MOVIE STAR INC /NY/
Form S-1
June 08, 2007

As filed with the Securities and Exchange Commission on June 8, 2007

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Movie Star, Inc.

(Exact name of Registrant as specified in its charter)

New York	2340	13-5651322
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code number)	(I.R.S. Employer Identification Number)

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
Graubard Miller
405 Lexington Avenue, 19th Floor
New York, New York 10174
(212) 818-8800

Scott L. Kaufman
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.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount o Registratio Fee(1)
Common stock, par value $0.01 per share	(2)	(2)	$20,000,000.00	$614.00
Subscription Rights(3)	(2)	N/A	N/A	$ 0(
Common Stock, par value $0.01 per share, issuable upon exercise of Common Stock Purchase Warrants	50,000 shares	$0.4375(5)	$ 21,875.00	$ 0.67
TOTAL				$614.67

(1) Calculated in accordance with Rule 457(o) of the Securities Act of 1933, as amended (''Securities Act'').
(2) The actual number of shares of common stock to be registered and the proposed offering price per share are omitted pursuant to Rule 457(o) as they cannot be determined at this time.
(3) Consisting of rights, each of which evidences the right to subscribe for a to be determined number of shares of Movie Star common stock.
(4)

No consideration will be received by Movie Star upon distribution of the subscription rights. No registration fee is required for the registration of subscription rights pursuant to Rule 457(g) of the Securities Act.

(5) Determined in accordance with Rule 457(g) of the Securities Act.

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EXPLANATORY NOTE

This registration statement contains two separate prospectuses. The first prospectus relates to a public offering of shares of Movie Star, Inc. common stock issuable upon the exercise of non-transferable subscription rights. The second prospectus relates to the registration for resale of 50,000 shares of common stock of Movie Star, Inc. underlying a warrant, which shares may be sold by the warrantholder following its exercise of the warrant. The prospectuses will be identical in all respects, other than as provided below:

- Each prospectus will have its own front cover pages and sections entitled ‘‘Use of Proceeds’’ and ‘‘Plan of Distribution.’’
- The sections entitled ‘‘Table of Contents,’’ ‘‘Questions and Answers About the Rights Offering,’’ ‘‘Risks Relating to the Rights Offering’’ and ‘‘Material United States Federal Income Tax Consequences’’ will not appear in the resale prospectus.
- The sections entitled ‘‘Selling Shareholder’’ and ‘‘Concurrent Offering’’ and a back cover page will only appear in the resale prospectus.
- The section entitled ‘‘Rights Offering Summary’’ in the rights offering prospectus will be replaced in the resale prospectus with ‘‘The Offering.’’

The alternate pages for the resale prospectus appear in this registration statement immediately following the complete prospectus for the rights offering.

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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 JUNE 8, 2007

PROSPECTUS

Shares

Common Stock

We are distributing to our shareholders, at no charge, non-transferable subscription rights to purchase up to an aggregate of shares of Movie Star common stock at a cash subscription price of $ per share. Each shareholder will receive one subscription right for each share of Movie Star common stock owned of record on ,

2007. Each subscription right will entitle the holder to purchase 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 , 2007, the expected expiration date of the rights offering. We, in our sole discretion, may extend the period for exercising the subscription rights. 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. The closing of the rights offering is conditioned upon the closing of the merger as more fully described in this prospectus.

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 , 2007, 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, 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	$	$ 20,000,000
Estimated expenses	$	$ 1,000,000
Proceeds, after expenses, to Movie Star	$	$ 19,000,000

Investing in Movie Star common stock involves risks. You should consider carefully the risk factors beginning on page 16 before deciding whether to exercise your subscription rights.

Our common stock is listed on the American Stock Exchange under the symbol ‘‘MSI.’’ On June 6, 2007, the closing price for Movie Star common stock was $2.21 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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In this prospectus, all references to ''Movie Star,'' ''we,'' ''us'' and ''our'' refer to Movie Star, Inc. and its subsidiaries, excep 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 (the ''merger''), 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. 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.

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.

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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 , 2007, the record date. We will issue approximately 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 $19.0 million after deducting estimated offering expenses payable by us. The closing of the rights offering is conditioned upon the closing of 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 (as amended, the ''merger agreement'') with Fred Merger Corp., a Delaware corporation and wholly-owned subsidiary of Movie Star (''Merger Sub''), and FOH Holdings, Inc., a Delaware corporation (''FOH Holdings''), the parent and sole stockholder of Frederick's of Hollywood, Inc. FOH Holdings is owned by Tokarz Investments, LLC (''Tokarz Investments'') and certain funds and accounts affiliated with, managed by, or over which Fursa Alternative Strategies LLC (''Fursa'') or any of its affiliates exercises investment authority. Michael T. Tokarz is the sole controlling person of Tokarz Investments and is also the sole controlling person of TTG Apparel, LLC (''TTG Apparel''), which currently owns 3,532,644 shares of our common stock. 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 these subscription rights. The rights offering is being made primarily to raise capital to fund the addition of new Frederick's of Hollywood stores, the renovation of certain existing Frederick's of Hollywood stores and for working capital 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 (collectively referred to as the ''Fursa Standby Purchasers''), Tokarz Investments and TTG Apparel, pursuant to which the Fursa Standby Purchasers, Tokarz Investments and TTG Apparel (collectively referred to as the ''Standby Purchasers'') have each agreed to purchase unsubscribed shares. 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 shares of our common stock, or 10.5% of the total number of new shares to be offered in this rights offering (the ''guarantor warrants''). None of the Standby Purchasers, including Tokarz Investments and 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.

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 (''Series A Preferred Stock'') to be issued to certain Fursa affiliated

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entities that hold FOH Holdings indebtedness (collectively referred to as the ''Fursa Debt Holders,'' and together with the Fursa Standby Purchasers, the ''Fursa Managed Accounts'') 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 32.1% of the outstanding common stock of Movie Star; (b) TTG Apparel, together with Tokarz Investments, will own approximately 38.4% of the outstanding common stock of Movie Star 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 % of the outstanding common stock of Movie Star, in the aggregate, after giving effect to the purchase of the unsubscribed shares of the rights in accordance with the standby purchase agreement and the issuance of the guarantor warrants as consideration for the commitments of the Standby Purchasers thereunder (the ''Standby Purchase Commitment'') and (ii) the Fursa Managed Accounts will beneficially own approximately % of the outstanding common stock of Movie Star, after giving effect to the purchase of the unsubscribed shares of the rights in accordance with the standby purchase agreement, the issuance of the guarantor warrants as consideration for the Standby Purchase Commitment 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, at the time of the closing of the merger and the rights offering, our stock price is below $2.00 per share, we intend to consummate a reverse stock split of our outstanding common stock simultaneous with the closing of the merger and 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.

What is a subscription right?

Each full subscription right entitles a shareholder to purchase shares of Movie Star common stock, rounded down in the aggregate to the nearest whole number, at a subscription price of 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 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

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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 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 , 2007. We may extend the expiration date in our sole discretion and for any reason. See ‘‘The Rights Offering — Expiration Date; Amendments and Termination.’’

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 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 111.

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 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 up to shares of our common stock, representing approximately % of our common stock on a fully diluted basis, 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 shares of our Series A Preferred Stock which will be convertible into shares of our common stock.

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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 105 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.

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 , 2007, 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

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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 122.

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 16 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

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

You should be aware that the occurrence of the events described in the ‘‘Risk Factors’’ section and elsewhere in this prospectus could have a material adverse effect on the business, prospects, financial condition or operating results of Movie Star and/or FOH Holdings.

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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. 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 price, quality, the desirability of our fabrics and designs, and the reliability of our delivery and service.

In August 2004, we acquired certain assets of Sidney Bernstein & Son Lingerie, Inc., a company engaged in the design, marketing and sale of women's lingerie and related apparel and accessories. The Sidney Bernstein acquisition has enabled us to broaden our customer base to include discount chains and other retailers that sell similar products at lower price points than our other product lines.

The intimate apparel business for department stores, specialty stores and regional chains is broken down into four selling seasons per year. For each selling season, we create a new line of products that represent our own brand name Cinema Etoile®. Our brand name does not have widespread consumer recognition, although it is well known to our customers. We sell our brand name products primarily during these selling seasons. We also develop specific products for some of our larger accounts, mass merchandisers and national chains, and make between five and eight presentations throughout the year to these accounts. Since we do not have long-term contracts with any of our customers, our business is subject to unpredictable increases and decreases in sales depending upon the size and number of orders that we receive each time we present our products to our customers.

On December 18, 2006, we entered into the merger agreement with FOH Holdings and Merger Sub, our wholly-owned subsidiary. Under the terms of the merger agreement, Merger Sub will be merged with and into FOH Holdings, with FOH Holdings continuing as the surviving corporation as our wholly-owned subsidiary, and FOH Holdings' stockholders will be issued approximately 23.7 million shares of our common stock. 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 of our board of directors composed of independent directors. The special committee engaged special legal counsel and Chanin Capital, LLC (''Chanin'') to serve as its financial advisor. On December 18, 2006, Chanin delivered its opinion to the special committee on which our board of directors was entitled to rely,

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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.

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

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 (the ''Proxy Statement'') with the Securities and Exchange Commission (''SEC'') pursuant to which we are calling a special meeting of our shareholders in lieu of our annual meeting and asking our shareholders to vote on proposals to:

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

On April 9, 2007, we entered into a consulting agreement with Performance Enhancement Partners, LLC, pursuant to which it will provide Movie Star with the personal services of Peter Cole, a current member of our board of directors, to (i) act as the lead member of our board of directors to

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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.

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. 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 currently operates 133 stores nationwide, operates an online store at www.fredericks.com and, in its 2006 fiscal year, mailed approximately 27 million catalogs.

FOH Holdings' 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 with introducing black lingerie into the American market in 1946, the padded bra in the late 1940s, the push-up bra in 1950, the thong panty in 1982 and the first water bra in the 1990s.

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

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

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. The information on, or that can be accessed through, FOH Holdings' website is not part of this prospectus.

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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 shares of Movie Star common stock, rounded down in the aggregate to the nearest whole number, at a subscription price of 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 , 2007.
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 124.
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	, 2007
Expiration date and time	The subscription rights expire at 5:00 p.m. Eastern Time on , 2007, unless we extend the subscription rights offering. Subscription rights not exercised by the expiration date will become null and void.
Subscription Agent	By mail: American Stock Transfer & Trust Company Operations Center Attn: Reorganization Department P.O. Box 2042 New York, New York 10272-2042 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

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	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 rights offering is being made to raise equity to be used primarily for the addition of new Frederick's of Hollywood stores, the renovation of certain existing Frederick's of Hollywood stores, working capital 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 16.
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.''
Withdrawal, amendment and extension	We may withdraw, amend or extend the rights offering at any time prior to the expiration date. If we withdraw 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.

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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 29, 2006 and July 30, 2005 and the consolidated statement of operations data for the year ended July 29, 2006, the five months ended July 30, 2005, the seven months ended March 3, 2005 and the year ended July 31, 2004, are derived from FOH Holdings' consolidated financial statements audited by Deloitte & Touche LLP, an independent registered public accounting firm, which are included elsewhere in this prospectus.

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

Movie Star's consolidated balance sheet data as of June 30, 2006 and 2005 and the consolidated statements of operations data for each of the three years in the period ended June 30, 2006, are derived from Movie Star's consolidated financial statements audited by Mahoney Cohen & Company, CPA, P.C., an independent registered public accounting firm, which are included elsewhere in this prospectus.

Movie Star's consolidated balance sheet data as of March 31, 2007 and the consolidated statements of operations data for the nine months ended March 31, 2007 and March 31, 2006 are derived from Movie Star's unaudited interim condensed consolidated financial statements which are included elsewhere in this prospectus. 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 following data 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

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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 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)

	Six months Ended January 27, 2007	Six months Ended January 28, 2006	Year Ended July 29, 2006	Five Months Ended July 30, 2005	Seven Months Ended March 3, 2005	Year Ended July 31, 2004
Summary of Operations Data:						
Net sales	$ 80,228	$ 69,367	$ 137,968	$ 47,205	$ 77,485	$ 129,371
Cost of goods sold, buying and occupancy	46,244	39,981	80,839	27,301	44,520	72,283
Gross profit	33,984	29,386	57,129	19,904	32,965	57,088
Selling, general and administrative expense	30,216	30,333	57,985	20,433	35,405	55,312
Operating income (loss)	3,768	(947)	(856)	(529)	(2,440)	1,776
Interest expense, net	1,096	1,167	2,421	700	1,102	1,592
Income (loss) from continuing operations before income tax provision (benefit)	2,672	(2,114)	(3,277)	(1,229)	(3,542)	184
Income tax provision (benefit)	802	2	121	(132)	(934)	78
Income (loss) from continuing operations	1,870	(2,116)	(3,398)	(1,097)	(2,608)	106
Income (loss) from discontinued operations (a)	29	(23)	113	(139)	389	856
Net income (loss)	$ 1,899	$ (2,139)	$ (3,285)	$ (1,236)	$ (2,219)	$ 962
Balance Sheet Data:	At January 27, 2007		At July 29, 2006	At July 30, 2005		At July 31, 200

Working capital	$ (1,246)		$ (299)	$ (1,562)		$ 2,080
Goodwill	$ 7,131		$ 7,299	$ 7,299		$ 585
Trademarks	$ 18,090		$ 18,090	$ 18,090		$ 13,900
Total assets	$ 71,199		$ 60,734	$ 58,733		$ 39,848
Total long-term debt-related party	$ 15,826		$ 18,742	$ 18,095		$ 17,287
Stockholders' equity	$ 14,019		$ 12,059	$ 11,344		$ 174
Store Operating Data (unaudited) (b):						
Percentage increase (decrease) in comparable store sales (c)	10.4%	3.7%	6.5%	(3.6%)	(4.1%)	11.4
Total square footage at the end of the period (d)	232,770	227,173	225,634	229,626	229,536	231,578
Average monthly sales per square foot (e)	$ 35.24	$ 33.06	$ 31.67	$ 25.96	$ 32.32	$ 30.83
Number of retail stores:						
Open at beginning of period	134	140	140	140	145	155
Opened during the period	3	4	5	0	4	2
Closed during the period	(3)	(3)	(11)	0	(9)	(12
Open at the end of the period	134	141	134	140	140	145

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

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

(e) The average monthly sales per square foot is determined by dividing net sales from retail stores for the respective period presented by the average of the beginning and ending store gross square footage for the respective period divided by the number of months in the period. Excluded from the numerator and the denominator are store sales and square footage corresponding to stores that have been closed at the expiration of their lease through January 27, 2007.

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

	Nine Months Ended March 31,		Fiscal Year Ended June 30,		
	2007	2006	2006	2005	2004

Statement of Operations Data:					
Net sales	$ 50,000	$ 43,444	$ 51,639	$ 58,533	$ 53,691
Cost of sales	33,801	31,199	37,528	44,304	37,581
Selling, general and administrative expenses	13,368	12,426	16,556	19,024	15,824
Merger related fees	1,952	—	—	—	—
Gain on sale of property, plant and equipment	(496)	—	—	—	—
Insurance recovery	—	(1,424)	(1,450)	—	—
Total costs and expenses	48,625	42,201	52,634	63,328	53,405
Operating income (loss)	1,375	1,243	(995)	(4,795)	286
Interest income	—	—	(3)	(1)	(12)
Interest expense	526	383	476	282	76
Income (loss) before income tax provision (benefit)	849	860	(1,468)	(5,076)	222
Income tax provision (benefit)	340	345	(468)	(1,954)	94
Net income (loss)	$ 509	$ 515	$ (1,000)	$ (3,122)	$ 128
Basic net income (loss) per share	$ .03	$ .03	$ (.06)	$ (.20)	$ .01
Diluted net income (loss) per share	$ .03	$ .03	$ (.06)	$ (.20)	$ .01
Basic weighted average number of shares outstanding	15,978	15,687	15,700	15,625	15,574
Diluted weighted average number of shares outstanding	16,467	15,776	15,700	15,625	16,199

	At March 31, 2007	At June 30, 2006	2005
Balance Sheet Data:			
Working Capital	$ 10,250	$ 8,932	$ 10,673
Total Assets	$ 21,782	$ 23,221	$ 24,907
Short-Term Debt – Including current maturities of long-term debt and capital lease obligations	$ 3,533	$ 4,955	$ 4,794
Long-Term Debt – Including deferred lease and other long-term liabilities	$ 400	$ 398	$ 390
Shareholders' Equity	$ 14,937	$ 13,782	$ 14,677

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Summary Selected Pro Forma Condensed Consolidated Financial Information

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

	Six Months Ended January 27, 2007	Twelve Months Ended July 29, 2006
	(in thousands, except per share data)	
Pro Forma Statement of Operations Information:		
Net sales	$114,383	$188,396
Income (loss) from continuing operations	$2,647	$(5,696)
Less: Preferred stock dividends	$(281)	$(563)
Income (loss) available to common shareholders	$2,366	$(6,259)
Income (loss) from continuing operations per share:		
— basic	$0.05	$(0.12)
— diluted	$0.05	$(0.12)
Shares used in computing basic and diluted income (loss) per share:		
— basic	50,874	50,788
— diluted	51,589	50,788

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

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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

As a holder of Movie Star common stock, you may suffer significant 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 shares) on the record date, the new shares to be issued in the merger will reduce your ownership percentage to approximately % of the shares outstanding immediately after the merger. If you exercise none of your subscription rights, then your percentage ownership will be further reduced to approximately %. The magnitude of the reduction of your percentage ownership will depend upon the extent to which you participate in the rights offering.

The 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. 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 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 June 6, 2007, the closing price of Movie Star common stock was $2.21 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.

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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 upon expiration 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 expiration 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, 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 cancel 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 terminate the rights offering, we will not have any obligation with respect to the subscription rights except to return any subscription payments, without interest.

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 , 2007, 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.

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Risks Related to the Reverse Stock Split

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

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

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 considerably higher than we originally anticipated when the merger agreement was executed. During the 12-month period ending on June 6, 2007, our common stock traded in a range from a low of $0.67 to a high of $3.50 and ended that period at $2.21. See ''Price Range of Movie Star Common Stock and Dividends'' on page 30 for more detailed share price information.

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

The success of the merger will depend, in part, on the combined company's ability to achieve the anticipated synergies and other strategic benefits from combining our business with Frederick's of Hollywood. We expect the combined company to benefit from operational synergies resulting from the creation of a vertical entity for designing, sourcing, manufacturing and selling intimate apparel products, as well as greater efficiencies from increased scale which should allow the combined company to borrow funds and access capital markets on more favorable terms than either we or FOH Holdings could have before, and reduce the combined company's supply and overall distribution costs. However, to realize these anticipated benefits, we must successfully combine our business with FOH Holdings. If we are not able to achieve these objectives, the anticipated cost synergies and other strategic benefits of the merger may not be realized fully, or at all, or may take longer to realize than expected. The combined company may fail to realize some or all of the anticipated benefits of the transaction for a number of reasons, including that the integration may take longer than anticipated, be more costly than anticipated or have unanticipated adverse results relating to either of the existing businesses.

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

TTG Apparel currently owns approximately 21.5% of our outstanding common stock and, at the effective time of the merger, TTG Apparel, together with Tokarz Investments, will own approximately 38.4% of the combined company's outstanding common stock (32.4% if the shares of Movie Star common stock to be contributed into escrow are excluded), prior to giving effect to any shares purchased under their Standby Purchase Commitment. At the effective time of the merger, Fursa will beneficially own approximately 29.5% of the combined company's outstanding common stock (23.6% if the shares of Movie Star common stock to be contributed into escrow are excluded), prior to giving effect to any shares purchased under its Standby Purchase Commitment or the issuance of the Series A Preferred Stock. Pursuant to the standby purchase agreement, if and to the extent any shares of our common stock are not subscribed for in the rights offering, the Fursa Standby Purchasers have agreed to purchase on a several, but not on a joint and several basis, 50% of such amount of unsubscribed shares and TTG Apparel and Tokarz Investments have agreed to purchase the remaining 50% of such amount of unsubscribed shares. Further, as sole consideration for the commitments by the parties entering into the standby purchase agreement with us, we will issue warrants representing the right to purchase, in the aggregate, shares of our common stock. If no Movie Star shareholder participates in the rights offering, TTG Apparel, together with Tokarz Investments, would then beneficially own in the aggregate % of the combined company's outstanding common stock after giving effect to the shares purchased under their Standby Purchase Commitment and the issuance of the guarantor warrants and the Fursa Standby Purchasers would then beneficially own in the aggregate % of the combined company's outstanding common stock, after giving effect to the shares purchased under their Standby Purchase Commitment, the issuance of the guarantor warrants and the issuance of the Series A Preferred Stock.

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

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

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

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

Our special committee has not obtained an updated opinion from Chanin as of the date of this 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

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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 the merger is completed.

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

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

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

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

At the recommendation of our special committee, our board of directors unanimously approved the merger agreement and the transactions, agreements and documents contemplated thereby and recommended our shareholders to 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. 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. 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.

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.

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

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

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

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

The merger may be subject to review by the Antitrust Division of the U.S. Department of Justice (''Department of Justice'') and the U.S. Federal Trade Commission (''Federal Trade Commission'') under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the ''HSR Act''), and the related rules and regulations that have been issued by the Federal Trade Commission. Under the HSR Act, we and FOH Holdings may be required to make pre-merger notification filings and to await the expiration of the statutory waiting period prior to completing the merger. In connection with a review, at the end of an initial 30-day waiting period we could receive a request for additional information regarding the merger from either the Department of Justice or the Federal Trade Commission. Such a request would extend the initial waiting period under the statute during which time either the Department of Justice or the Federal Trade Commission is permitted to review a proposed transaction until 30 days after the parties have substantially complied with the request, unless the Department of Justice or the Federal Trade Commission chooses to terminate that period early.

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

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

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

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

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

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

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

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

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

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

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

The intimate apparel industry is highly competitive, both on the wholesale and retail levels. The wholesale industry is characterized by a large number of small companies manufacturing and selling unbranded merchandise, and by several large companies which have developed widespread consumer

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recognition of the brand names associated with merchandise manufactured and sold by these companies. In addition, certain of the larger retailers to whom we have historically sold our products have sought to expand the development and marketing of their own brands and to obtain intimate apparel products directly from the same or similar sources from which we obtain our products. If we do not continue to provide high quality and reliable services on a timely basis at competitive prices, we may not be able to continue to compete in our industry. If we are unable to compete successfully, we could lose one or more of our significant customers which, if not replaced, could negatively impact sales and have an adverse effect on our business, financial condition and results of operations, as well as those of the combined company after the consummation of the merger.

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

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

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

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

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

The combined company depends on its key personnel.

The combined company's success depends to a large extent upon the continued services of our key employees and Frederick's of Hollywood's key employees. The loss of the services of any key

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Frederick's of Hollywood's and our respective distribution centers in Phoenix, AZ and Poplarville, MS will serve the combined company's customers. There is no backup facility or any alternate distribution arrangements in place. If Frederick's of Hollywood or we experience disruptions at our

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respective distribution centers that impede the timeliness or fulfillment of the products being distributed, or either distribution center is partially or completely destroyed, becomes inaccessible, or is otherwise not fully usable, whether due to unexpected circumstances such as weather conditions or disruption of the transportation systems or uncontrollable factors such as terrorism and war, it would have a material adverse effect on the combined company's ability to distribute its products, which in turn would have a material adverse effect on the combined company's business, financial condition and results of operations.

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

Our and Frederick's of Hollywood's import operations are subject to restraints imposed by agreements between the United States and certain foreign countries, primarily China, in which we and Frederick's of Hollywood do business. These agreements impose quotas on the amount and type of goods that can be imported into the United States from these countries. Our and Frederick's of Hollywood's imported products are also subject to United States customs duties and, in the ordinary course of business, we and Frederick's of Hollywood or our respective vendors are from time to time subject to claims by the United States Customs and Border Protection for duties and other charges. The United States and other countries in which our and Frederick's of Hollywood's products are manufactured may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adversely adjust presently prevailing quotas, duty or tariff levels, which could adversely affect the combined company's operations and ability to continue to import products at current or increased levels.

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

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

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

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

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

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

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

Some of our and Frederick's of Hollywood's information technology systems are dated and are an amalgamation of multiple applications, rather than one overarching state-of-the-art system.

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

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

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

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

We and Frederick's of Hollywood use many trademarks and product designs in our businesses. As appropriate, we and Frederick's of Hollywood rely on the trademark and copyright laws to protect these designs even if not formally registered as marks, copyrights or designs. We and Frederick's of Hollywood believe these trademarks and product designs are important to each of our businesses and the combined company's competitive position and success. Third parties may sue us, Frederick's of Hollywood, and/or the combined company for alleged infringement of their proprietary rights. The party claiming infringement might have greater resources than the combined company to pursue its claims, and the combined company could be forced to incur substantial costs and devote significant management resources to defend the litigation. Moreover, if the party claiming infringement were to prevail, the combined company could be forced to discontinue the use of the related trademark,

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patent or design and/or pay significant damages, or to enter into expensive royalty or licensing arrangements with the prevailing party, assuming these royalty or licensing arrangements are available at all on an economically feasible basis, which they may not be.

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

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

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

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

Risks related to 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 $2.21 per share on June 6, 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:

- quarterly variations in operating results;
- general economic conditions; and
- other events or factors that are beyond our control.

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.

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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 payable by us, which are estimated to be approximately $1,000,000. These net proceeds will be used primarily for the addition of new Frederick's of Hollywood stores, the renovation of certain existing Frederick's of Hollywood stores, working capital and other general corporate purposes.

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

	Application of net proceeds	Percentage of net proceeds
Opening new Frederick's of Hollywood stores and renovating existing stores	$ 17,000,000	89.5%
Working capital and general corporate purposes	2,000,000	10.5%
Total	$ 19,000,000	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 will provide us with sufficient growth capital for at least the next 36 months.

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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, 2007		
First Quarter	$ 0.87	$ 0.72
Second Quarter	1.68	0.75
Third Quarter	3.50	1.60
Fourth Quarter through June 6, 2007	2.66	1.96
Year Ending 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
Year Ending June 30, 2005		
First Quarter	$ 1.46	$ 1.07
Second Quarter	1.55	1.08
Third Quarter	1.61	0.85
Fourth Quarter	1.30	0.80

On December 18, 2006, the day prior to the announcement of the execution of the merger agreement, the closing sale price of Movie Star's common stock was $1.28. On June 6, 2007, the closing sale price of Movie Star's common stock was $2.21.

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

Holders

As of June 6, 2007, there were 762 shareholders of record of Movie Star's 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.

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Equity Compensation Plan Information

The following sets forth certain information as of May 15, 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
Plans approved by shareholders			

1988 Non-Qualified Stock Option Plan	900,000	$ 1.03	766,666
1994 Incentive 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			
Warrant(3)	50,000	$ 0.44	0
Total	1,391,000	$ 0.95	892,315

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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 May 15, 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 the description of the warrant.

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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 December 31, 2006, our net tangible book value available to our shareholders was approximately $9,859,000, or $0.62 per share of our common stock. Our net tangible book value per share is based upon 15,942,787 shares outstanding as of December 31, 2006.

On a combined basis prior to giving effect to the rights offering, the pro forma net tangible book value for FOH Holdings as of January 27, 2007 and for Movie Star as of December 31, 2006 would have been approximately $5,667,000, or $0.14 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 of the merger. Our pro forma net tangible book value per share is based upon 39,731,968 shares of our common stock outstanding.

Giving effect to (i) the issuance of shares of common stock offered by us in the rights offering at an offering price of $ per share and (ii) the dilutive impact of the exercise of the guarantor warrants to purchase shares of our common stock, on a combined basis, our net tangible book value on a pro forma as adjusted basis, for FOH Holdings as of January 27, 2007 and for Movie Star as of December 31, 2006 would have been $, or $ per share. This represents an immediate increase in net tangible book value of $ per share to our existing shareholders and an immediate dilution of $ 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:

Rights offering price per share		$
Net tangible book value per share available to common shareholders as of December 31, 2006	$ 0.62	
Decrease attributable to pro forma adjustments before the rights offering	$ (0.48)	
Pro forma net tangible book value per share before the rights offering	$ 0.14	
Increase per share attributable to investors in the rights offering	$	
Pro forma net tangible book value per share after the rights offering		$
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:

	Shares Purchased		Total Consideration		Average
	Number	Percentage	Amount	Percentage	Price Per Share
Shareholders prior to rights offering	39,731,968	%	$ 5,667,000	%	$ 0.14
Investors in rights offering		%		%	
Total		100.0%		100.0%	

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

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

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

Movie Star's consolidated balance sheet data as of March 31, 2007 and the consolidated statements of operations data for the nine months ended March 31, 2007 and March 31, 2006 are derived from Movie Star's unaudited interim condensed consolidated financial statements which are included elsewhere in this prospectus. 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

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

January 6, 2003 included in this 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.

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 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 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 combined results for fiscal 2005 should not be taken as indicative of historical or future results.

Financial Operations Overview

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

- Net sales — Net sales include sales of merchandise from retail stores, catalogs and websites, less discounts and sales return allowances.
- Comparable store sales — Comparable store sales include net merchandise sales from stores that have been open for one complete fiscal year. FOH Holdings excludes new store locations from the comparable store sales until they have been in operation for one complete fiscal year. Similarly, stores that are expanded or down-sized by more than 30% are also excluded from the comparable store base until they have been in operation in their new configuration for one complete fiscal year. Comparable store sales do not include net sales from the catalogs and websites.
- Average monthly sales per square foot — Average monthly sales per square foot is determined by dividing net sales from retail stores for the respective period presented by the average of the beginning and ending store gross square footage for the respective period divided by the number of months in the period. Excluded from the numerator and the denominator are store sales and square footage corresponding to stores that have been closed at the expiration of their lease through January 27, 2007.
- Gross profit — Gross profit is equal to the net sales less the costs of goods sold, buying and occupancy. FOH Holdings includes in the costs of goods sold, buying and occupancy the cost of merchandise and inventory markdowns, freight from vendors, shipping and handling, payroll and benefits for the design, buying, and merchandising personnel, warehouse and

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

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

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
(in thousands, except store operating data)

	[Second Successor]				[First Successor]			[Predecess
	Six Months ended January 27, 2007	Six Months ended January 28, 2006	Year ended July 29, 2006	Five Months ended July 30, 2005	Seven Months ended March 3, 2005	Year ended July 31, 2004	Seven Months ended July 26, 2003	Five Months ended December 31, 2002
Statement of Operations Data:								
Net sales	$80,228	$69,367	$137,968	$47,205	$77,485	$129,371	$61,669	$ 53,118
Cost of goods sold, buying and occupancy	46,244	39,981	80,839	27,301	44,520	72,283	42,127	31,790
Gross profit	33,984	29,386	57,129	19,904	32,965	57,088	19,542	21,328
Selling, general and administrative expenses	30,216	30,333	57,985	20,433	35,405	55,312	19,507	20,982
Operating income (loss) from continuing operations	3,768	(947)	(856)	(529)	(2,440)	1,776	35	346
Interest expense, net	1,096	1,167	2,421	700	1,102	1,592	836	335
Reorganization items (income) expense[(a)]	—	—	—	—	—	—	—	(15,112)
Gain on debt extinguishment[(b)]	—	—	—	—	—	—	—	(20,471)

Income (loss) from continuing operations before income tax provision (benefit)	2,672	(2,114)	(3,277)	(1,229)	(3,542)	184	(801)	35,594	
Income tax provision (benefit)	802	2	121	(132)	(934)	78	500	10	
Income (loss) from continuing operations	1,870	(2,116)	(3,398)	(1,097)	(2,608)	106	(1,301)	35,584	
Income (loss) from discontinued operations[(c)]	29	(23)	113	(139)	389	856	(89)	628	$
Net income (loss)	$ 1,899	$ (2,139)	$ (3,285)	$ (1,236)	$ (2,219)	$ 962	$ (1,390)	$ 36,212	
	At January 27, 2007		At July 29, 2006	At July 30, 2005		At July 31, 2004	At July 26, 2003		
Balance Sheet Data:									
Working capital (deficiency)	$ (1,246)		$ (299)	$ (1,562)		$ 2,080	$ 1,377		$
Goodwill	$ 7,131		$ 7,299	$ 7,299		$ 585	$ 585		$
Trademarks	$18,090		$ 18,090	$18,090		$ 13,900	$13,900		$
Total assets	$71,199		$ 60,734	$58,733		$ 39,848	$38,540		$
Total long-term debt-related party	$15,826		$ 18,742	$18,095		$ 17,287	$17,309		$
Stockholders' equity (deficiency)	$14,019		$ 12,059	$11,344		$ 174	$ (788)		$

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	At January 27, 2007		At July 29, 2006	At July 30, 2005		At July 31, 2004	At July 26, 2003
Store Operating Data[(d)]:							
Percentage increase (decrease) in comparable store sales[(e)]	10.4%	3.7%	6.5%	(3.6)%	(4.1)%	11.4%	1.5%
Total square footage at the end of the period[(f)]	232,740	227,173	225,634	229,626	229,536	231,578	243,638
Average monthly retail sales per square foot	$ 35.24	$ 33.06	$ $31.67	$ 25.96	$ 32.32	$ 30.83	$ 25.88

Number of retail stores:							
Open at beginning of period	134	140	140	140	145	155	166
Opened during the period	3	4	5	—	4	2	
Closed during the period	(3)	(3)	(11)	—	(9)	(12)	(11)
Open at the end of the period	134	141	134	140	140	145	155

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

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

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

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

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

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

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

	Nine Months Ended March 31,		Fiscal Year Ended June 30,				
	2007	2006	2006	2005	2004	2003	2002
Statement of Operations Data:							
Net sales	$ 50,000	$ 43,444	$ 51,639	$ 58,533	$ 53,691	$ 64,916	$ 54,359
Cost of sales	33,801	31,199	37,528	44,304	37,581	44,345	39,157
Selling, general and administrative expenses	13,368	12,426	16,556	19,024	15,824	14,623	13,689
Merger related fees	1,952	—	—	—	—	—	—

Gain on sale of property, plant and equipment	(496)	—	—	—	—	—	—
Insurance recovery	—	(1,424)	(1,450)	—	—	—	—
Total costs and expenses	48,625	42,201	52,634	63,328	53,405	58,968	52,846
Operating income (loss) from continuing operations	1,375	1,243	(995)	(4,795)	286	5,948	1,513
Interest income	—	—	(3)	(1)	(12)	(4)	(3)
Interest expense	526	383	476	282	76	351	695
Income (loss) from continuing operations before income tax provision (benefit)	849	860	(1,468)	(5,076)	222	5,601	821
Income tax provision (benefit)	340	345	(468)	(1,954)	94	2,170	360
Income (loss) from continuing operations	509	515	(1,000)	(3,122)	128	3,431	461
Income from discontinued operations	—	—	—	—	—	—	86
Net income (loss)	$ 509	$ 515	$ (1,000)	$ (3,122)	$ 128	$ 3,431	$ 547
BASIC NET INCOME (LOSS) PER SHARE:							
From continuing operations	$ .03	$ .03	$ (.06)	$ (.20)	$ .01	$ .23	$ .03
From discontinued operations	—	—	—	—	—	—	.01
Net income (loss) per share	$ .03	$ .03	$ (.06)	$ (.20)	$ .01	$ .23	$ .04
DILUTED NET INCOME (LOSS) PER SHARE:							
From continuing operations	$ .03	$ .03	$ (.06)	$ (.20)	$ .01	$ .22	$ .03
From discontinued operations	—	—	—	—	—	—	.01
Net income (loss) per share	$ .03	$ .03	$ (.06)	$ (.20)	$ .01	$ .22	$ .04
Basic weighted average number of shares outstanding	15,978	15,687	15,700	15,625	15,574	15,133	15,085
Diluted weighted average number of shares outstanding	16,467	15,776	15,700	15,625	16,199	15,407	15,112

	At March 31,	At June 30,				
Balance Sheet Data:	2007	2006	2005	2004	2003	2002
Working Capital	$ 10,250	$ 8,932	$ 10,673	$ 16,543	$ 15,979	$ 9,529
Total Assets	$ 21,782	$ 23,221	$ 24,907	$ 20,779	$ 24,089	$ 22,406
Short-Term Debt – Including current maturities of long-term debt and capital lease obligations	$ 3,533	$ 4,955	$ 4,794	$ —	$ 2,304	$ 4,169
Long-Term Debt – Including deferred lease And other long-term liabilities	$ 400	$ 398	$ 390	$ 374	$ 325	$ 254
Shareholders' Equity	$ 14,937	$ 13,782	$ 14,677	$ 17,747	$ 17,264	$ 13,624

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

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

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

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

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

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

- The merger will be accounted for using the purchase method of accounting and Movie Star's assets and related assumed liabilities will be valued at fair value based on preliminary estimates. The final allocation of the acquisition consideration may result in significant differences from the pro forma amounts reflected in the unaudited pro forma financial statements. Included in the consideration being paid are estimated transaction costs that are being capitalized. Currently, we have estimated these transaction costs to be $2,500,000.
- In connection with the merger, Movie Star will also enter into an escrow agreement with designated stockholder representatives of the holders of FOH Holdings common stock. Pursuant to the escrow agreement, 20% of the shares of Movie Star's common stock to be issued to each stockholder of FOH Holdings in connection with the merger will be held in escrow to cover indemnification claims that may be brought by Movie Star for certain matters, including breaches of representations, warranties and covenants of FOH Holdings under the merger agreement. Shares remaining in escrow will be released following the 18-month anniversary of the effective time of the merger, subject to extension under certain circumstances. Similarly, treasury shares of Movie Star's common stock representing 7.5% of the aggregate number of issued and outstanding shares of our common stock prior to the effective time of the merger will be deposited into escrow to cover any indemnification claims that may be brought by FOH Holdings' stockholders against Movie Star, which shares will be returned to us following the 18-month anniversary of the effective time of the merger, subject to certain conditions and to the extent not used to satisfy these indemnification claims. We have assumed that all of the escrowed shares will be returned to their respective parties.

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

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

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

- A one-time engagement fee of 100,000 shares of Movie Star common stock to be issued on the closing date of the merger to Performance Enhancement Partners, LLC in connection with its consulting agreement with Movie Star. Performance Enhancement Partners, LLC is required to provide Movie Star with the personal services of Peter Cole to act as Executive Chairman of the combined company.
- A grant to Performance Enhancement Partners, LLC, on the closing date of the merger, of non-qualified options to purchase 275,000 shares of Movie Star common stock at an exercise price equal to the fair market value of a share of Movie Star common stock on the grant date. These options will vest within one year of the closing date of the merger.

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

	FOH Holdings	Movie Star	Pro forma Adjustments	FOH Holdings and Movie Star Pro Forma Consolidated
Assets:				
Current Assets				
Cash and equivalents	$ 1,861	$ 90	$ 19,000[(a)]	$ 20,951
Accounts Receivable	777	10,090	(788)[(b)]	10,079
Merchandise inventories	19,128	10,168	308[(b)(c)]	29,604
Prepaid expenses and other current assets	6,309	244	—	6,553
Deferred income tax assets	944	1,728	—	2,672
Total current assets	29,019	22,320	18,520	69,859
Property, and equipment, net	15,479	1,028	644[(c)]	17,151
Goodwill	7,131	537	6,357[(d)]	14,025

Intangibles and other assets	19,570	3,368	7,320[e]	30,258
Total Assets	$ 71,199	$ 27,253	$ 32,841	$ 131,293
Liabilities and Shareholders' Equity:				
Current liabilities:				
Revolving line of credit and term loans	$ 6,861	$ 7,651	$ —	$ 14,512
Current portion of long-term debt	3,257	55	—	3,312
Accounts payable and accrued expenses	20,147	4,074	706[b][c][d]	24,927
Total current liabilities	30,265	11,780	706	42,751
Deferred rent	2,228	295	(295)[c]	2,228
Long-term debt	15,826	—	(7,500)[f]	8,326
Other	34	139	—	173
Deferred income tax liabilities	8,827	0	3,311[g]	12,138
Total Liabilities	57,180	12,214	(3,778)	65,616
Series A Preferred Stock	—	—	7,500[f]	7,500
Total Shareholders' Equity	14,019	15,039	29,119[a]	58,177
Total Liabilities and Shareholders' Equity	$ 71,199	$ 27,253	$ 32,841	$ 131,293

See Accompanying Notes to Unaudited Condensed Consolidated Pro Forma Financial Statements

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

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

Basic earnings per share	$ (0.06)	$ (0.12)
Diluted earnings per share	$ (0.06)	$ (0.12)
Weighted average shares outstanding – basic	15,700	50,788[k]
Weighted average shares outstanding – diluted	15,700	50,788[k]

See Accompanying Notes to Unaudited Condensed Consolidated Pro Forma Financial Statements

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

	FOH Holdings	Movie Star	Pro forma adjustments	FOH Holdings and Movie Star Pro Forma Consolidated
Net sales	$ 80,228	$ 36,214	$ (2,059)[h]	$ 114,383
Cost of goods sold	46,244	24,329	(1,851)[h]	68,722
Gross profit	33,984	11,885	(208)	45,661
Selling, general and administrative expenses	30,216	9,067	562[h]	39,845
Merger related fees	—	1,342	—	1,342
Gain on sale of property, plant and equipment	—	(496)	—	(496)
Operating income	3,768	1,972	(770)	4,970
Interest expense, net	1,096	399	(306)[i]	1,189
Income before income taxes and discontinued operations	2,672	1,573	(464)	3,781
Income tax provision (benefit)	802	629	(297)	1,134
Income (loss) from continuing operations	$ 1,870	$ 944	$ (167)	$ 2,647
Income from continuing operations		$ 944		$ 2,647
Less: Preferred stock dividends		—		(281)[k]
Net Income available to common shareholders		$ 944		$ 2,366
Basic earnings per share		$ 0.06		$ 0.05
Diluted earnings per share		$ 0.06		$ 0.05
Weighted average shares outstanding – basic		15,786		50,874[k]
Weighted average shares outstanding – diluted		16,090		51,589[k]

See Accompanying Notes to Unaudited Condensed Consolidated Pro Forma Financial Statements

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

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

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

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

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

Accounts Receivable: Elimination of receivable due to Movie Star from FOH Holdings	$ (788)
Inventory: Elimination of intercompany profit included in FOH Holdings inventory	(304)
Inventory: Intercompany timing difference	629
Accounts Payable: Elimination of accounts payable due from FOH Holdings to Movie Star	159
	$ (304)

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

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

Inventory	$ (17)
Property, plant and equipment	644

Deferred rent – short term	35
Deferred rent – long term	295
	$ 957

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

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

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

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

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

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

(e)

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

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

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

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

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

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

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

	Fiscal Year Ended July 29, 2006	Six Months Ended January 27, 2007
Pro forma adjustment to net sales for the elimination of intercompany sales (note b)	$ (1,211)	$ (2,059)
Pro forma elimination of intercompany profit included in inventory (note b)	96	208
Pro forma elimination of intercompany cost of goods sold, buying and occupancy (note b)	(1,211)	(2,059)

Total pro forma adjustment to cost of goods sold, buying and occupancy	$ (1,115)	$ (1,851)
Pro forma depreciation of property, plant and equipment	$ 19	$ 10
Pro forma amortization of customer relationship intangibles	675	253
Pro forma amortization of other intangibles	30	15
Pro forma elimination of management fee	(200)	(100)
Pro forma adjustment of compensation expense	818	384
Total pro forma adjustment to selling, general and administrative expenses	$ 1,342	$ 562

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

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

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

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

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

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

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

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

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

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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. The income available to common shareholders has been reduced to reflect dividends of 7.5 percent accumulated on the Series A Preferred Stock.

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

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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

The intimate apparel business is highly competitive. The industry is characterized by a large number of small companies selling unbranded merchandise, and by several large companies that have developed widespread consumer recognition of the brand names associated with the merchandise sold by these companies. In addition, retailers to whom we sell our products have sought to expand the development and marketing of their own brands and to obtain intimate apparel products directly from the same or similar sources from which we obtain our products.

The intimate apparel business for department stores, specialty stores and regional chains is divided into four selling seasons per year. For each selling season, we create a new line of products that represent our own brand name Cinema Etoile®. Our brand name does not have widespread consumer recognition, although it is well known by our customers. We sell our brand name products primarily during these selling seasons. We also develop specific products for some of our larger accounts, mass merchandisers and national chains, and make between five and eight presentations throughout the year to these accounts. We do not have long-term contracts with any of our customers and therefore our business is subject to unpredictable increases and decreases in sales depending upon the size and number of orders that we receive each time we present our products to our customers.

Hurricane Katrina impacted our business operations during the quarter ended September 30, 2005 and, to a lesser extent, the quarter ended December 31, 2005. Our distribution center in Poplarville, Mississippi was forced to close from August 29, 2005 to September 6, 2005 as a result of the hurricane. Because some of our employees were unable to return to work, the facility operated at less than full capacity until mid-October 2005. We have resolved all of our insurance claims relating to hurricane Katrina. The claim for our loss of inventory was resolved in the third quarter of fiscal 2006 and did not result in any significant financial adjustment. The claim for the physical damage to our distribution facilities also was resolved in the third and fourth quarters of fiscal 2006 and resulted in a gain of $1,450,000. The final claim of additional expenses incurred was resolved in the fourth quarter of fiscal 2006 and did not have a material impact on our results of operations.

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

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

As a result of the merger, we anticipate issuing approximately 23.7 million shares of our common stock to the stockholders of FOH Holdings as merger consideration. Approximately 50% of FOH Holdings common stock is owned by Tokarz Investments, an affiliate of TTG Apparel, which is a current shareholder of Movie Star and owns

3,532,644 shares of our common stock. The other approximately 50% of FOH Holdings common stock is owned by accounts and funds managed by and/or affiliated with Fursa.

In connection with the merger agreement, we have agreed to issue to our shareholders shares of our common stock upon the exercise of non-transferable subscription rights. To the extent that our

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shareholders do not purchase, on an aggregate basis, their pro rata percentage of our common stock in the rights offering, TTG Apparel and its affiliates, including Tokarz Investments, and funds affiliated with Fursa have agreed to purchase, on an equal basis, any such shortfall.

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

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

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

Critical Accounting Policies and Estimates

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

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

Our accounting policies are more fully described in Note 1 to our consolidated financial statements for the fiscal year ended June 30, 2006, included in this prospectus. Our management has identified certain critical accounting policies and estimates that are described below.

Inventory – Inventory is carried at the lower of cost or market on a first-in, first-out basis. Our management writes down inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand, market conditions and the age of the inventory. If actual market conditions are less favorable than those projected by our management, additional inventory write-downs may be required. Historically, our management has found its write down of inventory to be appropriate, and actual results generally do not differ materially from those determined using necessary estimates. Inventory reserves were $1,085,000 at March 31, 2007, $1,015,000 at June 30, 2006 and $900,000 at March 31, 2006.

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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 and historic deduction trends, net of expected recoveries and the evaluation of current market conditions. As of March 31, 2007, June 30, 2006 and March 31, 2006, accounts receivable was net of allowances of $1,301,000, $950,000 and $1,578,000, respectively. Historically, our management has found its allowance for doubtful accounts and sales discounts to be appropriate, and actual results generally do not differ materially from those determined using necessary estimates. However, if the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. If market conditions were to decline, our management may take actions to increase customer incentive offerings, possibly resulting in an incremental allowance at the time the incentive is offered.

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

Results of Operations

Three and Nine Months Ended March 31, 2007 compared to Three and Nine Months Ended March 31, 2006

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

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	Three Months Ended March 31,				Nine Months Ended March 31,			
	2007		2006		2007		2006	
Net sales	$ 13,786	100.0%	$ 11,940	100.0%	$ 50,000	100.0%	$ 43,444	100.0
Cost of sales	9,472	68.7	8,689	72.8	33,801	67.6	31,199	71.8
Gross profit	4,314	31.3	3,251	27.2	16,199	32.4	12,245	28.2
Selling, general and administrative expenses	4,301	31.2	4,114	34.5	13,368	26.7	12,426	28.6
Insurance recovery	—	—	(1,424)	(11.9)	—	—	(1,424)	(3.3)
Merger related fees	610	4.4	—	—	1,952	3.9	—	—
Gain on sale of property, plant and equipment	—	—	—	—	(496)	(1.0)	—	—
(Loss) income from operations	(597)	(4.3)	561	4.7	1,375	2.8	1,243	2.9
Interest expense	127	0.9	99	0.8	526	1.1	383	0.9
(Loss) income before (benefit from) provision for income taxes	(724)	(5.3)	462	3.9	849	1.7	860	2.0
(Benefit from) provision for income taxes	(289)	(2.1)	186	1.6	340	0.7	345	0.8
Net (loss) income	$ (435)	(3.2)%	$ 276	2.3%	$ 509	1.0%	$ 515	1.2

Percent amounts may not add due to rounding.

Net sales for the three months ended March 31, 2007 increased $1,846,000 to $13,786,000 from $11,940,000 in the comparable period in 2006. Net sales for the nine months ended March 31, 2007 increased by $6,556,000 to $50,000,000 from $43,444,000 in the comparable period in 2006. The increase for the three and nine-month periods was primarily due to an increase in shipments to our largest customer of approximately $4,767,000 and $13,492,000, an increase in shipments to Frederick's of Hollywood of approximately $313,000 and $2,032,000, partially offset by an approximate net overall decrease in shipments to other customers of $3,234,000 and $8,968,000, respectively.

We expect sales for the fourth quarter of fiscal 2007 to be higher than the fourth quarter of fiscal 2006. At March 31, 2007, our backlog of orders was approximately $17,700,000 as compared to $27,400,000 at March 31, 2006. This decrease in our backlog was due to a shift in the timing of orders booked from the third to the fourth 2007 fiscal quarter. Orders booked for April 2007 were $13,600,000 as compared to $3,000,000 for April 2006.

The gross profit percentage increased to 31.3% and 32.4% for the three and nine months ended March 31, 2007, respectively, from 27.2% and 28.2% in the same periods in the prior year. The higher overall margin resulted from a better product mix in the current year, which created a higher initial gross margin. The margin also improved as a result of lower allowances and markdowns in the current year.

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

Selling, general and administrative expenses were $4,301,000, or 31.2% of net sales for the three months ended March 31, 2007, as compared to $4,114,000, or 34.5% of net sales for the same period in 2006. This increase of $187,000 resulted primarily from an increase in salary and related costs of $148,000 and a net overall increase in other selling, general and administrative expenses. The increase in salary expense and related costs was the result of an increase in the number of employees in the current year, which primarily related to employees added to service the expected increase in business with Frederick's of Hollywood.

Selling, general and administrative expenses were $13,368,000, or 26.7% of net sales for the nine months ended March 31, 2007, as compared to $12,426,000, or 28.6% of net sales for the same period in 2006. This increase of $942,000 resulted primarily from an increase in salary and related costs of $456,000, stock compensation expense of $196,000, general corporate legal expense of $95,000, shipping expense and related costs of $88,000 and a net overall increase in other selling, general and administrative expenses, partially offset by expenses related to hurricane Katrina in the prior year of $139,000. The increase in salary expense and related costs was the result of an increase in the number of employees in the current year, which primarily related to employees added to service the expected increase in business with Frederick's of Hollywood. The increase in stock compensation expense was the result of options being issued to six employees in the second quarter, three of whom are executive officers. The increase in shipping expense and related costs was the result of higher sales.

In connection with our previously announced merger with FOH Holdings, we have incurred merger related fees of $610,000 and $1,952,000, respectively, for the three and nine months ended March 31, 2007. Included in the merger related fees are legal fees, costs associated with our financial advisor, which included the issuance of a fairness opinion to our special committee, and accounting costs for due diligence. These fees are being expensed as a result of the merger being treated as a reverse acquisition.

We recorded a gain on the sale of property, plant and equipment in the second quarter of fiscal 2007 of $496,000, which resulted primarily from the sale of our closed distribution facility in Petersburg, Pennsylvania. On August 14, 2006, we entered into a contract for the sale of the land, building and contents of that facility. On October 17, 2006, we completed the sale for approximately $683,000 in cash. As a result of that transaction, we recorded a gain of approximately $482,000, net of related costs.

During the third quarter of fiscal 2006, we resolved our insurance claim related to hurricane Katrina on the Poplarville, Mississippi distribution facilities which resulted in a gain of $1,424,000, net of expenses.

For the three months ended March 31, 2007, we recorded a loss from operations of $597,000 compared to income from operations of $561,000 for the same period in the prior year. For the nine months ended March 31, 2007, we recorded income from operations of $1,375,000 compared to income from operations of $1,243,000 for the same period in the prior year. The decrease for the three-month period was due primarily to higher selling, general and administrative and expenses, the merger related fees and the insurance gain in the prior year, offset by higher sales and gross margin. The increase for the nine-month period was due to higher sales, a higher gross margin and the gain on the sale of property, plant and equipment, partially offset by higher selling, general and administrative expenses, the merger related fees and the insurance gain in the prior year.

Net interest expense for the three and nine months ended March 31, 2007 increased to $127,000 and $526,000, as compared to $99,000 and $383,000 in the comparable periods in 2006, respectively. These increases were due primarily to higher interest rates for the current fiscal year's three and nine-month periods, as compared to the prior year.

We recorded an income tax benefit of $289,000 and an income tax provision of $340,000 for the three and nine months ended March 31, 2007, as compared to an income tax provision of $186,000 and $345,000 for the same periods in the prior year, respectively. We utilized an estimated income tax rate of 40% in all periods.

We had a net loss of $435,000 and net income of $509,000 for the three and nine months ended March 31, 2007, as compared to net income of $276,000 and $515,000 for the same periods in the prior year, respectively. The decrease for the three-month period was due primarily to higher selling, general and administrative and expenses, the merger related fees, higher interest costs and the insurance gain in the prior year, offset by higher sales, a higher gross margin and a tax benefit in the current year as compared to a tax provision in the prior year. The decrease for the nine-month period was due to higher selling, general and administrative expenses, the merger related fees, higher interest costs and the insurance gain in the prior year, offset by higher sales, a higher gross margin and the gain on the sale of property, plant and equipment.

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Fiscal Years Ended June 30, 2006, 2005 and 2004

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

	Years Ended June 30,					
	2006		2005		2004	
Net sales	$ 51,639	100.0%	$ 58,533	100.0%	$ 53,691	100.0%
Cost of sales	37,528	72.7%	44,304	75.7%	37,581	70.0%
Gross profit	14,111	27.3%	14,229	24.3%	16,110	30.0%
Selling, general and administrative expenses	16,556	32.1%	19,024	32.5%	15,824	29.5%
Insurance recovery	(1,450)	(2.8)%	—	—	—	—
(Loss) income from operations	(995)	(1.9)%	(4,795)	(8.2)%	286	0.5%
Interest income	(3)	—	(1)	—	(12)	—
Interest expense	476	0.9%				