctuations since the public announcement of the merger. These fluctuations have often been unrelated or disproportionate to our operating performance. Further, any negative change in the public's perception of the prospects of the retail industry could further depress our stock price regardless of our results. Other broad market fluctuations may lower the trading price of Movie Star common stock. Following significant declines in the market price of a company's securities, securities class action litigation may be instituted against that company. Litigation could result in substantial costs and a diversion of management's attention and resources.

25

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## Table of Contents

## USE OF PROCEEDS

We will receive aggregate gross proceeds of \$20 million from the issuance of our common stock upon the exercise of subscription rights and pursuant to the standby purchase agreement, before deducting expenses of this rights offering, which are estimated to be approximately \$1,700,000. These net proceeds will be used for working capital to fund the expansion of new Frederick's of Hollywood stores, the renovation of certain existing Frederick's of Hollywood stores and other general corporate purposes. Currently, the store expansion and renovation plan is being developed and will not be finalized until all store locations have been identified for expansion or renovation. Therefore, the specific allocation of these proceeds is currently undeterminable. However, we anticipate that with respect to store expansion, the proceeds will be used to fund leasehold improvements (offset by tenant allowances), purchases of store fixtures and initial funding of the inventory. For store renovations, we anticipate that the proceeds will be primarily used for leasehold improvements. These costs may vary widely, depending on the design, size and location of the store.

The following table describes the expected allocation of the net proceeds of the rights offering:

Application of net proceeds	Percentage of net proceeds	Working capital to fund the expansion of Frederick's of Hollywood stores and renovation of certain existing stores	\$ 16,300,000	89.1 %	General corporate purposes	2,000,000	10.9 %	Total	\$ 18,300,000
	100.0 %								

We believe that the net proceeds of the rights offering will be sufficient to fund the opening and renovation of between 40 and 50 Frederick's of Hollywood stores. We will have significant discretion in the use of the net proceeds of the rights offering. Investors will be relying on the judgment of our management regarding the application of the proceeds of the offering.

Until we use the net proceeds as discussed above, we intend to invest the net proceeds from the rights offering in short term direct obligations of the United States or Federal agencies, in each case with maturities of one year or less, short term certificates of deposit or other time deposits with banks or corporate bonds with a Moody's or Standard & Poor's investment grade rating, or to reduce short-term interest expense by temporarily reducing the needs of the combined company under its revolving credit facilities. We expect that the proceeds from the rights offering, along with anticipated operating cash flows, will provide us with sufficient capital to fund our growth plan for at least the next 36 months.

Table of Contents

PRICE RANGE OF MOVIE STAR COMMON STOCK AND DIVIDENDS

Movie Star's common stock is traded on the American Stock Exchange under the symbol "MSI." The following table sets forth for the indicated periods the reported high and low sales prices per share.

										High
Low Year Ending June 30, 2008				First Quarter	\$ 2.66	\$ 2.00	Second Quarter (through November 26, 2007)			
2.45	1.84	Year Ended June 30, 2007		First Quarter	\$ 0.87	\$ 0.72	Second Quarter			1.68
0.75	Third Quarter	3.50	1.60	Fourth Quarter	2.90	1.96	Year Ended June 30, 2006			First
Quarter	\$ 0.93	\$ 0.66	Second Quarter	0.75	0.46	Third Quarter	0.82	0.55	Fourth Quarter	0.98
0.67										

On December 18, 2006, the day prior to the announcement of the execution of the merger agreement, the closing sale price of our common stock was \$1.28. On November 26, 2007, the closing sale price of our common stock was \$1.93.

FOH Holdings is a privately held company and there is no established public trading market for FOH Holdings common stock.

Holders

As of November 26, 2007, there were approximately 740 shareholders of record of Movie Star common stock. We believe that there are a significant number of beneficial owners of our common stock whose shares are held in "street name."

Dividend Policy

Movie Star has not paid any cash dividends on its common stock to date and does not intend to pay dividends prior to the completion of the merger. It is the present intention of our board of directors to retain all earnings, if any, for use in our business operations and, accordingly, our board does not anticipate declaring any cash dividends in the foreseeable future. The payment of dividends subsequent to the merger will be within the discretion of our board of directors and will be contingent upon our revenues and earnings, if any, capital requirements, general financial condition subsequent to completion of the merger and such other factors as such board will consider.

Table of Contents

Equity Compensation Plan Information

The following sets forth certain information as of June 30, 2007 concerning our equity compensation plans:

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Shares Remaining Available for Future Issuance Under
Equity Compensation Plans approved by shareholders	900,000	\$ 1.03	766,666
1988 Non-Qualified Stock Option Plan	110,000	\$ 0.63	0
2000 Performance Equity Plan	331,000 (1)	\$ 0.90	125,649 (2)
Plans not approved by shareholders	50,000	\$ 0.44	0
Warrant(3)			
<b>Total</b>	<b>1,391,000</b>	<b>\$ 0.95</b>	<b>892,315</b>

(1)

Includes 36,000 shares of common stock issuable upon exercise of options under our 2000 Performance Equity Plan granted to non-employee directors pursuant to our Non-Employee Director Compensation Plan. (2) Our Non-Employee Director Compensation Plan provides that each non-employee director may elect to receive his or her 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. 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. As of June 30, 2007, an aggregate of 191,351 shares of common stock have been issued to non-employee directors. (3) See Note 13 to the Consolidated Financial Statements of Movie Star for a description of the warrant.

Table of Contents

Dilution

If you purchase a share of our common stock in the rights offering, you will suffer immediate per share “dilution” in an amount equal to the difference between the price you paid per share and the net tangible book value per share after the rights offering. Net tangible book value per share represents the amount of our tangible assets less the amount of our liabilities divided by the number of shares of our common stock outstanding.

As of June 30, 2007, our net tangible book value available to our shareholders was approximately \$9,112,000, or \$0.55 per share of our common stock. Our net tangible book value per share is based upon 16,423,326 shares outstanding as of June 30, 2007.

On a combined basis prior to giving effect to the rights offering, the pro forma net tangible book value for FOH Holdings as of July 28, 2007 and for Movie Star as of June 30, 2007 would have been approximately \$850,000, or \$0.02 per share of common stock. Our pro forma net tangible book value gives effect to (i) the issuance of 23,689,181 shares of our common stock in the merger and (ii) the issuance of 100,000 shares of our common stock to Performance Enhancement Partners, LLC on the closing date of the merger. Our pro forma net tangible book value per share is based upon 40,212,507 shares of our common stock outstanding.

Giving effect to the issuance of 11,363,636 shares of common stock offered by us in the rights offering at an offering price of \$1.76 per share, our net tangible book value on a pro forma as adjusted basis, for FOH Holdings as of July 28, 2007 and for Movie Star as of June 30, 2007 would have been \$20,850,000, or \$0.40 per share. This represents an immediate increase in net tangible book value of \$0.38 per share to our existing shareholders and an immediate dilution of \$1.36 per share to investors in the rights offering.

The following table illustrates this dilution per share of common stock as of the closing of the rights offering on an adjusted pro forma net tangible book value basis:

share	\$ 1.76	Net tangible book value per share available to common shareholders as of June 30, 2007	Rights offering price per share	\$ 0.55
		Decrease attributable to pro forma adjustments before the rights offering	Pro forma net tangible book value per share before the rights offering	\$ (0.53 )
	\$ 0.38	Pro forma net tangible book value per share after the rights offering	Increase per share attributable to investors in the rights offering	\$ 0.40
	\$ 1.36	Dilution per share to investors in the rights offering		

The following table shows the number of shares of our common stock to be owned by shareholders prior to the rights offering and by investors in the rights offering:

Share	Number	Percentage	Total Consideration	Average Price Per	Shareholders prior to rights offering	Percentage	Total Consideration	Percentage
\$ 850,000	4.0 %	\$ 0.02	Investors in rights offering	11,363,636	22.0 %	\$ 20,000,000	96.0 %	
\$ 1.76	Total	51,576,143	100.0 %	\$20,850,000	100.0 %	\$ 0.40		



## Table of Contents

### SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA

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 prospectus. 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 prospectus.

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 prospectus. 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 prospectus.

Movie Star's consolidated balance sheet data as of September 30, 2007 and the consolidated statements of operations data for the three months ended September 30, 2007 and September 30, 2006 are derived from Movie Star's unaudited interim condensed consolidated financial statements which are included elsewhere in this proxy statement. In the opinion of Movie Star's management, the unaudited condensed consolidated interim financial statements include all adjustments (consisting of normal recurring adjustments) that are necessary for a fair presentation of such financial statements.

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

#### FOH Holdings' Selected Historical Consolidated Financial and Other Data

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

#### Fiscal 2003 Presentation

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

## Table of Contents

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 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.

Table of Contents

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.

- Selling, General and

— Interest includes interest on the FOH Holdings revolving line of credit facility, the secured term loans and the long-term debt.

- Interest expense, net

## Table of Contents

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]	[Predecessor]	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 Five				
Months				
ended				
December 31,				
2002 Statement of Operations Data:				
				Net sales \$ 155,238 \$ 136,705 \$
46,807 \$ 76,785 \$ 128,164 \$ 61,066 \$ 52,624				Cost of goods sold, buying and occupancy 90,201
80,102 27,026 44,122 71,621 41,643 31,390				Gross profit 65,037 56,603 19,781
32,663 56,543 19,423 21,234				Selling, general and administrative expenses 61,996 57,579
20,279 35,173 54,931 19,422 20,940				Operating income (loss) from continuing operations 3,041
(976 ) (498 ) (2,510 ) 1,612 1 294				Interest expense, net 2,093 2,422 700 1,102
1,592 836 335				Reorganization items (income) expense(a) — — — — — (15,112 )
extinguishment(b) — — — — — (20,471 )				Income (loss) from continuing operations before income tax
provision (benefit) 948 (3,398 ) (1,198 ) (3,612 ) 20 (835 ) 35,542				Income tax provision
(benefit) 548 127 (128 ) (953 ) 8 557 (105 )				Income (loss) from continuing operations 400
(3,525 ) (1,070 ) (2,659 ) 12 (1,392 ) 35,647				Income (loss) from discontinued operations(c)
41 240 (166 ) 440 950 2 565				Net income (loss) \$ 441 \$ (3,285 ) \$ (1,236 ) \$ (2,219
) \$ 962 \$ (1,390 ) \$ 36,212 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 %	0.5 %	Total square footage at the end of the					
period(f)	235,229	225,634	229,626	229,536	231,578	243,638	257,589	Average monthly			
retail sales per square foot	\$ 33.00	\$ 31.07	\$ 21.41	\$ 37.56	\$ 32.00	\$ 28.63	\$ 35.31	Number of			
retail stores:				Open at beginning of period	134	140	140	145	155		
166	166	Opened during the period	5	5	—	4	2	1	Closed during the period	(6)	(11)
—	(9)	(12)	(11)	(1)	Open at the end of the period	133	134	140	140	145	155

166  
33

Table of Contents

(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.

## Table of Contents

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

Three Months Ended											
September 30,	Fiscal Years Ended June 30,			2007	2006	2007	2006	2005	2004	2003	Statement of
Operations Data:											
											Net sales
58,533	\$ 53,691	\$ 64,916		8,577	12,867	43,144	37,528	44,304	37,581		\$
44,345											Cost of sales
				4,502	4,487	17,434	16,310	19,024	15,824		
14,623											Selling, general and administrative expenses
246				(1,450)							
											Insurance recovery
											Gain on sale of property, plant and equipment
17,893	62,473	52,634	63,328	53,405	58,968		(496)				
(1,498)	797	1,020	(995)	(4,795)	286	5,948					Operating (loss) income from continuing operations
(12)	(4)									(5)	(3)
											Interest income
											Interest expense
											(Loss) income from continuing operations before income tax (benefit) provision
											Income tax (benefit) provision
\$ (966)	\$ 366	\$ 146	\$ (1,000)	\$ (3,122)	\$ 128	\$ 3,431					Net (loss) income
)	\$.02	\$.01	\$ (.06)	\$ (.20)	\$.01	\$.23					Basic net (loss) income per share
.01	\$ (.06)	\$ (.20)	\$.01	\$.22							Diluted net (loss) income per share
15,763	16,089	15,700	15,625	15,574	15,133						Basic weighted average number of shares outstanding
											Diluted weighted average number of shares outstanding

At September 30,	At June 30,	2007	2007	2006	2005	2004	2003	Balance Sheet Data:
								Working capital
\$ 27,581	\$ 22,338	\$ 23,221	\$ 24,907	\$ 20,779	\$ 24,089	\$ 16,543	\$ 15,979	Total assets
								Short-term debt – Including current maturities
								of long-term debt and capital lease obligations
								Long-term debt – Including deferred lease and other long-term liabilities
								Shareholders' equity

Table of Contents

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 11,363,636 shares of Movie Star common stock (with a market value of \$20.0 million) for cash in the rights offering and warrants to purchase 1,193,182 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 3,629,329 shares of Series A Preferred Stock that are convertible into 3,024,437 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 prospectus.

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:

- 11,363,636 shares of Movie Star common stock will be issued in the rights offering at a subscription price of \$1.76 per share, which represents the average of the closing prices of our common stock for the 20 trading days ending on

November 26, 2007, less a 15% discount;

will be issued to the standby purchasers representing the right to purchase, in the aggregate, 1,193,182 shares of our common stock, or 10.5% of the total number of shares being offered in the rights offering;

- guarantor warrants

36

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Table of Contents

Series A Preferred Stock, which will be convertible into 3,024,437 shares of common stock, will be issued in connection with the merger and the other transactions contemplated by the merger agreement at an initial issuance price of \$2.0665 per share, which represents the average of the closing prices of our common stock for the 20 trading days ending on November 26, 2007.

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.



## Table of Contents

## 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	5,311 (d)	12,526	Intangibles and other assets	19,452	3,914	8,790 (e) 32,156 Total Assets
\$ 70,525	\$ 22,338	\$ 30,298	\$ 123,161	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
26,397 (a)	53,643	Total Liabilities and Shareholders' Equity	\$ 70,525	\$ 22,338	\$ 30,298	\$ 123,161

See Accompanying Notes to Unaudited Condensed Consolidated Pro Forma Financial Statements

## Table of Contents

## 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	—
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)
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	46,504	(k)	Weighted average shares outstanding –					
diluted	16,671	46,504	(k)						

See Accompanying Notes to Unaudited Condensed Consolidated Pro Forma Financial Statements



## Table of Contents

(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	207
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	\$ 25,702
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	\$ 11,303
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	5,848
Less adjustment to remove historical goodwill (537)	(537)
Pro forma adjustment to goodwill	\$ 5,311

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 \$207,000 based on the average closing share price of \$2.0665 per share for the twenty trading days ending on November 26, 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.

Table of Contents

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

(f) Long-term Debt: Represents the conversion of \$7.5 million of FOH Holdings long-term debt into 3,629,329 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 a conversion rate that was based on a price of \$2.0665 per share, which represents the average of the per share closing prices of Movie Star common stock for the twenty trading days ending on November 26, 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 \$2.48 per share, which is a 20% premium to the original price of \$2.0665 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.

## Table of Contents

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.

## Table of Contents

(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	11,364
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	30,415
Plus: Historical basic shares outstanding	16,089
Pro forma basic shares outstanding	46,504
Pro forma adjustment to the number of basic shares outstanding	30,415
Dilutive impact of outstanding escrowed shares	4,738
Dilutive impact of FOH Holdings options	732
Dilutive impact of warrants issued	177
Pro forma adjustment to diluted shares outstanding	36,062
Plus: Historical weighted average diluted shares outstanding	16,671
Pro forma dilutive average shares outstanding	52,733

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 11,363,636 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 November 26, 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 \$2.48 per share.

## Table of Contents

### MOVIE STAR'S MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This following discussion and analysis should be read in conjunction with Movie Star's consolidated financial statements and notes thereto included elsewhere in this prospectus.

#### Overview

We are engaged in the design, manufacture, distribution and sale 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. In fiscal 2007, approximately 58% of our sales were 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.

The intimate apparel industry is characterized by numerous small companies selling unbranded merchandise, and by several large companies that have developed widespread consumer recognition of the brand names associated with the merchandise sold by these companies. In addition, retailers to whom we sell our products have sought to expand the development and marketing of their own private-label brands and to obtain intimate apparel products directly from the same or similar sources from which we obtain our products. Consolidation within the retail industry has led to the creation of larger retailers that are able to source their own products rather than utilize companies like ours. Many of these companies have greater financial, technical and sourcing capabilities than we do.

In addition to sourcing and producing merchandise themselves, from time to time some of our retail customers eliminate specific product categories that we previously have sold to them or select competing vendors. Customers continuously select different vendors based not only on product design, the desirability of fabrics and styles, price, quality and reliability of service and delivery, but also on branding capabilities. We believe that retail customers producing products themselves and selecting vendors with branding capabilities are material trends that could adversely affect our sales in the future and in turn have a negative impact on our operating performance and our liquidity.

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 by our customers. We sell our brand name products primarily during these selling seasons. We also develop specific products (private label) for our larger accounts, mass merchandisers and national chains, and make between five and eight presentations throughout the year to these accounts. We do not have long-term contracts with any of our customers and, therefore, our business is subject to unpredictable increases and decreases in sales depending upon the size and number of orders that we receive each time we present our products.

Our business is subject to seasonal variations. Consistent with what we believe is the general pattern associated with sales to the retail industry, our results of operations are somewhat more meaningful on a seasonal basis rather than on a quarterly basis. In that regard, our net sales and net earnings generally have been higher during the period from July to December (which includes our first and second fiscal quarters), during which time our customers generally increase inventory levels in anticipation of both holiday and Valentine's day sales. However, during the years that we were able to increase sales in the second half of our fiscal year (January through June) and create a more even balance between the first and second halves of our fiscal year, we increased our overall profitability. This trend is unpredictable and is primarily dependent upon the size and number of orders that we receive each time we present our products to our

larger customers.

Management considers certain key indicators when reviewing our results of operations and liquidity and capital resources. Because our results of operations are subject to seasonal variations, we review our quarterly and year to date sales revenue in conjunction with our backlog of orders to determine our total position for the year. When reviewing the sales and backlog of open orders, a material factor that we consider is the gross profit percentage. We also consider our selling, general

45

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## Table of Contents

and administrative expenses as a key indicator in evaluating our financial performance. Inventory, accounts receivable and our outstanding borrowings are the main indicators we consider when we review our liquidity and capital resources, particularly the size and age of the inventory and accounts receivable. We review all of our key indicators against the prior year and our operating projections in order to evaluate our operating performance and financial condition.

### Merger with FOH Holdings, Inc.

On December 18, 2006, we entered into a merger agreement with FOH Holdings and Fred Merger Corp., our wholly-owned subsidiary. Under the terms of the merger agreement, Fred Merger Corp. will be merged with and into FOH Holdings, with FOH Holdings continuing as the surviving corporation as our wholly-owned subsidiary. Upon the consummation of the merger, we will change our name to Frederick's of Hollywood Group Inc.

Our board of directors unanimously approved the merger agreement and the transactions contemplated thereby on the unanimous recommendation of our special committee. The special committee engaged special legal counsel and Chanin Capital, LLC to serve as its financial advisor. On December 18, 2006, Chanin Capital, LLC delivered its opinion to the special committee on which our board of directors was entitled to rely, stating that, as of the date of the opinion, the consideration to be paid by us to the holders of FOH Holdings' common stock is fair to the holders of our common stock from a financial point of view.

As a result of the merger, we anticipate issuing approximately 23.7 million shares of our common stock to the stockholders of FOH Holdings as merger consideration. Approximately 50% of FOH Holdings common stock is owned by Tokarz Investments, an affiliate of TTG Apparel, which is a current shareholder of Movie Star owning 3,532,644 shares of our common stock. The other approximately 50% of FOH Holdings common stock is owned by accounts and funds managed by and/or affiliated with Fursa Alternative Strategies.

In connection with the merger agreement, we have agreed to issue new shares of our common stock to our current shareholders upon the exercise of non-transferable subscription rights, which will raise gross proceeds of \$20,000,000. To the extent that our shareholders do not purchase, on an aggregate basis, their pro rata percentage of our common stock in the rights offering, TTG Apparel and its affiliates, including Tokarz Investments, and funds affiliated with Fursa Alternative Strategies have agreed to purchase, on an equal basis, any such shortfall.

The completion of the merger and the rights offering is subject to various conditions, including obtaining the requisite approval by our shareholders of (i) the issuance of shares of our common stock in connection with the transactions contemplated by the merger agreement and (ii) an amendment to our certificate of incorporation to (a) increase the number of authorized shares of our common stock to 200,000,000 shares and (b) authorize the issuance of up to 10,000,000 shares of preferred stock. The merger agreement also includes customary termination provisions for both Movie Star and FOH Holdings and provides that, in connection with the termination of the merger agreement under specified circumstances relating to our receipt of a proposal that is superior to the transaction with FOH Holdings, we may be required to pay FOH Holdings a termination fee of \$300,000 plus the reimbursement of reasonable fees and expenses of FOH Holdings and its stockholders relating to the merger.

On April 9, 2007, we entered into a consulting agreement with Performance Enhancement Partners, LLC, to provide Movie Star with the personal services of Peter Cole, a current member of our board of directors, to (i) act as the lead member of our board of directors to facilitate the timely and successful completion of the merger and (ii) serve as the Executive Chairman of the combined company following the closing of the transactions contemplated by the merger agreement until July 26, 2008.

On June 8, 2007, we entered into an amendment to the merger agreement with FOH Holdings and Fred Merger Corp., 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

46

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Table of Contents

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.

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.

Since reporting two material weaknesses in internal control over financial reporting in connection with the audit of FOH Holdings' consolidated financial statements for the fiscal year ended July 29, 2006. FOH Holdings' management has taken a number of actions to help remediate the material weaknesses, and to improve the overall control environment and internal control over financial reporting, including the following:

- the recruitment of appropriately qualified and experienced personnel to fill key financial and accounting positions;
- the implementation of regular closing processes, including the timely reconciliation of key accounts and the timely resolution of unreconciled items;
- the regular preparation and updating of supporting analyses for key accounts, particularly those relying on management's estimates; and
- the implementation of review procedures of key account analyses by finance management.

With the anticipation of appropriate personnel being in place in the first half of fiscal 2008, the following actions will continue to be addressed during fiscal 2008:

- the implementation of additional review procedures of all closing entries and account analyses;
- the documentation of reporting and control processes and procedures; and
- the documentation of support for all accounts and positions.

Although these material weaknesses remained unremediated as of July 28, 2007, FOH Holdings' management believes that it is taking appropriate actions to remediate these material weaknesses, although there can be no assurance that the remediation will be complete by the end of fiscal 2008. If these weaknesses are not adequately remediated in a timely manner, errors in financial reporting may occur and the combined company may be required to restate its financial statements.

## Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the appropriate application of certain accounting policies, many of which require estimates and assumptions about future events and their impact on amounts reported in the financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates. Such differences could be material to the financial statements.

Management believes the application of accounting policies, and the estimates inherently required by the policies, are reasonable. These accounting policies and estimates are constantly re-evaluated, and adjustments are made when facts and circumstances dictate a change. Historically, management has found the application of accounting policies to be appropriate, and actual results generally do not differ materially from those determined using necessary estimates.

47

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## Table of Contents

Our accounting policies are more fully described in Note 1 to the consolidated financial statements. Management has identified certain critical accounting policies that are described below.

**Inventory** — Inventory is carried at the lower of cost or market on a first-in, first-out basis. Management writes down inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand, market conditions and the age of the inventory. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Historically, management has found its write-down of inventory to be appropriate, and actual results generally do not differ materially from those determined using necessary estimates. Inventory reserves were \$837,000 at September 30, 2007, \$940,000 at June 30, 2007, and \$1,015,000 at September 30, 2006.

**Accounts Receivable/Allowance for Doubtful Accounts and Sales Discounts** — Accounts receivable is net of allowance for doubtful accounts and sales discounts. An allowance for doubtful accounts is determined through the analysis of the aging of accounts receivable at the date of the financial statements. An assessment of the accounts receivable is made based on historical trends and an evaluation of the impact of economic conditions. This amount is not significant, primarily due to our history of minimal bad debts. An allowance for sales discounts is based on discounts relating to open invoices where trade discounts have been extended to customers, costs associated with potential returns of products, as well as allowable customer markdowns and operational charge backs, net of expected recoveries. These allowances are included as a reduction to net sales and are part of the provision for allowances included in accounts receivable. The foregoing results from seasonal negotiations as well as historic deduction trends, net of expected recoveries and the evaluation of current market conditions. As of September 30, 2007, June 30, 2007 and September 30, 2006, accounts receivable was net of allowances of \$1,042,000, \$700,000 and \$1,340,000, respectively. Historically, management has found its allowance for doubtful accounts and sales discounts to be appropriate, and actual results generally do not differ materially from those determined using necessary estimates. However, if the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. If market conditions were to worsen, management may take actions to increase customer incentive offerings, possibly resulting in an incremental allowance at the time the incentive is offered.

**Deferred Tax Valuation Allowance** — In assessing the need for a deferred tax valuation allowance, we consider future taxable income and ongoing prudent and feasible tax planning strategies. Since we were able to determine that we should be able to realize our deferred tax assets in the future, a deferred tax asset valuation allowance was not deemed necessary. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

Table of Contents

Results of Operations

Three Months Ended September 30, 2007 compared to Three Months Ended September 30, 2006

The following table shows each specified item as a dollar amount and as a percentage of net sales in each fiscal period, and should be read in conjunction with the unaudited condensed consolidated financial statements included elsewhere in this prospectus (in thousands, except for percentages):

Three Months Ended September 30,	2007	2006				Net sales	\$ 11,939	100.0 %	\$	
18,690	100.0 %	Cost of sales	8,577	71.8	12,867	68.8	Gross profit	3,362	28.2	5,823
31.2		Selling, general and administrative expenses	4,502	37.7	4,487	24.0	Merger related fees			358
3.0	539	2.9	(Loss) income from operations	(1,498)	(12.5)	797	4.3	Interest expense		112
0.9	187	1.0	(Loss) income before (benefit from) provision for income taxes			(1,610)	(13.5)			610
3.3		(Benefit from) provision for income taxes	(644)	(5.4)	244	1.3	Net (loss) income			\$ (966)
(8.1)%	\$ 366	2.0 %								

Percent amounts may not add due to rounding.

Net Sales

	(in thousands, except for percentages)				Customer		Net Sales	
for the								
three months								
ended								
September								
30, 2007	Percent							
of total								
sales	Net Sales							
for the								
three months								
ended								
September								
30, 2006	Percent							
of total								
sales	Increase/							
(decrease)								
from								
prior year	Percent of							
Increase/								
(decrease)								
from prior								
year	Wal-Mart	\$ 6,005	50.3 %	\$ 9,627	51.5 %	\$ (3,622)	(37.6)%	Frederick's of Hollywood

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641	5.4 %	715	3.9 %	(74 )	(10.3 )%	Other	5,270	44.1 %	8,152	43.6 %	(2,882 )
(35.4 )%	Total U.S.	11,916	99.8 %	18,494	99.0 %	(6,578 )	(35.6 )%	Canada	23	0.2 %	
196	1.0 %	(173 )	(88.3 )%	Total	\$ 11,939	100.0 %	\$ 18,690	100.0 %	\$ (6,751 )	(36.1 )%	

Net sales for the three months ended September 30, 2007 were \$11,939,000 compared to \$18,690,000 in the comparable period in 2006. The decrease was primarily due to:

- a \$3,600,000 decrease in shipments to Wal-Mart. \$2,000,000 of the decrease was attributable to our shipment of an order in the fourth quarter of fiscal 2007 instead of the first quarter of fiscal 2008; a comparable order in the prior year had been shipped in the first quarter of fiscal 2007 instead of the fourth quarter of fiscal 2006. The remaining \$1,600,000 decrease resulted from our receipt of orders in fiscal 2008 for different programs with later shipment schedules than the fiscal 2007 orders; and
- a decrease of \$3,055,000 in shipments to other customers, including a \$173,000 reduction in shipments to Canada. The decrease was due to customers placing fewer orders with us in the current year, which resulted from certain customers eliminating the sale of specific product categories that we previously sold to them, producing some of the products themselves, selecting competing vendors, particularly those with branding capabilities, and industry

Table of Contents

consolidation, such as the May Company and Federated Department Stores merger. We have experienced similar decreases in shipments to other customers over the past few years. We believe that customers producing some products themselves and selecting vendors with branding capabilities are material trends that could adversely affect our sales in the future.

Backlog of Open Orders

(in thousands, except for percentages)		Customer		Backlog of	
orders at					
September					
30, 2007	% of				
total					
orders	Backlog of				
orders at					
September					
30, 2006	% of				
total					
orders	Increase/				
(decrease)					
from prior					
year	% of				
Increase/					
(decrease)					
from prior					
year					
Wal-Mart	\$ 16,097	52.8 %	\$ 18,448	55.6 %	\$ (2,351 ) (12.7 )%
Frederick's of Hollywood	1,774	5.8 %	1,538	4.7 %	236 15.3 %
Other	12,261	40.2 %	11,917	35.9 %	344
Total U.S.	30,132	98.8 %	31,903	96.2 %	(1,771 ) (5.6 )%
Canada	1,256	3.8 %	(899 )	(71.6 )%	Total \$ 30,489 100.0 % \$ 33,159 100.0 % \$ (2,670 ) (8.1 )%

Our orders are booked upon receipt. We believe that our current backlog is firm and will be filled by the end of our fiscal year ending June 30, 2008. In addition, during October 2007 (the first month of our second fiscal quarter), we received new orders for approximately \$10,735,000 as compared to \$2,119,000 received in October 2006. This increase was due to large orders received from Wal-Mart that are scheduled for shipment during the second half of fiscal 2008 (January through June 2008). This increase in orders booked during October 2007, as compared to October 2006, brings our total shipping and open order position as of October 31, 2007 in line with our total shipping and open order position as of October 31, 2006.

Gross Profit

The gross profit percentage decreased to 28.2% for the three-months ended September 30, 2007, from 31.2% in the same period in the prior year. The decrease in the overall margin was due to the following, each having an approximately equal impact: 1) lower sales levels, which increased the percentage of our fixed overhead production costs as they relate to sales, 2) higher allowances and markdowns in the current year as a percentage of sales and 3) a lower initial gross margin due to the current year's product mix.

As a result of differences among the accounting policies of companies in the apparel industry relating to whether certain items of expense are included in cost of sales rather than as selling expenses, the reported gross profits of different companies, including our own, may not be directly comparable. For example, we record the costs of preparing merchandise for shipment, including warehousing costs and shipping and handling costs, as a selling expense, rather than a cost of sale. Therefore, our gross profit is higher than it would be if such costs were included in cost of sales.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$4,502,000, or 37.7% of net sales for the three months ended September 30, 2007, as compared to \$4,487,000, or 24.0% of net sales for the same period in 2006. The increase of \$15,000 resulted primarily from increases in:

- salary and related costs of \$107,000 primarily due to additional employees hired during the first quarter of fiscal 2007 to service the anticipated increase in business with Frederick's of Hollywood and having a full quarter of salaries included in the fiscal 2008 first quarter as compared to a partial quarter of salaries included in the fiscal 2007 first quarter; and
- an increase in design and design related costs, primarily fabric samples, of approximately \$92,000 as a result of our design and merchandising teams efforts to develop additional products for our sales force to present to our customers.

## Table of Contents

These increases were partially offset by decreases in:

and shipping related costs of \$93,000 as a result of lower sales; and

- shipping
- lower legal costs of \$61,000 as a result of a decrease in general corporate matters requiring services of outside legal counsel.

In connection with our previously announced merger with FOH Holdings, we incurred merger-related fees of \$358,000 for the three months ended September 30, 2007 as compared to \$539,000 for the same period in 2006. Included in merger-related fees are costs such as legal and accounting fees and financial advisory services. These fees are being expensed as a result of the merger being treated as a reverse acquisition. We also incurred an additional \$94,000 in related fees, which have been recorded as deferred issuance costs for the three months ended September 30, 2007, as these costs are directly related to the \$20,000,000 rights offering.

## Income (Loss) from Operations

For the three months ended September 30, 2007, we recorded a loss from operations of \$1,498,000 compared to income from operations of \$797,000 for the same period in the prior year. The decrease was primarily due to lower gross margin dollars of \$2,461,000, and higher selling, general and administrative expenses of \$15,000, partially offset by lower merger-related fees in the current year of \$181,000.

## Interest Income/Expense

Net interest expense for the three months ended September 30, 2007 decreased to \$112,000 as compared to \$187,000 in the comparable period in 2006. This decrease was primarily due to our reduced borrowing needs. Our borrowing needs decreased as a result of lower shipments for the quarter, which required less inventory purchases.

## Income Tax Provision/Benefit

As a result of our loss, we recorded an income tax benefit of \$644,000 for the three months ended September 30, 2007, as compared to an income tax provision of \$244,000 for the same period in the prior year. Since we determined that it is more likely than not that we will be able to utilize our net operating loss carry forwards in the future, we recorded a tax benefit for the quarter ended September 30, 2007. We utilized an estimated income tax rate of 40% in both periods.

## Net (Loss)/Income

We recorded a net loss of \$966,000 for the three months ended September 30, 2007, compared to net income of \$366,000 for the same period in the prior year. The decrease was primarily due to lower gross margin dollars of \$2,461,000, as well as higher selling, general and administrative expenses of \$15,000. These negative factors were partially offset by lower merger-related fees of \$181,000 and interest costs of \$75,000, as well as an income tax benefit in the current year of \$644,000 as compared to a tax provision in the prior year of \$244,000.

Table of Contents

Fiscal Years Ended June 30, 2007, 2006 and 2005

The following table shows each specified item as a dollar amount and as a percentage of net sales in each fiscal period, and should be read in conjunction with the consolidated financial statements included elsewhere in this prospectus (in thousands, except for percentages):

Years Ended June 30,				2007		2006		2005		Net sales		\$ 63,493	100.0
%	\$ 51,639	100.0 %	\$ 58,533	100.0 %	Cost of sales	43,144	68.0 %	37,528	72.7 %				
	44,304	75.7 %	Gross profit	20,349	32.0 %	14,111	27.3 %	14,229	24.3 %	Selling, general			
			and administrative expenses	17,434	27.5 %	16,310	31.6 %	19,024	32.5 %	Insurance recovery			
	—	(1,450)	(2.8)%	—	—	Merger related fees	2,391	3.8 %	246	0.5 %	—	—	Gain on sale
				(496)	(0.8)%	—	—	—	—	Income (loss) from operations	1,020		
	1.6 %	(995)	(1.9)%	(4,795)	(8.2)%	Interest income	(5)	0.0 %	(3)	—	(1)	—	Interest
				476	0.9 %	282	0.5 %	Income (loss) before income tax provision (benefit)					
	416	0.6 %	(1,468)	(2.8)%	(5,076)	(8.7)%	Income tax provision (benefit)	270	0.4 %				
	(468)	(0.9)%	(1,954)	(3.4)%	Net Income (loss)	\$ 146	0.2 %	\$ (1,000)	(1.9)%	\$ (3,122)			
	)	(5.3)%											

Percent amounts may not add due to rounding.

Fiscal 2007 Compared to Fiscal 2006

Net Sales

(in thousands, except for percentages)				Customer Net Sales for						
Fiscal 2007	Percent									
of total										
sales	Net Sales for									
Fiscal 2006	Percent									
of total										
sales	Increase/									
(decrease) from										
prior year	Percent of									
Increase/										
(decrease)										
from prior										
year										
Wal-Mart	\$ 32,464	51.1 %	\$ 12,918	25.0 %	\$ 19,546	151.3 %	Frederick's of Hollywood			
3,201	5.0 %	1,211	2.3 %	1,990	164.3 %	Other	26,721	42.1 %	35,624	69.0 %
(8,903)	(25.0)%	Total U.S.	62,386	98.2 %	49,753	96.3 %	12,633	25.4 %	Canada	1,107
1.8 %	1,886	3.7 %	(779)	(41.3)%	Total	\$ 63,493	100.0 %	\$ 51,639	100.0 %	\$
11,854	23.0 %									

Net sales for the year ended June 30, 2007 were \$63,493,000 compared to \$51,639,000 for the comparable period in 2006. The increase was primarily due to:

- an increase of \$19,546,000 in shipments to Wal-Mart, our largest customer, which resulted from the concentrated efforts of our design and merchandising teams to present products that were most compatible with Wal-Mart's business plan and generated our receipt of additional orders to ship in fiscal 2007. Our design and merchandising teams were able to pinpoint specific product categories that they believed would represent a large portion of Wal-Mart's business plan and then concentrated their efforts on these categories as they believed they would represent a greater opportunity for us to increase our sales revenue. We continuously evaluate our areas of product concentration, however, there can be no assurance that we will

## Table of Contents

continue to successfully identify and capitalize on product categories that will generate increased orders. Net sales also increased because we were able to ship an additional \$2,000,000 order for Wal-Mart in the fourth quarter of fiscal 2007 instead of the first quarter of fiscal 2008; a comparable order in the prior year had been shipped in the first quarter of fiscal 2007 instead of the fourth quarter of fiscal 2006; and

- an increase of \$1,990,000 in shipments to Frederick's of Hollywood, which was primarily due to the addition of design personnel to create an increased number of styles specifically for Frederick's of Hollywood.

This increase was partially offset by a decrease of \$9,682,000 in shipments to other customers, including a \$779,000 reduction in shipments to Canada. The decrease was due to a reduction in sales of closeout inventory and customers placing fewer orders with us in the current year, which resulted from certain customers eliminating the sale of specific product categories that we previously sold to them, producing some of the product themselves, selecting competing vendors, particularly those with branding capabilities, and industry consolidation, such as the May Company and Federated Department Stores merger. We have experienced similar decreases in shipments to other customers over the past few years. We believe that customers producing some products themselves and selecting vendors with branding capabilities are material trends that could adversely affect our sales in the future.

## Backlog of Open Orders

(in thousands, except for percentages)				Customer Backlog of			
orders at							
June 30, 2007	% of						
total							
orders	Backlog of						
orders at							
June 30, 2006	% of						
total							
orders	Increase/						
(decrease)							
from prior							
year	% of						
Increase/							
(decrease)							
from prior							
year							
Wal-Mart	\$ 21,957	62.3 %	\$ 24,556	58.9 %	\$ (2,599 )	(10.6 )%	Frederick's of Hollywood
1,431	4.1 %	1,388	3.4 %	43	3.1 %	Other	11,395 32.3 % 14,263 34.2 % (2,868 )
(20.1 )%	Total U.S.	34,783	98.7 %	40,207	96.5 %	(5,424 )	(13.5 )%
1,479	3.5 %	(1,033 )	(69.8 )%	Total	\$ 35,229	100.0 %	\$ 41,686 100.0 % \$ (6,457 )
(15.5 )%							

The backlog of orders was \$35,229,000 as of June 30, 2007 and \$41,686,000 as of June 30, 2006. Orders are booked upon receipt. We believe that our current backlog is firm and will be filled by the end of the fiscal year ending June 30, 2008. The reduction in open orders with Wal-Mart is primarily due to the shipment of a \$2,000,000 order in the fourth quarter of fiscal 2007 discussed above. The reduction in our backlog for our other business and Canada is primarily due to the same reasons for the sales decrease discussed above.

## Gross Profit

The gross profit percentage was 32.0 % for the year ended June 30, 2007 as compared to 27.3% for the year ended June 30, 2006. The higher overall margin in fiscal 2007 resulted from a better product mix, which created a higher initial gross margin, lower allowances and markdowns, and higher sales levels, which reduced the percentage of our fixed overhead production costs as they relate to sales.

As a result of differences between the accounting policies of companies in the industry relating to whether certain items of expense are included in cost of sales rather than recorded as selling expenses, the reported gross profits of different companies, including our own, may not be directly comparable. For example, we record the costs of preparing merchandise for sale, including warehousing costs and shipping and handling costs, as a selling expense, rather than a cost of sale. Therefore, our gross profit is higher than it would be if such costs were included in cost of sales.

## Table of Contents

### Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$17,434,000, or 27.5 % of net sales, for the year ended June 30, 2007 compared to \$16,310,000, or 31.6% of net sales, for the same period in 2006. This increase of \$1,124,000 resulted primarily from increases in:

- salary and related costs of \$579,000 due to an increase in the number of employees. This increase was primarily due to additional employees hired to service the anticipated increase in business with Frederick's of Hollywood;
- stock compensation expense of \$216,000 as a result of options being issued to six employees in the second quarter of fiscal 2007, three of whom are executive officers of our company;
- shipping expense and related costs of \$135,000 as a result of higher sales;
- design related costs of \$99,000 resulting from an increase in the number of samples produced; and
- a net overall increase in other general overhead expenses.

During the third and fourth quarters of fiscal 2006, we resolved our insurance claim related to the physical damage to our Poplarville, Mississippi distribution facilities caused by hurricane Katrina, which resulted in a gain of \$1,450,000, net of expenses.

In connection with our proposed merger with Frederick's of Hollywood, we have incurred merger-related fees of \$2,391,000 for the year ended June 30, 2007 as compared to \$246,000 for the same period last year. Included in the merger-related fees are legal fees, costs associated with our special committee's financial advisor, which included the issuance of a fairness opinion to our special committee, and accounting costs for due diligence. These fees are being expensed as a result of the merger being treated as a reverse acquisition. We also incurred an additional \$130,000, which has been recorded as deferred issuance costs in the current year as these costs are directly related to the \$20,000,000 rights offering.

We recorded a gain on the sale of property, plant and equipment of \$496,000, net of related costs, in the second quarter of fiscal 2007, which resulted primarily from the sale of our closed distribution facility in Petersburg, Pennsylvania for which we completed the sale for approximately \$683,000 in cash and recorded a gain of approximately \$482,000, net of related costs.

### Income (Loss) From Operations

We recorded income from operations of \$1,020,000 for the year ended June 30, 2007, compared to a loss from operations of \$995,000 for the same period in 2006. This improvement was primarily due to higher gross profit of \$6,238,000 and the gain on the sale of our closed Petersburg, Pennsylvania distribution facility of \$496,000, partially offset by higher selling, general and administrative expenses of \$1,124,000, higher merger-related fees of \$2,145,000 and the insurance recovery of \$1,450,000 in the prior year.

### Interest Income/Expense

Interest income for the year ended June 30, 2007 was \$5,000 as compared to \$3,000 for 2006.

Interest expense for the year ended June 30, 2007 was \$609,000 as compared to \$476,000 for 2006. This increase was due to higher interest rates during the current fiscal year.

Income Tax Provision/Benefit

We recorded an income tax provision for the year ended June 30, 2007 of \$270,000, as compared to an income tax benefit of \$468,000 for the similar period in 2006. This provision for income taxes as compared to the benefit in the prior year is due to the income in the current year as compared to the loss in the prior year.

Net Income

We recorded net income for the year ended June 30, 2007 of \$146,000 as compared to a net loss of \$1,000,000 for the same period in 2006. This improvement was due to higher gross profit dollars of

Table of Contents

\$6,238,000 and the gain on the sale of our closed Petersburg, Pennsylvania distribution facility of \$496,000, partially offset by higher selling, general and administrative expenses of \$1,124,000, higher merger-related fees of \$2,145,000, the hurricane Katrina insurance recovery of \$1,450,000 in the prior year, higher net interest costs of \$131,000 and a tax provision in the current year of \$270,000 as compared to a tax benefit in the prior year of \$468,000.

Fiscal 2006 Compared to Fiscal 2005

Net Sales

(in thousands, except for percentages)				Customer Net Sales for			
the year ended							
June 30, 2006 % of							
total							
sales Net Sales for							
the year ended							
June 30, 2005 % of							
total							
sales Increase/							
(decrease)							
from prior							
year % of							
increase/							
(decrease)							
from prior							
year							
Wal-Mart	\$ 12,918	25.0 %	\$ 11,475	19.6 %	\$ 1,443	12.6 %	Frederick's of Hollywood
1,211	2.3 %	62	0.1 %	1,149	1,853.2 %	Other	35,624 69.0 % 46,677 79.8 %
(11,053 )	(23.7 )%	Total U.S.	49,753	96.3 %	58,214	99.5 %	(8,461 ) (14.5 )%
1,886	3.7 %	319	0.5 %	1,567	491.2 %	Total	\$ 51,639 100.0 % \$ 58,533 100.0 % \$
(6,894 )	(11.8 )%						

Net sales for the year ended June 30, 2006 were \$51,639,000 compared to \$58,533,000 in the comparable period in 2005.

The decrease was primarily due to:

- our decision not to bid on an order in fiscal 2006 similar to a low margin order of \$7,800,000 that was shipped to one major retailer (included in other above) in the second and third quarters of fiscal 2005. When we accepted this order, the expected gross margin was considerably lower than our historical gross margin. The costs to prepare this order for shipment and to ship the order were significantly higher than we originally anticipated resulting in a further reduction in the gross margin. These additional costs resulted from bad weather conditions, which caused a significant portion of the merchandise to arrive late at our distribution centers from India. We also incurred overtime expenses to prepare the order for shipment and, in some instances, to meet our customer's delivery dates, some goods were shipped by air at a much higher cost from India to our distribution center and from our distribution center to our customer;
- a decrease in

shipments due to customers placing fewer orders with us in the current year, which was primarily due to certain customers eliminating the sale of specific product categories that we previously sold to them, producing some of the product themselves, selecting competing vendors, particularly those with branding capabilities, and industry consolidation. We believe that customers producing product themselves and selecting vendors with branding capabilities are material trends that could adversely affect our sales.

This decrease was partially offset by:

- an increase of \$1,160,000 in sales generated from Sidney Bernstein & Son Lingerie, Inc. (SB&S) that resulted from our acquisition of SB&S in August 2004 and having eleven shipping months for fiscal 2005 as compared to twelve months in fiscal 2006. SB&S (included in the table above in the "Other" column) accounted for \$14,124,000 and \$12,964,000 of net sales for the years ended June 30, 2006 and 2005, respectively;
- the increase in sales generated in Canada resulted from our operations in Canada beginning in late spring of 2004, which did not result in orders being shipped until December 2004, allowing for only seven shipping months in fiscal 2005 as compared to twelve shipping months in fiscal 2006;

Table of Contents

• an increase of \$1,443,000 in shipments to Wal-Mart, which resulted from the commencement of the concentrated efforts of our design and merchandising teams to present products most compatible with Wal-Mart's business plan and generated our receipt of additional orders to ship in fiscal 2006.

Backlog of Open Orders

(in thousands, except for percentages)				Customer Backlog of									
orders at June 30, 2006	% of total orders	Backlog of orders at June 30, 2005	% of total orders	Increase/ (decrease) from prior year	% of Increase/ (decrease) from prior year	Wal-Mart	%	Frederick's of Hollywood	%	Other	%	Canada	%
\$ 24,556	58.9 %	\$ 8,847	31.2 %	\$ 15,709	177.6 %	1,388	3.4 %	18,461	65.1 %	14,263	34.2 %	1,479	3.5 %
98	0.3 %	1,290	1316.3 %	40,207	96.5 %	27,406	96.6 %	12,801	46.7 %	40,207	96.5 %	521	54.4 %
521	54.4 %	Total	\$ 41,686	100.0 %	\$ 28,364	100.0 %	\$ 13,322	47.0 %					

Gross Profit

The gross profit percentage was 27.3% for the year ended June 30, 2006 as compared to 24.3% for the year ended June 30, 2005. The higher overall margin resulted primarily from not having the large low margin order that we shipped in the second and third quarters of fiscal 2005.

As a result of differences between the accounting policies of companies in the industry relating to whether certain items of expense are included in cost of sales rather than recorded as selling expenses, the reported gross profits of different companies, including our own, may not be directly compared. For example, we record the costs of preparing merchandise for sale, including warehousing costs and shipping and handling costs, as a selling expense, rather than as a cost of sale. Therefore, our gross profit is higher than it would be if such costs were included in cost of sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$16,310,000, or 31.6% of net sales, for the year ended June 30, 2006 compared to \$19,024,000, or 32.5% of net sales, for the same period in 2005. This decrease of \$2,714,000 resulted from decreases in:

expense and salary related costs of \$857,000 as a result of changes in the composition of personnel;

- salary

\$639,000 due to the termination of our prior Chairman's services in connection with our consulting agreement with him;

- consulting fees of

shipping expense and shipping related costs of \$520,000 as a result of lower sales, the elimination of the SB&S distribution center in January 2005 and the Pennsylvania distribution facility in December 2005. The decisions to eliminate these two facilities were made by us to enhance our competitiveness, to reduce expenses and to improve efficiencies;

- 

related costs of \$411,000 as a result of lower purchases of sample fabrics and trims and increased usage of in-house resources related to design and artwork; and

- samples and design

reduction in other general overhead expenses.

- a net overall

In connection with our proposed merger with Frederick's of Hollywood, we incurred merger related fees of \$246,000 for the year ended June 30, 2006. Included in the merger related fees are legal fees and costs associated with our financial advisor. These fees are being expensed as a result of the merger being treated as a reverse acquisition.

During the third and fourth quarter of fiscal 2006, we resolved our insurance claim on the Poplarville, Mississippi distribution facilities, which resulted in a gain of \$1,450,000, net of expenses. A portion of the proceeds has been and will be used to replace certain portions of the facility that were damaged during hurricane Katrina.

## Table of Contents

### Loss From Operations

We recorded a loss from operations of \$995,000 for the year ended June 30, 2006, compared to a loss from operations of \$4,795,000 for the similar period in 2005. This improvement was primarily due to the insurance recovery of \$1,450,000, a reduction in selling, general and administrative expenses of \$2,714,000, partially offset by lower gross profit dollars of \$118,000 and the merger related fees of \$246,000.

### Interest Income/Expense

Interest income for the year ended June 30, 2006 was \$3,000 as compared to \$1,000 for 2005.

Interest expense for the year ended June 30, 2006 was \$476,000 as compared to \$282,000 for 2005. This increase was due primarily to higher interest rates and higher borrowing levels.

### Income Tax Benefit

We recorded an income tax benefit of \$468,000 for the year ended June 30, 2006, as compared to an income tax benefit of \$1,954,000 for the same period in 2005. The decrease in income tax benefit is due to the lower loss in fiscal 2006.

### Net Loss

We recorded a net loss for the year ended June 30, 2006 of \$1,000,000 compared to a net loss of \$3,122,000 for the same period in 2005. This improvement was due to the insurance recovery of \$1,450,000, lower selling, general and administrative expenses of \$2,714,000, partially offset by lower gross profit dollars of \$118,000, the merger related fees of \$246,000, an increase in interest expense of \$192,000 and a lower income tax benefit in the current period as compared to the same period last year of \$1,486,000.

### Liquidity and Capital Resources

#### Three Months Ended September 30, 2007

#### Cash Used in Operations

Net cash used in operating activities for the three months ended September 30, 2007 was \$5,285,000, resulting primarily from:

- a net loss of \$966,000 for the three-months ended September 30, 2007;
- an increase in accounts receivable of \$2,397,000, which was due to higher sales during the last two months (August and September) of the quarter ended September 30, 2007 as compared to the last two months (May and June) of the quarter ended June 30, 2007;
- an increase in inventory of \$2,256,000, which was primarily related to higher finished goods inventory of \$1,938,000. The increase in finished goods was due to normal inventory fluctuations to fulfill order requirements subsequent to September 30, 2007; and

a non-cash increase in the deferred tax asset of \$650,000, primarily as a result of the income tax benefit that we recorded for the quarter.

These decreases in cash flow were partially offset by:

expenses of \$98,000 for depreciation and amortization and \$338,000 for the provision for sales allowances and doubtful accounts; and

- non-cash
- a net increase in

accounts payable, accrued expenses and other current liabilities of \$659,000, which was primarily due to higher inventory requirements to fulfill customer orders.

#### Cash Used in Investing Activities

Net cash used in investing activities for the three-months ended September 30, 2007 consisted of \$67,000 for purchases of property, plant and equipment.

Table of Contents

Cash Provided by Financing Activities

Net cash provided by financing activities for the three-month period ended September 30, 2007 was \$5,463,000, resulting primarily from net proceeds of short-term borrowings of \$5,477,000, partially offset by repayments of capital lease obligations totaling \$14,000.

Fiscal Year Ended June 30, 2007

The following table sets forth cash (used in)/provided by operating, investing and financing activities for the years ended June 30, 2007, 2006 and 2005:

(amounts in thousands)

June 30,	2007	2006	2005	Operating activities	\$ (137 )	\$ (1,267 )	\$ (3,478 )	Investing activities	\$ 464
	\$ 1,109	\$ (3,681 )		Financing activities	\$ (472 )	\$ 161	\$ 4,816	Effect of exchange rate changes on cash	
	\$ (5 )	\$ 22	\$ (6 )	Net (decrease) increase in cash	\$ (150 )	\$ 25	\$ (2,349 )		

Cash Used in Operations

Net cash used in operating activities for the year ended June 30, 2007 was \$137,000, resulting primarily from:

- an increase in accounts receivable of \$1,928,000 due to an increase of \$2,716,000 in sales for the last two months of fiscal year 2007 as compared to the last two months of the prior fiscal year;
- a decrease in the provision for sales allowances and doubtful accounts of \$251,000 due to lower markdowns and allowances; and
- a decrease in accounts payable and other liabilities of \$1,001,000, which was primarily related to higher in-transit finished goods inventory at the beginning of the year, which was paid in the current year.

These decreases in cash flow were partially offset by:

- net income of \$146,000 for fiscal year 2007;
- non-cash expenses of \$357,000 for depreciation and amortization, stock-based compensation expenses of \$236,000 and a reduction in the deferred tax asset of \$254,000, which resulted from the current year's income and the utilization of our net operating loss carry forwards, partially offset by the gain on the sale of property, plant and equipment of \$496,000, of which \$482,000 was from the sale of our distribution center in Petersburg, Pennsylvania; the proceeds of this transaction are recorded in investing activities;
- a decrease in inventory of \$2,165,000 primarily as a result of lower finished goods inventory of \$1,846,000, which primarily resulted from lower in-transit finished goods of approximately \$1,400,000 as well as other general reductions in finished goods inventory and lower piece goods of approximately \$238,000, which resulted from less cut, make and trim production that requires the ownership of piece goods; and

• a decrease in prepaid expenses and other current assets of \$490,000, which primarily resulted from the receipt of a \$502,000 payment of the insurance receivable for Hurricane Katrina.

Net cash used in operating activities for the year ended June 30, 2006 was \$1,267,000 resulting primarily from a loss of \$2,450,000 excluding the gain on insurance recovery of \$1,450,000, an increase in accounts receivable of \$576,000 and a decrease in accrued expenses and other liabilities of \$679,000, offset by a decrease in inventory of \$2,749,000. The reduction in inventory was primarily in finished goods and was due to customer orders being scheduled to ship later in the first quarter of fiscal 2007 as compared to the first quarter of fiscal 2006, resulting in finished goods arriving later, as well as better inventory management.

Table of Contents

Cash Provided by Investing Activities

Net cash provided by investing activities of \$464,000 for the year ended June 30, 2007 consisted of:

• proceeds from the sales of property, plant and equipment of \$698,000, which was primarily related to the sale of our Petersburg Pennsylvania distribution center; and

• insurance proceeds of \$26,000 associated with the damage to our Poplarville, Mississippi distribution facilities from Hurricane Katrina.

These increases in cash were partially offset by purchases of property, plant and equipment of \$260,000.

For the year ended June 30, 2006, net cash provided by investing activities of \$1,109,000 consisted of insurance proceeds of \$1,424,000 associated with damage to our Poplarville, MS building from Hurricane Katrina offset by purchases of property, plant and equipment of \$315,000.

Cash Used in/Provided by Financing Activities

The net cash used in financing activities of \$472,000 for the year ended June 30, 2007 resulted from:

• the net repayments of short-term borrowings of \$829,000; and

• the repayments of capital lease obligations of \$59,000.

These reductions in cash were partially offset by proceeds of \$416,000 from the exercise of 612,000 stock options at an average exercise price of \$0.68 per share by three current employees, one terminated employee and one director.

For the year ended June 30, 2006, net cash provided by financing activities of \$161,000 resulted from net proceeds from short-term borrowings.

Contractual Obligations and Commercial Commitments

To facilitate an understanding of our contractual obligations and commercial commitments, the following data is provided as of September 30, 2007 (in thousands):

	Payments Due by Period			Total	Within							
	1 Year	2-3 Years	4-5 Years	After 5								
Years Contractual Obligations						Note Payable(1)	\$ 9,603	\$ 9,603	\$ —	\$ —	\$ —	Note
Payable Interest(2)	672	672	—	—	—	Capital Lease Obligation	102	61	41	—	—	Licensing
Agreement	48	48	—	—	—	Operating Leases	4,454	1,323	2,721	410	—	Employment
Contracts	2,804	1,283	1,311	210	—	Consulting Agreements	433	433	—	—	—	Other
Long-term Liability	84	18	41	25	—	Total Contractual Obligations	\$ 18,200	\$ 13,441	\$ 4,114			
	\$ 645	\$ —										

Amount of Commitment Expiration Per Period				Total				
Amounts								
Committed	Within							
1 Year	2-3 Years	4-5 Years	After 5					
Years	Other Commercial Commitments			Letters of Credit	\$ 6,590	\$ 6,590	\$ —	\$ —
\$ —	Total Commercial Commitments	\$ 6,590	\$ 6,590	\$ —	\$ —	\$ —	\$ —	\$ —

59

## Table of Contents

(1) Note  
Payable is a less than one-year obligation because the financial institution may demand payment at any time. Interest on outstanding borrowings is payable at a variable rate per annum, equal to the prime rate less 0.75% (our current borrowing rate at September 30, 2007 was 7.0%).

(2) Note  
Payable Interest assumes that the principal amount outstanding on our line of credit is paid in full on September 30, 2008, that the principal amount to be repaid on that date will be \$9,603,000 and that the interest rate will be 7.0% (our current borrowing rate at September 30, 2007).

We have no obligations that have a provision for increased or accelerated payments.

## Note Payable

Effective June 30, 2006, we obtained a new revolving line of credit of up to \$30,000,000. This revolving line of credit and letter of credit facility expires on June 30, 2008 and is sufficient for our projected needs for operating capital and letters of credit to fund the purchase of imported goods through June 30, 2008. Direct borrowings under this line bear interest at the J.P. Morgan Chase Bank prime rate less .75 percent per annum. Availability under the line of credit is subject to our compliance with certain agreed upon financial formulas. We were in compliance with our requirements under this facility at September 30, 2007. This line of credit is secured by substantially all of our assets.

## Future Financing Requirements

For the three months ended September 30, 2007, our working capital decreased by \$1,636,000 to \$7,954,000, primarily due to our loss from operations.

We believe the available borrowing under our revolving line of credit, along with anticipated operating cash flows, will be sufficient to cover our working capital requirements through June 30, 2008. We believe that we will be able to extend or replace our current line of credit upon its expiration with a line of credit with similar terms for at least one year beyond the current expiration date, although there is no assurance that this will be the case.

We anticipate that capital expenditures for fiscal 2008 will be \$1,000,000.

## Off-Balance Sheet Arrangements

We have not created, and are not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating our business. We do not have any arrangements or relationships with entities that are not consolidated into our financial statements that are reasonably likely to materially affect our liquidity or the availability of capital resources.

## Effect of New Accounting Standards

In July 2006, the FASB issued SFAS Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—An Interpretation of SFAS No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Statement 109 and prescribes a recognition threshold and measurement attribute for the financial statement disclosure of tax positions taken, or expected to be taken, on a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We adopted the provisions of FIN 48 on July 1, 2007 and the adoption did not have a material impact on the consolidated financial statements. We classify any interest and penalty payments or accruals within operating expenses on the financial statements. There were no accruals of interest and penalties, nor were there any unrecognized tax benefits at the date of adoption of FIN 48. The Internal Revenue Service has reviewed our income tax returns through the period ended June 30, 2003 and proposed no changes to our filed tax returns.

60

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## Table of Contents

In September 2006, the FASB issued SFAS No. 157 “Fair Value Measures” (“SFAS No. 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, however it does not apply to SFAS 123R. This Statement shall be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The provisions of this Statement should be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied, except in some circumstances where the statement shall be applied retrospectively. We do not expect the adoption of SFAS No. 157 to have a material impact on our financial statements.

In February 2007, FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities,” (“SFAS No. 159”), which amends the accounting for assets and liabilities in financial statements in accordance with SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities”. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. SFAS No. 159 is effective for the first fiscal year beginning after November 15, 2007. We do not expect the adoption of SFAS No. 159 to have a material impact on our financial statements.

## Inflation

We do not believe that our operating results have been materially affected by inflation during the preceding three years. There can be no assurance, however, that our operating results will not be affected by inflation in the future.

## Seasonality

We manufacture a wide variety of intimate apparel in many different styles and sizes and for use in all seasons and climates in the United States. Because of our product mix, we are subject to seasonal variations in sales. Historically, more than 50% of our sales have been made in the first six months of our fiscal year (i.e., the second half of the calendar year).

## Quantitative and Qualitative Disclosures About Market Risk

We are subject to changes in the J.P. Morgan Chase Bank prime rate based on the Federal Reserve actions and general market interest fluctuations. We believe that moderate interest rate increases or decreases will not have a material impact on our results of operations, or financial position, in the foreseeable future. For the three months ended September 30, 2007, borrowings peaked during the period at \$9,603,000 and the average daily amount of borrowings was \$5,725,000.

## Imports

Transactions with our foreign manufacturers and suppliers are subject to the risks of doing business outside of the United States. Our import and offshore operations are subject to constraints imposed by agreements between the United States and the foreign countries in which we do business. These agreements often impose quotas on the amount and type of goods that can be imported into the United States from these countries. Such agreements also allow the United States to impose, at any time, restraints on the importation of categories of merchandise that, under the terms of the agreements, are not subject to specified limits. Our imported products are also subject to United States

customs duties and, in the ordinary course of business we are from time to time subject to claims by the United States Customs Service for duties and other charges. The United States and other countries in which our products are manufactured may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adversely adjust presently prevailing quotas, duty or tariff levels, which could adversely affect our operations and our ability to continue to import products at current or increased levels. We cannot predict the likelihood or frequency of any such events occurring.

61

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## Table of Contents

### MOVIE STAR'S BUSINESS

#### 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.

62

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Table of Contents

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				

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%	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.

## Table of Contents

### Quality Control

As of October 31, 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.



Table of Contents

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.

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®, Night Magic® and Cinema Studio® are material to the marketing of our products. In March 2007, we applied for the trademark, Knickers by Cinema Etoile™ and received a Notice of Allowance on October 23, 2007.

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
orders at		
June 30, 2007	% of total	
orders	Backlog of	
orders at		
June 30, 2006	% of total	
orders	Increase /	
	(decrease)	
	from prior	
	year	% of
	Increase /	

(decrease)

from prior

year Wal-Mart	\$ 21,957	62.3 %	\$ 24,556	58.9 %	\$ (2,599)	(10.6)%	Frederick's of Hollywood
1,431	4.1 %	1,388	3.4 %	43	3.1 %	Other	11,395
							14,263
							34.2 %
(20.1)%	Total U.S.	34,783	98.7 %	40,207	96.5 %	(5,424)	(13.5)%
							Canada
		1,479	3.5 %	(1,033)	(69.8)%	Total	\$ 35,229
							100.0 %
							\$ 41,686
							100.0 %
							\$ (6,457)
							(15.5)%

The backlog of orders was \$35,229,000 as of June 30, 2007 and \$41,686,000 as of June 30, 2006. Orders are booked upon receipt. We believe that our current backlog is firm and will be filled by the fiscal year ended June 30, 2008. The year-over-year reduction in open orders with Wal-Mart is primarily the result of shipping an additional \$2,000,000 order for Wal-Mart in the fourth quarter of fiscal 2007 instead of the first quarter of fiscal 2008. The year-over-year reduction in our backlog for our other business and Canada is primarily due to certain customers eliminating the sale of specific product categories that we previously sold to them, customers producing some of the product themselves, customers selecting competing vendors, and, industry consolidation such as the May Company and Federated Department Stores, Inc. merger.

## Table of Contents

### Seasonality

We manufacture a wide variety of intimate apparel in many different styles and sizes and for use in all seasons and climates in the United States. Because of our product mix, we are subject to seasonal variations in sales. Historically, more than 50% of our sales have been made in the first six months of our fiscal year (i.e., the second half of the calendar year).

### Competition

The intimate apparel business is fragmented and highly competitive. The industry is characterized by a large number of small companies manufacturing and selling unbranded merchandise, and by several large companies which have developed widespread consumer recognition of the brand names associated with merchandise manufactured and sold by these companies. In addition, some of the larger retailers to whom we have historically sold our products have sought to expand the development and marketing of their own brands and to obtain intimate apparel products directly from the same or similar sources from which we obtain our products. Many of these companies have greater financial, technical and marketing resources and sourcing capabilities than we do.

Management believes that we compete 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 addition, we have developed long-term working relationships with manufacturers and agents, which presently provide us with reliable sources of supply. Because of increasing competitive pressure, we rely entirely on foreign manufacturers to produce our products and are therefore subject to risks related to foreign sourcing such as changes in import quotas, currency valuations and political conditions, among others, which could adversely affect our business. Due to our small size and resources relative to our competitors, we are limited in our ability to leverage our sourcing capabilities to achieve greater efficiencies, which could adversely impact our ability to compete.

### Employees

As of October 31, 2007, we had 307 full-time and 7 part-time employees. Of our full-time employees, approximately 11 are executive and senior management, 101 are in design, design support and sample making, 12 are in sales and sales support, 43 are administrative personnel and office support, 94 are in production, manufacturing and offshore support and 46 are in distribution and warehousing.

We have never experienced an interruption of our operations because of a work stoppage. Even though we are subject to certain seasonal variations in sales, significant seasonal layoffs are rare.

We believe our relationship with our employees to be good. We are not a party to any collective bargaining agreement with any union.

## Table of Contents

## Properties

The following table sets forth all of the facilities that we owned or leased as of June 30, 2007. In addition to the facilities described in the table, we utilize a public warehouse in California on a per-shipment basis 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 on a per-shipment basis to accommodate our Canadian customers. We believe that our facilities, together with the utilization of public warehouses, are adequate for our current and reasonably foreseeable future needs and that our properties are in good condition and suitable for the conduct of our business.

Location	Use	Owned or Leased	Square Footage of Lease	Annual Rent	Expiration				
New York, NY	Corporate Offices	Leased	11,000	\$1,192,000	12/2010	Divisional Sales Office and Showroom	31,000	180	
Madison Ave.			8,000	Production Staff and Design	12,000				
New York, NY	Sales Office and Showroom	Leased	3,000	\$108,000	5/2011	Poplarville, MS			
Manufacturing Support Office		Leased	24,000	\$8,000	11/2010	Warehousing and Distribution	172,000		
2,000			16,000	212,000		Warehousing	Owned	27,000	N/A
Manufacturing Support, Sample and Pattern Making		Leased	3,800	\$19,000	4/2008	Montreal, Canada	Office	—1,000	\$10,000
Month to Month									

Movie Star has registered its securities under the Exchange Act and has reporting obligations, including the requirement to file annual and quarterly reports with the SEC. In accordance with the requirements of the Exchange Act, Movie Star's annual reports contain financial statements audited and reported on by Movie Star's independent registered public accounting firm. Movie Star has filed with the SEC a Form 10-K covering the fiscal year ended June 30, 2007.

## Legal Proceedings

There are no legal proceedings pending which we consider to be material.

## Table of Contents

### FOH HOLDINGS' MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis should be read in conjunction with FOH Holdings' consolidated financial statements and notes thereto included elsewhere in this prospectus. The consolidated financial statements of FOH Holdings include the accounts of FOH Holdings, Inc. and all of its subsidiaries: Frederick's of Hollywood, Inc., Hollywood Mail Order, LLC, Frederick's of Hollywood Stores, Inc. and Frederick's.com, Inc.

#### Overview

The sale of intimate apparel, personal care and beauty products is a highly competitive business with numerous competitors, including individual and chain fashion specialty stores, department stores and discount retailers. Brand image, marketing, fashion design, price, service, fashion assortment and quality are the principal competitive factors in retail sales.

FOH Holdings is a retailer of primarily women's apparel and related merchandise through mall-based specialty stores, mail order catalogs and the Internet. References throughout this discussion and analysis to "Direct" collectively refer to the catalog and Internet sales channels. At July 28, 2007 and July 29, 2006, FOH Holdings operated 133 and 134 stores, respectively. During the year ended July 28, 2007, FOH Holdings opened five new stores, closed six underperforming stores and relocated three stores. During the year ended July 29, 2006, FOH Holdings closed two stores in New Orleans as a result of damages caused by Hurricane Katrina and nine underperforming stores, opened five new stores and relocated two stores.

#### Critical Accounting Policies and Estimates

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.

Since reporting two material weaknesses in internal control over financial reporting in connection with the audit of FOH Holdings' consolidated financial statements for the fiscal year ended July 29, 2006, FOH Holdings' management has taken a number of actions to help remediate the material weaknesses, and to improve the overall control environment and internal control over financial reporting, including the following:

- the recruitment of appropriately qualified and experienced personnel to fill key financial and accounting positions;
- the implementation of regular closing processes, including the timely reconciliation of key accounts and the timely resolution of unreconciled items;

preparation and updating of supporting analyses for key accounts, particularly those relying on management's estimates; and

- the regular
- the implementation

of review procedures of key account analyses by finance management.

With the anticipation of appropriate personnel being in place in the first half of fiscal 2008, the following actions will continue to be addressed during fiscal 2008:

implementation of additional review procedures of all closing entries and account analyses;

- the

68

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Table of Contents

of reporting and control processes and procedures; and

- the documentation

of support for all accounts and positions.

- the documentation

Although these material weaknesses remained unremediated as of July 28, 2007, FOH Holdings' management believes that it is taking appropriate actions to remediate these material weaknesses, although there can be no assurance that the remediation will be complete by the end of fiscal 2008. If these weaknesses are not adequately remediated in a timely manner, errors in financial reporting may occur and FOH Holdings may be required to restate its financial statements.

FOH Holdings' discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires the appropriate application of certain accounting policies, many of which require estimates and assumptions about future events and their impact on amounts reported in the financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will differ from FOH Holdings' estimates. Such differences could be material to the financial statements.

FOH Holdings' management believes the application of accounting policies, and the estimates required by these policies, are reasonable. These accounting policies and estimates are constantly re-evaluated, and adjustments are made when facts and circumstances dictate a change. FOH Holdings evaluates its estimates on an on-going basis, including those related to revenues, inventories, deferred catalog expenses, goodwill, intangible assets, taxes, stock-based compensation, contingencies and litigation. FOH Holdings' most significant areas of estimation and assumption are:

- estimation of expected customer merchandise returns;
- determination of the appropriate amount and timing of markdowns to clear unproductive or slow-moving inventory;
- estimation of the timing and level of future catalog revenues;
- estimation of future cash flows, discount rates and other underlying assumptions used to assess the carrying value of indefinite-lived intangible assets, goodwill and long-lived assets, including amortizable intangible assets;
- estimation of its net deferred income tax asset valuation allowance; and
- estimation of future common stock performance and determination of stock option lives.

Historically, FOH Holdings' management has found the application of accounting policies to be appropriate, and actual results generally do not differ materially from those determined using estimates.

FOH Holdings' accounting policies are more fully described in Note 2 to its consolidated financial statements for the fiscal year ended July 28, 2007, and included elsewhere in this prospectus. FOH Holdings' management has identified certain critical accounting policies that are described below.

Revenue Recognition – FOH Holdings records revenue at the point of sale for retail stores and at the time of estimated receipt by the customers for catalog and Internet sales. Outbound shipping charges billed to customers are included in

net sales for catalog and Internet sales. FOH Holdings records an allowance for estimated returns in the period of sale based on prior experience. If actual returns are greater than expected returns, additional sales returns may be recorded in the future.

Merchandise Inventories – Store inventories are valued at the lower of cost or market using the retail inventory first-in, first-out (“FIFO”) method, and Direct inventories are valued at the lower of cost or market, on an average cost basis that approximates the FIFO method. Freight costs are included in inventory and vendor promotional allowances are recorded as a reduction in inventory cost.

These inventory methods inherently require management judgments and estimates, such as the amount and timing of permanent markdowns to clear unproductive or slow-moving inventory, which

## Table of Contents

may impact the ending inventory valuations as well as gross margins. Markdowns are recorded when the sales value of the inventory has diminished. Factors considered in the determination of permanent markdowns include current and anticipated demand, customer preferences, age of the merchandise, and fashion trends. When a decision is made to permanently mark down merchandise, the resulting gross margin reduction is recognized in the period the markdown is recorded. Additionally, FOH Holdings accrues for planned but unexecuted markdowns. FOH Holdings' management believes that markdowns have been appropriately reflected in its consolidated financial statements.

To the extent that FOH Holdings' management estimates differ from actual results, additional markdowns may be required that could reduce gross margin, operating income and the carrying value of inventories.

**Deferred Catalog Costs** – Deferred catalog costs represent direct-response advertising that is capitalized and amortized over its expected period of future benefit. Direct-response advertising consists primarily of product catalogs of FOH Holdings' mail order subsidiary. The capitalized costs of the advertising are amortized over the expected revenue stream following the mailing of the respective catalog, which is generally six months. The realizability of the deferred catalog costs are also evaluated as of each balance sheet date by comparing the capitalized costs for each catalog, on a catalog by catalog basis, to the probable remaining future net revenues. FOH Holdings' management believes that they have appropriately determined the expected period of future benefit as of the date of its consolidated financial statements; however, should actual sales results differ from expected sales, deferred catalog costs may be written off on an accelerated basis.

**Impairment of Long-Lived Assets** – FOH Holdings reviews long-lived assets, including property and equipment and its amortizable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on undiscounted cash flows, as prescribed by SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. If long-lived assets are impaired, an impairment loss is recognized, measured as the amount by which the carrying value exceeds the estimated fair value of the assets.

The estimation of future undiscounted cash flows from operating activities requires significant estimates of factors that include future sales growth and gross margin performance. If FOH Holdings' sales growth, gross margin performance or other estimated operating results are not achieved at or above the forecasted level, or cost inflation exceeds the forecast and FOH Holdings is unable to recover such costs through price increases, the carrying value of certain of the retail stores may prove to be unrecoverable and FOH Holdings may incur additional impairment charges in the future. FOH Holdings' management believes that the long-lived assets' carrying values and useful lives continue to be appropriate.

**Goodwill and Trademark** – As of July 28, 2007, FOH Holdings had goodwill with a carrying balance of \$6.7 million and trademarks with a carrying balance of \$18.1 million, arising from the push-down accounting applied as a result of a change in control on March 3, 2005, when FOH Holdings' outstanding common stock was purchased by certain shareholders. Note 1 of FOH Holdings' audited consolidated financial statements, included elsewhere in this prospectus, provides further information about this transaction. Intangible assets consist of the trademarks, principally FOH Holdings' trade name, as well as customer relationships and domain names recognized in accordance with push-down accounting. FOH Holdings has determined the trademarks and domain names to have indefinite lives.

FASB Statement No. 142, *Goodwill and Other Intangible Assets*, requires FOH Holdings to not amortize its goodwill, trademarks and certain other indefinite life intangible assets, but to test those intangible assets for impairment annually and between annual tests when circumstances or events have occurred that may indicate a potential impairment has occurred. The goodwill impairment review is highly judgmental and involves the use of significant estimates and assumptions, which have a significant impact on the amount of any impairment charge recorded. Estimates of fair

value are primarily determined using discounted cash flow methods and are dependent on assumptions on future sales trends, market conditions and cash flows over several years. In estimating future cash

70

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## Table of Contents

flows, FOH Holdings' management uses assumptions for items such as comparable store sales, the rate of inflation, new store openings and future sales trends.

The carrying value of the trademark was determined using the relief-from-royalty method. The relief-from-royalty valuation method estimates the royalty expense that could be avoided in the operating business as a result of owning the respective asset or technology. The royalty savings are measured, tax-effected and, thereafter, converted to present value with a discount rate that considers the risk associated with owning the intangible assets. No impairment was present and no write-down was required when the trademark was reviewed for impairment in connection with the annual impairment test.

The most significant and sensitive assumption used in determining the fair value of the trademark using the relief-from-royalty method is the selected royalty rate. The relief-from-royalty method is most sensitive to the royalty rate assumption, which considers market share, market recognition and profitability of products bearing the trademark. The selected royalty rate used in the most recent annual trademark impairment test was 4.5%. FOH Holdings' management estimates that a 50 basis point decrease to the selected royalty rate could have reduced the estimated fair value of the trademark by approximately \$4.0 million.

If assumptions used in performing the goodwill or trademark impairment test prove inaccurate, the fair value of the goodwill and trademark may ultimately prove to be significantly lower, thereby causing the carrying value to exceed the fair value and indicating impairment has occurred. FOH Holdings' management believes that the carrying values of certain intangible assets and goodwill continue to be appropriate and no impairments have been identified.

**Income Taxes** – Income taxes are accounted for by FOH Holdings under an asset and liability approach that requires the recognition of deferred income tax assets and liabilities for the expected future consequences of events that have been recognized in FOH Holdings' consolidated financial statements and income tax returns. FOH Holdings' management provides a valuation allowance for deferred income tax assets when it is considered more likely than not that all or a portion of such deferred income tax assets will not be realized. Future realization of certain income tax assets on which FOH Holdings' management has provided a valuation allowance is dependent upon future cumulative profitability, among other factors.

**Stock-based Compensation** – Effective July 30, 2006, FOH Holdings adopted the provisions of SFAS No. 123(R), "Shared-Based Payment," which requires an entity to recognize compensation expense in an amount equal to the fair value of share-based payments granted to employees. FOH Holdings adopted SFAS 123(R) using the prospective application method. Under this method, share-based compensation expense recognized during the year ended July 28, 2007 included only share-based compensation expense for all share-based awards granted or modified subsequent to July 29, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). In accordance with the prospective application method, FOH Holdings' consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123(R). The prospective application of SFAS 123(R) did not have a material impact on FOH Holdings' consolidated financial positions, results of operations and cash flows.

FOH Holdings currently uses the Black-Scholes option-pricing model to value stock options granted to employees. It uses these values to recognize stock compensation expense for stock options in accordance with SFAS No. 123(R). The Black-Scholes model is complex and requires significant exercise of judgment to estimate future common stock dividend yield, common stock expected volatility and the expected life of the stock options. These assumptions significantly affect stock option valuations and future changes in these assumptions could significantly change valuations of future stock option grants and, thus, affect future stock compensation expense.

Discontinued Operations – Discontinued operations consist of stores closed during the course of the year. Accordingly, FOH Holdings excludes the operations of the closed stores from the ongoing operations of FOH Holdings and reports them separately as discontinued operations. In reaching a determination as to whether the results of a store will be eliminated from ongoing operations, FOH

71

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## Table of Contents

Holdings considers whether it is likely that customers will migrate to similar stores in the same geographic market. FOH Holdings' consideration includes an evaluation of the proximity of those stores to the closed store.

During the fiscal year ended July 28, 2007, FOH Holdings closed six stores. During the fiscal year ended July 29, 2006, FOH Holdings closed eleven stores. Each store closure occurred at its contractual lease termination date, except for the two stores closed during 2006 due to Hurricane Katrina. The impact of these store closures are reflected as a retroactive adjustment to discontinued operations for prior years.

## New Accounting Pronouncements Not Yet Adopted

In July 2006, the FASB issued FASB interpretation ("FIN") No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. FOH Holdings is currently assessing the impact of FIN No. 48, which it will adopt effective at the beginning of the fiscal year ending in July 2008.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities and also expands information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other accounting standards require or permit assets and liabilities to be measured at fair value and does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. FOH Holdings is currently assessing the impact of SFAS No. 157 and will adopt this standard at the beginning of the fiscal year ending in July 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115 ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at fiscal year ends. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Accordingly, SFAS No. 159 will be adopted commencing in FOH Holdings' fiscal year ending in July 2009. FOH Holdings is currently assessing the impact of SFAS No. 159 and will adopt this standard at the beginning of the fiscal year ending in July 2009.

## Results of Operations

### Fiscal Years 2007, 2006 and 2005

The table below shows how FOH Holdings' operating results have changed over the periods presented. The financial information presented reflects the push-down accounting adjustments related to the March 2005 transaction that is described in "Selected Historical Consolidated Financial and Other Data—FOH Holdings' Selected Historical Consolidated Financial and Other Data" and more fully disclosed in Note 1 of FOH Holdings' audited consolidated financial statements included elsewhere in this prospectus. The relevant percentage of total revenue is provided next to each period's results of operations so that comparisons can be made about the relative change in revenue and expenses. As a result of the push-down accounting adjustments, the information in the post-push down periods (the years ended

July 28, 2007 and July 29, 2006 and the five months ended July 30, 2005) and the pre-push down period (the seven months ended March 3, 2005) presented may not be comparable. The results are further separated by a heavy black line to indicate the effective date of the new basis of accounting.

72

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refining the profile of the Frederick's of Hollywood target consumer;  
consistently well-executed merchandising strategy; and  
consistent brand presence across all distribution channels.

- further
- developing a strong,
- developing a

Commencing in the latter half of fiscal 2005, FOH Holdings began to implement this strategy by concentrating on the Frederick's of Hollywood's customer target of women between the ages of 18 and 35.

Through 2006, a more focused product strategy was rolled out, which committed to:

introducing newness and innovation in trend, silhouette and fabrication of the products;  
fashion and quality of the product offering;  
product flow from the suppliers to the floor, thereby reducing consumer frustrations from stock outs and back orders;  
and  
upgrading the fashion quality of product offerings.

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- upgrading the
- improving the
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## Table of Contents

Economic variables will always impact consumer confidence, thereby directly affecting consumer spending. However, brand image, marketing, fashion design, price, service, fashion assortment and quality are the principal competitive factors in retail sales, regardless of general economic trends. FOH Holdings' management believes that well-positioned price points, a product offering of both basic and trend-conscious intimate apparel, and effective customer service will continue to drive strong sales and brand growth.

## Fiscal Year 2007 Compared to Fiscal Year 2006

### Operational Overview

Net sales for the fiscal year ended July 28, 2007 increased by \$18,533,000, or 13.6% to \$155,238,000 compared with \$136,705,000 of net sales for the fiscal year ended July 29, 2006. Comparable same store sales represent a key operating metric utilized by FOH Holdings' management to measure store net sales performance and the strength of retail sales. Comparable same store sales increased by approximately 9.2% in fiscal 2007 compared to fiscal 2006. Comparable same store sales increased by approximately 6.5% in fiscal 2006 compared to fiscal 2005. FOH Holdings anticipates that there will continue to be an increase in comparable same store sales when comparing estimated fiscal year 2008 store sales with fiscal year 2007 store sales, but due to uncertainties associated with the economy and consumer demand, it is difficult for management to determine if this trend will continue in the future or if an increase in comparable same store sales will actually be realized in fiscal 2008.

Merchandising initiatives contributed to the increase in sales with the continued success of core products and new product introductions, including the first new bra launch in three years. Core products, such as the Dream Corset, generated over 40% of net sales in fiscal 2007. The top ten core products contributed 30% of total net sales in Stores and 11% of total net sales for Direct in fiscal 2007. The two best-performing product departments in fiscal 2007 were Seduction by Frederick's of Hollywood sub-brands and corsets, which together contributed to an increase in net sales of \$11,313,000, or 65.0%, over fiscal 2006. The increase in net sales attributable to core product growth is the result of increased consumer demand for these products driven partially by the continued updating of these products to meet fashion trends, and store level and Direct promotional activity specific to these products. FOH Holdings' management is currently unable to determine if the demand for these products will continue to increase in the future at a similar rate due to the unpredictability of consumer sentiment and economic uncertainties.

Customer focus remained a key initiative in fiscal 2007. Store staff training was increased and staffing levels were adjusted to promote an improved store shopping experience for customers. Customer surveys informed store management and enabled store management to better focus on those experiences that were most important to the Frederick's of Hollywood customer. As a result, a recent customer survey indicated that 71% of Frederick's of Hollywood customers were highly satisfied.

Service levels in FOH Holdings' distribution center, as measured by the number of orders shipped within 24 hours of receipt, increased by approximately 17% over the prior year. Service levels in FOH Holdings' customer contact center also increased, as measured by the number of calls answered within a prescribed time. In fiscal 2007, the number of calls answered within 20 seconds increased to 80% from 64% in the previous year. FOH Holdings expects its investment in customer-focused programs to continue to contribute to the trend of sales growth, and to strengthen the brand value in the customers' minds.

In Direct, search and affiliate programs have helped to drive the increased traffic to the website. Sales generated by placement on Internet search engines and affiliate websites increased by 31.3% in fiscal 2007. FOH Holdings expects

to continue to develop these relationships. Improved creative efforts and product positioning have contributed to an increase in customer conversion rates, which is the percentage of visitors to the website who then buy merchandise. The twelve month house file

74

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## Table of Contents

(i.e., customers that have made a direct purchase within the past twelve months) increased by 10% to exceed 660,000 customers. A focus on promotional and prospecting activities has driven sales. FOH Holdings continues to develop these activities. These activities include search, affiliate and portal programs on the Internet, core product promotional activities in both the Store and Direct channels, and targeted mailings of the catalog. FOH Holdings' management is unable to determine if the response to these activities will continue due to the unpredictability of consumer sentiment and economic uncertainties.

## Net Sales

Total net sales for fiscal 2007 increased by \$18,533,000 to \$155,238,000 from \$136,705,000 in fiscal 2006. The following factors contributed to the increase in total net sales:

- Total retail store sales increased by \$10,614,000 or 13.1% over the prior year, which was primarily attributable to a comparable same store sales increase of approximately \$7,506,000 or 9.2%. A key operating metric is the performance of comparable store sales, which are the net merchandise sales of stores that have been open for at least one complete year. In fiscal 2007, the increase in comparable store sales was driven by a 6.1% increase in average dollar sales per transaction and a 2.7% increase in the number of transactions. The remaining increase in retail store sales was driven by the performance of new stores opened in fiscal 2006 and fiscal 2007 which had not been opened for a complete year.
- Net product sales for the Direct business increased by \$7,876,000 or 15.0% over the prior year. Approximately 12.7% more sales were made through the catalog, despite a 22.2% reduction in catalog circulation, and 28.7% more sales were made through the website. During fiscal 2007, the number of orders received increased by 12.9%. Sales generated by placement on Internet search engines and affiliate increased by 31.3% in fiscal 2007.

## Gross Profit

Gross margin (gross profit as a percentage of net sales) in fiscal 2007 increased to 41.9% from 41.4% in the prior year. In dollar terms, gross margin increased by \$8,434,000 or 14.9%, which was in line with the increase in total revenues. Cost of goods sold increased by \$10,099,000 or 12.6% in fiscal 2007. The largest contributors to the increase in cost of goods sold were the following:

- Product costs increased by \$4,884,000 or 9.8%, to \$54,916,000 in fiscal 2007 due to the increase in product sold. As a percentage of sales, product margins increased slightly from 61.6% in fiscal 2006 to 62.2% in fiscal 2007 due to a change in the blend of goods sold on many of the established product lines.

- Occupancy costs consist of the rent, deferred rent, common area maintenance, utilities, real estate taxes and depreciation of the stores and the distribution center in Phoenix. These costs increased by \$1,825,000 or 9.6%, to \$20,837,000 in fiscal 2007, partly due to net increases in rents and common area costs of \$1,428,000, or 10.2%, over the prior fiscal year. In addition, in anticipation of the forthcoming store expansion, FOH Holdings expanded the dedicated real estate department, which contributed increased costs of \$261,000, an increase of 51.2% in fiscal 2007 over the prior fiscal year.

- Buying costs consist of the costs of our merchandising teams and their activities. Buying costs increased by \$640,000 or 21.4% in fiscal 2007. An increase of \$525,000 or 19.3% was attributable to new positions and salary increases within the merchandise and buying teams, and an increase in associated costs, including travel costs. The remaining increase of \$115,000 was related to an increase of IT costs of 43.1% in fiscal 2007 resulting from the increased

operating costs of the new store communication platform.

increase in fiscal 2007 was partially attributable to increased shipping and distribution costs arising from the increased sales volume in both retail stores and Direct.

- The remaining

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses in fiscal 2007 increased by \$4,417,000 or 7.7% over the prior fiscal year. The following factors contributed to the change over the prior year:

75

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Table of Contents

personnel-related expenses increased by \$1,118,000 or 6.7% over the prior fiscal year, from both increased staffing within the stores and salary increases. Store level staffing was increased to improve customer interactions, which led to an enhanced customer experience and higher levels of customer satisfaction.

- Store

Direct personnel-related costs increased by \$2,333,000 or 55.5% due to salary increases of 3% and the introduction of an executive and manager incentive bonus program based upon individual performance and the financial performance of FOH Holdings, for which FOH Holdings recorded \$1,000,000 of bonus expense in fiscal 2007. In addition, consultancy costs of \$860,000 were incurred, primarily for merger-related activities, including interim finance and IT staff.

- Corporate and

Brand marketing is used to increase brand awareness through the announcement of new product launches, the arrival of seasonal collections and the opening of new stores. This is accomplished primarily through public relations activities, including press releases and media events. In fiscal 2007, certain events were not held as the business focused on operational initiatives. This decrease in brand marketing activities led to a decrease in costs of \$633,000 or 30.1%. In fiscal 2008, these activities will be re-launched, including the annual charity auction event to be held in October 2007.

Interest Expense, Net

During the fiscal year ended July 28, 2007, net interest expense of approximately \$2,093,000 was incurred compared to \$2,422,000 for the year ended July 29, 2006. Net interest expense decreased by \$329,000, or 13.6%, over the prior fiscal year. This was driven by a decrease in the average outstanding borrowings of approximately \$2,858,000 or 10.3%, as partially offset by an increase in the average borrowing rate on the revolver facility from 7.4% in fiscal 2006 to 8.3% in fiscal 2007, which was driven by increases in the underlying prime rate. The decrease in average outstanding borrowings was a result of an improved liquidity position from the prior fiscal year, resulting from the issuance of 400,000 shares of common stock for \$4,000,000 in the latter part of fiscal 2006 and improved sales in fiscal 2007.

Income Tax Provision — Continuing Operations

During the fiscal year ended July 28, 2007, FOH Holdings recognized income tax expense of \$548,000. For fiscal 2007, FOH Holdings' effective income tax rate of 57.9% differed from the U.S. federal statutory rate primarily due to the establishment of valuation allowances against certain deferred income tax assets to replace the utilization of pre-acquisition net operating losses during fiscal 2007, and the related valuation allowance being recognized as a reduction to goodwill resulting from the March 3, 2005 change in control. Beginning in fiscal 2005, FOH Holdings' management determined, based in part on the cumulative losses, that it is more likely than not that certain of the deferred income tax assets will not be realized. As a result, a valuation allowance was recorded, resulting in the significant difference between the effective tax rate and federal statutory rate in fiscal 2006. Following the March 3, 2005 change in control, future recognition of certain income tax assets have been recognized as a reduction to goodwill.

Income (Loss) from Discontinued Operations

Income (loss) from discontinued operations, net of tax, of \$41,000 and \$240,000 for the years ended July 28, 2007 and July 29, 2006, respectively, includes revenues and expenses directly associated with the stores closed during those periods. Six stores were closed in the fiscal year ended July 28, 2007. These stores generated net sales of \$1,518,000 and \$2,459,000 in fiscal 2007 and 2006, respectively. Eleven stores were closed in the fiscal year ended July 29, 2006, including two in New Orleans as a result of damage caused by Hurricane Katrina. These eleven stores generated net

sales of \$2,488,000 in fiscal 2006. Other than the two stores closed due to Hurricane Katrina, these store closures occurred at the end of the applicable contractual lease termination dates. Additionally, discontinued operations for the fiscal year ended July 29, 2006 reflects the retrospective adjustment for the six stores closed subsequent to the 2006 fiscal reporting period.

76

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## Table of Contents

### Fiscal Year 2006 Compared to Fiscal Year 2005

#### Operational Overview

In fiscal 2006, FOH Holdings began to recover from the under-performance of fiscal 2005. The performance in 2005 was primarily attributable to poor customer acceptance of the product offerings and reduced customer service. These factors resulted in unfavorable financial performance during 2005, including decreased sales, increased clearance inventory and unplanned markdowns.

Net sales for the fiscal year ended July 29, 2006 increased by \$13,113,000 from \$123,592,000 to \$136,705,000 or by 10.6% as compared with the combined net sales for the five months ended July 30, 2005, and the seven months ended March 3, 2005. This sales growth was realized across all channels of distribution.

Product offerings continued to be refreshed during fiscal 2006, with foundation basics and fashion items performing well. Enhanced product offerings enabled higher price points, with net sales prices on key product lines increasing on average 4.8%. For example, two key product departments in 2005 and 2006 were Seduction by Frederick's of Hollywood sub-brands and corsets. In fiscal 2005, aggregate sales of these items increased \$3,364,000 or 28.7% over fiscal year 2004, due to an increase in demand, enabling strong price positionings that were, on average, 3.4% higher than prices in fiscal year 2004. Merchandising focus on this item and the sales trends, as well as general fashion movements, determined that this trend would continue. In fiscal year 2006, sales in these items increased by \$7,415,000 or 49.2% over the prior fiscal year, with the net sales price increasing 7.7%.

Customer focus continued during fiscal 2006, with increased time and attention spent on developing customer relationship programs, especially in the Direct distribution channels where new search and affiliate programs were introduced. Having intentionally reduced much of FOH Holdings' prospecting activity in 2005, including the elimination of inactive customers from its customer lists in fiscal 2005 and decreasing catalog circulation, FOH Holdings then selectively re-initiated prospecting in fiscal 2006, by increasing search and affiliate marketing on the Internet and developing new prospecting models for catalog customers, thereby rebuilding the housefile (i.e. customers that have made a Direct purchase in the past twelve months) to over 600,000 customers in fiscal year 2006, an increase of 17% over the prior fiscal year period.

#### Net Sales

Net sales for fiscal 2005 were not impacted by the March 3, 2005 change in control. As a result, FOH Holdings' management has performed the analysis on the change in net sales from fiscal 2005 by combining the five months ended July 30, 2005 and the seven months ended March 3, 2005. Net sales in fiscal 2006 increased by \$13,113,000 from \$123,592,000 as a result of the following:

- Total retail store net sales increased by approximately \$8,253,000 or 11.3% over the prior year, primarily attributable to a comparable same store sales increase of approximately \$4,901,000 or 6.5%. Comparable store sales, which are the net merchandise sales from stores that have been open for at least one complete year, were driven by a 3.1% increase in average dollar sales per transaction and an increase in the number of transactions of approximately 9%. In addition, five new stores were opened during fiscal year 2006 that also contributed to the increase in net sales.



Table of Contents

• Net product sales for Frederick's of Hollywood's Direct business increased by \$4,198,000 or 10.5% for the fiscal year ended July 29, 2006 as compared with the prior fiscal year, driven by a \$3,393,000 or 30.8% increase in the net sales of the Internet business due to a shift in web marketing efforts. Net sales in the catalog business increased by \$805,000 or 2.8% through an increase in catalog response rates of 5%, as offset by a reduction in circulation of 11%. The success of the Direct business was a reflection of a new creative strategy and revitalized prospecting and promotion strategies, leading to an increase in the twelve month housefile to over 600,000 names.

Gross Profit

For the fiscal year ended July 29, 2006, the gross profit rate (expressed as a percentage of net sales) decreased to 41.4% from 42.3% and 42.5% for the five months ended July 30, 2005 and the seven months ended March 3, 2005, respectively. The sequential decrease over the prior year periods was primarily due to the following factors:

• Buying costs consist of the costs of our merchandising teams and the cost of their activities. Buying costs reflected an increase of approximately 7.4%, primarily due to increases in personnel related costs of \$172,000 attributable to higher staffing levels within the merchandise buying and planning teams, and an increase in travel costs of \$149,000 for increased market visits to better identify new fashion trends and product opportunities; these increases were offset by a reduction in design fees of \$108,000.

• Occupancy costs consist of the rent, deferred rent, common area maintenance, utilities, real estate taxes and depreciation of the stores and the distribution center in Phoenix. These costs increased by approximately 6.4% in fiscal year 2006 against total occupancy costs of \$19,899,000 in fiscal 2005; these increases resulted from contractual lease increases in rent and common area charges, and increased depreciation charges from the revaluation of property and equipment as a result of the March 2005 transaction.

• Product margins decreased from 63.5% to 61.6% as a result of an increase in promotional markdowns to drive top line sales of clearance items, including certain discontinued product offerings.

The increase in buying and occupancy costs, and the decrease in product margin, was not fully offset by a corresponding increase in sales volumes, resulting in a decrease in the gross profit.

Selling, General and Administrative Expenses

Selling, general and administrative expense (SG&A) consists of two components. Selling expenses include store and field support costs including personnel and advertising, as well as Internet and catalog processing costs. General and administrative costs include the corporate functions such as executives, finance and accounting, legal, information systems, human resources, and other centralized services. SG&A, as a percentage of sales for the fiscal year ended July 29, 2006 decreased to 42.1% from 43.3% and 45.8% for the five months ended July 30, 2005 and the seven months ended March 3, 2005, respectively. The sequential decrease of SG&A as a percentage of sales over the prior year periods is primarily a result of increased sales, which were partially offset by a comparable increase in SG&A expenses. SG&A costs increased \$2,127,000 or 3.7% primarily due to the following:-

• Increases in professional fees of \$948,000, including legal fees relating to the class action lawsuit and increased audit fees;

• Management fees of \$200,000 per annum payable to the shareholders commencing from March 2005; and

recruitment and consulting fees of \$366,000 relating to the recruitment and retention of key personnel.

- Increased personnel

Interest Expense, Net

During the fiscal year ended July 29, 2006, net interest expense of approximately \$2,422,000 was incurred compared to \$700,000 and \$1,102,000 for the five months ended July 30, 2005 and the seven

78

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## Table of Contents

months ended March 3, 2005, respectively. The increase in fiscal 2006 over each of the respective periods in fiscal 2005 is due primarily to each of the fiscal 2005 periods consisting of less than twelve months of interest expense. Interest expense increased by \$620,000 over the combined prior fiscal year periods, an increase of 34.4%. This was driven, in part, by an increase in the average outstanding borrowings of approximately \$3,015,000 or 12.5%, and an increase in the average borrowing rate from 6.8% in fiscal year 2005 to 7.4% in fiscal year 2006. The increase in the rate was driven by the increases in the underlying prime rate. The increase in average outstanding borrowings was a result of FOH Holdings amending its financing arrangements in July 2005 to provide for a term loan facility, which bears interest at the bank's prime rate (8.25% at July 29, 2006) plus 1%. In order to fund new stores and investment in technology, as well as to provide monies to pay for the settlement of a class action lawsuit, \$1,500,000 was drawn down in August 2005 and a further \$750,000 was drawn down in December 2005.

### Income Tax Provision — Continuing Operations

In the fiscal year ended July 29, 2006, FOH Holdings recognized income tax expense of \$127,000, largely due to certain state income taxes. The net operating loss available for carry forward is offset by valuation allowances. For the five months ended July 30, 2005 and the seven months ended March 3, 2005, FOH Holdings recognized income tax benefits of \$128,000 and \$953,000, respectively. These income tax benefits were primarily attributed to certain available operating loss carry-backs. Beginning in fiscal 2005, FOH Holdings' management determined, based in part on the cumulative losses, that it is more likely than not, that certain of the deferred income tax assets will not be realized. As a result, a valuation allowance was recorded resulting in the significant difference between the effective tax rate and federal statutory rate in the fiscal 2006 and the fiscal 2005 periods. Following the March 3, 2005 change in control, future recognition of certain income tax assets will be recognized as a reduction to goodwill.

### Income (Loss) from Discontinued Operations

Income (loss) from discontinued operations, net of tax, of \$240,000, \$(166,000) and \$440,000 for the year ended July 29, 2006, the five months ended July 30, 2005, and the seven months ended March 3, 2005, respectively, includes revenues and expenses directly associated with the stores closed through July 28, 2007. Upon store closings that occur subsequent to each reporting period, FOH Holdings retrospectively adjusts prior periods to reflect those stores as discontinued operations if it is determined that there are no significant continuing cash flows from the closed stores. As a result, the fiscal 2006 and 2005 results also reflect the closing of six stores during the year ended July 28, 2007, which generated net sales of \$2,459,000 and \$2,303,000 for fiscal 2006 and 2005, respectively. Eleven stores were closed in the fiscal year ended July 29, 2006, including two in New Orleans as a result of damage caused by Hurricane Katrina. These eleven stores generated net sales of \$2,488,000 and \$4,364,000 in fiscal 2006 and 2005, respectively. No stores were closed in the five months ended July 30, 2005 and nine stores were closed during the seven months ended March 3, 2005, which generated net sales of \$2,061,000. These store closures occurred at the end of the applicable contractual lease termination dates. Additionally, discontinued operations for the fiscal year ended July 29, 2006, the five months ended July 30, 2005 and the seven months ended March 3, 2005 reflect the retrospective adjustment for six, seventeen and seventeen stores, respectively, closed subsequent to the respective reporting periods.

### Liquidity and Capital Resources

FOH Holdings' working capital requirements vary throughout the year, with the peak generally occurring in the first and second fiscal quarters.

At July 28, 2007, FOH Holdings had approximately \$1,898,000 of cash and cash equivalents on hand, in addition to a revolving line of credit facility under which FOH Holdings could borrow or issue letters of credit up to a combined

\$12,000,000, subject to availability levels calculated on the basis of accounts receivable and inventory balances. This facility has been renewed each year and it

79

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## Table of Contents

currently expires on January 7, 2008. FOH Holdings exercised a right on October 9, 2007 to increase the borrowing capacity of the revolving line of credit facility by \$3,000,000. It is currently anticipated that these facilities will be refinanced as part of the refinancing of Movie Star's debt at the completion of the transaction, which is expected to close by the end of the second quarter of fiscal year 2008. Accordingly, FOH Holdings has not yet begun discussions to extend the revolving line of credit facility; however, in the event the refinancing is delayed, FOH Holdings expects that it will be able to negotiate a renewal of the revolving line of credit, although there can be no assurance that this will be the case. As of July 28, 2007, there were cash borrowings of \$4,490,000 and letters of credit of \$1,250,000 under the revolving line of credit facility. Funds available under the revolving line of credit provide seasonal funding requirements. The build-up of merchandise inventory starts in the fourth quarter of the previous fiscal year, therefore the balance on the revolving line of credit begins to increase from that point. The holiday season accounts for approximately one-third of net sales. Accordingly, cash requirements are highest in the first fiscal quarter as the inventory continues to build in anticipation of the holiday period. The ability of FOH Holdings to turn inventory with sufficient frequency and to manage receipts from customers and payments to vendors is key to maintaining liquidity. FOH Holdings' management believes that its relationships with vendors and suppliers remain strong, as do its relationships with its lenders.

Net cash generated from operating activities of \$6,661,000 in the fiscal year ended July 28, 2007 provided the primary source of cash to support operations. The largest sources of operating cash flows are cash collections from customers, with the primary uses being wages and related employee benefits, merchandise inventory purchases and occupancy expenses. Cash provided by operating activities for the year ended July 28, 2007 was \$6,661,000 compared to cash provided by operating activities of \$957,000 for the year ended July 29, 2006. The primary sources of cash provided by operating activities for the year ended July 28, 2007 were net income of \$441,000, add-backs for non-cash depreciation and amortization of \$3,216,000, non-cash accrued interest of \$687,000, and accounts payable, accrued expenses, deferred expenses and income taxes of \$6,300,000, partially offset by the purchase of merchandise inventories of \$3,714,000, and income tax receivable and prepaid and other current assets of \$346,000.

Cash used in investing activities primarily consisted of capital expenditures of \$6,714,000 and \$3,983,000 in the fiscal years ended July 28, 2007 and July 29, 2006, respectively, related to the remodeling of existing stores and the opening of new stores, as well as investment in technology to support future growth. In fiscal 2007, five new stores were opened and three were relocated; in fiscal 2006, five new stores were opened and one was relocated. Additionally, a total of \$3,019,000 of transaction costs related to the merger and other transactions contemplated by the merger agreement were incurred in fiscal 2007; approximately \$1,239,000 was paid in 2007.

Cash flows provided by financing activities during the fiscal year ended 2007 primarily consist of a net increase in borrowings under the revolving line of credit facility of \$1,182,000 as opposed to equity contributions of \$4,000,000 made by stockholders in the fiscal year ended July 29, 2006, as part of FOH Holdings' senior lender's agreement to make a term loan to FOH Holdings. These contributions and borrowings provided funds for capital expenditures, including new stores and technology for growth initiatives and the settlement of a class action lawsuit in fiscal year 2006. Additionally, issuance costs of \$353,000 were paid in connection with the rights offering. FOH Holdings generated excess cash flow in fiscal year 2007 of \$56,000 and no repayments of the long-term debt were made during the year.

Cash flows of \$121,000 were realized in fiscal 2007 from the six stores closed in that year. The six stores closed in fiscal 2007 and the eleven stores closed in fiscal 2006 generated cash flows of \$284,000 during fiscal 2006. Cash flows from these discontinued operations did not have a material effect on the liquidity of FOH Holdings, nor did the closure of these stores have a material effect on the operations of FOH Holdings. Accordingly, the absence of cash flows from the discontinued operations is not expected to affect the future liquidity and capital resources of FOH

Holdings. Accordingly, the cash flows from discontinued operations are not separately disclosed in the cash flow statements.

FOH Holdings' management believes that the currently available cash and funds available under its revolving line of credit, along with anticipated operating cash flows, will be sufficient to cover its

80

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## Table of Contents

working capital requirements and contemplated new store opening expenditures, excluding those contemplated post-merger with Movie Star, for at least the next twelve months. If FOH Holdings' cash flow from operations declines significantly or if FOH Holdings accelerates its store expansion or remodeling program, it may be necessary for it to seek additional sources of capital, including debt and/or equity financing.

## Seasonality and Inflation

FOH Holdings' business is seasonal, with sales and earnings peaking during its second (e.g. November through January) and third (e.g. February through April) fiscal quarters, and is particularly driven by the November and December holiday periods, as well as the Valentine's Day in the month of February. Approximately a third of the annual net sales occur over the holiday period. As a result of these seasonal sales patterns, FOH Holdings maintains higher inventory levels during these peak selling periods.

FOH Holdings' management does not believe that inflation has had a material effect on the results of its operations during the fiscal years 2007, 2006 and 2005; however, they can not be certain that the business will not be affected by inflation in the future.

## Quantitative and Qualitative Disclosures About Market and Interest Rate Risk

### Interest Rate Risks

FOH Holdings is exposed to interest rate risk associated with its revolving credit facility and term loan. The term loan bears interest at the lender's prime rate (8.25% at July 28, 2007) plus 1%. On July 31, 2007, FOH Holdings amended its agreement on the term loan to give FOH Holdings the option to elect to have interest based on the London InterBank Offered Rate ("LIBOR"), in which case interest will be charged at LIBOR plus 3.25%.

Borrowings under the revolving credit facility bear interest at variable rates based on (i) the sum of (a) the base rate, as defined, and (b) an applicable margin ranging from 0.25% to 1.25%, unless FOH Holdings elects to have interest based on the LIBOR, in which case interest will be based on (ii) the sum of (a) LIBOR and (b) an applicable margin. Outstanding borrowings were at the base rate of 8.25% at July 28, 2007, plus the applicable margin of 0.25%. For the year ended July 28, 2007, borrowings under the revolving facility peaked at \$6,809,000 and the average borrowing during the period was approximately \$3,012,000.

An increase in the interest rate of 100 basis points would have increased the interest on the revolving credit facility and term loan borrowings by approximately \$32,000 for the fiscal year ended July 28, 2007.

As of July 28, 2007, FOH Holdings had \$19,429,000 of fixed-rate debt due to a stockholder with a combined weighted-average interest rate of 7.4%. FOH Holdings currently estimates that a 100 basis point increase in interest rates would decrease the fair value of its fixed-rate debt by approximately \$523,000 as of July 28, 2007.

### Foreign Currency Risks

FOH Holdings enters into a significant amount of purchase obligations outside of the U.S., all of which are negotiated and settled in U.S. dollars and, therefore, FOH Holdings has no exposure to foreign currency exchange risks.



## Table of Contents

## Contractual Obligations and Commercial Commitments

The following table summarizes FOH Holdings' minimum contractual obligations and commercial commitments as of July 28, 2007 (in thousands):

Total	Within		After								
1 Year	1-3 Years	4-5 Years									
5 Years	Amounts reflected in the consolidated balance sheet debt(1)				\$ 26,169	\$ 11,083	\$ 15,086	\$ —			
Other contractual obligations not reflected in the consolidated balance sheet					Operating						
leases(2)	65,041	11,066	17,885	13,635	22,455	Letters of credit(3)	1,250	1,250	—	—	—
Payment-in-kind interest to be accrued(4)	1,854	—	1,854	—	—	Management fee(5)	600	200	400		
—	—	Interest to be paid in cash	1,006	804	202	—	—	Total contractual obligations	\$ 95,920	\$	
24,403	\$ 35,427	\$ 13,635	\$ 22,455								

(1)

Represents principal and interest payment-in-kind accrued as of July 28, 2007. See Notes 7 and 8 of Notes to FOH Holdings' Consolidated Financial Statements included elsewhere in this prospectus. (2) Payments for maintenance, insurance, taxes and percentage rent to which FOH Holdings is obligated are excluded. See Note 9 of Notes to FOH Holdings' Consolidated Financial Statements included elsewhere in this prospectus. (3) Primarily for the purchase of merchandise and to secure obligations to the landlord of the corporate headquarters. (4) Represents future accrued interest on FOH Holdings secured amended term loans that is payable upon the maturity of the loan. (5) Represents total annual management fees of \$200,000 payable to Tokarz Investments and certain affiliates of Fursa that FOH Holdings is obligated to pay. The obligation of FOH Holdings to pay the management fees will terminate upon consummation of the merger.

## Off Balance Sheet Arrangements

Other than the contractual commitments set forth in the table above, FOH Holdings is not a party to any material off-balance sheet financing arrangements.

## Table of Contents

### FOH HOLDINGS' BUSINESS

#### General

FOH Holdings is a privately-held company headquartered in Hollywood, California that has four subsidiaries that operate under the brand name "Frederick's of Hollywood." Frederick's of Hollywood is a mall-based specialty retailer of women's intimate apparel and related products in the United States, and a direct retailer of intimate apparel and other women's apparel through its catalog and Internet operations. Frederick's of Hollywood operates 138 stores nationwide as of October 31, 2007, operates an online store at [www.fredericks.com](http://www.fredericks.com) and, in its 2007 fiscal year mailed approximately 20 million catalogs.

Frederick's of Hollywood develops the majority of its products under its proprietary Frederick's of Hollywood® brand and various sub-brands, exclusively for sales through its retail stores, which we refer to as "Stores," and through its catalog and website, which we refer to, collectively, as "Direct." Although many aspects of the Stores and Direct divisions are distinct and operated separately, Frederick's of Hollywood believes it is able to achieve economies of scale in purchasing as well as other operating efficiencies across these two divisions. Frederick's of Hollywood's merchandising objective is to be a primary provider of its customers' special occasion and everyday intimate apparel, personal care and accessory needs.

Frederick's of Hollywood believes it is one of the world's most widely recognized intimate apparel brands. Over the past four years, Frederick's of Hollywood ranked in the top 100 brands in Women's Wear Daily's top global 100 brands. In 2006, Frederick's of Hollywood was ranked in the top 10 in consumer awareness among innerwear brands. A recent national consumer research study by Lieberman Research Worldwide measured unaided recognition of the Frederick's of Hollywood brand at over 80%. The catalog and website serve as the primary advertising vehicles for the brand. Frederick's of Hollywood maintains a consistent brand image across its Stores and Direct divisions and believes the concurrent operation of retail stores, a catalog and a website provides advantages in brand development and exposure.

#### Company History

Frederick's of Hollywood, Inc., a Delaware corporation, was incorporated in 1962 as a successor to a business founded in 1946 by Frederick Mellinger. The purpose was to design sexy, beautiful lingerie that emulated European trends in the 1940s. Frederick's of Hollywood is known for its innovative introductions into the intimate apparel market in the United States and is generally credited by the media with introducing black lingerie into the American market in 1946, the padded bra and the push-up bra in the late 1940s, the bikini in the 1950s, the thong panty in 1981 and the first water bra in the 1990s.

Frederick's of Hollywood, Inc. went public in 1969. In 1996, a financial advisor was hired to explore strategic alternatives that would include the sale of the shares owned by the founding family stockholders' trusts. After operating as a public company for over two decades, Frederick's of Hollywood, Inc. was taken private by an investor group in September 1997 that formed FOH Holdings (formerly known as Royalty Corporation) for this purpose and Frederick's of Hollywood, Inc. became a wholly-owned subsidiary of FOH Holdings. In June 2000, a new investor group purchased substantially all of the outstanding capital stock of FOH Holdings. Shortly thereafter, in July 2000, FOH Holdings (excluding its subsidiary Fredericks.com, Inc.) filed for voluntary protection under Chapter 11 of the United States Bankruptcy Code. In January 2003, FOH Holdings emerged from bankruptcy.

Since its emergence from bankruptcy in January 2003, Frederick's of Hollywood has embarked on initiatives to improve the image and acceptance of the brand, align its operations and improve efficiencies. In particular, Frederick's

of Hollywood focused its merchandising and marketing efforts on targeting a younger, more affluent, fashion-conscious customer and implemented a unified, merchandise buying approach across its sales channels.

83

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## Table of Contents

### Growth Strategy

To build upon increased brand awareness, Frederick's of Hollywood has focused on enhancing its management team and making significant improvements in its merchandising approach, creative store design and direct marketing and customer service programs. These operational improvements, combined with Frederick's of Hollywood's continued high level of brand awareness, provided the support for the following elements of its growth strategy:

**New Store Expansion Program.** From fiscal 2003 through fiscal 2007, in order to strengthen its core business, direct its focus on selected geographic markets and maximize cash flow and working capital, Frederick's of Hollywood opened 16 new stores in Texas, Nevada, California and Florida focusing on strategic locations and favorable real estate opportunities. It closed 50 underperforming stores during this period. The new store openings were used as an opportunity to develop and test a new store design as well as to reposition the Frederick's of Hollywood® brand in the various markets. The new store design tested is the "Modern Hollywood" design used in the flagship store on Hollywood Boulevard. New mall-based stores have also been designed with the "Modern Hollywood" look and feel. While specific sites may vary in size and configuration, Frederick's of Hollywood's new "Modern Hollywood" stores feature a store design with a sexy and contemporary Modern Hollywood image and an average store size of approximately 2,300 gross square feet, with selling space representing approximately 75% of the gross square footage. With the increased access to capital, Frederick's of Hollywood expects to open approximately 50 new stores over the three years commencing with the closing of the merger. These stores will be designed with the "Modern Hollywood" design. Frederick's of Hollywood is currently reviewing leasing opportunities for the new store expansion program in its existing core geographic markets of California, Florida, Texas, Arizona and Nevada.

**Direct Marketing Strategies.** Frederick's of Hollywood has reduced its annual catalog circulation from approximately 27 million in fiscal 2006 to approximately 20 million in fiscal 2007. This reduction shifted funding from catalog circulation to the Internet in an effort to increase profitability and to focus on Frederick's of Hollywood's core customers. As a result of this initiative, since the beginning of fiscal 2006, Frederick's of Hollywood's twelve month house file (i.e., customers that have made a direct purchase in the past twelve months) increased and now totals over 660,000 names. Frederick's of Hollywood is in the process of upgrading its website, which is expected to provide additional functionality and an improved online customer experience.

### Market and Products

Frederick's of Hollywood sells its merchandise primarily under the Frederick's of Hollywood® brand and sub-brands. Its customer target is women primarily between the ages of 18 and 35. According to the NPD Group/NPD Fashionworld, 2005 report, the intimate apparel industry is a \$12.6 billion industry within the U.S. with large growth potential.

Frederick's of Hollywood's primary merchandise categories consist of foundations (including bras, corsets and panties), lingerie (including daywear and sleepwear), Ready to Wear (dresses and sportswear, offered primarily in the Direct Division), fragrance and accessories (including personal care products and novelties).

The following table provides information regarding sales of Frederick's of Hollywood's products by those product categories for the fiscal year ended July 28, 2007:

						Product			
Category	% of Sales	Foundations	46 %	Lingerie	35 %	Fragrance and Accessories	12 %	Ready to Wear	7 %

Certain merchandise categories, especially in foundations and lingerie, are marketed as collections of related items to increase the average transaction value.

84

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## Table of Contents

### Merchandising and Product Development

Frederick's of Hollywood's product development efforts focus on satisfying customer demand for current trends and identifying new fashion trends and opportunities. In this regard, some of its employees travel throughout the United States, Europe and Asia in an effort to identify fashion trends and new product opportunities. Those employees then work with merchandise vendors to develop products consistent with those trends and with the broad seasonal merchandising themes that are created.

**Planning and Allocation Systems.** Separate inventories are held and managed for each of the two channels: Stores and Direct. In fiscal 2005, Frederick's of Hollywood implemented new planning and allocation systems that enable it to better control purchasing, distribution and replenishment of merchandise to retail stores. New operating systems for the Direct division were also implemented to further improve inventory tracking and monitoring.

**Catalog and Website Merchandising.** Frederick's of Hollywood's merchandise planners monitor the sales performance of products offered via the catalog and website to seek to maximize profitability on a per page and per square inch basis (for catalog) and a per frame basis (for featured website items). Frederick's of Hollywood also uses its catalog and website to test new items and promotional strategies.

### Corporate Brand Marketing

Over the past five years, Frederick's of Hollywood's brand marketing group has emphasized a re-positioning of the brand as more contemporary, hip and "Modern Hollywood." Frederick's of Hollywood's primary advertising vehicles are its catalogs and website. Frederick's of Hollywood has also allocated resources to public relations activities, including supporting new product launches and new store openings and the relocation of its flagship store on Hollywood Boulevard. Recent product launches have included the following: the Hollywood Extreme Cleavage bra, the Hollywood Triple Feature bra, Seduction by Frederick's of Hollywood and the Premiere Line Solutions kit.

### Sales Channels

#### Stores Division

Frederick's of Hollywood operated 138 stores as of October 31, 2007. These stores are primarily located in shopping malls in 29 states, with approximately one-third of the stores in California. Of the stores not in California, approximately 40% are situated in its other key operating states, including Florida, Texas, Arizona and Nevada. Frederick's of Hollywood operates its flagship store on Hollywood Boulevard in Hollywood, California.

The new "Modern Hollywood" design in Frederick's of Hollywood's new and remodeled stores seek to maximize the sales and margin performance of its selling space while creating a unique and attractive shopping experience for its customers. Frederick's of Hollywood's retail stores range in size from 900 to 3,200 square feet. A typical store uses approximately 75% of the square footage as selling space. Frederick's of Hollywood continues to operate many of its older stores with legacy designs that evolved through the history of Frederick's of Hollywood. New stores are all designed in the "Modern Hollywood" store format. Frederick's of Hollywood may periodically elect to remodel older stores in connection with lease renewals or as other opportunities arise. It is the current intention of Frederick's of Hollywood to adopt the "Modern Hollywood" store design for any such remodeled stores. Frederick's of Hollywood relocated three stores, opened five new stores and closed six underperforming stores during fiscal 2007.

Frederick's of Hollywood's store expansion plan is to open approximately 50 new stores over the three years commencing with the closing of the merger. The majority of these stores are planned for regional shopping malls in geographic markets where Frederick's of Hollywood currently operates. New store locations are typically selected on the basis of local demographics, overall mall performance in terms of traffic, average sales per square foot and store location within the mall. These stores will be designed with the "Modern Hollywood" design.

85

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## Table of Contents

### Direct Division

Frederick's of Hollywood has an extensive history – dating back to the first catalog it produced in 1947 – of offering provocative, intimate women's apparel directly to the consumer. Today, Frederick's of Hollywood continues to market directly to consumers through its catalog and Internet operations, including actively marketing to its house file of recent direct purchasers of Frederick's of Hollywood's products. Frederick's of Hollywood estimates that over 70% of all Direct orders are placed through the Internet. Frederick's of Hollywood currently mails five major catalogs (fall, holiday, spring preview, spring and summer) as well as several sale and re-mail catalogs to approximately 20 million households annually.

Frederick's of Hollywood began selling intimate apparel on its website, [www.fredericks.com](http://www.fredericks.com), in 1997. It is currently upgrading the website to increase its functionality and enhance the customer experience. Frederick's of Hollywood believes its upgraded website, combined with improved customer acquisition and retention capabilities, will enable [www.fredericks.com](http://www.fredericks.com) to continue to be a destination for intimate apparel online sales.

All creative and copy design for Frederick's of Hollywood's catalogs and website is coordinated by Frederick's of Hollywood's staff. Catalogs are designed approximately four months before their respective mailing dates. Photography is conducted on location or in studios to create the "Modern Hollywood" image. Printing and mailing of catalogs is performed by outside vendors. Frederick's of Hollywood mails catalogs only within the United States.

### Customer Service and Distribution

Frederick's of Hollywood operates a customer contact center, distribution center and information technology center in Phoenix, Arizona. The customer contact center provides toll-free order placement and customer services as well as email customer support services. The customer contact center is open seven days per week. Frederick's of Hollywood believes its contact center capacity is adequate to handle projected call volumes for the next several years.

The Phoenix Operations Center is a 130,000 square foot distribution facility that serves both the Stores and Direct divisions. The inventory systems and stock-keeping unit numbers for Stores and Direct are currently maintained separately. The majority of shipments received for Stores are allocated to individual stores and shipped within a few days; as part of its merchandising strategy, a portion of inventory is held in the distribution center as replenishment inventory to be distributed based on sales performance. Frederick's of Hollywood believes its distribution center capacity is adequate to meet Frederick's of Hollywood's projected sales volume for the next several years. Catalog and Internet orders are typically processed within 24 hours. In fiscal 2006, Frederick's of Hollywood switched its delivery service to United Parcel Service without significant disruption. Frederick's of Hollywood believes its distribution center's capacity is adequate to meet its projected sales volume for the next several years.

### Sourcing

Frederick's of Hollywood does not own or operate any manufacturing facilities. It generally issues purchase orders to third-party vendors for the sourcing and manufacturing of its merchandise. Orders are typically placed with vendors approximately four to six months prior to the initial sale date for new products, and approximately three months prior for reorders. Separate purchase orders are issued for Stores and Direct purchases. Frederick's of Hollywood believes its sourcing strategy allows it to maintain high quality standards, while enhancing the speed of its order fulfillment process.

In fiscal 2007, Frederick's of Hollywood purchased product from over 100 vendors. Its top ten vendors accounted for approximately 69% of the dollar value of those purchases. Movie Star accounted for approximately 6% of the dollar value of such purchases in fiscal 2007. There are two major suppliers that individually equaled or exceeded 10% of total purchases in fiscal 2007 – Montelle Intimates, Inc. (16%) and Wonder-Form Imports, Inc. (10%). Our eight non-U.S. suppliers accounted for approximately 29% of total purchases in fiscal 2007, comprised primarily of Montelle Intimates,

86

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## Table of Contents

Inc. and Wonder-Form Imports, each of which is based in Canada. Many of Frederick's of Hollywood's U.S. and foreign suppliers purchase products from foreign sources. Although it does not have direct relationships with these downstream suppliers, Frederick's of Hollywood believes that its suppliers source primarily from China, Vietnam and the Philippines.

Although Frederick's of Hollywood has no long-term manufacturing contracts, Frederick's of Hollywood's relationships with its vendors are long-standing and several vendors have been supplying product to Frederick's of Hollywood for over twenty years. In order to assure adequate sources for its products, Frederick's of Hollywood has developed programs with its vendors that are carefully considered and managed so as not to have any one vendor be the sole supplier of any important category. Accordingly, each of Frederick's of Hollywood's major product categories are sourced by three to four main vendors, each having the capacity to provide products equal to those of the other vendors supplying that category if the need should arise. Moreover, the Frederick's of Hollywood merchandising team is consistently in the market to test products from new sources, and to develop those sources into more important suppliers as the business grows. When the business needs have dictated, Frederick's of Hollywood has transferred product groups from vendors who are not meeting the requirements to sources that can. As a result of the careful management of its vendor programs, Frederick's of Hollywood believes it is not overly dependent on any one supplier and believes that, as its number of stores increases, there will be adequate sources to produce a sufficient supply of quality goods in a timely manner and on satisfactory economic terms.

## Information Technology

Frederick's of Hollywood maintains information technology systems to support its product development, merchandising, marketing, planning, store operations, sourcing, finance, accounting, call centers, Internet, inventory distribution and order fulfillment.

In Frederick's of Hollywood's retail stores, sales are updated daily in the merchandise reporting systems by polling sales information from each store's point of sale terminals. Through automated nightly communication with each store, sales information and payroll hours are uploaded to the host system, and stock changes are downloaded through the terminals. Frederick's of Hollywood evaluates information obtained through daily reporting to implement merchandising decisions regarding markdowns and allocation of merchandise.

## Competition

The sale of intimate apparel, personal care and beauty products is a highly competitive business with numerous competitors, including individual and chain fashion specialty stores, department stores and discount retailers. Brand image, marketing, fashion design, price, service, fashion assortment and quality are the principal competitive factors in retail store sales. Frederick's of Hollywood's Direct division competes with numerous national and regional catalog and online merchants. Image presentation, fulfillment and the factors affecting retail store sales discussed above are the principal competitive factors in catalog and online sales.

The retail industry for women's apparel, intimate apparel, beauty products and personal care products is multi-faceted and operates through various channels; primarily retail stores, catalog and e-commerce. A leading competitor is Victoria's Secret, a division of Limited Brands, which reported sales of approximately \$5.1 billion in 2006.

Frederick's of Hollywood believes it has significant competitive strengths relative to its competition because of its widely recognized brand, its presence in regional shopping malls, its direct marketing expertise and the experience of its management team. However, a number of Frederick's of Hollywood's competitors are larger and have significantly

greater financial, marketing and other resources than Frederick's of Hollywood, and there can be no assurance that Frederick's of Hollywood will be able to compete successfully with them in the future. For information on the risks Frederick's of Hollywood faces from competition, see "Risk Factors—Risks Related to the Businesses of Movie Star and Frederick's of Hollywood."

87

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## Table of Contents

### Seasonality

Frederick's of Hollywood's business is seasonal, with sales and earnings peaking during its second and third fiscal quarters, particularly driven by the November/December holiday periods and the month of February, which includes Valentine's Day. As a result of these seasonal sales patterns, Frederick's of Hollywood maintains higher inventory levels during these peak selling periods.

### Trademarks and Service Marks

Frederick's of Hollywood has a variety of trademark applications and registrations in the United States and foreign countries. Frederick's of Hollywood believes that its products and services are identified by its intellectual property. Frederick's of Hollywood has and intends to maintain its intellectual property by vigorously protecting its intellectual property against infringement.

### Employees

As of October 31, 2007, Frederick's of Hollywood had approximately 598 full-time employees and 628 part-time employees in the United States. As a result of seasonal sales patterns, Frederick's of Hollywood hires additional temporary staff at its retail stores and at its distribution and contact centers during peak sales periods. Employees are not represented by unions and are not covered by any collective bargaining agreements. Frederick's of Hollywood considers its relations with its employees to be good.

### Import and Import Restrictions

Frederick's of Hollywood engages in transactions with foreign contractors and suppliers, which are subject to the risks of doing business abroad. Its import and offshore operations are subject to restraints imposed by agreements between the United States and certain foreign countries. These agreements impose quotas on the amount and type of goods that can be imported into the United States from these countries. Imported products purchased by Frederick's of Hollywood from its vendors are also subject to United States customs duties. The United States and other countries in which Frederick's of Hollywood products are manufactured may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adversely adjust presently prevailing quotas, duty or tariff levels, which could adversely affect its operations and ability to continue to purchase imported products at current or increased levels.

### Properties

Frederick's of Hollywood leases its corporate headquarters in Hollywood, California and its operations center in Phoenix, Arizona. The corporate headquarters is approximately 26,727 square feet, while the operations center has a 130,000 square foot distribution center.

The following table sets forth information, as of October 31, 2007 regarding FOH Holdings' leased facilities, excluding retail stores.

	Location	Use	Owned or
Leased	Square Footage	Annual Rent	Expiration

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of Lease	6255 Sunset Boulevard	Corporate Offices	Leased	26,727 (2)	\$ 711,171 (1)
2/28/2015 Los Angeles, CA	Storage space	73 876	month to month	Storage space	256
3,840 month to month	27,056	\$ 715,887	5005 S. 40th Street		
Phoenix, AZ	Operations Center				
and corporate offices	Leased	130,000	\$ 826,956	9/30/2009	
					(1)

Annual rent escalates in subsequent years.

88

## Table of Contents

Frederick's of Hollywood's 138 retail stores are located in leased facilities, primarily in shopping malls in 29 states. A substantial portion of these lease commitments consist of store leases with an initial term of ten years. The leases expire at various dates between 2007 and 2019. Rental terms for new locations often include a fixed minimum rent plus a percentage of sales in excess of a specified amount. Certain operating costs such as common area maintenance, utilities, insurance and taxes are typically paid by Frederick's of Hollywood. As a part of its normal-course operations, Frederick's of Hollywood will continue to close certain underperforming retail stores upon the expiration of such store leases. See "FOH Holdings' Business—Sales Channels—Stores Division."

The following table sets forth the locations of Frederick's of Hollywood's retail stores as of October 31, 2007.

Arizona	7	Massachusetts	4	Oklahoma	2	California	44	Michigan	4	Oregon	2		
Connecticut	1	Minnesota	1	Pennsylvania	2	Florida	17	Missouri	1	South Carolina	2		
Georgia	5	Nevada	5	Tennessee	2	Hawaii	1	New Hampshire	2	Texas	12	Illinois	4
New Jersey	1	Virginia	3	Indiana	1	New Mexico	1	Washington	1	Kansas	1	New York	6
Wisconsin	1	Maryland	1	Ohio	4								

Typically, when space is leased for a retail store in a mall shopping center, all improvements, including interior walls, floors, ceilings, fixtures and decorations are performed by contractors designated by Frederick's of Hollywood. The cost of improvements varies widely, depending on the design, size and location of the store. As a lease incentive in certain cases, the landlord of the property may provide a construction allowance to fund all, or a portion, of the cost of improvements.

## Legal Proceedings

In July 2004, Frederick's of Hollywood became involved in three separate purported class action lawsuits filed that individually alleged that Frederick's of Hollywood improperly classified store managers in California stores as exempt from overtime requirements, engaged in unfair competition and violated other provisions of the California Labor Code. These cases were consolidated into a single case. The basis of the complaints was the allegation that store managers in all Frederick's of Hollywood stores were improperly classified as "exempt" from overtime laws, when in fact they should have been classified as "nonexempt" and paid overtime for hours worked in excess of eight hours per day or forty hours per week. The complaints alleged that Frederick's of Hollywood forced employees to work off the clock, through meal and rest breaks, and did not pay for all time worked. Frederick's of Hollywood agreed to a settlement with respect to the California managerial employees. The parties further agreed to dismiss the hourly claims and managerial claims for non-California managers. On November 10, 2005, the court signed a Preliminary Approval Order approving the settlement and certifying a settlement class. The Final Approval Hearing on the settlement was held on January 17, 2006. Frederick's of Hollywood paid \$953,000 in full settlement of the claim in February 2006. These costs, along with the related legal costs of approximately \$218,000, were recorded as a pre-acquisition liability under purchase accounting in connection with the change of control that occurred in March 2005. No amounts were outstanding as of July 29, 2006 or July 28, 2007.

On October 12, 2006, a purported class action was filed by Dennis Luciani, the purported class action representative, against Frederick's of Hollywood and its subsidiary, Frederick's of Hollywood Stores, Inc., in the Superior Court for Los Angeles County. The complaint alleged that Frederick's of Hollywood violated certain California consumer privacy laws in requesting cardholders' telephone numbers during credit card refund transactions and recording such telephone numbers onto a form. Relief sought included certification of the lawsuit as a class action, statutory civil

penalties, and

89

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Table of Contents

attorneys' fees. Frederick's of Hollywood filed an answer denying the plaintiff's claims and asserting various defenses. In order to mitigate the cost of litigation, the plaintiff, Frederick's of Hollywood and Frederick's of Hollywood Stores, Inc. entered into a settlement agreement for the named plaintiff and the purported class, which was approved by the court on October 2, 2007. Frederick's of Hollywood does not believe that the total costs for the resolution of this legal action will exceed \$250,000. FOH Holdings reserved these costs as of July 29, 2006 and \$182,000 of such costs remain accrued at July 28, 2007.

FOH Holdings is involved from time to time in litigation incidental to its business. FOH Holdings believes that the outcome of any other litigation will not have a material adverse effect on its results of operations or financial condition.

90

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Table of Contents

MANAGEMENT

Directors and Executive Officers

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. Concurrently with the filing of this prospectus, we have filed the proxy statement on Schedule 14A with the SEC pursuant to which our shareholders are being asked to, among other things, elect eleven directors to our board of directors. 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.

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	59	Executive Chairman and Director	Thomas Rende	47	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		

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.

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.

91

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Table of Contents

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, 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

92

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## Table of Contents

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 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.

## 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

## Table of Contents

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.

## Committees of the Board of Directors of Movie Star

Movie Star has standing compensation, audit and nominating committees and, upon the consummation of the merger, will have an indemnity claims committee.

### Audit Committee

#### General

Our audit committee 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.

#### 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.

### Compensation Committee

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. Upon consummation of the merger in accordance with the merger agreement, the members of the compensation

committee will be Rose Peabody Lynch (chairman), Thomas J. Lynch and Michael Salberg, each an independent director or expected to be an independent director under the American Stock Exchange listing standards.

#### Nominating Committee

Our nominating committee 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

94

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## Table of Contents

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.

## Indemnity Claims Committee

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.

## Table of Contents

### 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 compensation of our executive officers to determine whether they are

## Table of Contents

provided with adequate incentives and motivation, and whether they are compensated appropriately in accordance with our compensation policies.

## Benchmarking

Our compensation committee has not benchmarked executive compensation against peer group companies. 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, In consideration for their agreeing to continue their employment with us, the compensation committee increased the annual base salaries for Messrs. Pomerantz and Rende 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

97

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## Table of Contents

executive officers for the fiscal year ended June 30, 2007 under the 1998 Senior Executive Incentive Plan are reflected in the Summary 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.

98

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## Table of Contents

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 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;

• an 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 have filed the proxy statement with the SEC pursuant to which we are seeking shareholder approval 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'

## Table of Contents

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.

## 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:

Name and Principal Position	Fiscal Year	Salary (\$)	Stock Awards \$(1)	Option Awards \$(2)	Non-Equity Incentive Plan Compensation \$(3)	All Other Compensation\$(4)	Total (\$)
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	307,403
Saul Pomerantz Executive Vice President and Chief Operating Officer	2007	250,115(7)	—10,325	21,220	25,743		

(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 prospectus. (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 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:

100

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Table of Contents

Executive Officer	Net Income	Named							
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
		2,150	25,743						11,620	5,909

(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 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

101

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Table of Contents

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 fiscal 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 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

102

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## Table of Contents

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 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

103

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## Table of Contents

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. 175,000 of the shares underlying the option will vest on the date of grant and 100,000 shares will vest on 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 "Executive Compensation—Movie Star Compensation Plans—Stock Option Plans—2000 Performance Equity Plan."

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.

104

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## Table of Contents

## 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	21,220
		16,977	150,000(5)	1.00	0.85	75,000	Saul Pomerantz	10/13/06	25,000
		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.

105

Table of Contents

(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	Underlying	Unexercised	Exercisable	Options (#)	Number of Securities	Underlying	Unexercised	Un-exercisable	Options (#)	Option Exercise Price (\$)	Option Expiration
	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.



Table of Contents

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.

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:

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;

incentive compensation that would have become payable through the end of the initial term or the additional term, as the case may be;

expense reimbursements; and

unused vacation pay.

- initial
- any non-equity
- all valid business
- all accrued but

107

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