FREDERICK'S OF HOLLYWOOD GROUP INC /NY/
Form PRER14A
April 25, 2014

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

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

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:

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

FREDERICK S OF HOLLYWOOD GROUP INC.

(Name of Registrant as Specified in Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

o No fee required.
x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:
Common Stock, Par Value $0.01 Per Share, of Frederick s of Hollywood Group Inc.

(2) Aggregate number of securities to which transaction applies:
11,594,575 shares of Common Stock and 360,000 shares of Common Stock underlying outstanding options with an exercise price of $0.27 or less.

(3)

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

In accordance with Exchange Act Rule 0-11(c), the filing fee of $407.19 was determined by multiplying 0.00012880 by the aggregate merger consideration of $3,161,435.25. The aggregate merger consideration was calculated based on the sum of (i) 11,594,575 outstanding shares of Common Stock as of January 22, 2014 to be acquired pursuant to the merger multiplied by the merger consideration of $0.27 per share and (ii) 360,000 outstanding shares of Common Stock underlying outstanding options as of January 22, 2014 to be acquired pursuant to the merger with an exercise price of $0.27 or less multiplied by the excess of the merger consideration of $0.27 per share over the weighted average exercise price of $0.184.

(4) Proposed maximum aggregate value of transaction:
$3,161,435.25

(5) Total fee paid:
$407.19

x Fee paid previously with preliminary materials:

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

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

(3) Filing Party:

(4) Date Filed:

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PRELIMINARY COPY SUBJECT TO COMPLETION

Frederick s of Hollywood Group Inc.
6255 Sunset Boulevard
Hollywood, CA 90028

[ ], 2014

Dear Shareholder of Frederick s of Hollywood Group Inc.:

You are cordially invited to attend a special meeting of the shareholders of Frederick s of Hollywood Group Inc., a New York corporation (the Company , we , our or us), which we will hold at our principal executive offices located 6255 Sunset Boulevard, 6th Floor, Hollywood, California 90028, on [ ], 2014, at 10:00 a.m. local time.

At the special meeting, holders of our common stock, par value $0.01 per share, will be asked to consider and vote upon a proposal to adopt and approve an Agreement and Plan of Merger (as it may be amended from time to time, the Merger Agreement), dated as of December 18, 2013, as amended on April 14, 2014, by and among the Company, FOHG Holdings, LLC, a Delaware limited liability company (Parent), and FOHG Acquisition Corp., a New York corporation and wholly owned subsidiary of Parent (Merger Sub). Pursuant to the Merger Agreement, Merger Sub will merge with and into the Company and the separate corporate existence of Merger Sub will cease. The Company will be the surviving corporation in the merger and will continue to be a New York corporation after the merger.

If the merger is completed, then each share of our common stock will be converted into the right to receive $0.27 in cash (other than shares held by the Rollover Shareholders (as defined below), shares held by us or any wholly owned subsidiary of ours and shares held in our treasury). Immediately prior to the merger, HGI Funding, LLC (HGI Funding), a wholly owned subsidiary of Harbinger Group Inc., TTG Apparel, LLC (TTG) and Tokarz Investments, LLC (TKZ), each of which is controlled by Michael Tokarz, and Fursa Alternative Strategies LLC (Fursa) and Arsenal Group, LLC (Arsenal), each of which is controlled by William F. Harley III, a member of our Board of Directors, and Mr. Harley individually (collectively, the Rollover Shareholders) will cause all of their shares of our capital stock to be contributed to Parent in exchange for an increase in their equity interests in Parent. As a result of the merger, the Company will be privately owned and will be controlled by the Rollover Shareholders through their ownership of Parent.

The Rollover Shareholders, as a group, may be deemed to beneficially own 91,257,883 shares, or 88.7%, of our common stock, including 63,579,204 shares that they have the right to acquire pursuant to convertible preferred stock, warrants and options held by them.

In order to evaluate the fairness of the merger to our shareholders, the Company s Board of Directors delegated to its lead independent, disinterested director, Milton Walters (the Lead Director), authority to consider and negotiate the terms and conditions of the merger with Parent and to make a recommendation to the Board of Directors. The Lead Director, based in part on advice from his legal and financial advisors, determined that the merger and the Merger Agreement were fair to and in the best interests of the Company and its shareholders (other than the Rollover Shareholders and their respective affiliates and associates), and recommended that the Board of Directors approve the merger and the Merger Agreement, and that the Company s shareholders vote for the approval of the merger and adoption of the Merger Agreement. Based on the Lead Director s recommendation, our Board of Directors approved the merger and the Merger Agreement. Mr. Harley, who is a Rollover Shareholder, and Thomas J. Lynch, who is our chairman and chief executive

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officer and who has received a new employment agreement which will take effect if the merger is completed and under which he will receive equity in Parent as described in the enclosed proxy statement, recused themselves from the deliberations.

At the special meeting, you will also be asked to approve, by non-binding, advisory vote, compensation that may become payable to our named executive officers (as defined in Item 402 of Regulation S-K of the Exchange Act) in connection with the merger.

Our Board of Directors (other than Messrs. Harley and Lynch) unanimously recommends that the shareholders of the Company vote FOR the proposal to approve the merger and adopt the Merger Agreement and FOR the non-binding, advisory proposal to approve compensation that may become payable to the Company s named executive officers in connection with the merger. In arriving at its recommendation to approve the merger and adopt the Merger Agreement, our Board of Directors and the Lead Director carefully considered a number of factors that are described in the enclosed proxy statement, including that (i) the Company has not reported an operating profit since fiscal year 2007, (ii) since that time the Company has suffered from negative working capital and, in many years, deficit equity and (iii) no firm or economically viable offers for strategic transactions resulted from the marketing efforts in which the Company engaged during 2012 and 2013 or from the solicitation permitted under the Merger Agreement.

The enclosed proxy statement describes the Merger Agreement, the merger and related agreements and provides specific information concerning the special meeting. In addition, you may obtain information about us from documents filed with the Securities and Exchange Commission. We urge you to, and you should, read the entire proxy statement carefully, including the appendices, as well as the Schedule 13E-3 relating to the Merger Agreement the transactions contemplated thereby, including the exhibits attached thereto, filed with the Securities and Exchange Commission, as they set forth the details of the Merger Agreement and other important information related to the merger.

The merger cannot be completed unless holders of two-thirds of the aggregate voting power of the outstanding shares of common stock vote in favor of approving the merger and adopting the Merger Agreement. Holders of common stock as of the record date have one vote for each share of common stock owned by the shareholder as of the close of business on the record date. Because the Rollover Shareholders beneficially hold more than two-thirds of our outstanding shares of common stock as of the record date, they can satisfy the required vote under New York law and the Merger Agreement to approve the merger and adopt the Merger Agreement without the affirmative vote of any of our other shareholders.

If you sign, date and return your proxy card without indicating how you wish to vote, your proxy will be voted in favor of the approval of the merger and adoption of the Merger Agreement and the approval of the non-binding, advisory proposal regarding compensation that may become payable to the Company s named executive officers in connection with the merger. If you fail to vote or submit your proxy, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the special meeting (unless you are a record holder as of the record date, or you obtain a legal proxy from your bank, broker or other nominee, and attend the special meeting in person) and will have the same effect as a vote against the approval of the merger and the adoption of the Merger Agreement.

While shareholders may exercise their right to vote their shares in person, we recognize that many shareholders may not be able to attend the special meeting. Accordingly, we have enclosed a proxy that will enable your shares to be voted on the matters to be considered at the special meeting even if you are unable to attend. If you desire your shares to be voted in accordance with the recommendation of our Board of Directors, you need only sign, date and return the proxy in the enclosed postage-paid envelope. Otherwise, please mark the proxy to indicate your voting instructions; date and sign the proxy; and return it in the enclosed postage-paid envelope. You also may submit a proxy by using a toll-free telephone number or the Internet. We have provided instructions on the proxy card for using these convenient services.

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Submitting a proxy will not prevent you from voting your shares in person if you subsequently choose to attend the special meeting.

Sincerely,

Thomas J. Lynch
Chairman and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

This proxy statement is dated [ ], 2014 and is first being mailed to shareholders on or about [ ], 2014.

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FREDERICK S OF HOLLYWOOD GROUP INC.
6255 Sunset Boulevard
Hollywood, CA 90028

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To the Shareholders of Frederick s of Hollywood Group Inc.:

NOTICE IS HEREBY GIVEN that a Special Meeting of the Shareholders of Frederick s of Hollywood Group Inc. (the Company , we , our or us) will be held at our principal executive offices located at 6255 Sunset Boulevard, 6th Floor, Hollywood, California 90028, on [ ], 2014, at 10:00 a.m. local time, for the following purposes:

1. to consider and vote on a proposal to approve the merger and adopt the Agreement and Plan of Merger (as it may be amended from time to time, the Merger Agreement), dated as of December 18, 2013, as amended on April 14, 2014, by and among the Company, FOHG Holdings, LLC, a Delaware limited liability company (Parent), and FOHG Acquisition Corp., a New York corporation and wholly owned subsidiary of Parent (Merger Sub), pursuant to which the Company will be merged with and into Merger Sub, with the Company surviving as wholly owned subsidiary of Parent;
2. to approve, by non-binding, advisory vote, compensation that may become payable to the Company s named executive officers (as defined in Item 402 of Regulation S-K of the Exchange Act) in connection with the merger; and
3. to act upon other business as may properly come before the special meeting (provided the Company does not know, at a reasonable time before the special meeting, that such matters are to be presented at the meeting) or any adjournment or postponement thereof.

The holders of record of our common stock, par value $0.01 per share (Common Stock), voting as a class, as of the close of business on [ ], 2014, are entitled to notice of and to vote at the special meeting or at any adjournment thereof. All shareholders of record are cordially invited to attend the special meeting in person. A list of our shareholders will be available at our headquarters located at 6255 Sunset Boulevard, 6th Floor, Hollywood, California 90028, during ordinary business hours for ten days prior to the special meeting.

On September 26, 2013, HGI Funding, LLC (HGI Funding), a wholly owned subsidiary of Harbinger Group Inc., TTG Apparel, LLC (TTG) and Tokarz Investments, LLC (TKZ), each of which is controlled by Michael Tokarz, and Fursa Alternative Strategies LLC (Fursa) and Arsenal Group, LLC (Arsenal), each of which is controlled by William F. Harley III, a member of the Company s Board of Directors, entered into a non-binding consortium term sheet agreement. HGI Funding, TTG, TKZ, Fursa and Arsenal are collectively referred to herein as the Consortium Members. Parent and Merger Sub were formed by the Consortium Members for the purpose of acquiring us pursuant to the Merger Agreement. Under the term sheet, the Consortium Members agreed, among other things, to jointly deliver a non-binding proposal to the Company s Board of Directors for the acquisition of all of the Company s publicly held Common Stock in a going private transaction with the Company, and to use their commercially reasonable efforts to work together to structure, negotiate and do all things necessary or desirable, subject to the Company s approval, to enter into definitive agreements in respect of the transactions contemplated under the non-binding proposal.

The Consortium Members delivered to the Board of Directors their non-binding, written proposal to acquire all of the outstanding shares of the Company s Common Stock that they did not directly or indirectly own on September 26, 2013. Following receipt of the Consortium Members non-binding written proposal, in order to evaluate the fairness of the merger to our shareholders, the Company s Board of Directors delegated to its lead independent, disinterested director, Milton Walters (the Lead Director), authority to consider and negotiate the terms and conditions of the merger with Parent and to make a recommendation to the Board of Directors. As a result of these considerations and negotiations, and upon the recommendation of the Lead Director, the Board of Directors (other than Mr. Harley and Thomas J. Lynch, for the reasons discussed below) caused the Company to enter into the Merger Agreement and is making the recommendations to the Company s shareholders set forth herein.

We have described the merger and the Merger Agreement in the accompanying proxy statement, which you should read in its entirety before voting. A copy of the Merger Agreement (including the amendment thereto) is attached as *Annex A* to the proxy statement.

Immediately prior to the merger, the Consortium Members and Mr. Harley (collectively, the Rollover Shareholders) will cause all of their shares of our capital stock to be contributed to Parent in exchange for an increase in their equity interests in Parent. As a result of the merger, the Company will be privately owned and will be controlled by the Rollover Shareholders through their beneficial ownership of Parent. The Consortium Members and Mr. Harley, as a group, may be deemed to beneficially own 91,257,883 shares, or approximately 88.7%, of the Company s Common Stock, including 63,579,204 shares that they have the right to acquire pursuant to convertible preferred stock, warrants and options held by them.

Mr. Harley, who is a Rollover Shareholder, and Mr. Lynch, who is our chief executive officer and who has received a new employment agreement which will take effect if the merger is completed and under which he will receive equity in Parent as described in the accompanying proxy statement, recused themselves from all discussions by the Board of Directors relating to the merger negotiations (except to the extent their presence was specifically requested by the Lead Director) and all deliberations by the Board of Directors with respect to the approval of the merger and adoption of the Merger Agreement and related agreements. The Board of Directors (other than Messrs. Harley and Lynch), after receiving the recommendation of the Lead Director, has determined that the merger is fair, advisable, and in the best interests of the Company and its shareholders (other than the Rollover Shareholders and their respective affiliates and associates) and has adopted the Merger Agreement. **The Board of Directors (other than Messrs. Harley and Lynch) unanimously recommends that the shareholders of the Company vote FOR the proposal to approve the merger and adopt the Merger Agreement and FOR the non-binding, advisory proposal to approve compensation that may become payable to the Company s named executive officers in connection with the merger.** In arriving at its recommendation to approve the merger and adopt the Merger Agreement, the Board of Directors and the Lead Director carefully considered a number of factors that are described in the accompanying proxy statement, including that (i) the Company has not reported an operating profit since fiscal year 2007, (ii) since that time the Company has suffered from negative working capital and, in many years, deficit equity and (iii) no firm or economically viable offers for strategic transactions resulted from the marketing efforts in which the Company engaged during 2012 and 2013 or from the solicitation permitted under the Merger Agreement.

Under New York law, the approval of the merger and the adoption of the Merger Agreement require the affirmative vote of holders of two-thirds of the aggregate voting power of outstanding shares of Common Stock. The non-binding, advisory proposal to approve compensation that may become payable to the Company s named executive officers in connection with the merger requires the affirmative vote of holders of a majority of the voting power present in person or by proxy and entitled to vote thereon. Holders of Common Stock as of the record date have one vote for each share of Common Stock owned by the shareholder as of the close of business on the record date.

You also may submit a proxy by using a toll-free telephone number or the Internet. We have provided instructions on the proxy card for using these convenient services.

If you sign, date and return your proxy card without indicating how you wish to vote, your proxy will be voted in favor of the approval of the merger and adoption of the Merger Agreement and the non-binding, advisory proposal to approve compensation that may become payable to the Company s named executive officers in connection with the merger. If you fail to vote or submit your proxy (unless you are a record holder as of the record date, or you obtain a legal proxy from your bank, broker or other nominee, and you and attend the special meeting in person), the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the special meeting and will have the same effect as a vote against the approval of the merger and the adoption of the Merger

Agreement, but will not affect the vote regarding the non-binding, advisory proposal to approve compensation that may become payable to the Company s named executive officers in connection with the merger.

Your proxy may be revoked at any time before the vote at the special meeting by following the procedures outlined in the accompanying proxy statement. If you are a shareholder of record, attend the special meeting and wish to vote in person, you may revoke your proxy and vote in person.

BY ORDER OF THE BOARD OF DIRECTORS

Thomas Rende
Secretary

Dated [ ], 2014
Hollywood, California

YOUR VOTE IS IMPORTANT

Your vote is important, regardless of the number of shares of Common Stock you own. Whether or not you plan to attend the special meeting, please complete, sign, date and return the enclosed proxy. You also may submit a proxy by using a toll-free telephone number or the Internet. We have provided instructions on the proxy card for using these convenient services. Remember, if you do not return your proxy card or vote by proxy via telephone or the Internet or if you abstain from voting, that will have the same effect as a vote against approval of the merger and adoption of the Merger Agreement. If you are a shareholder of record, attend the special meeting and wish to vote in person, you may revoke your proxy and vote in person. **Even if you plan to attend the special meeting in person, we request that you complete, sign, date and return the enclosed proxy and thus ensure that your shares will be represented at the special meeting if you are unable to attend.**

If you have any questions or need assistance in voting your shares of Common Stock, please call our Secretary, Thomas Rende, at (212) 779-8300.

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SUMMARY TERM SHEET

This Summary Term Sheet discusses selected information contained in this proxy statement including with respect to the Merger Agreement, as defined below, and the Merger, as defined below, and may not contain all the information about the Merger that is important to you. We encourage you to read carefully this entire proxy statement, its annexes and the documents referenced elsewhere in this proxy statement. The items in this Summary Term Sheet include page references directing you to a more complete description of that topic in this proxy statement.

The Parties to the Merger Agreement

Frederick s of Hollywood Group Inc.

Frederick s of Hollywood Group Inc., which we refer to as the Company, we, our or us, is a New York corporati The address of our principal executive office is 6255 Sunset Boulevard, Hollywood, California 90028.

Through our subsidiaries, we sell women s apparel and related products under our proprietary Frederick s of Hollywood® brand. Sales are predominantly through our U.S. mall-based specialty retail stores and our catalog and retail website at *www.fredericks.com.* As of April 14, 2014, we operated 96 Frederick s of Hollywood stores in 28 states and during fiscal year 2013 mailed approximately 4,300,000 catalogs. See *Important Information Concerning the Company Company Background* beginning on page 94.

Additional information about the Company is contained in our annual report on Form 10-K for the fiscal year ended July 27, 2013 and the amendment to the annual report attached to this proxy statement as *Annexes F-1* and *F-2*, in our quarterly report on Form 10-Q for the fiscal quarter ended January 25, 2014 attached to this proxy statement as *Annex G* and in our other public filings. See *Where You Can Find Additional Information* beginning on page 106.

FOHG Holdings, LLC

FOHG Holdings, LLC, which we refer to as Parent, is a Delaware limited liability company. The address of Parent s principal executive office is 450 Park Avenue, 30th Floor, New York, NY 10022. Parent was formed solely for the purpose of engaging in the Merger and other related transactions.

Currently, the membership interests of Parent are held by HGI Funding, LLC, or HGI Funding, TTG Apparel, LLC, or TTG, and Tokarz Investments, LLC, or TKZ, each of which is controlled by Michael Tokarz, and Fursa Alternative Strategies LLC, or Fursa, and Arsenal Group, LLC, or Arsenal, each of which is controlled by William F. Harley III, a member of the Company s Board of Directors, and Mr. Harley individually. We refer to HGI Funding, TTG, TKZ, Fursa, Arsenal and Mr. Harley collectively as the Rollover Shareholders.

HGI Funding is a Delaware limited liability company and a wholly-owned subsidiary of Harbinger Group Inc., or HGI. HGI is incorporated in Delaware and is a diversified holding company focused on obtaining controlling equity stakes in companies that operate across a diversified set of industries. HGI Funding was formed on January 12, 2011 to manage a portion of HGI s available cash by investing in equity and debt instruments and to acquire positions in potential acquisition targets.

TKZ is a Delaware limited liability company that was formed by Michael Tokarz in 2002 for the purpose of making various investments. TTG is a Delaware limited liability company that was formed in 2004 by Michael Tokarz for the purpose of investing in the Company.

Fursa, a Delaware limited liability company, is an employee owned hedge fund sponsor. The firm invests in the public equity and fixed income markets across the globe. The firm also invests in the alternative investments markets, typically limiting these investments to private equity. It employs various activist strategies along with an event-driven strategy and a distressed debt strategy while making its investments. Arsenal, a Delaware limited liability company, was co-founded by Mr. Harley in February 2011 and created via the merger of HRK Holdings LLC and Fursa Global Event Driven Fund LLC, a fund previously managed by Fursa. Arsenal owns HRK Holdings LLC and HRK Industries LLC, both of which filed for Chapter 11 bankruptcy protection in the U.S. Bankruptcy Court for the Middle District of Florida on June 27, 2012. The

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court has approved the companies hiring an investment banker to market properties they own and intend to sell in order to emerge from bankruptcy.

Mr. Harley has been a member of the Company s Board of Directors since January 2008. He currently serves as the chairman and chief executive officer of Arsenal. Mr. Harley is principally responsible for Arsenal s investment decisions. Mr. Harley also is president and chief investment officer of Fursa, which he co-founded in April 1999 (as HBV Capital Management, LLC) and sold to Mellon Financial Corporation in July 2002 (when it was re-named Mellon HBV Alternative Strategies LLC). Mr. Harley served as chief investment officer and chief executive officer of Fursa from July 2002 until he repurchased it from Mellon in December 2006. Mr. Harley is principally responsible for Fursa s investment decisions.

Immediately prior to the effective time of the Merger, the Rollover Shareholders will cause all of their shares of our capital stock to be contributed to Parent in exchange for an increase in their equity interests in Parent. The Rollover Shareholders, as a group, may be deemed to beneficially own 91,257,883 shares, or 88.7%, of our common stock, par value $0.01 per share (Common Stock), including 63,579,204 shares that they have the right to acquire pursuant to convertible preferred stock, warrants and options held by them. Parent has not engaged in any business other than in connection with the transactions described in this proxy statement. For more information on Parent and the holdings of the Rollover Shareholders, see *Special Factors The Parties to the Merger* beginning on page 18.

FOHG Acquisition Corp.

FOHG Acquisition Corp., which we refer to as Merger Sub, is a New York corporation. The address of Merger Sub s principal executive office is 450 Park Avenue, 30th Floor, New York, NY 10022. Merger Sub is a wholly-owned subsidiary of Parent and was formed solely for the purpose of engaging in the Merger and other related transactions. Parent owns 100% of the capital stock of Merger Sub. Merger Sub has not engaged in any business other than in connection with the transactions described in this proxy statement. See *Special Factors The Parties to the Merger* beginning on page 18.

The Merger Proposal (Page 73 and Annex A)

You are being asked to consider and vote upon the proposal to adopt the Agreement and Plan of Merger, dated as of December 18, 2013, as amended on April 14, 2014, by and among the Company, Parent and Merger Sub, as it may be further amended from time to time, which we refer to as the Merger Agreement and which is attached to this proxy statement as *Annex A*, and to approve the merger contemplated thereby, which we refer to as the Merger.

The Merger Agreement provides that Merger Sub will be merged with and into the Company, with the Company surviving as a wholly owned subsidiary of Parent, and each outstanding share of our Common Stock, other than Excluded Shares and Dissenting Shares, each as defined below, will be converted into the right to receive $0.27 in cash, which we refer to as the merger consideration, without interest and less any required withholding taxes. Excluded Shares are shares of our capital stock currently held by the Rollover Shareholders, shares of Common Stock held by the Company or any wholly owned subsidiary of the Company and shares of Common Stock held in the Company s treasury. Dissenting Shares are shares of Common Stock outstanding immediately prior to the effective time of the Merger and which are held by a shareholder (i) who has neither voted for adoption of the Merger Agreement and the Merger nor consented thereto in writing and (ii) who is entitled to and shall have demanded properly in writing appraisal for such shares in accordance with Section 910 of the New York Business Corporation Law, or NYBCL.

Shares of our Common Stock owned by the members of our Board of Directors (other than Mr. Harley) and by the current executive officers of the Company, Thomas J. Lynch, the Company s chairman and chief executive officer, and Thomas Rende, the Company s chief financial officer (the Executive Officers), will receive the same treatment in the Merger as the shares of our Common Stock owned by the unaffiliated shareholders, as defined in Rule 13e-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act), which definition excludes the Rollover Shareholders.

On September 26, 2013, HGI Funding, TTG, TTZ, Fursa and Arsenal jointly delivered a non-binding proposal letter to our Board of Directors for the acquisition of all of our publicly held Common Stock in a going private transaction with us. We refer to HGI Funding, TTG, TTZ, Fursa and Arsenal as the

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Consortium or the Consortium Members. The Board of Directors delegated authority to Milton Walters, our lead independent, disinterested member of our Board of Directors, who we refer to as the Lead Director, to consider and negotiate the terms and conditions of the Merger with the Consortium Members and to make a recommendation to the Board of Directors. The terms of the Merger, including the amount of the merger consideration, were the result of extensive negotiations between the Lead Director and the Consortium Members. During the negotiations, the Lead Director took over two months to analyze and evaluate the Consortium Members initial proposal and to negotiate with the Rollover Shareholders the terms of the proposed Merger, including an increase in the merger consideration of approximately 17% and a 50% premium to the closing price of the Company s Common Stock on September 27, 2013, the last trading day before the announcement by the Consortium Members of their initial proposal. The merger consideration represents an independently negotiated amount for the acquisition of the shares of our Common Stock not already owned by the Rollover Shareholders through the proposed Merger.

The Special Meeting (Page 69)

A special meeting of our shareholders, or the Special Meeting , will be held at our principal executive offices located at 6255 Sunset Boulevard, 6th Floor, Hollywood, California 90028, on [ ], 2014, at 10:00 a.m. local time.

Record Date and Quorum (Page 69)

The holders of record of our Common Stock as of the close of business on [ ], 2014, the record date for determination of shareholders entitled to notice of and to vote at the Special Meeting, are entitled to receive notice of and to vote at the Special Meeting.

The presence at the Special Meeting, in person or by proxy, of the holders of a majority of shares of our Common Stock outstanding on the record date will constitute a quorum, permitting the Company to conduct its business at the Special Meeting.

Required Vote (Page 69)

For the Company to complete the Merger, under New York law and the Merger Agreement, shareholders holding at least two-thirds of the aggregate voting power of our Common Stock outstanding at the close of business on the record date must vote FOR the approval of the Merger and adoption of the Merger Agreement, which we refer to as the Shareholder Approval. The Merger is not structured to require the approval of at least a majority of the unaffiliated shareholders.

Subject to the terms of the Voting Agreement, as defined in *Agreements Involving the Company s Securities; Transactions Between the Rollover Shareholders and the Company Agreements Involving the Company s Securities Voting Agreement* beginning on page 87, the Rollover Shareholders have agreed to vote all shares of our Common Stock they beneficially own (and any shares acquired by them after the date of the Voting Agreement) in favor of approving the Merger and adopting the Merger Agreement. As of the record date, there were 39,273,254 shares of our Common Stock outstanding, of which the Rollover Shareholders own 27,678,679 shares of Common Stock, representing in the aggregate approximately 70.5% of the issued and outstanding shares of Common Stock. This amount excludes the 63,579,204 shares of Common Stock that the Rollover Shareholders have the right to acquire pursuant to convertible preferred stock, warrants and options held by them. Because the Rollover Shareholders beneficially hold more than two-thirds of our outstanding shares of Common Stock as of the record date, they can satisfy the required vote under New York law and the Merger Agreement to approve the Merger and adopt the Merger

Agreement without the affirmative vote of any of our other shareholders.

Despite the fact that the Rollover Shareholders can satisfy the required vote, we are soliciting proxies and furnishing a proxy statement to shareholders for two reasons. First, we must hold a meeting because we are not permitted to take shareholder action by less than unanimous written consent, without a shareholder meeting, pursuant to our certificate of incorporation and Section 615(a) of the NYBCL. Second, we are soliciting proxies to give the unaffiliated shareholders the opportunity to express their respective views of the Merger, even though their approval is not required as a condition to the transaction.

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Except in their capacities as members of our Board of Directors and/or as the Lead Director, as applicable, no officer or director of the Company, nor any of the Rollover Shareholders, has made any recommendation either in support of or in opposition to the Merger or the Merger Agreement.

The directors and Executive Officers have informed the Company that as of date of this proxy statement, they intend to vote in favor of the approval of the Merger and adoption of the Merger Agreement. All references to the Board of Directors in this proxy statement relating to the Board of Directors recommendation and/or approval and adoption of the Merger Agreement, the related agreements and the Merger exclude Messrs. Harley and Lynch. Mr. Harley is a Rollover Shareholder. Mr. Lynch, our chairman and chief executive officer, has received a new employment agreement which will take effect if the Merger is completed. Under the employment agreement, he will receive an equity interest in Parent in the form of incentive units that are part of a separate series of units from those being issued to the Rollover Shareholders and are subject to vesting and other terms. Messrs. Harley and Lynch recused themselves from all discussions by the Board of Directors relating to the Merger negotiations (except to the extent their presence was specifically requested by the Lead Director) and all deliberations by the Board of Directors with respect to the approval of the Merger and adoption of the Merger Agreement and the related agreements.

Shareholders holding at least a majority of the shares of Common Stock voted at the Special Meeting must vote FOR the non-binding, advisory proposal regarding compensation that may become payable to the Company s named executive officers (as defined in Item 402 of Regulation S-K) in connection with the Merger (as described in *Special Factors Interests of the Company s Directors and Executive Officers in the Merger Interests of Executive Officers* beginning on page 61), which we refer to as the Merger-Related Compensation Proposal, in order for the proposal to be approved. Approval of the Merger-Related Compensation Proposal is not a condition to the completion of the Merger, and the vote with respect to the Merger-Related Compensation Proposal is advisory only and will not be binding on the Parent or the Company. Because the Rollover Shareholders beneficially hold more than a majority of our outstanding shares of Common Stock as of the record date, they can approve or disapprove the Merger-Related Compensation Proposal regardless of how any other shareholder votes.

Providing Voting Instructions by Proxy

If you are a shareholder of record, you may provide voting instructions by (i) submitting a proxy by telephone or via the Internet or (ii) submitting the proxy card attached to this proxy statement. If you sign, date and return your proxy card without indicating how you wish to vote, your proxy will be voted in favor of the approval of the Merger and adoption of the Merger Agreement, and the approval of the Merger-Related Compensation Proposal. If you fail to vote or return your proxy card, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the Special Meeting (unless you attend the special meeting in person) and will have the same effect as a vote against the approval of the Merger and adoption of the Merger Agreement, but will not affect the vote regarding the Merger-Related Compensation Proposal.

If your shares are held by a bank, broker or other nominee on your behalf in street name , your bank, broker or other nominee will send you instructions as to how to provide voting instructions for your shares by proxy. In accordance with the rules of the New York Stock Exchange, banks, brokers and other nominees who hold shares of Common Stock in street name for their customers do not have discretionary authority to vote the shares with respect to the approval of the Merger and adoption of the Merger Agreement. Accordingly, if banks, brokers or other nominees do not receive specific voting instructions from the beneficial owner of such shares, they may not vote such shares with respect to the approval of the Merger and adoption of the Merger Agreement. Under this circumstance, a broker non vote would arise. Broker non votes, if any, will have the same effect as a vote AGAINST the approval of the Merger and adoption of the Merger Agreement, but will have no effect on the Merger-Related Compensation Proposal, and will count for purposes of determining the presence of a quorum if the shares are being voted with respect to any matter at the Special Meeting. For shares of Common Stock held in street name, only shares of Common Stock affirmatively voted FOR approval of the Merger and adoption of the Merger Agreement will be counted as a favorable vote for the proposals.

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Abstentions

Abstentions will be included in the calculation of the number of shares of Common Stock represented at the Special Meeting for purposes of determining the presence of a quorum. Abstaining from voting will have the same effect as a vote AGAINST the proposal to approve the Merger and adopt the Merger Agreement, but are not deemed voted and will have no effect on the Merger-Related Compensation Proposal.

Certain Effects of the Merger (Page 54)

If the Shareholder Approval is obtained and the other conditions to the closing of the Merger, which we refer to as the Closing, are either satisfied or waived, Merger Sub will be merged with and into the Company with the Company being the surviving corporation. Upon completion of the Merger, shares of Common Stock, other than Excluded Shares and Dissenting Shares, will be converted into the right to receive $0.27 per share, without interest and less any required withholding taxes. Following the completion of the Merger, the Common Stock will no longer be publicly traded, and you will cease to have any ownership interest in the Company.

Treatment of Company Awards and Warrants (Page 74)

Each Company stock option (other than those held by Mr. Harley) that is outstanding immediately prior to the effective time of the Merger, which we refer to as the Effective Time, whether or not vested or exercisable, as of the Effective Time, will be cancelled. Each holder will be entitled to receive a payment, if any, in cash from the Company (less any applicable withholding taxes) promptly following the Effective Time, equal to (a) the amount, if any, by which $0.27 exceeds the exercise price per share with respect to the stock option, multiplied by (b) the total number of shares of Common Stock then issuable upon the exercise of the stock option. As of the date of this proxy statement, there are outstanding stock options to purchase 360,000 shares of Common Stock with an exercise price of less than $0.27, which will be cancelled for an aggregate consideration of $30,900. All of the Company s other outstanding stock options (including all of those held by the Company s directors and Executive Officers) will be cancelled for no consideration.

Each Company share-based award other than a stock option, including restricted share awards (other than those held by Mr. Harley), whether or not vested, as of the Effective Time, will be cancelled. Each holder will be entitled to receive a payment, in cash from the Company (less any applicable withholding taxes) promptly following the Effective Time, equal to (a) $0.27 per share, multiplied by (b) the total number of shares of Common Stock constituting the award. As of the date of this proxy statement, the Company has outstanding an aggregate of 737,194 shares subject to restricted share awards, which will be cancelled in exchange for aggregate consideration of $199,042.38. These amounts include an aggregate of 578,694 shares subject to restricted share awards held by the Company s directors (other than Mr. Harley) and Executive Officers, which will be cancelled for aggregate consideration of $156,247.38.

Each Company warrant (other than those held by Mr. Harley and the other Rollover Shareholders), whether or not vested or exercisable, as of the Effective Time, will be cancelled. Each holder will be entitled to receive a payment, if any, in cash from the Company (less any applicable withholding taxes) promptly following the Effective Time, equal to (a) the amount, if any, by which $0.27 exceeds the exercise price per share with respect to the warrant, multiplied by (b) the total number of shares of Common Stock then issuable upon the exercise of the warrant. However, any Company warrant that will have no value after the Effective Time (because the warrant has an exercise price per share that is greater than the merger consideration and, as of the Effective Time, the holder of the warrant will be entitled to receive, upon exercise of the warrant, only the merger consideration multiplied by the number of shares subject to the warrant), may remain outstanding. As of the date of the proxy statement, the Company has no outstanding warrants (other than those held by the Rollover Shareholders) with an exercise price of less than $0.27 and, accordingly, no consideration will be paid with respect to these warrants.

Each Company stock option and restricted share award held by Mr. Harley and each warrant held by Mr. Harley and the other Rollover Shareholders, as of the Effective Time, will be cancelled on the terms and conditions set forth in the Rollover Agreement, as defined in *Agreements Involving the Company s Securities; Transactions Between the Rollover Shareholders and the Company Agreements Involving the Company s Securities Rollover Agreement* beginning on page 87.

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Conditions to the Merger (Page 83)

The obligations of the Company, Parent and Merger Sub to effect the Merger are subject to the satisfaction or waiver, at or prior to the date of the Closing, referred to as the Closing Date , of the following mutual conditions:

the Shareholder Approval shall have been obtained; and
no court or U.S. governmental entity shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the consummation of the Merger or the other transactions contemplated by the Merger Agreement.

The obligation of Parent and Merger Sub to effect the Merger is subject to the satisfaction or waiver, at or prior to the Closing Date, of the following additional conditions:

the representations and warranties of the Company set forth in the Merger Agreement, disregarding any qualifications or limitations contained therein as to materiality or Material Adverse Effect (as such term is defined in the Merger Agreement, as described below in *The Merger Agreement Representations and Warranties* beginning on page 75), shall be true and correct as of the date of the Merger Agreement and as of the Closing Date as though made on and as of the Closing Date (or, if given as a specific date, at and as of that date), except where such failures to be true and correct, taken as a whole, have not had, and would not reasonably be expected to have, a Material Adverse Effect, and Parent shall have received a certificate from the Company to such effect;
the Company shall have performed or complied in all material respects with all agreements and covenants required to be performed by it under the Merger Agreement at or prior to the Closing Date, and Parent shall have received a certificate from the Company to such effect;
since July 27, 2013, there shall not have been any, or a worsening of any, states of facts, events, changes, effects, developments, conditions or occurrences that, when taken as a whole, have had or would reasonably be expected to have a Material Adverse Effect;
Parent shall have received a certification from the Company to the effect that the Company is not (and was not at any time during the five-year period ending on the Closing Date) a United States real property holding corporation within the meaning of the Internal Revenue Code; and
the aggregate number of Dissenting Shares shall not equal or exceed 10% of the issued and outstanding shares of our Common Stock immediately prior to the Effective Time.

The obligation of the Company to effect the Merger is subject to the satisfaction or waiver, at or prior to the Closing Date, of the following additional conditions:

the representations and warranties of Merger Sub and Parent set forth in the Merger Agreement, in each case, made as if none of such representations and warranties contained any qualifications or limitations as to materiality or a Parent Material Adverse Effect (as such term is defined in the Merger Agreement, as described below in *The Merger Agreement Representations and Warranties* beginning on page 75), shall be true and correct, in each case, as of the date of the Merger Agreement and as of the Closing Date as though made on and as of the Closing Date (except to the extent that any such representation and warranty speaks as of another date), except where the failure of any such representation and warranty to be true and correct as so made, individually or in the aggregate with all such failures, has not had and could not reasonably be expected to have a Parent Material Adverse Effect, and the Company shall have received a certificate from Parent to such effect;
each of Merger Sub and Parent shall have performed or complied in all material respects with all agreements and covenants required to be performed by it under the Merger Agreement and the Ancillary Agreements at or prior to the Closing Date, and the Company shall have received a certificate from Parent to such effect; and
each of the Ancillary Agreements shall have been executed and delivered by each party thereto (other than the Company) and shall be in full force and effect.

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For the purposes of this proxy statement, Ancillary Agreements refers collectively to the Voting Agreement, the Rollover Agreement and the Purchase Agreement, as defined in *Agreements Involving the Company s Securities; Transactions Between the Rollover Shareholders and the Company Agreements Involving the Company s Securities* beginning on page 87.

When the Merger Will be Completed

We anticipate completing the Merger during our fourth fiscal quarter of 2014, which ends on July 26, 2014, subject to receipt of the Shareholder Approval and the satisfaction of the other conditions to Closing.

Reasons for the Merger; Recommendation of the Lead Director and of the Board of Directors; Fairness of the Merger (Page 36)

The Board of Directors (other than Messrs. Harley and Lynch), based upon the recommendation of the Lead Director, unanimously recommends that the shareholders of the Company vote FOR the proposal to approve the Merger and adopt the Merger Agreement. The Lead Director s reasons for the Merger included:

- the Company s precarious financial condition and deteriorating financial performance, and the uncertainty that the Company will be able to effect changes to its operations to improve its financial performance;
- the significant expense of remaining a public company;
- all discussions with respect to the proposals for strategic transactions made during the Allen & Company LLC, or Allen & Co., marketing process had terminated by the time the Series B Preferred Stock transaction was completed because none of the proposals resulted in any firm or economically viable offers that would have produced any value for the unaffiliated shareholders;
- the Company had not received any other proposals since the announcement of the Consortium Members initial proposal;
- the Lead Director s determination that the merger consideration of $0.27 per share to be received by the common shareholders (other than the Rollover Shareholders, Parent and any of their respective affiliates or associates):
  - was more favorable to the unaffiliated shareholders of the Company than the potential value that might result from the Company s only other alternative of remaining a stand-alone public company, as the Company s financial condition continued to deteriorate because of ongoing operating losses;
  - was the highest consideration that could be obtained at the time;
  - represents a 50% premium to the market price of the Common Stock on the day prior to the announcement of the Consortium Members initial proposal; and
  - was, in the opinion of Cassel Salpeter & Co., LLC rendered to the Lead Director on December 18, 2013, fair, from a financial point of view as of such date to the holders of the Common Stock other than the Rollover Shareholders, Parent and any of their respective affiliates or associates (which opinion was subject to the assumptions, qualifications and limitations set forth in such opinion);
- the terms of the Merger Agreement were negotiated to include that the merger consideration is all cash and that procedural safeguards were employed;
- the absence of regulatory approvals; and
- the existence of financing for the Merger.

For a complete description of the reasons considered by the Lead Director and the Board of Directors, see *Special Factors Reasons for the Merger; Recommendation of the Lead Director and of the Board of Directors; Fairness of the Merger* beginning on page 36.

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Opinion of the Lead Director s Financial Advisor (Page 41 and Annex B)

Cassel Salpeter & Co., LLC, or Cassel Salpeter, an investment banking firm, rendered its oral opinion to the Lead Director on December 18, 2013 (which was subsequently confirmed in writing by delivery of Cassel Salpeter s written opinion dated the same date) as to, as of December 18, 2013, the fairness, from a financial point of view, to the holders of Common Stock (other than the Rollover Shareholders, Parent and any of their respective affiliates or associates) of the merger consideration to be received by such holders in the Merger pursuant to the Merger Agreement. We refer to the holders of our Common Stock other than the Rollover Shareholders and any of their respective affiliates or associates as the Public Shareholders. The Public Shareholders include our directors (other than Mr. Harley) and our Executive Officers.

The opinion was provided for the use and benefit of the Lead Director (in his capacity as such) and with the consent of the Lead Director, the members of the Board (in their capacity as such) in connection with the Lead Director s and, as applicable, the Board s evaluation of the Merger and only addressed, as of the date of the opinion, the fairness, from a financial point of view, to the Public Shareholders of the merger consideration to be received by such holders in the Merger pursuant to the Merger Agreement and did not address any other aspect or implication of the Merger or the Merger Agreement. No opinion or view was expressed as to the relative merits of the Merger as compared to any alternative transaction or business strategy that might exist for the Company, or the merits of the underlying decision by the Lead Director, the Board or the Company to engage in or consummate the Merger. The summary of Cassel Salpeter s opinion in this proxy statement is qualified in its entirety by reference to the full text of the written opinion. The written opinion is included as *Annex B* to this proxy statement. It sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Cassel Salpeter in preparing its opinion. However, neither Cassel Salpeter s written opinion nor the summary of its opinion and the related analyses set forth in this proxy statement are intended to be, and do not constitute, advice or a recommendation to any shareholder or any other security holder as to how such holder should vote or act with respect to any matter relating to the Merger or otherwise.

Purpose and Reasons of the Rollover Shareholders, Parent and Merger Sub for the Merger (Page 49)

For the Rollover Shareholders, Parent and Merger Sub, the purposes and reasons for the Merger are:

- to operate the Company as a privately-held company;
- to afford the Company greater operating flexibility as a privately-held company, allowing management to concentrate on long-term growth and to reduce its focus on the quarter-to-quarter performance often emphasized by the public markets;
- to enable the Company to use in its operations those resources that would otherwise be expended in complying with requirements applicable to public companies; and
- to allow the Rollover Shareholders, Parent and Merger Sub to benefit from any future earnings and growth of the Company after the Common Stock ceases to be publicly traded.

For a full description of the purpose and reasons of the Rollover Shareholders, Parent and Merger Sub for the Merger, see *Special Factors Purpose and Reasons of Parent, Merger Sub and the Rollover Shareholders for the Merger* beginning on page 49.

Positions of the Rollover Shareholders, Parent, Merger Sub, HGI, Philip Falcone and Michael Tokarz as to the Fairness of the Merger (Page 50 and Page 53)

The Rollover Shareholders, Parent, Merger Sub, HGI, Philip Falcone and Michael Tokarz believe that the Merger is substantively and procedurally fair to the Company s shareholders (other than the Rollover Shareholders, Parent and any of their respective affiliates or associates). See *Special Factors Positions of the Rollover Shareholders as to the Fairness of the Merger* beginning on page 50 and *Special Factors Positions of the Parent, Merger Sub, HGI, Philip Falcone and Michael Tokarz as to the Fairness of the Merger* beginning on page 53.

Financing (Page 58)

The Company and Parent estimate that the total financing required to complete the Merger and related transactions and pay related fees and expenses will be approximately $25,230,585, which consists of

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$21,209,150 in rollover equity, $3,161,435 in merger consideration payable in cash to the Public Shareholders and holders of Company stock options and an estimated $860,000 in fees and expenses. The Company and Parent expect this amount to be provided through a combination of (i) the rollover of Common Stock, Series A Convertible Preferred Stock and Series B Convertible Preferred Stock by the Rollover Shareholders and (ii) debt financing (up to $6,000,000 of which may be used for the Merger), which is available to us under our existing credit facility with Salus CLO 2012-1, Ltd., or Salus CLO, and Salus Capital Partners, LLC, or Salus. We refer to Salus CLO and Salus collectively as the Lenders.

Interests of the Company s Directors and Executive Officers in the Merger (Page 60)

In considering the recommendation of the Lead Director and the Board of Directors with respect to the Merger Agreement, you should be aware that some of the Company s directors and Executive Officers have interests in the Merger that are different from, or in addition to, the interests of the Company s unaffiliated shareholders generally. These interests include, among others:

- if the Merger is completed, the Company will be 100% beneficially owned by the Rollover Shareholders, including Mr. Harley, a member of our Board of Directors, and by Mr. Lynch, our chief executive officer, upon his receipt of an equity interest in Parent as described below, including any permitted assignee or designee of the foregoing;
- Thomas J. Lynch, our chairman and chief executive officer, has entered into a new employment agreement, which was negotiated after the Lead Director negotiated the merger consideration of $0.27 per share in cash. Under the new employment agreement, which will take effect if the Merger is completed, Mr. Lynch will receive an equity interest in Parent in the form of incentive units that are part of a separate series of units from those being issued to the Rollover Shareholders and are subject to vesting and other terms, as discussed in *Interests of the Company s Directors and Executive Officers in the Merger Interests of Executive Officers* beginning on page 61;
- Thomas Rende, our chief financial officer, will receive certain change in control payments under his employment agreement, if he is terminated without cause or resigns for good reason (each as defined in his employment agreement) after the Merger;
- the treatment of Company equity awards in the Merger, including cash payments with respect to Company restricted share awards (other than those held by Mr. Harley), whether or not vested;
- Peter Cole and William F. Harley III, each a member of our Board of Directors, became members of the board of managers of Parent on the date the Merger Agreement was executed. Currently, members of the board of managers of Parent receive no cash fees or equity awards for their service;
- indemnification of the officers and directors following the Effective Time and the purchase of a fully-paid, non-cancellable tail policy under the Company s existing directors and officers insurance policy that has an effective term of six years from the Effective Time; and
- other interests discussed in *Special Factors Interests of the Company s Directors and Executive Officers in the Merger* beginning on page 60.

The Lead Director and the Board of Directors were aware of the different or additional interests described in this proxy statement and considered these interests along with other matters in approving the Merger Agreement and the transactions contemplated thereby, including the Merger.

Material United States Federal Income Tax Considerations (Page 63)

The receipt of cash in the Merger will generally be a taxable transaction for U.S. federal income tax purposes. If you are a U.S. holder for U.S. federal income tax purposes, your receipt of cash in exchange for your shares of Common Stock will generally cause you to recognize a gain or loss. The amount of gain or loss will equal the difference, if any, between the cash you receive in the Merger and your adjusted cost basis in your shares. If you are a non-U.S. holder, you generally will not be subject to United States federal income tax unless you have certain connections to the United States. You should consult your tax advisor for a full understanding of the tax consequences of the Merger in your particular circumstances.

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Anticipated Accounting Treatment of the Merger (Page 66)

The Company, as the surviving corporation, will account for the Merger as a business combination using the acquisition method of accounting for financial accounting purposes, whereby the consideration transferred will be allocated to the identifiable assets acquired and liabilities assumed following FASB Accounting Standards Codification Topic 805, Business Combinations.

Dissenters Rights (Page 102)

Sections 623 and 910 of the NYBCL provide that if the Merger is consummated, holders of shares of our Common Stock entitled to vote on the approval of the Merger and adoption of the Merger Agreement who object to such actions in writing prior to or at the Special Meeting, but before the vote, and who follow the procedures specified in Section 623 (as summarized in *Dissenters Rights* beginning on page 102) will have the right to receive cash payment of the fair value of their shares of Common Stock if the proposed Merger is completed. The express procedures of Section 623 must be followed precisely; if they are not, holders of shares of our Common Stock will lose their right to dissent. As described more fully below, such fair value would potentially be determined in judicial proceedings, the result of which cannot be predicted. We cannot assure you that holders of shares of our Common Stock exercising dissenters rights will receive consideration equal to or greater than the merger consideration.

Limited Solicitation (Page 80)

Generally, under the Merger Agreement, we may not solicit alternative Takeover Proposals (as defined in the Merger Agreement and as described below in *The Merger Agreement Other Covenants and Agreements Limited Solicitation* beginning on page 80), but we may engage in a limited solicitation of certain designated parties that were agreed upon among Parent, Merger Sub and the Company as a result of the negotiations of the Merger Agreement by the Lead Director.

We will, and will direct each of our representatives to, immediately cease any discussions, negotiations, or communications with any party, except the designated parties, with respect to any Takeover Proposal. The Company shall not, nor shall it authorize or permit any of its representatives to (and shall use its reasonable best efforts to cause such persons not to), among other things, directly or indirectly:

except with respect to the designated parties, initiate, induce, solicit, knowingly facilitate or encourage any inquiry or the making, submission or announcement of any proposal that constitutes or could reasonably be expected to lead to a Takeover Proposal;
approve, adopt or recommend (or propose to do so) any Takeover Proposal or enter into any letter of intent, memorandum of understanding, agreement, arrangement or understanding relating to, or that could reasonably be expected to lead to, any Takeover Proposal;
enter into any agreement or agreement in principle requiring the Company to abandon, terminate or fail to consummate the Merger or any other transactions contemplated by the Merger Agreement or breach its obligations thereunder, or propose or agree to do any of the foregoing;
except with respect to the designated parties, fail to enforce, or grant any waiver under, any standstill or similar agreement with any person; or
except with respect to the designated parties, engage in, continue or otherwise participate in any discussions or negotiations regarding, furnish to any person any information or data with respect to the Company in connection with or in response to, or otherwise cooperate with or take any other action to facilitate any proposal that constitutes, or

could reasonably be expected to lead to, any Takeover Proposal or requires the Company to abandon, terminate or fail to consummate the Merger or any other transactions contemplated by the Merger Agreement.

However, prior to the receipt of the Shareholder Approval, the Company or the Lead Director may, in response to a bona fide written Takeover Proposal that did not result from a breach of the above paragraph, contact the party that submitted such Takeover Proposal to clarify the terms and conditions thereof and, subject to compliance with the provisions outlined in subsequent paragraphs below and provided that the Lead Director determines in good faith, after consultation with its outside legal counsel and financial advisors, that

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such Takeover Proposal constitutes or could reasonably be expected to lead to a Superior Proposal (as such term is defined in the Merger Agreement, as described in *The Merger Agreement Other Covenants and Agreements Limited Solicitation* beginning on page 80):

furnish information or data with respect to the Company or any of its subsidiaries to the person making such Takeover Proposal and its representatives pursuant to a confidentiality agreement, provided that all such information provided has previously been provided to Parent or is provided to Parent prior to or concurrently with the time it is provided to such person; and

engage in, continue or otherwise participate in discussions or negotiations regarding, and otherwise cooperate with or take any other action to facilitate, such Takeover Proposal.

As promptly as practical and in any event within one business day of the receipt by the Company of any Takeover Proposal or any inquiry with respect to, or that could reasonably be expected to lead to, any Takeover Proposal, the Company will provide notice to Parent of such Takeover Proposal or inquiry. The notice will include the identity of the person making the Takeover Proposal or inquiry and the material terms and conditions of the Takeover Proposal or inquiry. The Company will keep Parent reasonably informed on a current basis of the status of the Takeover Proposal, including any material changes to its terms and conditions. The Company is required to provide Parent, within one business day after receipt, with copies of all written communications, other written materials and summaries of all other communications sent or provided to or by the Company and its representatives in connection with any Takeover Proposal.

The Lead Director will promptly consider in good faith any alteration of the terms of the Merger Agreement or the Merger proposed by Parent in response to any Takeover Proposal.

Prior to the Company receiving the Shareholder Approval, the Lead Director may, in response to a Superior Proposal, effect a change in the Company s recommendation that the shareholders approve the Merger, which we refer to as a Change in the Company Recommendation, or approve and enter into any agreement relating to a Superior Proposal, provided that the Lead Director determines in good faith that the failure to do so would constitute a breach of its fiduciary duties to the shareholders of the Company. At least five business days prior to effecting a Change in the Company Recommendation or approving and entering into an agreement relating to a Superior Proposal, the Lead Director will provide written notice to Parent of his intention to make a Change in the Company Recommendation or enter into such agreement. The notice shall include the reasonable details regarding the cause for, and nature of, the Change in the Company Recommendation or the entering into such agreement. In addition, the Lead Director may not effect the Change in the Company Recommendation or approve and enter into an agreement relating to a Superior Proposal unless Parent does not make, within five business days of receipt of such notice, an offer that the Lead Director determines, in good faith after consultation with his legal and financial advisors, results in the applicable Takeover Proposal no longer being a Superior Proposal.

As described in *The Merger Agreement Other Covenants and Agreements Limited Solicitation* beginning on page 80, nothing in the Merger Agreement will prohibit the Company, the Board of Directors or the Lead Director from complying with securities laws in respect of any Takeover Proposal, including making any disclosure to the shareholders of the Company. However, any public disclosure by the Company relating to a Takeover Proposal shall be deemed to be a Change in the Company Recommendation unless the Board of Directors expressly publicly reaffirms its approval of or recommendation to approve the Merger and adopt the Merger Agreement in such disclosure, or in the case of a stop, look and listen or similar communication, in a subsequent disclosure.

Other than as otherwise described in *The Merger Agreement Other Covenants and Agreements Limited Solicitation* beginning on page 80, neither the Board of Directors nor any committee thereof nor the Lead Director will, directly or indirectly, effect a Change in the Company Recommendation, take any formal action or make any recommendation or public statement in connection with a tender offer or exchange offer other than a recommendation against such offer or a temporary stop, look and listen communication or approve any agreement, arrangement or understanding relating to, or that may reasonably be expected to lead to, any Takeover Proposal.

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Termination (Page 83)

The Merger Agreement may be terminated and the transactions contemplated thereby may be abandoned at any time prior to the Effective Time, whether prior to or after receipt of the Shareholder Approval:

- by mutual written consent of Parent and the Company (acting at the direction of the Lead Director);
- by either Parent or the Company (with the prior approval of the Lead Director), if:
  - the Merger shall not have been consummated by June 15, 2014, which we refer to as the Termination Date, provided that the right to terminate the Merger Agreement pursuant to this provision is not available to any party whose failure to perform any of its obligations under the Merger Agreement has been the primary cause of the failure of the Merger to be consummated by the Termination Date;
  - a governmental entity of competent jurisdiction takes any action (which the party seeking to terminate the Merger Agreement shall have used its reasonable best efforts to resist, resolve, annul, quash or lift, as applicable) permanently restraining, enjoining or otherwise prohibiting the Merger and such action shall have become final and non-appealable, provided that the right to terminate the Merger Agreement pursuant to this provision shall not be available to any party whose failure to perform any of its obligations under the Merger Agreement has been the primary cause of any such action; or
  - the Shareholder Approval shall not have been obtained at the Special Meeting or any adjournment or postponement thereof;
- by Parent, if:
  - the Company shall have breached or failed to perform in any material respect any of its representations, warranties, covenants or agreements contained in the Merger Agreement, which breach or failure to perform is incapable of being cured by the Company prior to the Termination Date or if capable of being cured, is not cured within 30 days following receipt by the Company of written notice from Parent, and which would result in a failure of any Parent and Merger Sub condition to effect the Merger, as described in *The Merger Agreement Conditions to the Merger* beginning on page 83, provided that Parent s right to terminate the Merger Agreement pursuant to this provision shall not be available if Parent or Merger Sub is then in material breach of any of its representations, warranties, covenants or agreements under the Merger Agreement; or
  - a Change in the Company Recommendation shall have occurred;
- by the Company (with the prior approval of the Lead Director), if:
  - Parent or Merger Sub shall have breached or failed to perform in any material respect any of its representations, warranties, covenants or agreements contained in the Merger Agreement, which breach or failure to perform is incapable of being cured by Parent or Merger Sub prior to the Termination Date or if capable of being cured, is not cured within 30 days following receipt by Parent of written notice from the Company, and which would result in a failure of any Company condition to effect the Merger, as described in *The Merger Agreement Conditions to the Merger* beginning on page 83, provided that the Company s right to terminate the Merger Agreement pursuant to this provision shall not be available if the Company is then in material breach of any of its representations, warranties, covenants or agreements under the Merger Agreement; or
  - the Board of Directors, upon the recommendation of the Lead Director, causes the Company to enter into any agreement related to a Superior Proposal, provided that the Company has complied in all material respects with the provisions in the Merger Agreement relating to solicitation of Takeover Proposals, including the notice provisions therein, as summarized in *The Merger Agreement Other Covenants and Agreements Limited Solicitation* beginning on page 80.

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The Merger Agreement provides that, if the Company terminates the Merger Agreement because the Board of Directors, upon recommendation of the Lead Director, causes the Company to enter into an agreement related to a Superior Proposal, the Company is obligated to reimburse Parent for its expenses (not to exceed $300,000 in the aggregate) and pay Parent a termination fee of $300,000. The Merger Agreement provides further that, if the Company terminates the Merger Agreement because Parent or Merger Sub breached or failed to perform in any material respect any of its representations, warranties, covenants or agreements contained in the Merger Agreement and (i) such breach was material and knowing, willful or intentional and (ii) at the time of such termination, the Company is then ready, willing and able to consummate the Merger and the conditions to Parent and Merger Sub s obligations under the Merger Agreement have been satisfied or waived, Parent is obligated to reimburse the Company for its expenses (not to exceed $300,000 in the aggregate) and pay the Company a termination fee of $300,000. If the Company terminates the Merger Agreement because Parent or Merger Sub breached or failed to perform in any material respect any of its representations, warranties, covenants or agreements contained in the Merger Agreement in circumstances other than those set forth in the preceding sentence, Parent will reimburse the Company for its expenses (not to exceed $300,000 in the aggregate).

Litigation (Page 66)

Between January 24 and 31, 2014, three purported shareholders of the Company filed putative class action lawsuits in New York State Supreme Court challenging the Merger. These actions are: *Bruce H. Paul et al., v. Frederick s of Hollywood Group Inc., et al., Index No. 650252/2014* (N.Y. Sup. Ct. Jan. 24, 2014); *David Strasenburgh v. Frederick s of Hollywood Group Inc., et al.,* Index No. 650294/2014 (N.Y. Sup. Ct. Jan. 28, 2014); and *Stephen Dworkin v. Frederick s of Hollywood Group Inc., et al.,* Index No. 650356/2014 (N.Y. Sup. Ct. Jan. 31, 2014). On March 6, 2014, the parties to those lawsuits submitted to the court a stipulation and proposed order that would consolidate all three actions into a single action captioned *In re Frederick s of Hollywood Group Inc. Shareholder Litigation,* Index No. 650252/2014, and would appoint two of the five firms involved as co-lead plaintiffs counsel and the other three firms as the executive committee. The proposed consolidation order also provided that the amended complaint filed *Bruce H. Paul, et al, v. Frederick s of Hollywood Group Inc., et al.* on February 11, 2014 would be the operative complaint in the consolidated action. The court has not yet entered the proposed consolidation order. The consolidated amended complaint alleges that the preliminary proxy filed by the Company contained material misstatements and omissions and that the members of the Board of Directors breached their fiduciary duty to maximize shareholder value by pursuing the Merger through a flawed process and for inadequate consideration. The complaint is more fully described in *Special Factors Litigation* beginning on page 66. Each of the defendants denies any allegations of wrongdoing and believes that the plaintiffs claims are without merit. On March 14, 2014, after settlement discussions between plaintiffs counsel and counsel for the Company, the parties agreed to resolve the litigation and permit the Merger to proceed as contemplated. The settlement provides, among other things, that certain agreed supplemental and/or modified disclosures be included in this proxy statement. The settlement was subject to confirmatory discovery by the plaintiffs, which was completed on March 31, 2014, and is now subject to court approval.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

The following questions and answers address briefly some questions you may have regarding the Special Meeting, the Merger Agreement and the Merger. These questions and answers may not address all questions that may be important to you as a shareholder of the Company. Please refer to the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to in this proxy statement.

Q: What is the proposed transaction?

A: The proposed transaction is the Merger of Merger Sub with and into the Company pursuant to the Merger Agreement, with the Company surviving as a wholly-owned subsidiary of Parent. Parent is an entity formed by the Consortium Members for the purposes of acquiring us in the proposed transaction. The Rollover Shareholders hold 100% of the outstanding equity of Parent. Following the Effective Time, the Company will be privately held by the Rollover Shareholders (and by Mr. Lynch, upon his receipt of an equity interest in Parent, pursuant to his new employment agreement, in the form of incentive units that are part of a separate series of units from those being issued to the Rollover Shareholders and are subject to vesting and other terms). See *The Merger Agreement* beginning on page 73.

Q: What will I receive in the Merger?

A: If the Merger is completed, you will be entitled to receive $0.27 in cash, without interest and less any required withholding taxes, for each share of Common Stock that you own. For example, if you own 100 shares of Common Stock, you will be entitled to receive $27.00 in cash in exchange for your shares of Common Stock, less any required withholding taxes. You will not be entitled to receive shares in the surviving corporation. Shares of Common Stock owned by the members of our Board of Directors (other than Mr. Harley) and by our Executive Officers will receive the same treatment in the Merger as the shares of common stock owned by the unaffiliated shareholders.

Q: Where and when is the Special Meeting?

A: The Special Meeting will take place at our principal executive offices located at 6255 Sunset Boulevard, 6th Floor, Hollywood, California 90028, on [ ], 2014, starting at 10:00 a.m. local time.

Q: What matters will be voted on at the Special Meeting?

A: You are being asked to consider and vote on the following proposals:

- to approve the Merger and adopt the Merger Agreement;
- to approve the Merger-Related Compensation Proposal; and
- to act upon other business that may properly come before the Special Meeting (provided the Company does not know, at a reasonable time before the Special Meeting, that such matters are to be presented at the meeting) or any adjournment or postponement thereof.

Q: What vote of our shareholders is required to approve the Merger and adopt the Merger Agreement?

A: For the Company to complete the Merger, under New York law, shareholders holding at least two-thirds of the aggregate voting power of the Common Stock outstanding at the close of business on the record date must vote FOR the approval of the Merger and adoption of the Merger Agreement. Subject to the terms of the Voting Agreement between us, Parent and the Rollover Shareholders, the Rollover Shareholders have agreed to vote all shares of our Common Stock they beneficially own (and any shares acquired by them after the date of the Voting Agreement) in favor of approving the Merger and adopting the Merger Agreement. See *Agreements Involving the Company s Securities; Transactions Between the Rollover Shareholders and the Company Agreements Involving the Company s Securities Voting Agreement* beginning on page 87. As of the record date, the Rollover Shareholders own 27,678,679 shares of Common Stock, representing in the aggregate approximately 70.5% of the issued and outstanding shares of Common Stock. This amount excludes the 63,579,204 shares of Common Stock that the Rollover Shareholders have the right to acquire pursuant to convertible preferred stock, warrants and options held by them. Because the

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Rollover Shareholders beneficially hold more than two-thirds of our outstanding shares of Common Stock as of the record date, they can satisfy the required vote under New York law and the Merger Agreement to approve the Merger and adopt the Merger Agreement without the affirmative vote of any of our other shareholders.

Except in their capacities as members of the Board of Directors and/or as the Lead Director, as applicable, no officer or director of the Company has made any recommendation either in support of or in opposition to the Merger or the Merger Agreement. The directors (excluding Mr. Harley) and Executive Officers of the Company, who collectively own 1,742,999 shares, or 4.4%, or our outstanding Common Stock (which excludes 1,648,920 shares of Common Stock that the directors (excluding Mr. Harley) and the Executive Officers have the right to acquire pursuant to options held by them), have informed the Company that as of date of this proxy statement they intend to vote in favor of approving the Merger and adopting the Merger Agreement.

See *The Special Meeting Required Vote* beginning on page 69.

Q: With respect to the Merger-Related Compensation Proposal, why am I being asked to cast a non-binding advisory vote to approve compensation that may become payable to the Company s named executive officers in connection with the Merger?

A: SEC rules require us to seek a non-binding, advisory vote with respect to certain categories of compensation that may be provided to named executive officers in connection with a merger transaction.

Q: What will happen if shareholders do not approve the non-binding Merger-Related Compensation Proposal?

A: Approval of the Merger-Related Compensation Proposal is not a condition to the completion of the Merger. The vote on the Merger-Related Compensation Proposal is an advisory vote and will not be binding on the Company.

Therefore, if the Shareholder Approval is obtained and the Merger is completed, the payments that are the subject of the Merger-Related Compensation Proposal may become payable to the named executive officers regardless of the outcome of the vote on the Merger-Related Compensation Proposal.

Q: What vote of our shareholders is required to approve the Merger-Related Compensation Proposal?

A: Shareholders holding at least a majority of the shares of Common Stock voted at the Special Meeting must vote FOR the Merger-Related Compensation Proposal in order for the proposal to be approved. Because the Rollover Shareholders beneficially hold more than a majority of our outstanding shares of Common Stock as of the record date, they can approve or disapprove the Merger-Related Compensation Proposal regardless of how any other shareholder votes.

Q: How does the Board of Directors recommend that I vote?

A: The Board of Directors (other than Messrs. Harley and Lynch, who recused themselves from all deliberations relating to the recommendation and approval of the Merger and adoption of the Merger Agreement), acting upon the recommendation of the Lead Director, unanimously recommends that our shareholders vote FOR the approval of the Merger and adoption of the Merger Agreement and FOR the approval of the Merger-Related Compensation Proposal. You should read *Special Factors Reasons for the Merger; Recommendation of the Lead Director and of the Board of Directors; Fairness of the Merger* beginning on page 36 for a discussion of the factors that the Lead Director and Board of Directors considered in deciding to recommend the approval of the Merger and adoption of the Merger Agreement. See also *Special Factors Interests of the Company s Directors and Executive Officers in the Merger*

beginning on page 60.

Q: What effects will the Merger have on the Company?

A: The Common Stock is currently registered under the Securities Exchange Act of 1934, as amended, or the Exchange Act , and is quoted on the OTCQB under the symbol FOHL. As a result of the Merger,

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the Company will cease to be a publicly traded company and will be wholly owned by Parent. Following the consummation of the Merger, the registration of the Common Stock and our reporting obligations under the Exchange Act will be terminated upon application to the SEC. In addition, upon the consummation of the Merger, the Common Stock will no longer be quoted on any quotation system, including the OTCQB. See *Special Factors Plans for the Company after the Merger* beginning on page 54.

Q: What happens if the Merger is not consummated?

A: If the Shareholder Approval is not obtained or if the Merger is not consummated for any other reason, the Merger will not be effected and the Company s shareholders will not receive any payment for their shares. Instead, the Company will remain a public company and its shares of Common Stock will continue to be quoted on the OTCQB. Under specified circumstances, the Company may be required to reimburse Parent and Merger Sub for their costs and expenses and pay a termination fee. See *The Merger Agreement Termination* beginning on page 83 and *The Merger Agreement Fees and Expenses* beginning on page 84. The Company s results of operations and financial condition raise substantial doubt about its ability to continue as a going concern. If the Company is unsuccessful in consummating the Merger, it will need to raise additional capital through debt or equity financings, strategic relationships or other arrangements. Additional financing may not be available in amounts or on terms acceptable to the Company or at all, and if available, may be at prices and on terms that may not be as favorable as they would be without a going concern qualification. An inability to obtain additional financing may result in the Company s voluntary or involuntary bankruptcy.

Q: What do I need to do now?

A: We urge you to read this proxy statement carefully, including its annexes and the documents referred to in this proxy statement as well as the Schedule 13E-3, including the exhibits attached thereto, filed with the Securities and Exchange Commission, or the SEC, and to consider how the Merger affects you. If you are a shareholder of record, you can ensure that your shares are voted at the Special Meeting by submitting your proxy via:

- telephone, using the toll-free number listed on each proxy card;
- the Internet, at the address provided on each proxy card; or
- mail, by completing, signing, dating and mailing each proxy card and returning it in the envelope provided.

If you hold your shares in street name through a broker, bank or other nominee, you should follow the directions provided by your broker, bank or other nominee regarding how to instruct your broker, bank or other nominee to vote your shares. Without those instructions, your shares will not be voted, which will have the same effect as voting against the approval of the Merger and adoption of the Merger Agreement.

Q: Should I send in my stock certificates or other evidence of ownership now?

A: No. After the Merger is completed, you will be sent a letter of transmittal with detailed written instructions for exchanging your shares of Common Stock for the merger consideration. If your shares of Common Stock are held in street name by your broker, bank or other nominee, you may receive instructions from your broker, bank or other nominee as to what action, if any, you need to take to effect the surrender of your street name shares in exchange for the merger consideration. Do not send in your certificates now.

Q: Can I revoke my voting instructions?

A: Yes. You can revoke your voting instructions at any time before your proxy is voted at the Special Meeting. If you are a shareholder of record, you may revoke your proxy by notifying the Company s Corporate Secretary in writing at

Frederick s of Hollywood Group Inc., Attn: Secretary, 6255 Sunset Boulevard, 6th Floor, Hollywood, California 90028, or by submitting a new proxy by telephone, the Internet or mail, in each case, dated after the date of the proxy being revoked. In addition, you may revoke your proxy by attending the Special Meeting and voting in person (simply attending the Special Meeting will not cause your proxy to be revoked). Please note that if you hold your shares in street name and you have instructed

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a broker, bank or other nominee to vote your shares, the above-described options for revoking your voting instructions do not apply, and instead you must follow the instructions received from your broker, bank or other nominee to revoke your voting instructions. See *The Special Meeting Voting; Proxies; Revocation Revocation of Proxies* beginning on page 71.

Q: What does it mean if I get more than one proxy card or voting instruction card?

A: If your shares are registered differently or are held in more than one account, you will receive more than one proxy or voting instruction card. Please complete and return all of the proxy cards or voting instruction cards you receive (or submit each of your proxies by telephone or the Internet, if available to you) to ensure that all of your shares are voted.

Q: Who will count the votes?

A: A representative of our transfer agent, American Stock Transfer & Trust Company, LLC, will count the votes and act as an inspector of election.

Q: Who can help answer my other questions?

A: If you have more questions about the Merger, or require assistance in submitting your proxy or voting your shares or need additional copies of the proxy statement or the enclosed proxy card, please contact AST Phoenix Advisors, a division of American Stock Transfer & Trust Company, LLC, at 1-877-732-3617. If your broker, bank or other nominee holds your shares, you should also call your broker, bank or other nominee for additional information.

SPECIAL FACTORS

The Parties to the Merger

The parties to the Merger Agreement are the Company, Parent and Merger Sub.

The Company

For information regarding the Company, see *Important Information Concerning the Company Company Background* beginning on page 94.

Parent

Parent is a new Delaware limited liability company that was formed by HGI Funding to pursue the transaction contemplated by the non-binding consortium term sheet agreement among the Consortium Members. The Rollover Shareholders collectively hold 100% of the issued and outstanding equity of Parent. Immediately prior to the Effective Time, the Rollover Shareholders will cause all of their shares of our capital stock to be contributed to Parent in exchange for an increase in their equity interests in Parent. The Rollover Shareholders, as a group, may be deemed to beneficially own 91,257,883 shares, or 88.7%, of our Common Stock, including 63,579,204 shares that they have the right to acquire pursuant to convertible preferred stock, warrants and options held by them. Parent has not engaged in any business other than in connection with the Merger and the other related transactions contemplated thereby.

Merger Sub

Merger Sub is a newly formed New York corporation. Merger Sub was formed solely for the purpose of engaging in the Merger and other related transactions. Merger Sub is a wholly owned subsidiary of Parent. Merger Sub has not engaged in any business other than in connection with the Merger and other related transactions.

Background of the Merger

Introduction

Our financial condition is precarious. The opinion of our independent auditors included in our Annual Report on Form 10-K for the fiscal year ended July 27, 2013 without completing the Merger questions our ability to continue as a going concern. As of January 25, 2014, we had shareholders deficiency of $(29,223,000) or $(0.74) per outstanding share and a working capital deficit of $(23,507,000) or $(0.60) per outstanding share.

During the past six years, we suffered from the economic recession, a protracted recovery and a downturn in consumer spending. In California, the location of many of our stores, the recession was particularly severe. We also faced rising operating costs, difficulties in paying vendors and significant long-term lease costs. Competition also increased from retailers including the GAP, H&M, Aerie and Victoria s Secret, the leader in our industry. Numerous steps to improve our financial performance were recommended by management and authorized by our Board of Directors. We reduced our workforce, wages and capital expenditures, sold our wholesale division and negotiated margin assistance with vendors. We also negotiated more favorable lending terms and eventually replaced our lender.

From fiscal years 2007 through 2013, annual operating expenses were reduced by approximately $40,000,000. Despite these efforts, we incurred net operating losses of approximately $114,000,000 from fiscal years 2008 through 2013 and have not reported an operating profit since fiscal year 2007. To sustain our operations and finance growth, we completed capital raises of approximately $38,000,000 from fiscal years 2008 through 2013. These capital raises were accomplished through a $20,000,000 rights offering and a $3,000,000 private placement of Common Stock, followed by the $15,000,000 placement of the Series A and Series B Convertible Preferred Stock described below. We also converted approximately $23,000,000 of debt and preferred stock into Common Stock. From fiscal years 2008 through 2013, we struggled to remain solvent, suffering from negative working capital and, in many years, deficit equity. As a result, we had difficulty staying current with vendors. Our Board of Directors encouraged Messrs. Lynch and Rende to explore possible strategic alternatives.

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On April 16 and 18, 2012, we received two unsolicited acquisition inquiries. On April 18, 2012, our Board of Directors authorized Mr. Lynch to retain the investment banking firm, Allen & Co., to assist in evaluating and negotiating the indications of interest. Allen & Co. also was retained to undertake a broad effort to explore other potential strategic alternatives, including an investment of strategic capital. Neither the marketing process to approximately 120 parties nor the two initial unsolicited indications of interest described in further detail below resulted in any firm offers that our Board of Directors believed were viable or would produce any value for our shareholders.

On February 28, 2013, Kyle Shonak, the then Senior Vice President of Salus, arranged for Mr. Lynch to meet with Philip Falcone, Chief Executive Officer of HGI, and Phillip Gass, Managing Director of Investments of HGI, on March 1, 2013 to discuss a potential strategic transaction. Salus is a subsidiary of HGI. The discussions resulted in our $10,000,000 Series B Convertible Preferred Stock and warrant sale on March 15, 2013. The buyer was Five Island Asset Management, LLC, a subsidiary of HGI, which we refer to as Five Island. These preferred shares and warrants may be converted into a majority interest in the Company. The negotiations relating to the Series B Convertible Preferred Stock transaction are described in detail below under *Evaluation of Strategic Transactions* .

On August 6, 2013, Five Island initially proposed the Merger to our Board of Directors. Five Island subsequently negotiated with our largest shareholders to form the Consortium, and negotiations between the Consortium and the Lead Director ultimately led to the execution of the Merger Agreement on December 18, 2013. Our Board of Directors, upon recommendation of the Lead Director, determined that the Merger is in the best interests of our unaffiliated shareholders. Our unaffiliated shareholders and our directors (other than Mr. Harley) and Executive Officers, who together own 11,594,575 shares, or approximately 29.5%, of our outstanding Common Stock as of April 14, 2014, will receive $0.27 per share, or an aggregate of approximately $3,100,000, upon the closing of the Merger. Shares of Common Stock owned by our directors (other than Mr. Harley) and Executive Officers will receive the same treatment in the Merger as the shares of Common Stock owned by the unaffiliated shareholders.

The indications of interest, the marketing process and the negotiations with HGI are described in detail below.

Series A Convertible Preferred Stock Transaction and New Credit Facility

Throughout fiscal year 2012, our business continued to be adversely affected by limited working capital. We were also in arrears with our vendors. Accordingly, Messrs. Lynch and Rende focused on negotiating vendor allowances, raising capital and pursuing other strategic possibilities. Because of our financial condition, it was difficult to attract new investors. As an alternative, in late April 2012, Mr. Lynch initiated discussions with our largest shareholders Michael Tokarz, who controls TTG and TKZ, and William F. Harley III, a member of our Board of Directors who controls Fursa and Arsenal regarding further investment in the Company. Mr. Tokarz expressed an interest in providing additional funding to the Company.

On May 11, 2012, Messrs. Lynch and Tokarz orally agreed in principle to TTG making a $5,000,000 convertible preferred stock equity investment in the Company. On May 11 and 14, 2012, Marci Frankenthaler, General Counsel to the Company, emailed Edwards Wildman Palmer LLP, or Edwards Wildman , counsel to TTG, an initial draft of the Series A Convertible Preferred Stock purchase agreement, an initial draft of the amendment to the Company s certificate of incorporation establishing the Series A Convertible Preferred Stock and a non-binding term sheet prepared by the Company and Graubard Miller setting forth the proposed terms. The documents contemplated a non-voting, non-redeemable, zero coupon series of convertible preferred stock ranking senior to all other outstanding capital stock. The liquidation preference would be equal to the initial purchase price. The preferred stock would automatically convert into Common Stock, at the same price, if lower, as a subsequent closed private placement.

On May 15, 2012, Graubard Miller arranged for Messrs. Tokarz, Lynch and Rende, Ms. Frankenthaler, Edwards Wildman and Graubard Miller to have a conference call to discuss proposed revisions to the term sheet and transaction agreements. After the call, Edwards Wildman circulated a revised term sheet, which provided for, among other things, dividends, payable quarterly, at the Company s option, in cash or additional shares of Series A Convertible Preferred Stock (PIK shares), at the rate of 9% per annum; conversion at the option of the holder at an initial conversion price of $1.25 per share (with the conversion price decreasing by

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$0.25 per share on each of the first three anniversaries of the closing date); and anti-dilution protection. The term sheet also provided for the issuance of ten-year warrants to purchase the number of shares of Common Stock equal to $1,500,000 divided by the closing price of the Common Stock on the day prior to the closing.

On May 17, 2012, Ms. Frankenthaler, Mr. Rende, Graubard Miller and Edwards Wildman had additional discussions regarding the proposed terms, and, following discussions with Mr. Tokarz, Edwards Wildman circulated a further revised term sheet to reflect what was discussed on the call. This further revised term sheet provided for: (i) beginning on the second anniversary of the closing date, the dividend rate to be the greater of 9% per annum or the highest rate the Company pays on any debt; (ii) conversion at the option of the holder at a price of $1.05 per share for the preferred shares other than the PIK shares, and at a price of $0.45 per share for the PIK shares; (iii) downward adjustments to the conversion price if the Company sells Common Stock or common stock equivalents at a price below the then conversion price, but not lower than the closing price of the Common Stock on the day prior to the closing date; (iv) a liquidation premium equal to 109% of the stated value of the shares (plus all accrued and unpaid dividends) until the first anniversary of the closing date and equal to 105% of the stated value of the shares (plus all accrued and unpaid dividends) from the first anniversary until the second anniversary of the closing date; and (v) three, five and seven year warrants to purchase an aggregate of 1,500,000 shares of Common Stock (500,000 shares each) at exercise prices of $0.45, $0.53 and $0.60, respectively.

On May 21, 2012, Edwards Wildman circulated a revised Series A Preferred Stock purchase agreement, a revised certificate of amendment to the Company s certificate of incorporation establishing the Series A Convertible Preferred Stock and a form of warrant, each of which reflected the terms set forth in the May 17 revised term sheet. The revised agreements also included the following additional provisions: (i) the proceeds would be used to settle vendor payables, (ii) the preferred shares could be redeemed at the Company s option, and (iii) a redemption premium would apply to the preferred shares, other than the PIK shares, in an amount equal to 110% of the stated value (plus all accrued and unpaid dividends), if redemption occurred before the third anniversary of the closing, and equal to 108% of the stated value (plus all accrued and unpaid dividends), if the redemption occurred between the third and fifth anniversaries of the closing.

On May 23, 2012, our Board of Directors approved the Series A Convertible Preferred Stock purchase agreement and related documents, and we completed the sale of $5,000,000 in shares of our Series A Convertible Preferred Stock to TTG. As of May 23, 2012, the outstanding shares of Series A Convertible Preferred Stock were convertible into 4,761,905 shares of Common Stock, or 10.9% of the outstanding shares of Common Stock as of May 23, 2012. By April 14, 2014, the outstanding shares of Series A Convertible Preferred Stock, including PIK shares issued as dividends, were convertible into 6,552,127 shares of Common Stock, or 14.3% of the outstanding shares of Common Stock as of April 14, 2014.

On May 23, 2012, pursuant to the Series A Preferred Stock purchase agreement, we also issued to TTG three, five and seven-year warrants, each to purchase 500,000 shares of Common Stock, at exercise prices of $0.45, $0.53 and $0.60 per share, respectively. As required by the Series A Convertible Preferred Stock purchase agreement, the proceeds of the transaction were used to settle vendor accounts payable. We obtained approximately $4,900,000 of vendor allowances during the fiscal quarter ended April 28, 2012. A complete description of the terms of the Series A Convertible Preferred Stock and warrants may be found in *Agreements Involving the Company s Securities; Transactions Between the Rollover Shareholders and the Company Agreements Involving the Company s Securities Series A Convertible Preferred Stock Transaction* beginning on page 91.

In addition to the Series A Convertible Preferred Stock investment, on May 31, 2012, we secured a new $24,000,000 credit facility with Salus. At the closing, proceeds from the credit facility were used to repay outstanding secured indebtedness of the Company. The Salus credit facility includes a first in last out tranche, which was at the time for up to $9,000,000 million, that consists of the first advances made under the facility and the last amounts repaid thereunder. The credit facility also provides for a revolving line of credit, except that repayments of the first in last out tranche may not be reborrowed. The unpaid principal of the first in last out tranche bears interest, payable monthly, in arrears, at the 30-day LIBOR rate plus 11.5%, but not less than 12.0% regardless of fluctuations in the LIBOR rate. Up to 2.5% of the interest payable on the first in last out tranche is capitalized, compounded and added to the unpaid amount under the credit

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facility each month. The unpaid principal of advances other than the first in last out tranche bears interest, payable monthly, in arrears, at the prime rate plus 4.0%, but not less than 7.0%, regardless of fluctuations in the prime rate. The obligations of the borrowers under the credit facility are secured by first priority security interests granted to Salus in all of the borrowers tangible and intangible property, including intellectual property such as trademarks and copyrights, as well as shares and membership interests of the borrowers.

Evaluation of Strategic Transactions

On April 16 and 18, 2012, Mr. Lynch received two unsolicited acquisition proposals. On April 18, 2012, all of the members of our Board of Directors held a special meeting to discuss the two proposals. Mr. Rende, Ms. Frankenthaler and Mr. Tokarz were in attendance. At the meeting, the Board considered engaging an investment banking firm to assist in the evaluation of the proposals, and to explore other potential strategic alternatives, including an investment of strategic capital, to enhance shareholder value. Mr. Lynch reported that he and Mr. Rende had recent discussions with two investment banking firms that expressed an interest in working with the Company. He reviewed their respective qualifications and their proposed fees for services. He explained that one firm did not have the extensive industry and financial contacts needed for a widespread marketing effort, and the other firm had industry expertise, but proposed to charge a high retainer and minimum fees. The Board then discussed, at the suggestion of Mr. Harley (who was employed by Allen & Co. prior to June 1996, but who has had no affiliation with and received no consideration from the firm since then), the possibility of engaging Allen & Co. Because of Allen & Co. s reputation, national recognition and extensive contacts and expertise, the Board of Directors was positively disposed to discussing Allen & Co. s interest in working with us. The Board of Directors authorized discussions with Allen & Co. and, later that day, Messrs. Walters and Harley met with John Simon, James Quinn and Denise Calvo of Allen & Co., who expressed an interest in working with the Company. On April 24, 2012, Allen & Co. sent a draft engagement letter to Messrs. Lynch and Walters. Between April 24, 2012 and May 3, 2012, Mr. Lynch, at the direction of the Board of Directors, negotiated the terms of Allen & Co. s engagement. On May 3, 2012, following Board approval, Allen & Co. was retained, and the Company issued a press release announcing their engagement and their role to seek strategic alternatives for the Company. With the assistance of Allen & Co., we prepared confidential evaluation materials regarding the Company, our business and management. Mr. Lynch advised the two parties that had submitted proposals that Allen & Co. would contact them as part of a broader marketing effort.

Our Board of Directors and Messrs. Lynch and Rende continued their extensive business review of the Company, which included analysis of our deteriorating financial condition. They considered our financial and business prospects and further considered financial and strategic alternatives to enhance shareholder value, including, among other things, obtaining additional financing, selling all or a portion of our business and identifying strategic partners. Allen & Co. advised on strategic transactions that might be available to the Company.

Between June and October 2012, Allen & Co. contacted approximately 120 parties, including retailers, private equity firms and family offices and one of the two parties who had submitted unsolicited proposals in April 2012. No subsequent interest was expressed by the other party. Approximately 30 expressed an interest and executed non-disclosure agreements to receive the confidential evaluation materials and gain access to the Company s electronic data room. The non-disclosure agreements did not contain provisions restricting the purchase of the Company s securities or the taking of any other actions that could lead to a change of control of the Company at any time. In early October 2012, Allen & Co. called for written proposals from the approximately 12 remaining interested parties. In response, Allen & Co. received indications of interest from only three parties. Two were from private equity firms and contemplated pre-packaged bankruptcy filings, and a third was from a domestic specialty retailer that had previously submitted an indication of interest in April 2012.

Prior to the Company engaging in any negotiations with the interested parties, on November 8, 2012, our Board of Directors selected Mr. Walters to coordinate the full Board s review and negotiation of all of the proposals received during the marketing process. Mr. Walters was not individually authorized to, and did not, negotiate the terms of these proposals on behalf of the Company or make any final recommendations with respect to such proposals.

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From November 2012 to March 2013, all of the members of our Board of Directors, Messrs. Lynch and Rende, Ms. Frankenthaler, Mr. Tokarz and Allen & Co. met numerous times to evaluate a total of six indications of interest the three received in October 2012 plus three additional indications of interest subsequently received from parties unaffiliated with the Company. The two indications of interest that contemplated a pre-packaged bankruptcy process were considered by the Board of Directors, but rejected because our shareholders would receive no value. The Board gave no further consideration to these proposals. In making this decision, the Board considered the difficulty of obtaining debtor-in-possession financing and the uncertain outcome of a bankruptcy process. They also considered the Company s net losses of $6,432,000 and $12,055,000 for the years ended July 28, 2012 and July 30, 2011 and working capital deficiency of $6,326,000 as of July 28, 2012. The Company had used $6,571,000 and $11,137,000 of cash in operating activities for the years ended July 28, 2012 and July 30, 2011. They also considered that, while vendor payables were reduced following the Series A Convertible Preferred Stock transaction in May 2012, during the first quarter of fiscal year 2013 vendor payables were increasing again. Based on these factors, they anticipated that, if the Company filed for bankruptcy protection, liquidation was a legitimate possibility. The Company s current vendor base would be unlikely to supply the inventory necessary for the Company to continue operations unless existing payables were brought current. Based on the Company s deteriorating financial condition during the fiscal year 2012 and the first quarter of fiscal year 2013, the Board of Directors ascertained that, if the Company liquidated, the value of its assets would be insufficient to pay its unsecured creditors and its preferred stockholders and, accordingly, the common shareholders would be left with no value.

At the direction of our Board of Directors, Messrs. Lynch and Rende, Ms. Frankenthaler and Allen & Co. engaged in negotiations with the other four parties. We sometimes refer to these parties collectively as the Proposing Parties. As described below, despite extensive negotiations between November 2012 and March 2013, we terminated discussions with each of the Proposing Parties because we were unable to reach definitive terms with any of them that the Board of Directors believed would produce any value for our shareholders.

On October 25, 2012, in response to Allen & Co. s request for written proposals earlier that month, a domestic specialty retailer submitted an indication of interest to acquire the Company. We refer to this party as the Specialty Retailer. The Specialty Retailer was the same party who made the unsolicited acquisition inquiry on April 16, 2012. During November 2012, Allen & Co. and the Specialty Retailer s financial advisor arranged discussions between Mr. Lynch and the Specialty Retailer to further explore their interest in acquiring the Company.

On December 3, 2012, the Specialty Retailer submitted a non-binding letter of intent to Allen & Co. to acquire through a new entity all of the Company s outstanding capital stock for cash, including the Company s Series A Convertible Preferred Stock and the Common Stock held by TTG, TKZ, Fursa and Arsenal. The letter of intent also provided an option for TTG, TKZ, Fursa and Arsenal to roll their equity in the Company into a percentage interest in the new entity. The letter contained a 60-day exclusivity period for the Specialty Retailer to conduct due diligence and negotiate with the Company. It also required the Company to pay the Specialty Retailer s expenses up to $500,000 if the Company terminated the letter of intent prior to the end of the exclusivity period or entered into a definitive agreement with a third party within 180 days after the end of the exclusivity period. With the assistance of Allen & Co. and Graubard Miller, and at the direction of our Board of Directors, Messrs. Lynch and Rende and Ms. Frankenthaler negotiated the terms of the letter of intent with the Specialty Retailer, but the parties were unable to reach an agreement on the length of the exclusivity period or when the Company s obligation to pay the Specialty Retailer s expenses would be triggered. Both time and amount were critical to the Company, because of its steadily deteriorating financial condition. The Specialty Retailer did not provide a reason why it would not shorten the exclusivity period or clarify the termination language. On December 21, 2012, the Company terminated discussions with the Specialty Retailer.

On December 5, 2012, a private equity firm with strategic relationships in the retail and entertainment industries submitted a proposal to Allen & Co. We refer to this party as the PE Firm. Under the proposal, the PE Firm would acquire all of the Company s outstanding capital stock for cash, including the Company s Series A Convertible Preferred Stock and the Common Stock held by TTG, TKZ, Fursa and Arsenal.

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Repayment of the Company s credit facility with Salus and an infusion of equity capital also were contemplated. The proposal included a 60-day exclusivity period.

On December 10, 2012, Allen &Co. arranged for Messrs. Lynch and Rende and Ms. Frankenthaler to meet with the PE Firm and its financing source at Allen & Co. s offices. The parties discussed proposed consideration, but the PE Firm and its financing source indicated that no firm offers could be made until it performed due diligence.

Over the next week, Messrs. Lynch and Rende and Ms. Frankenthaler proposed revisions to the PE Firm s initial indication of interest, including a reduction in the length of the exclusivity period. On December 20, 2012, the PE Firm submitted a non-binding letter of intent to Allen & Co. for the Board s consideration. It contained substantially the same terms as their initial indication of interest, but included a shortened, 45-day exclusivity period. The letter of intent required a response from the Company by the close of business on December 28, 2012.

On December 12, 2012, another private equity firm with strategic relationships in the retail industry submitted a proposal to acquire the Company. We refer to this party as the Second PE Firm. The Second PE Firm had previously submitted one of the two indications of interest that contemplated a pre-packaged bankruptcy process. The new proposal contemplated that the firm would, through a new entity, acquire for cash all of the Common Stock held by shareholders other than TTG, TKZ, Fursa and Arsenal, and that TTG, TKZ, Fursa and Arsenal would roll their equity in the Company into a percentage interest in the new entity. The new proposal also contemplated retiring the Series A Convertible Preferred Stock and infusing additional capital into the Company. The proposal included a 60-day exclusivity period. Mr. Lynch and the firm engaged in preliminary discussions. However, the Second PE Firm s financing could not be confirmed. Accordingly, the Company terminated discussions with the Second PE Firm and the Board gave no further consideration to the Second PE Firm s proposal.

On December 20, 2012, Mr. Lynch met with a foreign private equity firm with strategic relationships in the intimate apparel industry. We refer to this party as the Foreign Strategic Party. The meeting was arranged at the suggestion of Mr. Tokarz, who was introduced to the Foreign Strategic Party by one of his colleagues. The Foreign Strategic Party discussed with Mr. Lynch its potential interest to go public through a reverse merger with a U.S. exchange listed company, to assist us with our immediate financial needs and to help us source our core intimate apparel inventory. Mr. Lynch invited the Foreign Strategic Party to submit a formal indication of interest for our Board of Directors to consider.

On December 27, 2012, the Foreign Strategic Party submitted to Mr. Lynch a non-binding letter of intent for a $5,000,000 convertible debt financing. On December 28, 2012, at the request of our Board of Directors, Mr. Lynch submitted a revised proposal to the Foreign Strategic Party, which instead contemplated a $5,000,000 preferred stock transaction substantially similar to the Series A Convertible Preferred Stock transaction the Company completed in May 2012 with TTG. The letter of intent did not contain an exclusivity provision, but provided for funding to first occur by no later than January 18, 2013. The Foreign Strategic Party accepted the proposed changes.

On December 28, 2012, all of the members of our Board of Directors held a special meeting to further consider the proposals submitted by the PE Firm and the Foreign Strategic Party. Mr. Rende, Ms. Frankenthaler and Mr. Tokarz were in attendance. After further discussion and review of both proposals, our Board of Directors concluded that the Foreign Strategic Party offered a superior opportunity for the Company because, with its extensive experience in the lingerie industry, it possessed potential synergies that did not exist with the PE Firm. Accordingly, our Board of Directors authorized Mr. Lynch to terminate discussions with the PE Firm and enter into the non-binding letter of intent with the Foreign Strategic Party for a $5,000,000 preferred stock investment, which Mr. Lynch executed and delivered later that day.

Following the execution of the letter of intent, the Foreign Strategic Party was given access to the Company s electronic data room, and performed extensive due diligence. After the completion of due diligence and further meetings and negotiations, the Foreign Strategic Party withdrew its preferred stock financing proposal. The Foreign Strategic Party believed that the Company s capital needs were greater than what the Foreign Strategic Party had anticipated. Instead, the Foreign Strategic Party discussed assisting the

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Company with sourcing core intimate apparel inventory and with financing in a pre-packaged bankruptcy. No firm offer was made. Based on our prior determination that in a bankruptcy, liquidation was a legitimate possibility and the common shareholders would be left with no value, our Board of Directors authorized Mr. Lynch to terminate discussions with the Foreign Strategic Party and authorized Allen & Co. and Mr. Lynch to attempt to reinitiate discussions with the Specialty Retailer and the PE Firm.

On January 21, 2013, Mr. Lynch contacted the Specialty Retailer and Allen & Co. contacted the financing source for the PE Firm. The Specialty Retailer expressed an interest in reinitiating discussions with the Company. On the other hand, the PE Firm s financing source declined to engage in any further discussions. Accordingly, our Board of Directors gave no further consideration to the PE Firm s proposal. After negotiations resumed with the Specialty Retailer, the Company and the Specialty Retailer executed a non-binding letter of intent on January 25, 2013 with an exclusivity period expiring February 27, 2013. The letter of intent was substantially similar to the one that the parties had previously negotiated, but not signed, in December 2012. Specifically, it provided for the acquisition by the Specialty Retailer of all of the Company s outstanding Common Stock for $0.45 per share, including the Common Stock held by TTG, TKZ, Fursa and Arsenal. The non-binding letter of intent also contemplated that the Specialty Retailer would purchase the Series A Convertible Preferred Stock and included an option for TTG, TKZ, Fursa and Arsenal to roll their equity in the Company into a 2.5% interest in the new entity.

From January 25, 2013 through February 21, 2013, the Specialty Retailer conducted extensive due diligence on the Company s operations, financial performance and financial projections, including meetings conducted at the Company s facilities. During this period, at the direction of the Board and with the assistance of Allen & Co. and Graubard Miller, Messrs. Lynch and Rende and Ms. Frankenthaler provided information to the Specialty Retailer. On February 21, 2013, the Specialty Retailer emailed a revised offer to Allen & Co. to present to the Board of Directors. Later that same day, a conference call was held with Messrs. Lynch and Rende, Allen & Co., the Specialty Retailer and its financial advisor to discuss the terms in more detail. The Specialty Retailer explained that the revised offer reflected its view that the Company had more liabilities than expected, and that they were not prepared to move forward on the previously indicated terms. The revised proposal contemplated (i) that no payment at all would be made to the Company s equity holders unless the Company could reduce the impact of its liabilities through, among other things, vendor concessions and (ii) that the Company must maintain its working capital levels, with any shortfall reducing equity value, which was equivalent to the pre-packaged bankruptcy plan proposals because, in each case, the unaffiliated shareholders of the Company were likely to receive no value.

On February 22, 2013, all of the members of our Board of Directors met to discuss the Specialty Retailer s revised offer. Mr. Rende, Ms. Frankenthaler, Allen & Co. and Graubard Miller were in attendance. Allen & Co. reviewed the financial terms of the revised proposal. After discussion, the Board concluded that, based on the Company s current financial condition and ongoing losses, the Company s shareholders were likely to be left with no value in the sale of the Company to the Specialty Retailer under the revised offer. The Board determined that further consideration and negotiations should take place, and that Allen & Co. should arrange a call with the Specialty Retailer and financial advisor to allow the Company an opportunity to respond. While the parties continued to negotiate over the next few weeks, little progress was made, primarily because of the Company s continuing losses and the Specialty Retailer s unwillingness to guarantee any value for the Company s common shareholders.

During the Company s strategic alternative evaluation process conducted with Allen & Co. described above, Messrs. Lynch and Rende provided regular status updates to Mr. Shonak regarding progress in the negotiations with the Proposing Parties. On February 28, 2013, Mr. Lynch advised Mr. Shonak that negotiations with the Specialty Retailer were continuing, but progress was limited. He also confirmed to Mr. Shonak that the Company s exclusivity agreement with the Specialty Retailer had expired on February 27, 2013. On February 28, 2013, Mr. Shonak arranged for Mr. Lynch to meet on March 1, 2013 with Philip Falcone, the Chief Executive Officer of HGI, and Phillip Gass, Managing

Director of Investments of HGI, the parent company of Salus and Parent.

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On March 1, 2013, Mr. Lynch met with Messrs. Falcone and Gass to discuss a potential strategic transaction between the Company and HGI or one of its subsidiaries. On the evening of March 1, 2013, Mr. Gass emailed Mr. Lynch a non-binding term sheet. The term sheet provided for a $10,000,000 investment in the Company through the issuance of Series B Convertible Preferred Stock, which would result in HGI obtaining a controlling interest in the Company. The term sheet contemplated non-voting, non-redeemable, Series B Convertible Preferred Stock ranking senior to all other outstanding capital stock, with cumulative dividends payable quarterly in arrears either (i) at the rate of 9% per annum in cash or, at the Company s discretion, (ii) at the rate of 12% per annum in additional shares of Series B Convertible Preferred Stock. The Series B Convertible Preferred stock would be convertible, at the option of the holder, into 51% of the Company s fully diluted common stock. The proposed terms also included a liquidation preference equal to the initial purchase price, standard anti-dilution adjustments, and the ability of a majority of the Series B Convertible Preferred Stock holders to appoint three members of the Company s Board of Directors, which would consist of a maximum of eight members. The term sheet also contained a seven-day exclusivity period.

On the morning of March 3, 2013, all of the members of our Board of Directors met to review and consider the Series B Convertible Preferred Stock term sheet. Mr. Rende, Ms. Frankenthaler, Mr. Tokarz and Allen & Co. were in attendance. Our Board of Directors reviewed the proposed terms of the Series B Convertible Preferred Stock transaction, including the potential dilutive consequences, and developed a list of proposed changes to the term sheet. The proposed changes included a fixed, rather than a floating, conversion price, a lower interest rate on the cash and payment-in-kind dividends, and to add redemption rights at the Company s option. Our Board of Directors instructed Mr. Lynch and Ms. Frankenthaler to communicate the Company s position to Mr. Gass and Milbank, Tweed, Hadley & McCloy LLP, or Milbank, HGI s counsel. Our Board of Directors then determined to reconvene the meeting after Messrs. Lynch and Rende and Ms. Frankenthaler communicated the proposed changes to the term sheet to Mr. Gass and Milbank.

Also at the March 3, 2013 meeting, our Board of Directors considered two other alternatives continuing to negotiate with the Specialty Retailer and filing for bankruptcy. Allen & Co. reviewed with the Board the potential transaction with the Specialty Retailer, the lack of progress in the negotiations, and the low likelihood of closing a transaction with them quickly enough to address our acute and deteriorating financial condition. Allen & Co. also discussed the Company filing for bankruptcy, the challenges in obtaining debtor-in-possession financing and the uncertain outcome of a bankruptcy process. The Board of Directors engaged in a similar analysis to the one it conducted in October 2012 in connection with the pre-packaged bankruptcy proposals. The Board considered that the Company had net losses of $6,432,000 and $12,055,000 for the years ended July 28, 2012 and July 30, 2011 and had a net loss of $14,959,000 for the six months ended January 26, 2013. In addition, as of January 26, 2013, the Company had a working capital deficiency of $12,349,000 and a shareholders deficiency of $17,401,000. The Company had used cash of $6,571,000 and $11,137,000 in operating activities for the years ended July 28, 2012 and July 30, 2011 and used cash of $1,079,000 in operating activities for the six months ended January 26, 2013. They also considered that for the six months ended January 26, 2013, accounts payable and accrued expenses had increased by $12,504,000 primarily as a result of slower payments to the Company s vendors.

The Board considered that, as a result of the Company s financial condition, procuring inventory from new vendors had become challenging, and our current vendors had been reluctant to produce new merchandise for the Company due to our inability to make timely payments to them. As in October 2012, the Board anticipated that, if the Company filed for bankruptcy protection, liquidation was a legitimate possibility. The Company s current vendor base would be unlikely to supply the inventory necessary for the Company to continue operations unless existing payables were brought current. Based on the Company s deteriorating financial condition during fiscal year 2012 and the first six months of fiscal year 2013, the Board of Directors ascertained that, if the Company liquidated, the value of its assets would be insufficient to pay its unsecured creditors and its preferred stockholders and, accordingly, the common shareholders would be left with no value.

Later that day, Mr. Gass emailed Mr. Lynch a revised term sheet, and all of the Board members reconvened the meeting to consider it. Mr. Rende, Ms. Frankenthaler, Mr. Tokarz and Allen & Co. were in attendance. The revised term sheet included the Company s right to redeem the Series B Convertible Preferred Stock after the fifth anniversary of the closing, but the dividend rate remained at 9% per annum for cash

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dividends and 12% for payment-in-kind dividends. The revised term sheet also provided for the conversion of the preferred stock at the option of the holder at a fixed conversion price of $0.25 per share, for an aggregate of 40,000,000 shares of Common Stock. On conversion, HGI would own approximately 51% of the current outstanding shares of common stock. To ensure that HGI maintained their majority interest, a provision was added to the revised term sheet that HGI would receive warrants exercisable for a number of shares of Common Stock (Warrant Shares) such that the Warrant Shares plus the shares issuable upon conversion of the Series B Convertible Preferred Stock would equal 51% of the issued and outstanding Common Stock on a fully diluted basis. The number of warrants and their exercise price were left open pending a review of the terms of all currently outstanding derivative securities. The term sheet also required waivers from the holder of the Series A Convertible Preferred Stock, including waivers of (i) the anti-dilution adjustments that would otherwise result from the Series B Convertible Preferred Stock transaction, (ii) the holder s right to force the Company to repurchase the shares of Series A Convertible Preferred Stock upon consummation of the Series B Convertible Preferred Stock transaction, (iii) the holder s right to receive payment for PIK Shares and a redemption premium for shares other than PIK Shares in connection with any redemption of the Series A Convertible Preferred Stock by the Company, and (iv) the holder s right to convert its shares of Series A Convertible Preferred Stock after the Company delivers any such redemption notice. The term sheet also required the Company to amend its by-laws with respect to board size and composition and shareholder action by less than unanimous written consent. After reviewing and discussing the revised term sheet, the Board proposed a clarifying change to the term sheet that the warrants are only to cover the Company s current outstanding derivative securities. Based on conversations with Mr. Tokarz, an affiliate of TTG, the holder of the Series A Convertible Preferred Stock, whose consent was required for the transaction, the Board of Directors also proposed to limit the required waivers to those dealing with the repurchase right and the anti-dilution adjustments triggered by the proposed transaction. The Board authorized Messrs. Lynch and Rende and Ms. Frankenthaler to communicate these changes to Mr. Gass and Milbank and reconvene a meeting the next day.

On March 4, 2013, all of the members of our Board of Directors held a special meeting to consider a further revised draft of the Series B Convertible Preferred Stock term sheet, which Milbank emailed to Mr. Lynch, Ms. Frankenthaler and Graubard Miller earlier that day. Mr. Rende, Ms. Frankenthaler, Mr. Tokarz, Allen & Co. and Graubard Miller were in attendance. They discussed the changes made to the term sheet, noting that both of the requested changes had been made. Because the issuance of the Series B Convertible Preferred Stock would affect the rights of the Company s Series A Convertible Preferred Stock, Mr. Tokarz, an affiliate of TTG, the holder of the Series A Convertible Preferred Stock, excused himself from the meeting. After further review and consideration of the term sheet, our Board of Directors (with Mr. Eisel abstaining because his law firm represented Mr. Tokarz, including in the Series A Convertible Preferred Stock transaction) authorized Mr. Lynch to enter into the non-binding term sheet with HGI. Our Board of Directors also authorized Messrs. Lynch and Rende to terminate negotiations with the Specialty Retailer, which they did that day. Later on March 4, 2013, Mr. Lynch executed the non-binding term sheet and delivered it to Mr. Gass and Milbank.

On March 7, 2013, Mr. Gass and Kostas Cheliotis, Senior Vice President & Deputy General Counsel of HGI, invited Mr. Lynch to a meeting to discuss the Company s financial condition. Mr. Lynch provided Messrs. Gass and Cheliotis and Milbank with a draft of the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended January 27, 2013 and explained the reasons for the decrease in sales as compared to the prior year. They also discussed the possibility of HGI providing additional funding in the months following the consummation of the proposed Series B Convertible Preferred Stock transaction.

Between March 4 and March 15, 2013, Messrs. Lynch, Rende, Gass and Cheliotis, and Ms. Frankenthaler worked with Graubard Miller and Milbank to negotiate and prepare the Series B Convertible Preferred Stock transaction documentation, which included: (i) the Series B Preferred Stock Purchase Agreement, or Series B SPA ; (ii) Certificate of Amendment to the Company s Restated Certificate of Incorporation, setting forth the rights and preferences of the

Series B Convertible Preferred Stock; (iii) Second Amended and Restated Bylaws of the Company, setting forth, among other things, the changes with respect to board size and composition and shareholder action by less than unanimous written consent to the extent permitted by the certificate of incorporation; and (iv) six separate common stock purchase warrants exercisable upon a

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corresponding exercise or conversion of specified outstanding securities, as set forth in the warrants. Five of the warrants are to purchase an aggregate of up to 4,708,850 shares of common stock at prices ranging from $0.67 to $1.21 per share and expire at various times between June 2015 and February 2022. One warrant is to purchase up to 5,468,127 shares of common stock for $.01 per share and expires 30 days following the date that the Series A Convertible Preferred Stock is no longer outstanding.

Additional transaction documentation included the Series A Convertible Preferred Stock waiver executed by TTG and a voting agreement executed by Five Island, TTG, TKZ, Fursa and Arsenal. The voting agreement, dated March 15, 2013, related to a requirement in the Series B SPA in which the Company agreed to hold a meeting of its shareholders, as soon as practicable, but not later than February 1, 2014, for the purpose of voting on the approval and adoption of an amendment to the Company s certificate of incorporation providing that the shareholders entitled to vote may take any action that they might have taken at a shareholders meeting by a written consent signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action. Pursuant to the Voting Agreement entered into in connection with the Merger Agreement, HGI Funding waived the requirement to include the amendment in this proxy statement for the Special Meeting. Accordingly, the certificate of incorporation continues to prohibit the Company from taking action by less than unanimous consent.

On March 11, 2013, all of the members of our Board of Directors held a special meeting to review the terms of the Series B Convertible Preferred Stock transaction documents. Mr. Rende, Ms. Frankenthaler, Mr. Tokarz and Allen & Co. were in attendance. Among other things, they discussed the redemption and conversion rights of the Series B Convertible Preferred Stock as compared to the Series A Convertible Preferred Stock, the waiver of anti-dilution and repurchase rights by the holder of the Series A Convertible Preferred Stock in connection with the Series B Convertible Preferred Stock transaction, the representations and warranties contained in the Series B Convertible Preferred Stock purchase agreement and the minority shareholder protections. They also reviewed the terms of the warrants and how they could only be exercised upon exercise or conversion of corresponding securities, and noted that the terms of these warrants were being finalized, including the exercise prices and anti-dilution adjustment provisions. They also were informed that the Series A Convertible Preferred Stock holder was still in the process of negotiating the waiver with HGI. After further discussion, our Board of Directors determined to hold off on approving the transaction until these items were finalized, and instructed Messrs. Lynch and Rende, Ms. Frankenthaler and Graubard Miller to work with HGI and Milbank to address them. Over the next two days, anti-dilution protection terms of the warrants were agreed upon, and the Board of Directors received confirmation from Mr. Tokarz that the terms of the waiver of anti-dilution and repurchase rights by the holder of the Series A Convertible Preferred Stock were acceptable, and would only apply to this specific transaction.

On the evening of March 13, 2013, the Specialty Retailer submitted another unsolicited revised non-binding proposal to Mr. Lynch and Allen & Co. The proposal contemplated an initial purchase of the outstanding Series A Convertible Preferred Stock and Common Stock held by TTG, TKZ, Fursa and Arsenal at $0.45 per share, the same price the Specialty Retailer had proposed in the non-binding letter of intent the Company and the Specialty Retailer had executed on January 25, 2013. Those purchases were to be followed by a tender offer for the shares of Common Stock held by the unaffiliated shareholders at that same price. That evening, all of the members of our Board of Directors except for Messrs. Walters and Harley, held a special meeting. Mr. Rende, Ms. Frankenthaler, Allen & Co. and Graubard Miller were in attendance. Our Board of Directors and Graubard Miller discussed the Board s fiduciary obligation to the Company and its shareholders to address the proposal, notwithstanding that the Company and Five Island had finalized negotiations on the Series B Preferred Stock transaction documents and were preparing for the closing. The Board determined to reconvene the meeting early the following morning when all of the Board members were available to attend.

Early the following morning on March 14, 2013, all of the members of our Board of Directors met to discuss the terms of the Specialty Retailer s proposal. Mr. Rende, Ms. Frankenthaler, Allen & Co. and Graubard Miller were in attendance. The Board discussed whether the Specialty Retailer could close quickly enough, or at all, based on the fact that the Specialty Retailer s proposal from just a few weeks prior would have likely left the shareholders with no value, as well as the risks related to further delay, including

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bankruptcy. Our Board of Directors considered ways to mitigate these risks and address the Company s critical need for additional capital. Accordingly, our Board of Directors directed Allen & Co. to communicate to the Specialty Retailer that the Board required the Specialty Retailer to provide a binding commitment letter that day for (i) the immediate purchase of all of the capital stock held by TTG, TKZ, Fursa and Arsenal at $0.45 per share, followed by a tender offer for the shares of Common Stock held by the unaffiliated shareholders at $0.45 per share, and (ii) the provision of interim financing through the closing of the tender offer. Our Board of Directors also requested a timeline for completion of the transaction, which was vital given the Company s tenuous financial condition. Messrs. Lynch and Ms. Frankenthaler, Allen & Co. and Graubard Miller held discussions with the Specialty Retailer through the day, and the Board reconvened several times for status updates and further discussions. Despite these efforts, the follow-up communication that the Company received from the Specialty Retailer on March 14, 2013 specifically stated that its offer was non-binding. The Specialty Retailer did not explain its refusal to make its offer binding as requested. Accordingly, after extensive discussion of the circumstances, including the history of negotiations with the Specialty Retailer, its refusal to provide the necessary binding commitment and the Company s deteriorating financing situation, a majority of our Board of Directors approved the Series B Convertible Preferred Stock transaction with Five Island. The Board of Directors authorized Messrs. Lynch and Rende to terminate discussions with the Specialty Retailer and execute the transaction agreements. The Board gave no further consideration to the Specialty Retailer s proposal.

The closing of the Series B Convertible Preferred Stock transaction took place on March 15, 2013. After expenses, the Company received approximately $9,350,000 of net proceeds. A complete description of the terms of the Series B Convertible Preferred Stock and warrants may be found in *Agreements Involving the Company s Securities; Transactions Between the Rollover Shareholders and the Company Agreements Involving the Company s Securities Series B Convertible Preferred Stock Transaction* beginning on page 88.

Upon completion of this transaction, Allen & Co. received a success fee and Allen & Co. and the Company mutually agreed to terminate Allen & Co. s engagement, because the purpose for its engagement had been achieved. Allen & Co. did not continue its marketing efforts, provide any further advisory services or participate in any subsequent negotiations on the Company s behalf.

By this time, all discussions with respect to the previous proposals received by the Company had terminated, as described above, and the Company received no further communications with respect to any of the proposals. Following the Series B Convertible Preferred Stock transaction, the Company refocused substantially all of its attention on the operation of its business in the ordinary course on a stand-alone basis.

Negotiations Relating to the Merger

On April 24, 2013, all of the members of our Board of Directors held a regularly scheduled meeting. Mr. Rende, Ms. Frankenthaler, and Messrs. Falcone and Gass were in attendance. Mr. Rende reviewed with our Board of Directors and Messrs. Gass and Falcone the Company s financial statements for the one, two and eight months ended March 30, 2013, and discussed the anticipated third and fourth fiscal quarter losses, as well as the Company s need for between $5,000,000 and $10,000,000 of additional funding to pay outstanding payables, plus additional funds to build inventory for the upcoming fall and holiday selling seasons. Messrs. Lynch and Rende also presented the proposed fiscal 2014 budget, discussed the Company s poor performance of its expansion into non-core product categories such as dresses, sportswear and shoes. They also stressed the need for additional funding to pay vendors to ensure their continued support of the business during the Company s return to focusing on core intimate apparel product offerings such as bras, lingerie and corsets. Messrs. Gass and Falcone discussed the potential avenues for providing additional financial support to the Company.

Subsequent to the April 24, 2013 Board of Directors meeting, Messrs. Lynch and Gass discussed with Mr. Shonak the possibility of Salus providing the Company with additional temporary financial support with an advance under the Company s existing credit facility. On May 23, 2013, the revolving credit agreement with Salus was amended to increase the first in last out tranche of the Company s line of credit by $5,000,000 to $14,000,000, and decrease the revolving portion of the line of credit by the same amount, such that the maximum line of credit amount remained the same. The terms of the first in last out tranche of the

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line of credit, including the interest rate, remained the same. Concurrently with the execution of the amendment, the Company paid to the Lenders in cash a one-time fee of $50,000 and agreed to an increase in the Lender s collateral monitoring fee from $4,500 to $12,500 per month.

On June 26, 2013, all of the members of our Board of Directors held a special meeting. Mr. Rende, Ms. Frankenthaler and Mr. Cheliotis were in attendance. The purpose of the meeting was for the Board to reiterate the Company s need for additional financing and the amounts required to satisfy its business objectives as previously discussed at the April 24, 2013 Board of Directors meeting.

On July 23, 2013, all of the members of our Board of Directors held a regularly scheduled meeting. Mr. Rende, Ms. Frankenthaler, Messrs. Gass and Cheliotis and Vernon Young, Chief Risk Officer of Front Street Re, a subsidiary of HGI, were in attendance. They reviewed a proposed third amendment to the Company s credit agreement to temporarily remove the facility s existing $1,500,000 availability block and discussed the Company s weakening financial condition. After discussion, our Board of Directors concluded that even with the removal of the $1,500,000 availability block as contemplated by the proposed amendment, the Company will continue to have limited liquidity. Mr. Gass informed our Board of Directors that HGI understood the Board of Director s view of the importance of working with the Lenders to increase the availability under the Company s credit facility.

On July 25, 2013, the Company s credit agreement with the Lenders was amended to remove the $1,500,000 credit line block until October 31, 2013. However, the block was reinstated by Salus, effective October 10, 2013, in connection with a subsequent amendment to the credit agreement which is described below. Through October 10, 2013, the initial $1,500,000 of the outstanding balance under the revolving portion of the Company s line of credit bore interest at a 20% annual rate. Concurrently with the execution of the amendment, the Company paid to the Lenders a one-time $50,000 cash fee.

On August 6, 2013, Mr. Cheliotis emailed Mr. Lynch a non-binding preliminary proposal letter from Five Island to our Board of Directors regarding a potential going private transaction in which a group led by Five Island or its affiliates would acquire the outstanding publicly traded common shares of the Company (excluding shares owned by Five Island s acquisition group) in an all cash transaction ranging from $0.20 to $0.225 per share. Based on discussions between Mr. Lynch and Messrs. Gass and Cheliotis following receipt of the letter, HGI s indication of interest was highly contingent upon the Company s largest shareholders agreeing to form an investor consortium with HGI affiliates to take the Company private.

On August 7, 2013, all of the members of our Board of Directors held a special meeting. Mr. Rende and Ms. Frankenthaler were in attendance. They discussed the Five Island proposal and the Board of Directors fiduciary obligations to the Company and its shareholders in connection with its consideration of the proposed transaction. As our Board of Directors had done previously in connection with its review of strategic alternatives for the Company, Mr. Walters was appointed by the Board of Directors to coordinate the full Board s review and negotiation of the HGI proposal.

On September 26, 2013, after a period of extensive negotiations, HGI successfully formed a consortium with our largest shareholders, which was comprised of HGI Funding (a subsidiary of HGI and successor in interest to Five Island), TTG, TKZ, Fursa and Arsenal. Also on September 26, 2013, Mr. Cheliotis delivered to Mr. Lynch a non-binding, written proposal from the Consortium to acquire all of the outstanding shares of the Company s Common Stock that they did not directly or indirectly own at a price of $0.23 per share.

On September 27, 2013, the Company issued a press release announcing that the Consortium s proposal had been received. Also on that day, all of the members of our Board of Directors held a special meeting. Mr. Rende, Ms.

Frankenthaler and Graubard Miller were in attendance. The Board discussed the Consortium s proposal and (i) appointed Mr. Walters, the sole disinterested, independent director, as the Lead Director, with the power to evaluate and negotiate the terms and conditions of the proposed transaction, (ii) authorized the Lead Director to hire his own legal, financial and other advisors and (iii) made the recommendation of the Lead Director a requirement for approval of the proposed transaction. Our Board of Directors did not consider electing additional independent directors to assist the Lead Director in negotiating with the Consortium. Messrs. Lynch and Rende then reviewed with our Board of Directors the Company s financial condition, and informed them that the Lenders were preparing an amendment to the credit agreement to increase the

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Company s line of credit by an additional $5,000,000, which was expected to close quickly. Subsequently, Mr. Walters, after considering whether a conflict of interest existed, decided to use Graubard Miller, the Company s outside general counsel, as his counsel with respect to the Merger. Mr. Walters concluded that no conflict of interest existed because he determined that it was in the best interests of both the Company and the Lead Director to seek the most favorable terms for the Merger. Further, he observed that Graubard Miller did not have a relationship with any of the Rollover Shareholders (except to the extent the firm advised the Board of Directors) and each of the Rollover Shareholders was represented by separate legal counsel in connection with and prior to the Consortium s proposal. Mr. Walters reserved the right to retain separate counsel at any time.

On September 30, 2013, the Lead Director emailed Messrs. Gass and Cheliotis, confirming his role as Lead Director and the role of Graubard Miller as his counsel and informing them of his intention to retain a financial advisor. He also suggested a time for the parties to meet in person to discuss background issues and transaction terms, including merger consideration, after retaining and receiving input from the financial advisor.

On October 3, 2013, following discussions with several investment banking firms, the Lead Director retained Cassel Salpeter as his financial advisor in connection with the proposed going private transaction.

On October 4, 2013, the Lead Director and Mr. Lynch met with Messrs. Gass and Cheliotis at HGI s offices. The Lead Director reviewed the process the Company had conducted over the past year to explore strategic alternatives, including the Company s negotiations with other parties. He also reviewed the timeline of discussions between the Company and HGI leading up to the presentation of the Consortium s going private proposal, and reviewed the deterioration of the Company s financial condition and relationships with key vendors over this period of time. The parties agreed to meet again on October 11, 2013 for further discussions.

On October 8, 2013, all of the members of our Board of Directors held a special meeting to consider a fourth amendment to the Company s credit agreement proposed by Salus. Mr. Rende and Ms. Frankenthaler were in attendance. The Board reviewed the terms of the amendment proposed by Salus, which would provide an immediate $5,000,000 advance to the Company and up to an additional $6,000,000 advance to become available upon the closing of the proposed going private Merger transaction with the Consortium to be used to cover Merger related expenses, including the merger consideration to the Company s Public Shareholders. The Lead Director informed our Board of Directors that he had retained Cassel Salpeter and provided the Board of Directors with an update on the October 4, 2013 meeting with Messrs. Gass and Cheliotis.

On October 10, 2013, the Company s credit agreement was amended to provide an immediate $5,000,000 advance and up to an additional $6,000,000 advance to become available upon the closing of the proposed going private transaction with HGI. The unpaid principal of the $5,000,000 advance currently bears annual interest at the LIBOR rate plus 11.5%, but not less than an annual rate of 14%. In addition, the $1,500,000 credit block which had been removed in July 2013 was reinstated. In connection with the amendment, the Company and the Lenders agreed to an additional origination fee equal to the greater of (i) $110,000, or (ii) 1% of the amount funded by the Lenders in respect of the $11,000,000 in total advances, $50,000 of which was paid in cash on the amendment date and the balance of which will be paid on the closing of the Merger, or earlier under certain circumstances. The Company issued a press release announcing the execution of the credit agreement amendment.

On October 11, 2013, Milbank distributed a first draft of the Merger Agreement to the Lead Director and Graubard Miller. Between October 11 and December 18, 2013, Mr. Cheliotis, the Lead Director, Milbank and Graubard Miller negotiated and revised the draft Merger Agreement.

On October 11, 2013, the Lead Director and Mr. Lynch met with Messrs. Gass and Cheliotis at HGI s offices to negotiate the per share merger consideration for shares held by the Company s Public Shareholders. Mr. Rende participated by telephone. The Lead Director rejected the Consortium s $0.23 per share offer as inadequate. In seeking to obtain the highest per-share consideration for the unaffiliated shareholders, the Lead Director argued that the merger consideration in a going private transaction typically represents a 50% premium to the closing price on the trading day prior to the announcement of a proposal, but in this case, the

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$0.23 per share offer represented only 27% premium. After discussion, Messrs. Gass and Cheliotis asked for the Lead Director s input on the latest draft of the Merger Agreement before continuing merger consideration discussions.

On October 15, 2013, at the Lead Director s request, the Lead Director and Messrs. Lynch and Rende met with Mr. Cheliotis at HGI s offices. The Lead Director stressed the importance of closing the proposed transaction expeditiously given the Company s deteriorating financial condition. The Lead Director proposed that Mr. Cheliotis consider a tender offer followed by a short form merger as an alternative to the proposed one-step merger transaction. Mr. Cheliotis rejected that proposal, stating that the Consortium preferred the certainty of a one-step merger transaction, primarily because a successful tender would be difficult to achieve given the large number of Public Shareholders who own a small amount of shares. Accordingly, a substantial number of the Company s Public Shareholders would need to participate for the Consortium to acquire the 90% of shares of Common Stock required for a short form merger. In addition, the Consortium noted the disproportionate costs it would bear in obtaining the tenders of the Public Shareholders. However, he did indicate that he would continue to consider increasing the merger consideration to be paid to the Company s Public Shareholders while simultaneously negotiating the other Merger Agreement terms.

On October 16, 2013, Mr. Cheliotis communicated to the Lead Director and Mr. Lynch that the Consortium would agree to a 10% increase in the per share merger consideration to be paid to the Company s Public Shareholders, and would not consider any further increases in merger consideration until after negotiation of the terms of the Merger Agreement and related documents had concluded. The Lead Director believed that a greater premium over the closing price on the trading day prior to the announcement of the proposal was justified and that the Consortium could be persuaded to further increase its offer.

Also on October 16, 2013, all of the members of our Board of Directors held a regularly scheduled meeting. Mr. Rende, Ms. Frankenthaler and Graubard Miller were in attendance. Messrs. Lynch and Rende reviewed the status of outstanding payables and discussed our continued underfinanced position, even with the recent $5,000,000 advance from Salus. They discussed the Company not meeting its sales plan as a result of starting the fiscal year over $2,000,000 below required inventory levels. Mr. Lynch informed our Board of Directors that he had scheduled a meeting with Salus and Messrs. Gass and Cheliotis for October 21, 2013 to provide a business update and to discuss the transaction process, especially in light of the timing and importance of the Company procuring inventory and executing sales during the upcoming holiday season. The Lead Director updated our Board of Directors on his meetings with Messrs. Gass and Cheliotis, and explained that negotiations regarding merger consideration and Merger Agreement terms were in process. Graubard Miller reviewed the substantive provisions being negotiated in connection with the Merger Agreement, including, among other things, the ability for the Lead Director to terminate the agreement upon acceptance of a superior proposal, a go shop provision and a majority of minority voting requirement. At this meeting, our Board of Directors approved compensating the Lead Director for serving as Lead Director in the amount of $5,000 per month for a minimum of four months commencing as of September 1, 2013. Mr. Lynch also confirmed that to date, there had been no discussions with HGI regarding post-transaction employment arrangements.

On October 18, 2013, Graubard Miller distributed the Lead Director s initial comments to Milbank s draft of the Merger Agreement to the Rollover Shareholders and their counsel.

On October 21, 2013, Messrs. Lynch, Gass, Cheliotis and Young met with Mr. Shonak and Andrew Moser, President of Salus, at the Lenders offices in Boston. Mr. Rende participated by phone. They discussed the Company s financial condition and Mr. Lynch provided a general business update.

On October 24, 2013, the Lead Director and Messrs. Lynch and Rende met with Mr. Cheliotis to continue negotiations on the proposed going private transaction. The Lead Director proposed including a majority of the minority voting provision in the Merger Agreement. Mr. Cheliotis rejected this primarily because the vote would be difficult to obtain given the large number of Public Shareholders who own a small amount of shares representing a relatively small dollar value, and would entail significant expenditure on the part of the Company to obtain the requisite shareholder participation. Mr. Cheliotis indicated that the Consortium was willing to consider adding other shareholder protections such as a limited go shop provision (along with the payment of a termination fee if the Company accepts a superior proposal). After

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discussion, Mr. Cheliotis suggested a meeting including himself, the Lead Director, Messrs. Lynch and Rende and Ms. Frankenthaler, Milbank and Graubard Miller to settle any outstanding Merger Agreement issues and to complete the merger consideration negotiations.

On October 29, 2013, the Lead Director, Mr. Cheliotis, Mr. Lynch, Ms. Frankenthaler, Milbank and Graubard Miller met at Milbank s offices. Mr. Rende participated by telephone. At the meeting, Mr. Cheliotis proposed the addition of a limited go shop provision, indicating that it was in lieu of a further increase in the merger consideration. The Lead Director was interested in a limited go shop provision, but rejected the concept of it being in lieu of a further increase in merger consideration, noting that the Company had agreed to move forward without a majority of minority vote. Mr. Cheliotis agreed to discuss a further merger consideration increase with the Consortium and to address it with the Lead Director once the negotiation of the other terms of the Merger Agreement had concluded.

On October 30, 2013, the Company opened its electronic data room to Milbank.

On November 6, 2013, Milbank circulated a revised draft of the Merger Agreement. At Graubard Miller s request, Milbank, Ms. Frankenthaler and Graubard Miller had a call to discuss the termination provisions included in the Merger Agreement as revised.

On November 8, 2013, at the Lead Director s request, the Lead Director and Mr. Cheliotis held a conference call. They discussed the termination fee payable to the Company and the Company having the ability to seek specific performance in certain circumstances. Mr. Cheliotis suggested that they discuss the termination fee issue, as well as continuing to negotiate merger consideration, at a follow up meeting to be held on November 11, 2013.

Also on November 8, 2013, Milbank circulated drafts of the ancillary transaction agreements, including the Voting Agreement, Rollover Agreement and Series A Preferred Stock Purchase and Sale Agreement. On November 9, 2013, Ms. Frankenthaler and Graubard Miller discussed modifying the Voting Agreement so that it would terminate upon termination of the Merger Agreement. Later the same day, Graubard Miller proposed the revision to Milbank. There were no discussions between the Lead Director and the Consortium Members relating to material terms of the Rollover Agreement and the Series A Preferred Stock Purchase and Sale Agreements, as to which the Company was not a party.

On November 11, 2013, the Lead Director, Messrs. Lynch and Rende and Mr. Cheliotis held a call to follow up on the discussion from the November 8, 2013 call between the Lead Director and Mr. Cheliotis. With respect to the termination fee issue, Mr. Cheliotis agreed to permit the Company to seek specific performance in certain circumstances. He and the Lead Director also resolved an issue relating to the timing of the closing date and continued to negotiate merger consideration.

On November 15, 2013, at the Lead Director s request, the Lead Director and Mr. Cheliotis had a call to discuss the Voting Agreement. The Lead Director requested that the Voting Agreement be modified to terminate upon termination of the Merger Agreement, and Mr. Cheliotis agreed. The Lead Director also continued to request an increase in the merger consideration to be paid to the Company s Public Shareholders.

On November 21, 2013, Mr. Cheliotis emailed Mr. Walters the Consortium s final offer for a transaction with the Company. Under the terms of the final offer, Parent would acquire all of the Company s outstanding Common Stock of the Public Shareholders in a merger transaction with per share merger consideration of $0.27, which the Lead Director accepted. In accepting the $0.27 per share offer, Mr. Walters considered, among other things, that it represented a premium of approximately 50% to the closing price of the Company s Common Stock on September 27, 2013, the last trading day before the announcement by the Consortium Members of their initial proposal. He also weighed the $0.27

per share offer against the Company s current precarious financial position, and the fact that, in a bankruptcy, the holders of the Company s Common Stock would likely receive no value, and concluded that agreeing to the $0.27 per share offer was a better alternative to the unaffiliated shareholders. The final offer was conditioned on the completion of a review of the change of control provision contained in employment agreements of Messrs. Lynch and Rende and Ms. Frankenthaler, which were identical other than the payment amounts.

Between November 22, 2013 and December 17, 2013, Graubard Miller, Milbank, Messrs. Lynch and Cheliotis and Ms. Frankenthaler discussed the applicability of the change of control payments to this transaction. They also discussed the change of control payment amount that would be payable to Mr. Lynch ($675,000), Mr. Rende ($387,500) and Ms. Frankenthaler ($337,500) if they were terminated after the consummation of the Merger.

On December 3, 2013, Mr. Cheliotis confirmed with Mr. Lynch that under the existing employment agreements, the change of control payments to Mr. Lynch, Mr. Rende and Ms. Frankenthaler would be payable upon a termination of employment by the Company after the completion of the Merger. He also required that, prior to the execution of the Merger Agreement, he and Mr. Lynch negotiate an amended employment agreement for Mr. Lynch to serve as Chief Executive Officer to take effect following, and only in the event of, the completion of the Merger.

Between December 3, 2013 and December 17, 2013, Messrs. Cheliotis and Lynch negotiated an employment agreement for Mr. Lynch to take effect following, and only in the event of, the completion of the Merger. The employment agreement was executed in connection with the execution of the Merger Agreement. The change of control provision in Mr. Lynch s existing employment agreement was not included in the new employment agreement.

On December 18, 2013, the Lead Director held a meeting with Graubard Miller, Ms. Frankenthaler and Cassel Salpeter. The Lead Director reviewed the timeline and process and progress of the negotiations with the Consortium, and, among other things, discussed his efforts to obtain the highest merger consideration for the Company s unaffiliated shareholders. Graubard Miller then reviewed the Lead Director s fiduciary duties in connection with his consideration of the final offer from the Consortium, and provided a detailed review of the terms of the Merger Agreement, including, among other things, the termination provisions and the nature of the fiduciary outs contained in the Merger Agreement.

At the request of the Lead Director, Cassel Salpeter then reviewed and discussed its financial analyses with respect to the Company and the proposed Merger. Thereafter, Cassel Salpeter rendered its oral opinion to the Lead Director (which was confirmed in writing by delivery of Cassel Salpeter s written opinion dated the same date), as to, as of December 18, 2013, the fairness, from a financial point of view, to the Company s Public Shareholders of the merger consideration to be received by such holders in the Merger pursuant to the Merger Agreement. The full text of the written opinion of Cassel Salpeter, which describes, among other things, the assumptions, qualifications, limitations and other matters considered in connection with the preparation of its opinion is attached as *Annex B*.

After discussion, the Lead Director adopted resolutions declaring the Merger Agreement and the transactions contemplated thereby, including the Merger, to be advisable, and fair to and in the best interests of the Company s unaffiliated shareholders and recommended that our Board of Directors approve the Merger Agreement and the transactions contemplated thereby, including the Merger.

Later that day, a special meeting of the Board of Directors was convened with all directors present. Mr. Rende, Ms. Frankenthaler and Graubard Miller were in attendance. Messrs. Harley and Lynch recused themselves from the deliberations and left the meeting because they have interests in the Merger different from the interests of the Company s unaffiliated shareholders generally, as described in *Special Factors Interests of the Company s Directors and Executive Officers in the Merger* beginning on page 60. The Lead Director first summarized the basic terms of the proposed Merger Agreement and Merger. He then reviewed the history of the Company s efforts to obtain funding and execute strategic alternatives to address the challenges the Company has faced with its business, including the Consortium s proposed going private transaction. The Lead Director next reviewed the timeline, process and progress of the negotiations with the Consortium, and, among other things, discussed his efforts to obtain the highest merger consideration for the Company s unaffiliated shareholders. Graubard Miller then reviewed our Board of Directors fiduciary obligations to the Company and its shareholders in connection with its consideration of the proposed going private transaction. He then provided a detailed review of the terms of the Merger Agreement, including, among other things, the termination provisions and the nature of the fiduciary outs contained in the draft Merger Agreement. Our Board of Directors considered the positive and negative factors and risks in connection with the proposed Merger transaction as discussed in *Special Factors Reasons for the Merger;*

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Recommendation of the Lead Director and of the Board of Directors; Fairness of the Merger beginning on page 36. Our Board of Directors, on the basis of the Lead Director s recommendation, with the unanimous vote of all present, adopted resolutions: declaring the Merger Agreement and the transactions contemplated thereby, including the Merger, to be advisable, and fair to and in the best interests of the Company s unaffiliated shareholders; approving and adopting the Merger Agreement; and authorizing certain Company officers to take necessary actions to effect the transactions contemplated by the Merger Agreement, including the preparation of this proxy statement, solicitation of shareholder approval of the Merger Agreement, holding a special meeting of shareholders for such purpose, and preparing and filing documents required by applicable law.

On December 18, 2013, the Company executed the Merger Agreement with Parent and Merger Sub and the Company publicly announced the signing of the Merger Agreement on December 19, 2013.

The Merger Agreement generally provides that we may not solicit alternative Takeover Proposals (as defined in the Merger Agreement and described in *The Merger Agreement Other Covenants and Agreements Limited Solicitation* on page 80), but we may engage in a limited solicitation of 12 designated parties. Ten of the 12 designated parties are companies the Lead Director believed to have expressed a legitimate interest in a strategic transaction with the Company during the marketing efforts conducted by Allen & Co. between June 2012 and March 2013, including all of the Proposing Parties. The other two designated parties are (1) a brand company new to our industry that communicated with the Company for business purposes and which the Lead Director believed to be a prospect for an alternative transaction and (2) one of the Company s licensing partners which had conversations with the Company concerning a possible strategic transaction prior to Allen & Co. s marketing efforts. In selecting ten parties from the Allen & Co. marketing process as designated parties, the Lead Director did not rely on any information provided by Allen & Co. regarding these parties or their prior proposals. Even though previous contacts with them had not led to a successful transaction, based on their prior interest in the Company, the Lead Director nonetheless determined that these parties were most likely to be interested in a potential strategic transaction. Based on the Lead Director s and management s knowledge regarding the participants and investors in the Company s industry, the Lead Director believed that there were no other parties who had not been previously contacted and who would be likely to propose a potential strategic transaction.

All 12 of the designated parties were contacted to determine whether they would be interested in a transaction with us that would be superior to the transactions contemplated by the Merger Agreement, including the Consortium s agreement to pay the unaffiliated shareholders $0.27 per share. Five of the parties, including the Specialty Retailer and the PE Firm, expressly declined to make an offer to acquire the Company. Three of the parties did not respond to communications from the Lead Director or Mr. Lynch. The Lead Director received inquiries from four of the parties, including the Foreign Strategic Party and the Second PE Firm, requesting more information. We notified Parent of the inquiries as required under the Merger Agreement. We entered into non-disclosure agreements with all four of these parties and gave each of them access to the Company s electronic data room and the opportunity to communicate with management. All four of these parties expressly declined to make an offer to acquire the Company.

Between January 29, 2014 and February 28, 2014, Messrs. Lynch and Rende provided updates to Messrs. Falcone, Gass and Cheliotis and Mr. George Nicholson of HGI and separately to Salus through Mr. Shonak and Andrew Moser, President of Salus, regarding the Company s financial condition. Messrs. Lynch and Rende discussed with them possible ways to alleviate the Company s limited liquidity and to obtain the funding needed to pay vendors to assure goods are shipped. In the course of these discussions, Mr. Lynch proposed to Mr. Moser that Salus lift the $1,300,000 availability block under the credit agreement and Messrs. Cheliotis and Nicholson suggested to Messrs. Lynch and Rende the possibility of HGI purchasing a portion of the Company s outstanding payables from certain of the Company s vendors.

On March 1, 2014, Salus counsel emailed Graubard Miller, Ms. Frankenthaler and Mr. Rende a draft of a proposed Fifth Amendment to the Company s credit agreement (the Fifth Amendment). In addition to requiring that the Company hire a consultant to assist with developing a vendor payment plan, the draft contemplated extending the repayment date of the $5,000,000 term loan advance under the credit agreement

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from April 10, 2014 to May 31, 2014 and that the Company raise at least $5,000,000 of capital. It also contemplated a one-time payment of $130,000 to Salus and an increase in its monthly monitoring fee from $12,500 to $20,000.

Between March 1, 2014 and March 7, 2014, Messrs. Lynch and Rende, Graubard Miller, Salus and Salus counsel negotiated the terms of the Fifth Amendment. Following these negotiations, the Fifth Amendment was revised to provide the Company with the option to either raise at least $5,000,000 of capital or to have another party purchase at least $5,000,000 of its outstanding vendor payables.

Between March 6, 2014 and March 19, 2014, Messrs. Lynch and Rende of the Company and Messrs. Cheliotis, Young and Nicholson of HGI negotiated the structure of the vendor payables purchases. They reached an agreement in principle for HGI to purchase at least $5,000,000 of the Company s outstanding payables from its five largest vendors and to defer the Company s payment of that amount for 90 days.

On March 25, 2014, the Lead Director held a meeting with Graubard Miller and Ms. Frankenthaler. The Lead Director reviewed the transactions contemplated by the Fifth Amendment, including the prospective vendor payables purchases to be made by HGI. He considered that the Company was significantly past due on payables, and that pending orders for new inventory may not be fulfilled. He also determined that the Fifth Amendment could provide the Company with an arrangement that was necessary for it to continue to obtain inventory to operate its business. He concluded that the transactions contemplated by the Fifth Amendment were in the best interests of the unaffiliated shareholders and determined to recommend to the Board of Directors that it approve the Fifth Amendment and related agreements and the contemplated transactions.

Following the Lead Director meeting, a special meeting of the Board of Directors was convened with all directors present. Mr. Rende, Ms. Frankenthaler and Erik Frederick, the Company s Senior Vice President of Finance, were in attendance. Messrs. Harley and Lynch recused themselves from the deliberations and left the meeting. The Board of Directors (other than Messrs. Harley and Lynch), on the basis of the Lead Director s recommendation, unanimously approved the Fifth Amendment and related agreements and the contemplated transactions.

On March 26, 2014, the Lenders and the Borrowers entered into the Fifth Amendment. Pursuant to the Fifth Amendment, the Lenders agreed to extend the repayment date of the $5,000,000 term loan advance from April 10, 2014 to June 15, 2014. The Lenders also agreed to suspend the requirement that the Borrowers maintain a minimum of $1,300,000 of availability under the revolving line of credit until June 16, 2014, at which time the Borrowers will be required to maintain a minimum of $1,500,000 of availability. The Fifth Amendment also required that, by no later than March 31, 2014, the Borrowers would either have (i) received cash proceeds of a capital infusion in an amount not less than $5,000,000, in the form of equity or subordinated debt, on terms reasonably satisfactory to the Lenders, which amount will be used entirely to reduce the outstanding balance under the credit agreement, or (ii) made arrangements reasonably satisfactory to the Lenders to defer payment of at least $5,000,000 of the Company s outstanding vendor payables.

On March 27, 2014, pursuant to arrangements deemed satisfactory by the Lenders, HGI, through its subsidiary HGI Funding, purchased an aggregate of approximately $5,238,900 of the Company s outstanding payables from the Company s five largest vendors and agreed to defer the payment of that amount for 90 days or until June 28, 2014. The Fifth Amendment also required the Company to engage a consultant to assist in negotiating with vendors and developing a vendor payment plan, and to present a proposed plan to the Lenders by April 4, 2014. The Company satisfied both of these requirements. Concurrently with the execution of the Fifth Amendment, the Borrowers paid to the Lenders a one-time $130,000 cash fee in consideration for the Lenders agreement to enter into the Fifth Amendment. In connection with the Fifth Amendment, the Borrowers and the Lenders also entered into an amended and restated fee letter which provides for an increase in the monthly monitoring fees from $12,500 to $20,000.

On April 14, 2014, we entered into an amendment to the Merger Agreement with Parent and Merger Sub, pursuant to which the parties agreed to extend the termination date under the Merger Agreement from April 30, 2014 to June 15, 2014.

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On April 23, 2014, HGI Funding made a subsequent purchase of approximately $2,792,000 of the Company s outstanding payables from the Company s five largest vendors and agreed to defer the payment of that amount for 90 days, or July 22, 2014.

Reasons for the Merger; Recommendation of the Lead Director and of the Board of Directors; Fairness of the Merger

The Lead Director

As described above, the Board of Directors delegated to the Lead Director the exclusive authority to review, evaluate, reject, negotiate and, if appropriate, make a recommendation to the Board of Directors regarding the proposal from the Consortium Members or any alternative thereto. The Lead Director evaluated, with the assistance of his legal and financial advisors, the Merger Agreement and the Merger and, on December 18, 2013, determined that the transactions contemplated by the Merger Agreement and the Ancillary Agreements, including the Merger, are advisable, and fair to, and in the best interests of, the unaffiliated shareholders of the Company.

The Lead Director engaged his own financial advisor and received advice throughout the negotiations from outside counsel to the Company. Since the Lead Director is an independent non-employee director, the Lead Director believed that he could effectively represent the unaffiliated shareholders of the Company in negotiating the terms of the Merger and did not believe it necessary to retain a separate unaffiliated representative to act solely on behalf of unaffiliated shareholders of the Company for the purposes of negotiating the Merger.

The Lead Director also recommended to the Board of Directors that the Board:

determine that the Merger Agreement and the Ancillary Agreements and the transactions contemplated thereby, including the Merger, are advisable, and fair to and in the best interests of the unaffiliated shareholders of the Company;

approve the Merger and adopt the Merger Agreement and the Ancillary Agreements and the transactions contemplated thereby, including the Merger;

recommend approval of the Merger and adoption of the Merger Agreement by the shareholders of the Company and direct that the Merger and the Merger Agreement be submitted to the shareholders of the Company for their approval and adoption; and

approve the consummation of the Merger and the other transactions contemplated by the Merger Agreement, and the Ancillary Agreements, and the performance of the Company s obligations thereunder.

In the course of reaching the determinations and decisions, and making the recommendation, described above, the Lead Director considered the following positive factors relating to the Merger Agreement, the Merger and the other transactions contemplated thereby, each of which the Lead Director believed supported his decision:

all discussions with respect to the proposals for strategic transactions made during the Allen & Co. marketing process had terminated by the time the Series B Preferred Stock transaction was completed because none of the proposals resulted in any firm or economically viable offers that would have produced any value for the unaffiliated shareholders;

that the Lead Director believed the merger consideration of $0.27 per share was more favorable to the unaffiliated shareholders of the Company than the potential value that might result from the Company s only other alternative of remaining a stand-alone public company, as the Company s financial condition continued to deteriorate because of ongoing operating losses. The Lead Director considered the following risks and uncertainty associated with remaining a stand-alone public company:

- º the Company s significant liquidity issues;
- º the Company s limited availability under its line of credit for operations;

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- the Company s merchandise vendors ceasing to ship new product without being paid in full for their past due invoices, in which event the Company will not have sufficient capital resources to fund its planned activities;
- the Company s need for substantial additional capital, which the Company may not be able to secure on acceptable terms or at all; and
- the voluntary or involuntary bankruptcy, restructuring or liquidation of the Company, in which the holders of the Company s Common Stock may receive little or no value;

the current and historical market prices of the Common Stock, including the market performance of the Common Stock relative to that of other participants in the Company s industry and general market indices, and the fact that the merger consideration of $0.27 per share represents a premium of approximately 50% to the closing price of the Company s shares on September 27, 2013, the last trading day before the announcement by the Consortium Members of their initial proposal, and a premium of approximately 46% over the average closing price of the Company s Common Stock for the 45 trading days prior to that date;

that, subsequent to the Company s announcement on September 27, 2013 of the Consortium Members initial proposal to acquire the Company, no third party has submitted a proposal to the Company, the Lead Director or the Lead Director s advisors regarding a potential transaction;

the Lead Director s understanding of the Company s business, assets, financial condition and results of operations, its competitive position and historical and projected financial performance, and the nature of the industry in which the Company competes, including that the Company has not reported an operating profit since fiscal year 2007 and since that time has suffered from negative working capital and, in many years, deficit equity;

the uncertainty that the Company will be able to effect the changes to its operations necessary to improve its liquidity and ultimately profitability;

the Lead Director s belief that the $0.27 per share merger consideration, which is $0.04, or approximately 17%, greater than the Consortium Members original proposal of $0.23 per share, and $0.02, or approximately 8%, greater than the $0.25 per share conversion price of the Series B Convertible Preferred Stock purchased by Five Island in March 2013 (pursuant to which Five Island obtained beneficial ownership over a majority of our Common Stock), represents the highest per-share consideration that could be obtained at that time in light of the negotiations that took place;

that the Company s net book value per share as of October 26, 2013 was approximately $(0.63), or $0.90 lower than the $0.27 per share cash merger consideration;

the efforts of the Lead Director and his advisors to negotiate and execute a Merger Agreement favorable to the Company and the unaffiliated shareholders of the Company under the circumstances, and the fact that extensive negotiations regarding the Merger Agreement were held between the Lead Director and his advisors, on the one hand, and Parent, the Consortium Members and their respective advisors, on the other hand;

that the proposed merger consideration is all cash, so that the transaction allows the unaffiliated shareholders of the Company to realize a fair value, in cash, for their investment and provides these shareholders certainty of value for their shares, especially when viewed against the risks confronting the Company s business, including the risks set forth in the Company s Annual Report on Form 10-K for the fiscal year ended July 27, 2013 and the amendment to the Annual Report attached to this proxy statement as *Annexes F-1 and F-2*;

that the Lead Director believed the merger consideration is fair in light of the Company s business, operations, financial condition, strategy and prospects, as well as the Company s historical and projected financial performance;

the absence of material regulatory approvals or third party consents required to consummate the Merger;

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- the Lead Director s consideration of alternative outcomes, including bankruptcy, which the Lead Director concluded were unlikely to provide a superior alternative to the Merger;
- the financial analysis reviewed by Cassel Salpeter with the Lead Director, and the oral opinion of Cassel Salpeter to the Lead Director (which was subsequently confirmed in writing by delivery of Cassel Salpeter s written opinion dated the same date), as to, as of December 18, 2013, the fairness, from a financial point of view, to the Public Shareholders of the merger consideration to be received by these holders in the Merger pursuant to the Merger Agreement, as more fully described in *Special Factors Opinion of the Lead Director s Financial Advisor* beginning on page 41;
- the terms and conditions of the Merger Agreement, including:
  - the provision of the Merger Agreement allowing the Board of Directors to terminate the Merger Agreement in response to a Superior Proposal, subject to payment of a $300,000 termination fee and the reimbursement of expenses up to $300,000;
  - that the Company would receive reimbursement of its expenses up to $300,000, if the Merger Agreement is terminated because of a material breach by the Parent and would receive a termination fee of $300,000 and reimbursement of its expenses up to $300,000 if the Merger Agreement is terminated because of an intentional material breach by the Parent while the Company stands ready and able to close; and
  - the Company s ability, under certain circumstances, to seek specific performance to prevent breaches of the Merger Agreement and to enforce specifically the terms of the Merger Agreement;
- the Company has financing arrangements already in place to fund the payment of the merger consideration;
- the Lead Director s belief that he is fully informed about the extent to which the interests of the Consortium Members and members of management in the Merger differed from those of the Company s other shareholders; and
- the fact that, in the absence of the Merger, the Company will continue to incur significant expenses by remaining a public company, including the legal, accounting, transfer agent, printing and filing fees and that those expenses could adversely affect the Company s financial performance and the value of the Common Stock.

In the course of reaching the determinations and decisions, and making the recommendation described above, the Lead Director also considered the following factors relating to the procedural safeguards that the Lead Director believed were and are present to ensure the fairness of the Merger and to permit the Lead Director to represent the unaffiliated shareholders of the Company, each of which safeguards the Lead Director believed supported his decision and provided assurance of the fairness of the Merger to the unaffiliated shareholders of the Company:

- the Lead Director is not an officer or controlling shareholder of the Company, or affiliated with any of the Rollover Shareholders;
- the Lead Director was adequately compensated for his services and his compensation was in no way contingent on his approving the Merger Agreement;
- the Lead Director will not personally benefit from the completion of the Merger in a manner materially different from the unaffiliated shareholders of the Company;
- the Lead Director had the power to retain, and retained, legal and financial advisors;
- the Lead Director was involved in extensive deliberations over a period of over two months regarding the Consortium Members proposal to acquire the Company, and was provided with full access to the Company s management in connection with his due diligence;

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the Lead Director had ultimate authority to decide whether or not to proceed with a transaction or any alternative thereto, subject to the Board of Directors approval of the Merger Agreement, as required by New York law;
the Lead Director was aware that he had no obligation to recommend any transaction, including the proposal put forth by the Consortium Members;
the Lead Director had the authority to take such actions as the Lead Director deemed necessary or appropriate in connection with anti-takeover provisions;
the Company is permitted to engage in a limited solicitation, to respond to unsolicited inquiries regarding acquisition proposals under certain circumstances and, upon payment of a $300,000 termination fee to the Consortium Members, to terminate the Merger Agreement to accept a Superior Proposal (as defined in the Merger Agreement and as described in *The Merger Agreement Other Covenants and Agreements Limited Solicitation* beginning on page 80); and
the Lead Director made his evaluation of the Merger Agreement and the Merger based upon the factors discussed in this proxy statement, independent of members of management and with knowledge of the interests of management and the other directors in the Merger.

In the course of reaching the determinations and decisions, and making the recommendation described above, the Lead Director considered the following risks and potentially negative factors relating to the Merger Agreement, the Merger and the other transactions contemplated thereby:

the unaffiliated shareholders of the Company will have no ongoing equity participation in the Company following the Merger, and that these shareholders will cease to participate in the Company s future earnings or growth, if any, or to benefit from increases, if any, in the value of the Common Stock, and will not participate in any potential future sale of the Company to a third party;
the participation in the Merger by the Rollover Shareholders and the fact that their interests in the transaction differ from those of the unaffiliated shareholders of the Company;
the possibility that the Rollover Shareholders could, at a later date, engage in unspecified transactions including a restructuring effort or the sale of some or all of the surviving corporation or its assets to one or more purchasers that could conceivably produce a higher aggregate value than that available to shareholders in the Merger;
the risk of incurring substantial expenses related to the Merger, including in connection with any litigation that may result;
the fact that there can be no assurance that all conditions to the parties obligations to complete the Merger will be satisfied and that, as a result, it is possible that the Merger may not be completed even if the Shareholder Approval is obtained;
the Merger Agreement s restrictions on the conduct of the Company s business prior to the completion of the Merger, generally requiring the Company to conduct its business only in the ordinary course, subject to specific limitations, which may delay or prevent the Company from undertaking business opportunities that may arise pending completion of the Merger;
the risks and costs to the Company if the Merger does not close, including the diversion of management and employee attention, potential employee attrition and the potential effect on business and customer relationships;
the receipt of cash in exchange for shares of Common Stock pursuant to the Merger will be a taxable transaction for U.S. federal income tax purposes;
the possibility that, under certain circumstances under the Merger Agreement, the Company may be required to reimburse the Parent expenses and/or pay a termination fee to the Parent; and

although the Company already has financing arrangements in place, the possibility that the debt financing necessary for the Merger will not be funded at the time required by the Merger Agreement.

The Lead Director did not conduct a going concern valuation, because he believed the other factors he considered, as described above, addressed the fairness of the Merger.

In the course of reaching his decision to recommend to the Board of Directors that they approve the Merger Agreement, the Lead Director considered the liquidation value of the Company in the event the Merger was not consummated, based on the going concern opinion provided by the Company s independent auditors in their audit report included in the Company s Annual Report on Form 10-K for the fiscal year ended July 27, 2013. In doing so, the Lead Director relied on the estimate by the Company s management that the liquidation value would be negative, after payment of anticipated liquidation expenses and repayment of its secured debt.

Since the Company has not received any firm or economically viable offers concerning a potential acquisition of the Company or similar fundamental transaction during the past two years from any party (other than the offer from the Consortium Members that led to the Merger Agreement), as described in *Special Factors Background of the Merger* beginning on page 18, the consideration of any alternative or recent firm or economically viable offers was not a factor available for the Lead Director to consider. However, the Lead Director did consider that no firm or economically viable offers resulted from the marketing efforts in which the Company engaged during 2012 and 2013 with the assistance of a nationally recognized investment banking firm.

The Lead Director also considered the inclusion in the Merger Agreement of a requirement that at least a majority of the unaffiliated shareholders approve the Merger and adopt the Merger Agreement, as described above in *Special Factors Background to the Merger* beginning on page 18. However, the Consortium Members rejected this provision. The Lead Director determined that the other factors described above in favor of the Merger collectively outweighed the omission of this provision.

The Lead Director also considered that, after the formation of the Consortium, the Rollover Shareholders expressed an unwillingness to sell their stake in the Company to a third party, which likely would have a chilling effect on proposals for alternative transactions. Notwithstanding this statement, the Lead Director believed that, if the terms of an alternative transaction were sufficiently favorable, some or all of the Rollover Shareholders might in fact participate in such an alternative transaction. Accordingly, the Company negotiated for the right under the Merger Agreement to conduct a limited solicitation, to respond to unsolicited inquiries regarding acquisition proposals under certain circumstances and to terminate the Merger Agreement and the Voting Agreement to accept a Superior Proposal.

The foregoing discussion of the information and factors considered by the Lead Director includes the material factors considered by the Lead Director. In view of the variety of factors considered in connection with his evaluation of the Merger, the Lead Director did not find it practicable to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching its determination and recommendation. The Lead Director recommended the Merger Agreement and the Merger based upon the totality of the information he considered.

The Board of Directors

The Board of Directors consists of five directors, one of whom, Mr. Lynch, is an employee of the Company, and two of whom, Messrs. Harley and Lynch, have interests in the Merger different from the interests of the unaffiliated shareholders of the Company generally. The Board of Directors delegated to the Lead Director the exclusive authority to review, evaluate, reject, negotiate and, if appropriate, make a recommendation to the Board of Directors regarding the proposal from the Consortium Members or any alternative thereto. On December 18, 2013, on the basis of the Lead Director s recommendation and the other factors described below, the Board of Directors unanimously (with Messrs. Harley and Lynch recusing themselves from the deliberations because they have interests in the Merger different from the interests of the

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unaffiliated shareholders of the Company generally, as described in *Special Factors Interests of the Company s Directors and Executive Officers in the Merger Interests of Executive Officers* beginning on page 61):

determined that the Merger Agreement and the Ancillary Agreements and the transactions contemplated thereby, including the Merger, are advisable, and fair to and in the best interests of the unaffiliated shareholders of the Company;

approved the Merger and adopted the Merger Agreement and the Ancillary Agreements and the transactions contemplated thereby, including the Merger;

recommended approval of the Merger and adoption of the Merger Agreement by the shareholders of the Company and directed that the Merger and the Merger Agreement be submitted to the shareholders of the Company for their approval and adoption;

approved the consummation of the Merger and the other transactions contemplated by the Merger Agreement, and the Ancillary Agreements, and the performance of the Company s obligations thereunder; and

duly and validly approved for the purposes of, and authorized the taking of all other corporate actions required to be taken, under the Company s certificate of incorporation and bylaws and pursuant to applicable law, including the NYBCL, by the Board of Directors to authorize the consummation of the transactions contemplated by the Agreements, including the Merger.

In determining that the Merger Agreement is advisable, and fair to and in the best interests of the unaffiliated shareholders of the Company, and approving the Merger Agreement, the Merger and the other transactions contemplated thereby, and recommending that the Company s shareholders vote for the approval of the Merger and the adoption of the Merger Agreement, the Board of Directors (excluding Messrs. Harley and Lynch) expressly and unanimously adopted the analysis of the Lead Director, which is discussed above. Messrs. Harley and Lynch recused themselves from all deliberations concerning the Merger Agreement, the Merger and the other transactions contemplated thereby because they have interests in the Merger different from the interests of the unaffiliated shareholders of the Company generally, as described in *Special Factors Interests of the Company s Directors and Executive Officers in the Merger Interests of Executive Officers* beginning on page 61. Accordingly, the members of the Board of Directors who deliberated on the Merger Agreement, the Merger and the other transactions contemplated thereby were the Lead Director and Messrs. John Eisel and Peter Cole.

The foregoing discussion of the information and factors considered by the Board of Directors includes the material factors they considered. In view of the variety of factors considered in connection with its evaluation of the Merger, the Board of Directors did not find it practicable to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching its determination and recommendation. In addition, individual directors may have given different weights to different factors. The Board of Directors approved and recommends the Merger Agreement and the Merger based upon the totality of the information presented to and considered by it.

Opinion of the Lead Director s Financial Advisor

On December 18, 2013, Cassel Salpeter rendered its oral opinion to the Lead Director (which was confirmed in writing by delivery of Cassel Salpeter s written opinion dated the same date), as to, as of December 18, 2013, the fairness, from a financial point of view, to the Public Shareholders of the merger consideration to be received by such holders in the Merger pursuant to the Merger Agreement. The summary of the opinion in this proxy statement is qualified in its entirety by reference to the full text of the written opinion, which is included as *Annex B* to this proxy statement and sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Cassel Salpeter in preparing its opinion.

The opinion was provided for the use and benefit of the Lead Director (in his capacity as such) and with the consent of the Lead Director, the members of the Board of Directors (in their capacity as such) in connection with the Lead Director s and, as applicable, the Board of Directors evaluation of the Merger. In

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addition, Cassel Salpeter consented to the inclusion of the opinion and the summary of the opinion set forth below in this proxy statement. Cassel Salpeter s opinion may not be used for any other purpose without Cassel Salpeter s prior written consent. Neither the opinion nor the summary of the opinion and related analyses set forth in this proxy statement is intended to and they do not constitute advice or a recommendation to any of the shareholders or any other security holders as to how such holder should vote or act with respect to any matter relating to the Merger or otherwise. Cassel Salpeter s opinion should not be construed as creating any fiduciary duty on Cassel Salpeter s part to the Company or any other party to the Merger Agreement, any security holder of the Company or such other party, any creditor of the Company or such other party, or any other person. Cassel Salpeter s opinion was just one of the several factors the Lead Director took into account in making his determination to recommend that the Company board approve the Merger, including those described elsewhere in this proxy statement.

Cassel Salpeter s opinion only addressed whether, as of the date of the opinion, the merger consideration to be received by the Public Shareholders in the Merger pursuant to the Merger Agreement was fair, from a financial point of view, to such holders and does not address any other terms, aspects, or implications of the Merger or the Merger Agreement, the Rollover Agreement, the Voting Agreement or any arrangements, understandings, agreements, or documents related to the Merger including, without limitation (i) any term or aspect of the Merger that is not susceptible to financial analyses, (ii) the fairness of any portion or aspect of the Merger, or all or any portion of the consideration, to any security holders of the Company or any creditors or other constituencies of the Company, other than the Public Shareholders, or (iii) the fairness of the Merger or all or any portion of the merger consideration, to any other security holders of the Company or any other person or any creditors or other constituencies of the Company or any other person, nor the fairness of the amount or nature, or any other aspect, of any compensation or consideration payable to or received by any officers, directors, or employees of any parties to the Merger, or any class of such persons, relative to the merger consideration to be received by the Public Shareholders pursuant to the Merger Agreement, or otherwise. Cassel Salpeter is not expressing any opinion as to the prices at which shares of the Common Stock, the Company s Series A Convertible Preferred Stock or Company s Series B Convertible Preferred Stock may trade, be purchased or sold at any time.

Cassel Salpeter s opinion did not address the relative merits of the Merger as compared to any alternative transaction or business strategy that might exist for the Company, or the merits of the underlying decision by the Lead Director, the Board or the Company to engage in or consummate the Merger. The financial and other terms of the Merger were determined pursuant to negotiations between the parties to the Merger Agreement and were not determined by or pursuant to any recommendation from Cassel Salpeter. In addition, Cassel Salpeter was not authorized to, and did not, solicit indications of interest from third parties regarding a potential transaction involving the Company.

Cassel Salpeter s analysis and opinion were necessarily based upon market, economic, and other conditions as they existed on, and could be evaluated as of, the date of the opinion. Accordingly, although subsequent developments could arise that would otherwise affect its opinion, Cassel Salpeter did not assume any obligation to update, review, or reaffirm the opinion to the Lead Director or any other person or otherwise to comment on or consider events occurring or coming to its attention after the date of the opinion.

In arriving at its opinion, Cassel Salpeter made such reviews, analyses, and inquiries as Cassel Salpeter deemed necessary and appropriate under the circumstances. Among other things, Cassel Salpeter:

Reviewed an execution version, received by Cassel Salpeter on December 16, 2013, of the Merger Agreement.
Reviewed an execution version, received by Cassel Salpeter on December 16, 2013, of the Rollover Agreement.
Reviewed an execution version, received by Cassel Salpeter on December 16, 2013, of the Voting Agreement.

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Reviewed certain publicly available financial information and other data with respect to the Company that Cassel Salpeter deemed relevant, including its Annual Report on Form 10-K for the most recent fiscal year, as amended by amendment no. 1 thereto on Form 10-K/A, certain other communications to shareholders, and certain other publicly available filings with SEC.
Reviewed certain other information and data with respect to the Company made available to Cassel Salpeter by the Company, including financial projections with respect to the future financial performance of the Company for the fiscal year ending July 26, 2014, prepared by management of the Company, which we refer to as the Company Projections, and other internal financial information furnished to Cassel Salpeter by or on behalf of the Company.
Considered and compared the financial and operating performance of the Company with that of other companies with publicly traded equity securities that Cassel Salpeter deemed relevant.
Considered the publicly available financial terms of certain transactions that Cassel Salpeter deemed relevant.
Discussed the business, operations, and prospects of the Company and the proposed Merger with the Company s management and certain of the Company s representatives.
Conducted such other analyses and inquiries, and considered such other information and factors as Cassel Salpeter deemed appropriate.

In arriving at its opinion, Cassel Salpeter, with the Lead Director s consent, relied upon and assumed, without independently verifying, the accuracy and completeness of all of the financial and other information that was supplied or otherwise made available to it or available from public sources, and Cassel Salpeter further relied upon the assurances of the Company s management that they were not aware of any facts or circumstances that would have made any such information inaccurate or misleading. Cassel Salpeter is not a legal, tax, environmental, or regulatory advisory firm and Cassel Salpeter did not express any views or opinions as to any legal, tax, environmental, or regulatory matters relating to the Company, the Merger, or otherwise. Cassel Salpeter understood and assumed that the Company had obtained or would obtain such advice as it deemed necessary or appropriate from qualified legal, tax, environmental, regulatory, and other professionals. The Lead Director also advised Cassel Salpeter that the Company does not prepare, and Cassel Salpeter did not have access to, long-term forecasts with respect to the future financial performance of the Company, and the Lead Director directed Cassel Salpeter to use and rely upon, for purposes of its analyses and opinion, the Company Projections, which with the Lead Director s consent Cassel Salpeter assumed were reasonably prepared on a basis reflecting the best currently available estimates and judgments of management of the Company with respect to the future financial performance of the Company, and that the Company Projections provided a reasonable basis upon which to analyze and evaluate the Company and form an opinion. Cassel Salpeter expressed no view with respect to the Company Projections or the assumptions on which they were based. Cassel Salpeter did not evaluate the solvency of the Company or any other party to the Merger, the fair value of the Company or any of its assets or liabilities, or whether the Company or any other party to the Merger is paying or receiving reasonably equivalent value in the Merger under any applicable foreign, state, or federal laws relating to bankruptcy, insolvency, fraudulent transfer, or similar matters, nor did Cassel Salpeter evaluate, in any way, the ability of the Company or any other party to the Merger to pay its obligations when they come due. Cassel Salpeter did not physically inspect the Company s properties or facilities and did not make or obtain any evaluations or appraisals of the Company s assets or liabilities (including any contingent, derivative, or off-balance-sheet assets and liabilities). Cassel Salpeter did not attempt to confirm whether the Company has good title to its assets. Cassel Salpeter s role in reviewing any information was limited solely to performing such reviews as Cassel Salpeter deemed necessary to support its own advice and analysis and was not on behalf of the Lead Director, the Board of Directors, the Company or any other party.

Cassel Salpeter assumed, with the Lead Director s consent, that the Merger would be consummated in a manner that complies in all respects with applicable foreign, federal, state, and local laws, rules, and regulations and that, in the course of obtaining any regulatory or third party consents, approvals, or agreements in the Merger, no delay, limitation, restriction, or condition would be imposed that would have an

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adverse effect on the Company or the Merger. Cassel Salpeter also assumed, with the Lead Director s consent, that the final executed form of the Merger Agreement would not differ in any material respect from the draft Cassel Salpeter reviewed and that the Merger would be consummated on the terms set forth in the Merger Agreement, without waiver, modification, or amendment of any term, condition, or agreement thereof that was material to its analyses or opinion. Cassel Salpeter also assumed that the representations and warranties of the parties to the Merger Agreement contained therein were true and correct and that each such party would perform all of the covenants and agreements to be performed by it under the Merger Agreement. Cassel Salpeter offered no opinion as to the contractual terms of the Merger Agreement or the likelihood that the conditions to the consummation of the Merger set forth in the Merger Agreement would be satisfied.

Management of the Company advised Cassel Salpeter that (i) the Company had been and was currently experiencing significant liquidity issues, (ii) the Company only had a limited amount of availability under its line of credit for operations, and (iii) if the Company s merchandise vendors did not continue to ship new product without being paid in full for their past due invoices, the Company would not have sufficient capital resources to fund its planned activities beyond December 31, 2013. Management of the Company also advised Cassel Salpeter that the Company would require substantial additional capital to operate on a standalone basis in accordance with the Company business plan underlying the Company Projections and the Company had not been able to, and did not expect to be able to, identify or otherwise access any sources of equity or debt financing for the future operations of the Company prior to the date that it would exhaust its remaining cash resources, if ever. Management of the Company advised Cassel Salpeter that the inability of the Company to continue as a going concern would likely result in a voluntary or involuntary bankruptcy, restructuring or liquidation of the Company in which the Company could receive less than the value at which its assets were carried on the Company s consolidated financial statements, and holders of Company Common Stock would likely receive little or no value and would likely lose all or substantially all of their investment in the Company.

In connection with preparing its opinion, Cassel Salpeter performed a variety of financial analyses. The following is a summary of the material financial analyses performed by Cassel Salpeter in connection with the preparation of its opinion. It is not a complete description of all analyses underlying such opinion. The preparation of an opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. As a consequence, neither Cassel Salpeter s opinion nor the respective analyses underlying its opinion is readily susceptible to partial analysis or summary description. In arriving at its opinion, Cassel Salpeter assessed as a whole the results of all analyses undertaken by it with respect to the opinion. While it took into account the results of each analysis in reaching its overall conclusions, Cassel Salpeter did not make separate or quantifiable judgments regarding individual analyses and did not draw, in isolation, conclusions from or with regard to any individual analysis or factor. Therefore, Cassel Salpeter believes that the analyses underlying the opinion must be considered as a whole and that selecting portions of its analyses or the factors it considered, without considering all analyses and factors underlying the opinion collectively, could create a misleading or incomplete view of the analyses performed by Cassel Salpeter in preparing the opinion.

The implied multiple ranges and implied value reference ranges indicated by Cassel Salpeter s analyses are not necessarily indicative of actual values nor predictive of future results, which may be significantly more or less favorable than those suggested by such analyses. Much of the information used in, and accordingly the results of, Cassel Salpeter s analyses are inherently subject to substantial uncertainty.

The following summary of the material financial analyses performed by Cassel Salpeter in connection with the preparation of its opinion includes information presented in tabular format. The tables alone do not constitute a complete description of these analyses. Considering the data in the tables below without considering the full narrative description of the analyses, as well as the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses Cassel Salpeter performed.

Unless the context indicates otherwise, share prices for the selected companies used in the selected companies analysis described below were as of December 17, 2013, and estimates of financial performance for the Company were based on the Company Projections. Estimates of financial performance for the selected

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companies listed below for the years ending December 31, 2013 and 2014 were based on publicly available research analyst estimates for those companies.

Selected Companies Analysis

Cassel Salpeter considered certain financial data for the Company and selected companies with publicly traded equity securities Cassel Salpeter deemed relevant. The selected companies were selected because they were deemed to be similar to the Company in one or more respects including, the nature of their business, size and financial performance. The selected companies with publicly traded equity securities were:

Coldwater Creek Inc.
New York & Company, Inc.
The Wet Seal, Inc.
American Apparel, Inc.
Joe s Jeans Inc.
Danier Leather Inc.
dELiA*s, Inc.

The financial data reviewed included:

Enterprise value as a multiple of revenue for the latest twelve month period, or LTM Revenue.

Enterprise value as a multiple of the relevant company s projected revenue for the calendar year ended December 31, 2013, or CY 2013 P Revenue.

Enterprise value as a multiple of the relevant company s projected revenue for the fiscal year ending July 26, 2014, or FY 2014 P Revenue.

Enterprise value as a multiple of the relevant company s earnings before interest, taxes, depreciation and amortization for the fiscal year ending July 26, 2014, or FY 2014 P EBITDA.

Cassel Salpeter calculated the following multiples with respect to the selected companies:

Total Invested Capital Multiple of	High	Mean	Median	Low
LTM Revenue	0.59x	0.33x	0.27x	0.15x
CY 2013 P Revenue	0.59x	0.35x	0.28x	0.16x
FY 2014 P Revenue	0.56x	0.31x	0.27x	0.16x
FY 2014 P EBITDA	12.5x	7.1x	6.7x	3.3x

Taking into account the results of the selected companies analysis and its experience as investment bankers and professional judgment, Cassel Salpeter applied multiple ranges to corresponding financial data for the Company. Cassel Salpeter applied multiples of 0.30x to 0.35x to the Company s LTM Revenue, 0.30x to 0.35x to the Company s CY 2013 P Revenue, 0.25x to 0.30x to the Company s FY 2014 P Revenue, and 6.5x to 7.5x to the Company s FY 2014 P EBITDA. The selected companies analysis indicated an aggregate implied enterprise value reference range for the Company of $29,000,000 to $34,000,000 as compared to the implied enterprise value of the Company based on the merger consideration of approximately $55,106,000.

None of the selected companies have characteristics identical to the Company. An analysis of selected publicly traded companies is not mathematical; rather it involves complex consideration and judgments concerning differences in financial and operating characteristics of the selected companies and other factors that could affect the public trading values of the companies reviewed.

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Selected Transactions Analysis

Cassel Salpeter considered certain financial data for the Company and the financial terms of the following business transactions Cassel Salpeter deemed relevant. The selected transactions were selected because they involved acquisition targets that were deemed to be similar to the Company in one or more respects including, the nature of their business, size and financial performance. The selected transactions were:

Target	Acquirer
Lucky Brand Dungarees, Inc.	Leonard Green & Partners, L.P.
Maidenform Brands, Inc.	Hanesbrands Inc.
True Religion Apparel Inc.	TRLG Holdings, Inc.
Intermix, Inc.	The Gap, Inc.
Warnaco Group, Inc.	PVH Corp.
Charming Shops Inc.	Ascena Retail Group Inc.
Kenneth Cole Productions Inc.	Kenneth D. Cole and Family of Kenneth D. Cole
Avenue Stores	Versa Capital Management, Inc.
Boston Proper, Inc.	Chico s FAS, Inc.
Urban Brands, Inc.	GB Merchant Partners, LLC
VOLCOM, Inc.	PPR S.A.

The financial data reviewed included the enterprise value (calculated based on the consideration paid in the relevant transaction) as a multiple of LTM Revenue.

Enterprise Value as a Multiple of	High	Mean	Median	Low
LTM Revenue	1.86x	0.87x	1.00x	0.09

In addition, Cassel Salpeter noted that the mean enterprise value as a multiple of LTM Revenue was 0.27x for those selected transactions involving acquisition targets that had an EBITDA margin of less than 5% or that were acquired in connection with a bankruptcy.

Taking into account the results of the selected transactions analysis and its experience as investment bankers and professional judgment, Cassel Salpeter applied multiple ranges to corresponding financial data for the Company. Cassel Salpeter applied multiples of 0.30x to 0.40x to the Company s LTM Revenue. The selected transactions analysis indicated an aggregate implied enterprise value reference range for the Company of $25,000,000 to $33,300,000 as compared to the implied enterprise value of the Company based on the merger consideration of approximately $55,106,000.

None of the target companies in the selected transactions have characteristics identical to the Company. Accordingly, an analysis of selected business combinations is not mathematical; rather it involves complex considerations and judgments concerning differences in financial and operating characteristics of the target companies in the selected transactions and other factors that could affect the respective acquisition values of the transactions reviewed.

Other Matters Relating to Cassel Salpeter s Opinion

As part of its investment banking business, Cassel Salpeter regularly is engaged in the evaluation of businesses and their securities in connection with mergers, acquisitions, corporate restructurings, private placements and other purposes. Cassel Salpeter is a recognized investment banking firm that has substantial experience in providing financial advice in connection with mergers, acquisitions, sales of companies, businesses and other assets and other transactions.

Cassel Salpeter received a fee of $75,000 for rendering its opinion, no portion of which was contingent upon the completion of the Merger. In addition, the Company agreed to reimburse Cassel Salpeter for certain expenses incurred by it in connection with its engagement and to indemnify Cassel Salpeter and its related parties for certain liabilities that may arise out of its engagement or the rendering of its opinion. There has been no other material relationship in the last two years, and no other material relationship is mutually contemplated, between Cassel Salpeter, its affiliates or representatives and the Company or its affiliates.

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Cassel Salpeter is a recognized investment banking firm which is regularly engaged in providing financial advisory services in connection with mergers and acquisitions. The Lead Director selected Cassel Salpeter to act as his financial advisor in connection with the Merger on the basis of Cassel Salpeter s experience in similar transactions and its reputation in the investment community. The Lead Director also believed Cassel Salpeter s fee was proportionate to the transaction size. In selecting a financial advisor in connection with the Merger, the Lead Director approached three investment banking firms other than Cassel Salpeter, including Allen & Co. Allen & Co. declined to be considered because the minimum fee it would accept was disproportionate to the size of the transaction based on the Consortium s initial offer of $0.23 per share. The second firm declined because of its limited experience in rendering fairness opinions in merger and acquisition transactions. The Lead Director selected Cassel Salpeter over the third firm because Cassel Salpeter s fee was more commensurate with the transaction size.

In accordance with Cassel Salpeter s policies and procedures, a fairness committee was not required to, and did not, approve the issuance of the opinion.

Company Projections

As part of its financial planning process, the Company from time to time prepares financial projections for upcoming fiscal years. In connection with the consideration of the Consortium Members proposal, the Lead Director and Cassel Salpeter, the Lead Director s financial advisor, were provided on October 4, 2013 with previously prepared Company Projections through fiscal year 2014. The Company does not, as a matter of course, publicly disclose projected financial information.

We have included these projections solely for the purpose of giving our shareholders access to certain nonpublic information considered by the Lead Director and Cassel Salpeter in evaluating the Merger. The projections are, in general, prepared solely for internal use in assessing strategic direction, related capital and resource needs and allocations and other management decisions. Projections of this type are based on estimates and assumptions that, in many cases, reflect subjective judgment, and which are subject to significant uncertainties and contingencies, including apparel industry performance, general business, economic, regulatory, market and financial conditions, as well as changes to the business, financial condition and results of operations of the Company. These factors, which may prevent the financial projections or underlying assumptions from being realized, are difficult to predict, and many of them are beyond the Company s control. Therefore, the projections are forward-looking statements and should be read with caution. See *Cautionary Statement Concerning Forward-Looking Information* beginning on page 68.

When preparing projections the Company makes assumptions based on its past performance, its current financial condition and general economic conditions. When preparing the budget for fiscal year 2014, management assumed, among other things:

Based on the receipt of additional financing and the assumption that further financing would be available, the Company would be able to maintain sufficient inventory levels in fiscal year 2014. During fiscal year 2013, as a result of the Company s liquidity issues, the Company was paying its product vendors beyond the normal payment terms. Accordingly, the Company s vendors were not shipping and/or producing goods in a timely manner or in some cases not at all and, as a result, the Company s inventory levels had been inadequate;
The Company s unsuccessful expansion into non-core product categories (dresses, sportswear and shoes) would be significantly reduced and sold primarily through the Company s website;
The Company would be able to reduce costs related to its catalog and reallocate those resources to digital marketing initiatives; and
The Company would use the additional financing to increase its overall marketing efforts.

There can be no assurance that the underlying assumptions (including those set forth above) will prove to be accurate, that the projected results will be realized or that actual results will not be significantly different than projected. For example, from May 2013 through January 2014, while the Company had obtained an additional $10,000,000 in funding, through increases under the term loan portion of its credit facility, and had been reducing its non-core product inventory, it continued to experience liquidity issues that adversely affected inventory levels of its core product categories (bras, lingerie and corsets) and marketing efforts.

These projections were prepared solely for internal use and not for publication or with a view toward complying with the published guidelines of the SEC regarding projections or with guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. Our independent registered public accounting firm has not examined, compiled or otherwise applied procedures to the financial projections presented herein and, accordingly, has not, and does not, express an opinion or any other form of assurance with respect to them. The Merger Agreement includes no representations by the Company or its management as to this projected financial information. In light of the uncertainties inherent in projections of this type, neither the Company nor any other person has expressed any opinion or assurance to shareholders on this information or its achievability, and the inclusion of this information should not be regarded as an indication that the Company, the Lead Director, the Rollover Shareholders, any of their representatives or anyone who received this information then considered, or now considers, it to be necessarily predictive of actual future events.

The Company Projections do not reflect any impact of the Merger, nor do they take into account the effect of any failure of the Merger to occur. None of the Company, the Lead Director, the Rollover Shareholders or any of their representatives intends to update or revise the summary projected financial information set forth below to reflect circumstances existing after the date when made, except as may be required by applicable securities laws.

($ in thousands)	FY 2014 (Projected)	FY 2013 (Actual)	FY 2012 (Actual)	FY 2011 (Actual)
Total revenues	$126,799	$86,507	$111,406	$119,615
Total cost of goods	76,600	61,328	69,782	76,647
Gross margin	50,199	25,179	41,624	42,968
Total selling, general and administrative expenses	46,515	42,968	45,757	49,771
Impairment of long-lived assets and lease abandonment		2,939		1,910
Interest expense, net	2,047	2,137	2,224	1,483
Fair value gain on warrant		(381)		
Net income/(loss) before tax	1,636	(22,484)	(6,357)	(10,196)
Income tax	100	38	75	134
Income/(loss) before discontinued operations	1,536	(22,522)	(6,432)	(10,330)
Loss from discontinued operations				(1,725)
Net income/(loss)	1,536	(22,522)	(6,432)	(12,055)
Adjusted EBITDA	5,142	(16,558)	(1,120)	(2,858)

The above projections set forth, among other measures, the Company s projected adjusted EBITDA for fiscal year 2014 that was made available to the Lead Director and Cassel Salpeter. These measures were thought to be useful for evaluating, on a prospective basis, the Company s potential operating performance. The Company defines adjusted EBITDA as net income from continuing operations before preferred stock dividends in accordance with generally accepted accounting principles, or GAAP, adjusted to exclude interest, taxes, depreciation and amortization, stock compensation, changes in the fair value of the warrant liability and impairment of long lived-assets.

Because adjusted EBITDA as calculated by the Company is a non-GAAP financial measure, this measure should not be considered in isolation from, nor as a substitute for, net income as calculated in accordance with GAAP. Adjusted EBITDA, as calculated by the Company, may not be comparable to similarly titled measures employed by other companies. In addition, this measure does not necessarily represent funds available for discretionary use and is not necessarily a measure of the Company s ability to fund the Company s cash needs. Adjusted EBITDA excludes certain financial information compared to net income in accordance with GAAP, the most directly comparable GAAP financial measure. Shareholders should consider the types of events and transactions that are excluded when reviewing this financial information.

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As required by the SEC in accordance with Regulation G, the tables below provide a reconciliation of net income (as calculated in accordance with GAAP) to EBITDA.

($ in thousands)	FY 2014 (Projected)	FY 2013 (Actual)	FY 2012 (Actual)	FY 2011 (Actual)
Income/(loss) before discontinued operations	$ 1,536	$ (22,522)	$ (6,432)	$ (10,330)
Plus:				
Interest	2,047	2,137	2,224	1,483
Tax	100	38	75	134
Depreciation and amortization	1,414	1,672	2,460	3,122
Stock compensation	45	314	553	823
Impairment of long-lived assets		2,184		1,910
Fair value gain on warrant		(381)		
Adjusted EBITDA	5,142	(16,558)	(1,120)	(2,858)

Purpose and Reasons of the Rollover Shareholders, Parent and Merger Sub for the Merger

Under a possible interpretation of the SEC rules governing going-private transactions, each of the Rollover Shareholders, Parent and Merger Sub may be deemed to be affiliates of the Company and, therefore, required to express their purpose and reasons for the Merger to the unaffiliated shareholders of the Company. The Rollover Shareholders, Parent, and Merger Sub are making the statements included in this section solely for the purpose of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act.

For the Rollover Shareholders, Parent and Merger Sub, the purpose of the Merger is to enable Parent to acquire control of the Company, in a transaction in which the unaffiliated shareholders of the Company will be cashed out for $0.27 per share of Common Stock. For Merger Sub, the purpose of the Merger is to effectuate the transactions contemplated by the Merger Agreement. Following the Merger, Parent and the Rollover Shareholders will bear the rewards and risks of the ownership of the Company and the Company s Common Stock will cease to be publicly traded.

The Merger provides an opportunity for the Company s unaffiliated shareholders to immediately receive, in cash, a substantial premium for their shares based upon the closing price of the Company s Common Stock on September 27, 2013, the last trading date before the Consortium s offer to acquire all of the outstanding shares of Common Stock of the Company was announced. In addition, the Rollover Shareholders, Parent and Merger Sub believe the Merger is the best way to address the Company s liquidity needs, as the Company (a) requires substantial additional capital to operate on a standalone basis in accordance with the Company s business plan as informed by management and (b) has not been able to, and does not expect to be able to, identify or otherwise access any sources of equity or debt financing for the future operations of the Company prior to the date that it would exhaust its remaining cash resources, if ever.

The Merger will also allow the Rollover Shareholders to maintain a significant portion of their investment in the Company through their obligations to make an equity investment in Parent via the rollover of their existing holdings of Common Stock and Preferred Stock as described in *Special Factors Financing of the Merger Rollover Financing* beginning on page 58.

As stated in the Consortium s initial proposal letter for the Merger submitted to the Company, the Consortium decided to pursue the Merger because they believe that the Company can be operated more effectively as a privately-owned company. Recent market challenges have created a sharply competitive landscape and the Rollover Shareholders believe, at this point in time in the Company s operating history, it is now more important than ever to embrace a more entrepreneurial approach where the Company and its stakeholders are incentivized to grow and develop the Company s products, brand and business with a longer term perspective. The Rollover Shareholders believe it is increasingly difficult to develop this type of culture in a public company context, where the public markets are increasingly focused on short-term results. As a privately-owned company, the Company would have increased flexibility to make decisions that may negatively affect quarterly results but that may, over the long-term, increase the Company s value. In contrast, as a publicly-traded company, the Company currently faces public shareholder pressure to make decisions that may produce better short-term results, but which may over the long-term lead to a reduction in the per share

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price of its publicly-traded equity securities. As a privately-owned company, the Company would also be relieved of many of the other burdens and constraints imposed on public companies. The need for management to be responsive to public shareholder concerns and to engage in an ongoing dialogue with public shareholders may at times distract management s time and attention from the effective operation and improvement of the business.

For these reasons, the Rollover Shareholders, Parent and Merger Sub believe that private ownership is in the best interests of the business and the organization and that the Merger is in the best interests of the Company s shareholders.

Positions of the Rollover Shareholders as to the Fairness of the Merger

Under a possible interpretation of the SEC rules governing going-private transactions, the Rollover Shareholders may be deemed to be affiliates of the Company and, therefore, are required to express their beliefs as to the substantive and procedural fairness of the Merger to the unaffiliated shareholders of the Company. The Rollover Shareholders are making the statements included in this section solely for the purpose of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act.

As described below, the Rollover Shareholders believe that the Merger is fair to the unaffiliated shareholders of the Company on the basis of (i) the factors as described in *Special Factors Reasons for the Merger; Recommendation of the Lead Director and the Board of Directors; Fairness of the Merger* beginning on page 36, which factors the Rollover Shareholders agree with and adopt, and (ii) the additional factors described below. In this section and in *Special Factors Positions of Parent, Merger Sub, HGI, Philip Falcone and Michael Tokarz as to the Fairness of the Merger* beginning on page 53, we refer to the Board to mean the Board of Directors other than Messrs. Harley and Lynch, who recused themselves from all discussions by the Board of Directors relating to the Merger negotiations (except to the extent their presence was specifically requested by the Lead Director) and all deliberations by the Board of Directors with respect to the approval of the Merger and adoption of the Merger Agreement and related agreements.

None of the Rollover Shareholders participated in the deliberations of the Lead Director or the Board regarding, or received advice from the Company s legal advisor or the Lead Director s financial advisor as to, the fairness of the Merger. As described in *Special Factors Interests of the Company s Directors and Executive Officers in the Merger* beginning on page 60, and in *Special Factors Certain Effects of the Merger* beginning on page 54, the Rollover Shareholders have interests in the Merger different from those of the unaffiliated shareholders of the Company by virtue of the Rollover Shareholders obligation to make an equity investment in Parent via the rollover of their existing holdings of Common Stock and Preferred Stock.

The unaffiliated shareholders were represented by the Lead Director, who negotiated the terms and conditions of the Merger Agreement and evaluated the fairness of the Merger, with the assistance of the Lead Director s financial advisor and the Company s outside counsel. The Rollover Shareholders have not performed, nor engaged a financial advisor to perform, any valuation or other analysis for the purpose of assessing the fairness of the Merger to the unaffiliated shareholders of the Company.

Based on the Rollover Shareholders knowledge and analysis of available information regarding the Company, as well as discussions with members of the Company s senior management regarding the Company and its business and the factors considered by, and the analysis and resulting conclusions of, the Board and the Lead Director described in *Special Factors Reasons for the Merger; Recommendation of the Lead Director and the Board of Directors; Fairness of the Merger* beginning on page 36, with which the Rollover Shareholders agree and which analysis and resulting conclusions the Rollover Shareholders adopt, the Rollover Shareholders believe that the Merger is substantively fair to the unaffiliated shareholders of the Company. In particular, the Rollover Shareholders considered the following:

the Rollover Shareholders are not willing to sell their stake in the Company to a third party or allow the Company to merge with or be acquired by another entity; however, the Rollover Shareholders have not applied a minority discount to the merger consideration even though the Rollover Shareholders believe that the possibility of a competing bid by another party is highly unlikely;

other than his receipt of Board of Director and Lead Director fees (which are not contingent upon the consummation of the Merger or the Lead Director s or the Board of Director s recommendation

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or approval of the Merger) and his interests described in *Special Factors Interests of the Company s Directors and Executive Officers in the Merger* beginning on page 60, the Lead Director has no financial interest in the Merger that is different from, or in addition to, the interests of the unaffiliated shareholders generally, although the Merger Agreement does include customary provisions for indemnity and the continuation of liability insurance for the Company s officers and directors;

the Board determined, by the unanimous vote of the members of the Board, based on the recommendation of the Lead Director, that the Merger is fair to, and in the best interests of, the Company and its unaffiliated shareholders;

the fact that the Company (i) had been and was currently experiencing significant liquidity issues and (ii) only had a limited amount of availability under its line of credit for operations;

during the fiscal year ended July 27, 2013, the Company s (i) total net sales declined approximately 22.3% over the prior year period, (ii) the net loss increased approximately 250%, and (iii) the working capital deficiency increased by approximately 95%;

as a result of its continuing weak financial results, the Company experienced a coinciding decline in the market price of its common stock;

management of the Company s belief that if the Company s merchandise vendors did not continue to ship new product without being paid in full for their past due invoices, the Company would not have sufficient capital resources to fund its planned activities beyond December 31, 2013;

the fact that the Company would require substantial additional capital to operate on a standalone basis in accordance with the Company business plan;

the fact that the Company had not been able to, and did not expect to be able to, identify or otherwise access any sources of equity or debt financing for the future operations of the Company prior to the date that it would exhaust its remaining cash resources, if ever;

the possibility that (i) the Company s inability to continue as a going concern would likely result in a voluntary or involuntary bankruptcy, restructuring or liquidation in which the Company could receive less than the value at which its assets were carried on the Company s consolidated financial statements and (ii) in the event of a voluntary or involuntary bankruptcy, restructuring or liquidation of the Company, the holders of the Company s Common Stock would likely receive little or no value and would likely lose all or substantially all of their investment in the Company;

the per share merger consideration of $0.27 represents (i) a 50% premium to the closing price of the Company s Common Stock on September 27, 2013, the last trading day before the announcement by the Consortium of its initial proposal and (ii) a 46% premium over the average closing price of the Company s Common Stock for the 45 trading days prior to September 27, 2013, the last trading day before the announcement by the Consortium of its initial proposal;

the Merger will provide consideration to the unaffiliated shareholders of the Company entirely in cash, allowing the unaffiliated shareholders of the Company to immediately realize a certain and fair value for their shares of Common Stock and eliminating any uncertainty in valuing the consideration to be received by such shareholders;

the Merger shifts the risks relating to the Company s ability to continue as a going concern from the unaffiliated shareholders to the Rollover Shareholders;

the Merger shifts the risk of future financial performance from the unaffiliated shareholders to the Rollover Shareholders; and

the Merger allows unaffiliated shareholders to receive value for their stock, which would likely not be available if the Company voluntarily or involuntarily liquidated.

The Rollover Shareholders did not establish, and did not consider, a pre-Merger public company going concern value of Common Stock for the purposes of determining the per share merger consideration or the

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fairness of the per share merger consideration to the unaffiliated shareholders of the Company because, following the Merger, the Company will have a significantly different capital structure. However, to the extent the pre-Merger going concern value was reflected in the pre-announcement per share price of Common Stock, the per share merger consideration of $0.27 represented a premium to the going concern value of the Company. In addition, the Rollover Shareholders did not consider net book value of Common Stock because they believe that net book value, which is an accounting concept, does not reflect, or have any meaningful impact on, either the market trading prices of Common Stock or the Company s value as a going concern. The Rollover Shareholders did not consider liquidation value in determining the fairness of the Merger to the unaffiliated shareholders of the Company because of (i) their belief that liquidation sales generally result in proceeds substantially less than sales of a going concern, (ii) the impracticability of determining a liquidation value given the significant execution risk involved in any breakup, (iii) their belief that the Company is a viable, going concern and (iv) the Company s plans to continue to operate its business following the Merger.

The Rollover Shareholders believe that the Merger is procedurally fair to the unaffiliated shareholders of the Company based upon the following:

the Lead Director conducted an extensive due diligence investigation of the Company before commencing negotiations, which the Rollover Shareholders believe provided the Lead Director with the information necessary to effectively represent the interests of the unaffiliated shareholders;

the Lead Director retained its own recognized financial advisor;

other than their receipt of Board of Directors and Lead Director fees (which are not contingent upon the consummation of the Merger or the Lead Director s or the Board s recommendation or approval of the Merger) and their interests described in *Special Factors Interests of the Company s Directors and Executive Officers in the Merger* beginning on page 60, the Lead Director, who is disinterested and independent and is not affiliated with the Rollover Shareholders, Parent or Merger Sub, and who has no financial interest in the Merger that is different from, or in addition to, the interests of the unaffiliated shareholders generally, was given exclusive authority to, among other things, review, evaluate and negotiate the terms of the proposed Merger, to decide not to engage in the Merger and to consider alternatives to the Merger;

the per share merger consideration of $0.27, and the other terms and conditions of the Merger Agreement, resulted from extensive negotiations between Parent and its advisors, on the one hand, and the Lead Director and his advisors, on the other hand;

the Lead Director was deliberate in his process, taking over two months to analyze and evaluate the Consortium s initial proposal and to negotiate with the Consortium the terms of the proposed Merger, ultimately resulting in a $0.04, or 17%, per share increase in the merger consideration to be paid in connection with the Merger over that initially proposed by the Consortium;

the Lead Director received an opinion of his financial advisor as to, as of December 18, 2013, the fairness, from a financial point of view, to the Public Shareholders of the merger consideration to be received by such holders in the Merger pursuant to the Merger Agreement;

the Board determined, by the unanimous vote of the members of the Board, based on the recommendation of the Lead Director, that the Merger is fair to, and in the best interests of, the Company and its unaffiliated shareholders; and

shareholders who do not vote in favor of the Merger Agreement and who comply with certain procedural requirements will be entitled, upon completion of the Merger, to exercise statutory appraisal rights under New York law, which allow shareholders to have the fair value of their shares determined by a court; and

the fact that there are no unusual requirements or conditions to the Merger to provide the financing necessary to consummate the Merger expeditiously, increasing the likelihood that the Merger will be consummated and that the consideration to be paid to the unaffiliated shareholders of the Company in the Merger will be received.

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The foregoing discussion of the information and factors considered and given weight by the Rollover Shareholders in connection with the fairness of the Merger Agreement and the Merger is not intended to be exhaustive, but is believed to include all material factors considered by them. The Rollover Shareholders did not find it practicable to, and did not, quantify or otherwise attach relative weights to the foregoing factors in reaching their position as to the fairness of the Merger Agreement and the Merger. Rather, the Rollover Shareholders made the fairness determinations after considering all of the foregoing as a whole. The Rollover Shareholders believe these factors provide a reasonable basis upon which to form their belief that the Merger is fair to the unaffiliated shareholders of the Company. This belief should not, however, be construed as a recommendation to any Company shareholder to approve the Merger or adopt the Merger Agreement. The Rollover Shareholders do not make any recommendation as to how shareholders of the Company should vote their shares of Common Stock relating to the Merger.

The decision to undertake the going-private transaction at this time was made after taking into account the negative effects that the Company s financial results have had on the Company s ability to take advantage of certain benefits of being a public entity, including financing opportunities and an active, liquid market for its Common Stock. Despite the capital infusion provided by the Series B Preferred convertible transaction and the recent increase in the amount of funds available under the Company s credit facility, the Company continued to face significant liquidity and other financial difficulties. The Company has not been able to, and does not expect to be able to, identify or otherwise access any sources of equity or debt financing for the future operations of the Company prior to the date that it would exhaust its remaining cash resources. In light of these factors, the Rollover Shareholders and the Lead Director have determined that the costs and challenges associated with keeping the Company a public company far exceed the benefits and that undertaking the going private transaction at this time would alleviate such costs and challenges.

Positions of Parent, Merger Sub, HGI, Philip Falcone and Michael Tokarz as to the Fairness of the Merger

Under a possible interpretation of the SEC rules governing going-private transactions, Parent, Merger Sub, HGI, Philip Falcone and Michael Tokarz may be deemed to be affiliates of the Company and, therefore, required to express their beliefs as to the substantive and procedural fairness of the Merger to the unaffiliated shareholders of the Company. Parent, Merger Sub, HGI, Mr. Falcone and Mr. Tokarz are making the statements included in this section solely for the purpose of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act.

None of Parent, Merger Sub, HGI, Mr. Falcone or Mr. Tokarz participated in the deliberations of the Lead Director or the Board regarding, or received advice from the Company s legal advisor or the Lead Director s legal or financial advisors as to, the fairness of the Merger to the Company s unaffiliated shareholders. Parent, Merger Sub, HGI, Mr. Falcone and Mr. Tokarz considered the same factors considered by, and adopted the analysis and resulting conclusions of, the Rollover Shareholders, as described in *Special Factors Positions of the Rollover Shareholders as to the Fairness of the Merger* beginning on page 50. Based on the information and factors set forth in the foregoing discussion, as well as Parent s, Merger Sub s, HGI s, Mr. Falcone s and Mr. Tokarz s knowledge and analysis of available information regarding the Company, as well as discussions with members of the Company s senior management regarding the Company and its business and the factors considered by, and the analysis and resulting conclusions of, the Board and the Lead Director described in *Special Factors Reasons for the Merger; Recommendation of the Lead Director and the Board of Directors; Fairness of the Merger* beginning on page 36 (including, without limitation, the Board s and Lead Director s analysis with respect to the Company s going concern value), with which Parent, Merger Sub, HGI, Mr. Falcone and Mr. Tokarz agree and which analysis and resulting conclusions Parent, Merger Sub, HGI, Mr. Falcone and Mr. Tokarz adopt, Parent, Merger Sub, HGI, Mr. Falcone and Mr. Tokarz believe that the Merger is fair to the unaffiliated shareholders of the Company. Parent, Merger Sub, HGI, Mr. Falcone and Mr. Tokarz believe that the foregoing information and factors provide a reasonable basis for their belief that the Merger is fair to the unaffiliated shareholders of the Company. This belief should not, however, be construed as a recommendation to any Company shareholder to approve the Merger or adopt the Merger Agreement. Parent, Merger Sub, HGI, Mr. Falcone and Mr. Tokarz do not make any recommendation as to how shareholders of the Company should vote their shares of Common Stock relating to the Merger.

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Plans for the Company after the Merger

After the Effective Time, neither the Company s corporate structure nor its business will change. Parent anticipates that the Company will continue its current operations, except that it will (i) cease to be an independent public company and will instead be a wholly owned subsidiary of Parent and (ii) have significantly more debt than it currently has. There are no current plans to repay the debt taken out to finance the Merger, which is due on May 31, 2015 if the Merger is consummated. If the Merger is consummated, the Common Stock will cease to be quoted on the OTCQB and will cease to be registered under the Exchange Act (via termination of registration pursuant to Section 12(g) of the Exchange Act). After the Effective Time: (i) no member of the present Board of Directors of the Company will continue to serve as a director of the Company, and (ii) the present directors of Merger Sub will become the directors of the Company. The named Executive Officers of the Company immediately prior to the Effective Time will remain the named Executive Officers of the Company, specifically Thomas J. Lynch and Thomas Rende, in each case until the earlier of their resignation or removal or until their respective successors are duly elected or appointed and qualified, as the case may be. Parent has entered into a new employment agreement with Thomas J. Lynch, the chief executive officer and chairman of the Board of Directors of the Company, but has not entered into a new employment agreement with Mr. Rende or any other executive officer of the Company.

Mr. Lynch s new employment agreement, which was negotiated after the Lead Director negotiated the merger consideration of $0.27 per share in cash, will commence only upon the Effective Time. The new employment agreement makes the following material changes to the terms of Mr. Lynch s employment: (i) the term of his new employment will continue until the third anniversary of the Effective Time, unless terminated earlier as provided in the agreement, or unless extended by mutual written agreement of the Company, Parent and Mr. Lynch, (ii) the Company will pay Mr. Lynch a one-time cash signing bonus of $150,000, (iii) as additional compensation, Parent will recommend to its board of managers that Mr. Lynch be granted an equity interest in Parent, representing approximately 5% of the outstanding equity interests of Parent outstanding after the Merger, in the form of incentive units that are part of a separate series of units from those being issued to the Rollover Shareholders and are subject to vesting and other terms, to be made promptly, but in no event more than sixty days, following the Effective Time, (iv) Mr. Lynch must deliver to the Company a general release of all claims in a form and substance acceptable to the Company, in order to receive any payments upon termination of his employment (other than payments required by law), and (v) the change of control provision in Mr. Lynch s existing employment agreement, which would have provided him with a cash bonus of $675,000 if his employment was terminated under certain circumstances following a change of control, was not included. For a full description of the employment agreements of Messrs. Lynch and Rende, see *Special Factors Interests of the Company s Directors and Executive Officers in the Merger* beginning on page 60.

Certain Effects of the Merger

If the Shareholder Approval is obtained and the other conditions to the Closing are either satisfied or waived, Merger Sub will be merged with and into the Company, with the Company surviving as a wholly owned subsidiary of Parent. Except for the Rollover Shareholders (and Mr. Lynch, upon his receipt of an equity interest in Parent, pursuant to his new employment agreement, in the form of incentive units that are part of a separate series of units from those being issued to the Rollover Shareholders and are subject to vesting and other terms), none of our current shareholders will have any ownership interest in, or be a shareholder of, the Company after the completion of the Merger. As a result, our current shareholders (other than the Rollover Shareholders and Mr. Lynch) will no longer benefit from any increase in our value, nor will they bear the risk of any decrease in our value. Following the Merger, Parent (and Mr. Lynch) will benefit from any increase in our value and also will bear the risk of any decrease in our value.

Upon the consummation of the Merger:

each issued and outstanding share of Common Stock held by the Public Shareholders will be converted automatically into and will represent the right to receive $0.27 in cash, without interest and less any required withholding taxes, and each share shall otherwise cease to be outstanding and shall otherwise automatically be cancelled and cease to exist;

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each issued and outstanding share of Common Stock that is owned by the Rollover Shareholders (all of which stock shall, immediately prior to the Effective Time, be held indirectly by Parent pursuant to the terms of the Rollover Agreement between Parent and each of the Rollover Shareholders, as described in *Agreements Involving the Company s Securities; Transactions Between the Rollover Shareholders and the Company Agreements Involving the Company s Securities* beginning on page 87) immediately prior to the Effective Time shall cease to be outstanding and shall automatically be cancelled and shall cease to exist;

each Company stock option (other than those held by Mr. Harley) that is outstanding immediately prior to the Effective Time, whether or not vested or exercisable, as of the Effective Time, will be cancelled. Each holder will be entitled to receive a payment, if any, in cash from the Company (less any applicable withholding taxes) promptly following the Effective Time, equal to (a) the amount, if any, by which $0.27 exceeds the exercise price per share with respect to the stock option, multiplied by (b) the total number of shares of Common Stock then issuable upon the exercise of the stock option. As of the date of this proxy statement, the Company has outstanding options to purchase 360,000 shares with an exercise price of less than $0.27, which will be cancelled for an aggregate consideration of $30,900. All of the Company s other outstanding stock options (including all of those held by the Company s directors and Executive Officers) will be cancelled for no consideration;

each Company share-based award other than a stock option, including restricted share awards (other than those held by Mr. Harley), whether or not vested, as of the Effective Time, will be cancelled. Each holder will be entitled to receive a payment, in cash from the Company (less any applicable withholding taxes) promptly following the Effective Time, equal to (a) $0.27 per share, multiplied by (b) the total number of shares of Common Stock constituting the award. As of the date of this proxy statement, the Company has outstanding an aggregate of 737,194 shares subject to restricted share awards, which will be cancelled in exchange for aggregate consideration of $199,042.38. These amounts include an aggregate of 578,694 shares subject to restricted share awards held by the Company s directors (other than Mr. Harley) and Executive Officers, which will be cancelled for aggregate consideration of $156,247.38;

each Company warrant (other than those held by Mr. Harley and the other Rollover Shareholders), whether or not vested or exercisable, as of the Effective Time, will be cancelled. Each holder will be entitled to receive a payment, if any, in cash from the Company (less any applicable withholding taxes) promptly following the Effective Time, equal to (a) the amount, if any, by which $0.27 exceeds the exercise price per share with respect to the warrant, multiplied by (b) the total number of shares of Common Stock then issuable upon the exercise of the warrant. However, any Company warrant that will have no value after the Effective Time (because the warrant has an exercise price per share that is greater than the merger consideration and, as of the Effective Time, the holder of the warrant will be entitled to receive, upon exercise of the warrant, only the merger consideration multiplied by the number of shares subject to the warrant), may remain outstanding. As of the date of the proxy statement, the Company has no outstanding warrants (other than those held by one of the Rollover Shareholders) with an exercise price of less than $0.27 and, accordingly, no consideration will be paid with respect to these warrants; and

each Company stock option and restricted share award held by Mr. Harley and each warrant held by Mr. Harley and the other Rollover Shareholders, as of the Effective Time, will be cancelled on the terms and conditions set forth in the Rollover Agreement between Parent and the Rollover Shareholders.

Following the Merger, the entire equity in the Company, as the surviving corporation, will be owned by Parent. If the Merger is completed, the Rollover Shareholders (and Mr. Lynch, upon his receipt of an equity interest in Parent, pursuant to his new employment agreement, in the form of incentive units that are part of a separate series of units from those being issued to the Rollover Shareholders and are subject to vesting and other terms) will be the sole beneficiaries of our future earnings and growth, if any, and will be entitled to vote on corporate matters affecting the Company following the Merger. Similarly, the Rollover Shareholders

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(and Mr. Lynch, upon his receipt of such equity interest) will also bear the risks of ongoing operations, including the risks of any decrease in our value after the Merger and the operational and other risks related to the incurrence by the Company, as the surviving corporation, of additional debt as described below in *Special Factors Financing of the Merger* beginning on page 58.

If the Merger is completed, the Company s shareholders other than the Rollover Shareholders (and Mr. Lynch) will have no interest in the Company s net book value or net earnings.

Following the Merger, the Rollover Shareholders (and Mr. Lynch, upon his receipt of an equity interest in Parent, pursuant to his new employment agreement, in the form of incentive units that are part of a separate series of units from those being issued to the Rollover Shareholders and are subject to vesting and other terms) will own 100% of Parent (and thereby indirectly 100% of the Company). The following table sets forth, among other things, the percentage ownership of the Company by each of the Rollover Shareholders and Mr. Lynch pre-and post-Merger, as well as the interest in the net book value and net earnings of the Company of each of the Rollover Shareholders and Mr. Lynch pre-and post-Merger.

Rollover Shareholder	Ownership of the Company Prior to the Merger				
	Ownership Percentage[1]	Interest in the Net Book Value/ (Shareholders Deficiency) of the Company[2]	Percentage Interest in the Net Book Value/ (Shareholders Deficiency) of the Company[2]	Interest in the Net Earnings/(Loss) of the Company[3]	Percentage Interest in the Net Earnings/(Loss) of the Company
HGI Funding, LLC					
Tokarz Investments, LLC	21.4%	$ (3,716)	21.4%	$ (5,009)	21.4%
TTG Apparel, LLC	4.5%	$ (783)	4.5%	$ (1,055)	4.5%
Arsenal Group, LLC	28.9%	$ (5,033)	28.9%	$ (6,784)	28.9%
Fursa Alternative Strategies LLC	14.5%	$ (2,522)	14.5%	$ (3,399)	14.5%
William F. Harley III	1.2%	$ (210)	1.2%	$ (283)	1.2%
Thomas J. Lynch[4]	1.5%	$ (265)	1.5%	$ (357)	1.5%

Rollover Shareholder	Ownership of the Company After the Merger				
	Ownership Percentage[1]	Interest in the Net Book Value/ (Shareholders Deficiency) of the Company[2]	Percentage Interest in the Net Book Value/ (Shareholders Deficiency) of the Company	Interest in the Net Earnings / (Loss) of the Company[3]	Percentage Interest in the Net Earnings/ (Loss) of the Company
HGI Funding, LLC	62.0%	$ (10,789)	62.0%	$ (14,542)	62.0%
Tokarz Investments, LLC	12.1%	$ (2,112)	12.1%	$ (2,847)	12.1%
TTG Apparel, LLC	10.9%	$ (1,890)	10.9%	$ (2,547)	10.9%

Arsenal Group, LLC	9.7 %	$ (1,696)	9.7 %	$ (2,285)	9.7 %
Fursa Alternative Strategies LLC	4.9 %	$ (850)	4.9 %	$ (1,145)	4.9 %
William F. Harley III	0.4 %	$ (65)	0.4 %	$ (87)	0.4 %
Thomas J. Lynch(4)					

(1) Based on 39,273,254 shares of Common Stock outstanding as of April 14, 2014.

(2) Based on a shareholders deficiency of $17,401,000 as of July 27, 2013.

(3) Based on a net loss of $23,455,000 for the fiscal year ended July 27, 2013.

(4) The equity interest in Parent that is to be granted to Mr. Lynch under his new employment agreement will be in the form of incentive units that are part of a separate series of units from those being issued to the Rollover Shareholders and will be subject to vesting and other terms.

As of the consummation of the Merger, the Rollover Shareholders (and Mr. Lynch), and any permitted assignee or designee thereof, will have an indirect interest in our net book value and earnings as a result of their ownership of all the equity interests in Parent.

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A primary benefit of the Merger to the unaffiliated shareholders of the Company will be the right of such shareholders to receive a cash payment of $0.27, without interest, for each share of Common Stock held by such shareholders, representing a premium of approximately 50% to the closing price of the Common Stock on September 27, 2013, the last trading day before the announcement by the Consortium Members of their proposal to acquire all outstanding shares of Common Stock not owned by him, as well as a premium of approximately 46% over the average closing price of the Company s Common Stock for the 45 trading days prior to that date.

The primary detriments of the Merger to the unaffiliated shareholders of the Company include the lack of interest of such shareholders in our potential future earnings, growth or value. Additionally, the receipt of cash in exchange for shares of Common Stock pursuant to the Merger will generally be a taxable sale transaction for U.S. federal income tax purposes to our shareholders who surrender shares of our Common Stock in the Merger.

In connection with the Merger, the Rollover Shareholders (and Mr. Lynch), and any permitted assignee or designee of the foregoing, will receive benefits and be subject to obligations that are different from, or in addition to, the benefits received by our unaffiliated shareholders generally. The primary benefits of the Merger to the Rollover Shareholders (and Mr. Lynch), based on their ownership of all the equity interests in Parent, include their interest in our potential future earnings and growth which, if they successfully execute their business strategies, could be substantial. Additionally, following the Merger, we will be a private company, and as such will be relieved of the burdens imposed on companies with publicly traded equity, including the requirements and restrictions on trading that our directors, officers and beneficial owners of more than 10% of the shares of our Common Stock face as a result of the provisions of Section 16 of the Exchange Act and the requirement of furnishing a proxy statement in connection with shareholders meetings pursuant to Section 14(a) of the Exchange Act. Termination of registration of our Common Stock under the Exchange Act will also substantially reduce the information required to be furnished by the Company to the public and the SEC. It is estimated that the Company will save approximately $700,000 per year as a result of no longer being a publicly traded company. Additionally, following the Merger, the Rollover Shareholders will control the surviving corporation. Additional anticipated benefits to the Rollover Shareholders include receiving tax-free treatment with respect to the contribution of shares of Common Stock in the transaction pursuant to the Rollover Agreement discussed in *Agreements Involving the Company s Securities; Transactions Between the Rollover Shareholders and the Company Agreements Involving the Company s Securities Rollover Agreement* beginning on page 87. As a result of the Merger, the Rollover Shareholders (and Mr. Lynch) may also become the beneficiaries of the Company s future use of net operating loss carryforwards, which, as of July 27, 2013, equaled approximately $80,000,000 before any ownership change adjustments under Section 382 of the Code. The Company s management determined that an ownership change of the Company under Section 382 of the Code occurred in connection with the sale of the Series B Convertible Preferred Stock on March 15, 2013. Accordingly, management determined, on a preliminary basis, that the amount of net operating loss carryforwards that may be utilized to offset future taxable income will be limited to approximately $365,000 per year until the last of the net operating loss carryforwards expire in 20 years, or approximately $7,300,000 in the aggregate. It is possible that the Company s income may be higher following the Merger due in part to the cost savings noted above relating to the Company s avoidance of costs associated with being a publicly traded company. The ownership changes of the Company that occurred on March 3, 2005 and January 28, 2008 would have resulted in a higher annual limitation and therefore have no effect on these estimates. The Company s management also determined, on a preliminary basis, that the Merger will not result in a further annual limitation, because it will not result in an ownership change of the Company.

The primary detriments of the Merger to the Rollover Shareholders (and Mr. Lynch) include the fact that all of the risk of any possible decrease in our earnings, growth or value, and all of the risks related to our additional leverage, which is substantial, following the Merger will be borne by Parent and indirectly by such shareholders. Additionally, the interests of the Rollover Shareholders (and Mr. Lynch) in Parent and the Company will not be liquid, with no public trading market for such securities, and the equity securities of Parent and the Company may be subject to contractual restrictions on transfer, including, in the case of our securities, liens to the extent provided under the terms of our debt financing.

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In connection with the Merger, the Executive Officers will receive benefits and be subject to obligations that are different from, or in addition to, the benefits and obligations of the Company s unaffiliated shareholders generally, as described above with respect to Mr. Lynch and as described generally in more detail in *Special Factors Interests of the Company s Directors and Executive Officers in the Merger* beginning on page 60. Such incremental benefits are expected to include, among others, Mr. Lynch continuing as an executive officer of the surviving corporation and receiving, pursuant to his new employment agreement, an equity interest in Parent in the form of incentive units that are part of a separate series of units from those being issued to the Rollover Shareholders and are subject to vesting and other terms. Additionally, Thomas Rende, if he does not continue as executive officer of the surviving corporation, will receive certain change in control payments.

The Common Stock is currently registered under the Exchange Act and is quoted on the OTCQB under the symbol FOHL. As a result of the Merger, the Company will be a privately held corporation and there will be no public market for its stock. After the Merger, the Common Stock will cease to be quoted on the OTCQB and price quotations with respect to sales of Common Stock in the public market will no longer be available. In addition, registration of the Common Stock under the Exchange Act will be terminated.

The certificate of incorporation and the by-laws of the Company will be amended in the Merger to read in their entirety in the form of Exhibit D to the Merger Agreement (in the case of the certificate of incorporation) and Exhibit E to the Merger Agreement (in the case of the by-laws), and, as so amended, will be the certificate of incorporation and by-laws of the Company following the Merger until thereafter amended in accordance with their respective terms and the NYBCL. The Merger Agreement (including the amendment thereto) is attached to this proxy statement as *Annex A*.

Financing of the Merger

The Company and Parent estimate that the total financing required to complete the Merger and related transactions and pay related fees and expenses will be approximately $25,230,585, which consists of $21,209,150 in rollover equity, $3,161,435 in merger consideration payable in cash to the Public Shareholders and holders of Company stock options and an estimated $860,000 in fees and expenses. Parent expects this amount to be provided through a combination of the proceeds of:

the rollover of Common Stock by the Rollover Shareholders immediately prior to the Merger (representing 27,678,679 shares of Common Stock, 58,056 shares of Series A Convertible Preferred Stock and 110,804 shares of Series B Convertible Preferred Stock, the equivalent of an approximately $21,209,150 investment based upon the per share merger consideration of $0.27 and valuing the convertible preferred stock on an as-converted basis), which is described in *Special Factors Financing of the Merger Rollover Financing* beginning on page 58; and
debt financing (up to $6,000,000 of which may be used for the Merger), which is available to us under our existing credit facility with the Lenders and which is described in *Special Factors Financing of the Merger Debt Financing* beginning on page 59.

Rollover Financing

On December 18, 2013, the Rollover Shareholders entered into the Rollover Agreement with Parent, pursuant to which the Rollover Shareholders collectively committed to contribute, immediately prior to the consummation of the Merger, an aggregate amount of 27,678,679 shares of Common Stock, 58,056 shares of Series A Convertible Preferred Stock and 110,804 shares of Series B Convertible Preferred Stock to Parent (the equivalent of a $21,209,150 investment based on the per share merger consideration of $0.27 and valuing the convertible preferred stock on an as-converted basis) in exchange for an increase in their equity interests in Parent. The obligations of the Rollover

Shareholders pursuant to the Rollover Agreement are conditioned upon the satisfaction or waiver of the conditions to the obligations of Parent to complete the Merger contained in the Merger Agreement.

The Rollover Agreement is further described in *Agreements Involving the Company s Securities; Transactions Between the Rollover Shareholders and the Company Agreements Involving the Company s Securities* beginning on page 87.

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Debt Financing

The Company is party to that certain Credit and Security Agreement, dated as of May 31, 2012, which, as amended, supplemented, modified and in effect on the date of this proxy statement, we refer to as the Credit Agreement, with FOH Holdings, Inc., Frederick s of Hollywood, Inc., Frederick s of Hollywood Stores, Inc. and Hollywood Mail Order, LLC, each a direct or indirect subsidiary of the Company, and which we refer to as the Borrowers, and the Lenders.

The Credit Agreement, among other things, provides for a line of credit of up to $35,000,000, which includes two tranches of first in last out advances. The second such tranche, or the Second Tranche, in the amount of $11,000,000, represents (i) $5,000,000 that was advanced to the Company on October 10, 2013 to provide short term working capital and (ii) up to $6,000,000 that may be advanced upon consummation of the Merger, at the Borrowers option, subject to the terms and conditions of the Credit Agreement, in order to finance the payment of the merger consideration and for other fees, expenses, costs and obligations incurred by Borrowers in connection with the Merger, or the Merger Advance. The Company will pay an additional origination fee in an amount equal to $60,000, which will be due and payable on the earliest of (A) the date on which the Lender funds the Merger Advance, (B) the occurrence of an Event of Default under the Credit Agreement, or (C) June 15, 2014, if the Merger has not occurred by such date.

The $5,000,000 advance is to be repaid on June 15, 2014 if the Merger is not consummated by that date, or May 31, 2015 if the Merger is consummated on or before June 15, 2014. The $6,000,000 advance, if made, plus any additional amount that the Lender may elect to advance in its sole discretion, is to be repaid on May 31, 2015. The unpaid principal of the Second Tranche will bear interest, payable monthly, in arrears, at an amount equal to the LIBOR Rate (as defined in the Credit Agreement) in effect from time to time plus 11.5% per annum, but not less than 14% per annum regardless of fluctuations in the LIBOR Rate. Following the consummation of the Merger, so long as no Event of Default (as defined in the Credit Agreement) has occurred and is continuing, a portion of the interest payable on the Second Tranche equal to 6% per annum (or such lesser amount as the Borrowers may elect) shall be capitalized, compounded and added to the unpaid amount of the total obligations due under the credit facility on each interest payment date and shall also accrue interest at the applicable rate and will be due and payable in cash on May 31, 2015.

The obligations of the Borrowers under the Credit Agreement, including for the Merger Advance, are secured by first priority security interests granted to the Lenders in all of the Borrowers tangible and intangible property, including intellectual property such as trademarks and copyrights, as well as shares and membership interests of the Borrowers that are subsidiaries of other Borrowers.

The Merger Advance is subject to certain conditions, including, without limitation:

the absence of any Default (as defined in the Credit Agreement) or Event of Default as of the date of Borrowers notice to Lenders regarding the Merger Advance and as of the effective date of the proposed increase in the amounts under the Second Tranche;

Borrowers shall have concurrently with the making of such Merger Advance consummated the Merger;

after giving effect to the requested Merger Advance (x) the aggregate principal amount of the two tranches of first in last out advances exclusive of paid-in-kind interest accrued thereon shall not exceed the lesser of $25,000,000 and the fair market value of the Company s intellectual property, unless the Merger closes after June 15, 2014, in which case the limit shall be the lesser of $19,000,000 and 85% of the fair market value of the Company s intellectual property rights, and (y) the outstanding balance of all advances under the Credit Agreement shall not exceed the Borrowing Base (as defined in the Credit Agreement); and

payment by Borrowers to Lender of the additional origination fee described above.

Although the debt financing described in this proxy statement is not subject to due diligence or a market out provision, which allows lenders not to fund their commitments if certain conditions in the financial markets prevail, there is still a risk that such debt financing may not be funded when required. As of

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the date of this proxy statement, no alternative financing arrangements or alternative financing plans have been made in the event the debt financing described in this proxy statement is not available as anticipated.

The Lenders are affiliates of HGI, HGI Funding and Parent. Salus commenced operations in December 2011 and is a subsidiary of HGI engaged primarily in the business of providing secured asset-based loans across a variety of industries. Salus CLO is a collateralized loan obligation vehicle of Salus providing for the issuance of collateralized obligations. The Lenders under the Credit Agreement have in the past engaged, and may in the future engage, in transactions with and perform services, including commercial banking, financial advisory and investment banking services, for the Company and its affiliates in the ordinary course of business for which they have received or will receive customary fees and expenses.

No plans or arrangements have been made to refinance or repay the Merger Advance.

Copies of the Credit Agreement and the amendments thereto are attached as exhibits to the Current Reports on Form 8-K filed by the Company with the SEC June 6, 2012, May 30, 2013, July 31, 2013, October 16, 2013 and April 1, 2014.

Interests of the Company s Directors and Executive Officers in the Merger

When considering the recommendation of the Board of Directors, you should be aware that certain members of the Board of Directors and our Executive Officers have interests in the Merger other than their interests as shareholders generally, including those described below. These interests may be different from, or in conflict with, your interests as a shareholder of the Company. The members of the Board of Directors and the Lead Director were aware of these additional interests, and considered them, when they approved the Merger Agreement and recommended that shareholders vote in favor of approving the Merger and adopting the Merger Agreement.

At the Effective Time, shares of Common Stock held by the members of the Board of Directors (other than Mr. Harley) and our Executive Officers will be converted into the right to receive the merger consideration in the same manner as all outstanding shares of Common Stock held by the unaffiliated shareholders of the Company, as described in *Special Factors Certain Effects of the Merger* beginning on page 54.

Interests of the Non-Employee Directors

Each Company stock option that is held by a non-employee director (other than those held by Mr. Harley) and that is outstanding immediately prior to the Effective Time, whether or not vested or exercisable, will, as of the Effective Time, be cancelled and will entitle each holder thereof to receive a payment, if any, in cash from the Company (less any applicable withholding taxes), promptly following the Effective Time, equal to (a) the amount, if any, by which $0.27 exceeds the exercise price per share with respect to such stock option, multiplied by (b) the total number of shares of Common Stock then issuable upon the exercise of such stock option. As of the date of this proxy statement, none of the non-employee directors (including Mr. Harley) hold stock options with an exercise price of less than $0.27. Accordingly, all of the stock options held by the non-employee directors will be cancelled for no consideration.

As of the Effective Time, each Company share-based award other than a stock option, including restricted share awards (other than those held by Mr. Harley), whether or not vested, will be cancelled and will entitle each holder thereof to receive a payment, in cash from the Company (less any applicable withholding taxes) promptly following the Effective Time, equal to (a) $0.27 per share, multiplied by (b) the total number of shares of Common Stock constituting the award. As of the date of this proxy statement, the non-employee directors (other than Mr. Harley) hold an aggregate of 99,500 shares subject to restricted share awards, which will be cancelled in exchange for aggregate consideration of $26,865.

Mr. Harley and the other Rollover Shareholders will contribute, immediately prior to the consummation of the Merger, their shares of our capital stock beneficially owned by them (after taking into account the transfer of shares of Series A Convertible Preferred Stock from TTG to HGI Funding pursuant to the Purchase Agreement) to Parent in exchange for an increase in their equity interests in Parent. Following the Merger, the Company will be 100% beneficially owned by Mr. Harley and the other Rollover Shareholders (and Mr. Lynch, upon his receipt of an equity interest in Parent, pursuant to his new employment agreement, in the form of incentive units that are part of a separate series of units from those being issued to the Rollover Shareholders and are subject to vesting and other terms), and any permitted assignee or designee thereof. For a description of the treatment of the Common Stock beneficially owned by Mr. Harley in the Merger and a discussion of Mr. Harley s continuing interest in the Company as a Rollover Shareholder, see *Special Factors Certain Effects of the Merger* beginning on page 54. Each Company stock option and restricted share award held by Mr. Harley and each warrant held by Mr. Harley and the other Rollover Shareholders, as of the Effective Time, will be cancelled on the terms and conditions set forth in the Rollover Agreement between Parent and the Rollover Shareholders.

Peter Cole and William F. Harley III, each a member of our Board of Directors, became members of the board of managers of Parent on the date the Merger Agreement was executed. Currently, members of the board of managers of Parent receive no cash fees or equity awards for their service.

Interests of Executive Officers

Each Company stock option that is held by an Executive Officer (or any other holder who is not a Rollover Shareholder) and that is outstanding immediately prior to the Effective Time, whether or not vested or exercisable, will, as of the Effective Time, be cancelled and will entitle each such holder thereof to receive a payment, if any, in cash from the Company (less any applicable withholding taxes), promptly following the Effective Time, equal to (a) the amount, if any, by which $0.27 exceeds the exercise price per share with respect to such stock option, multiplied by (b) the total number of shares of Common Stock then issuable upon the exercise of such stock option. As of the date of this proxy statement, the Executive Officers do not hold stock options with an exercise price of less than $0.27. Accordingly, all of the stock options held by the Executive Officers will be cancelled for no consideration.

As of the Effective Time, each Company share-based award other than a stock option that is held by an Executive Officer (or any other holder who is not a Rollover Shareholder), including restricted share awards, whether or not vested, will be cancelled and will entitle each holder thereof to receive a payment, in cash from the Company (less any applicable withholding taxes) promptly following the Effective Time, equal to (a) $0.27 per share, multiplied by (b) the total number of shares of Common Stock constituting the award. As of the date of this proxy statement, our employees hold an aggregate of 637,694 shares of Common Stock subject to restricted share awards (of which 479,194 shares are held by our Executive Officers), which will be cancelled in exchange for aggregate consideration of $172,177.38 (of which $129,382.38 will be paid to our Executive Officers).

We have an employment agreement with Thomas Rende, our chief financial officer, which expired on December 31, 2013, although its terms generally continue to apply after its expiration. Under the continuing terms of his employment agreement, Mr. Rende will be entitled to enhanced severance benefits if (1) a change of control (as defined in his employment agreement) occurs (which includes the consummation of the Merger) and (2) within 24 months thereafter, his employment as an at will employee is terminated. In such event, we will pay Mr. Rende an amount equal to 125% of his base salary, in addition to all other compensation and benefits otherwise to be paid pursuant to his employment agreement. Under the continuing terms of his employment agreement, the change of control payment will be made in two installments: (x) the first installment will be paid ten days after his employment is terminated, in an amount equal to twice the lesser of: (a) the sum of his total compensation (including salary and bonus) for the calendar year preceding the year in which his employment with the Company was terminated (adjusted for any increase during that year that was expected to continue indefinitely if he had not terminated employment), and (b) the maximum amount that may be taken into account under a qualified plan under section 401(a)(17) of the Code for the year in which his employment with the Company is terminated; and (y) the second installment will be paid on the first business day following the day that is six months after his employment is terminated, in an amount equal to the balance, if any, of the change of control payment. The other compensation and benefits otherwise to be paid to Mr.

Rende include: (i) the sum of $250,000; (ii) any non-equity incentive compensation that would have become payable for the year in which his employment was terminated, pro-rated for the number of months worked during the fiscal year of termination; (iii) company-paid continuation of medical coverage for one year after termination; (iv) all valid business expense reimbursements; and (v) all accrued but unused vacation pay.

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Named Executive Officer Merger-Related Compensation Table

The descriptions of the payments immediately above as they relate to our named executive officers, Thomas J. Lynch and Thomas Rende, and the quantifications of the payments in the table below are intended to comply with Item 402(t) of Regulation S-K of the Exchange Act, which requires disclosure of information about compensation and benefits that each of the Company s named executive officers will or may receive in connection with the Merger. This compensation is referred to as golden parachute compensation by applicable SEC disclosure rules, and such compensation is subject to a non-binding, advisory vote of the Company s shareholders, as described below in *Advisory Vote Regarding Merger-Related Compensation Proposal* beginning on page 101.

Named Executive Officer	Cash ($)	Equity ($)[1]	Perquisites/benefits ($)	Total ($)
Thomas J. Lynch[2]		87,345		87,345
Thomas Rende	637,500[3]	42,037	23,739[4]	703,276

(1) None of the Company s named executive officers currently hold any unvested equity awards. The amounts represent each Company stock-based award that is held immediately prior to the Effective Time, which will, as of the Effective Time, be cancelled and will entitle the holder to receive a payment in cash from the Company (less any applicable withholding taxes), promptly following the Effective Time, equal to (a) $0.27 per share, multiplied by (b) the total number of shares of Common Stock represented by such award.

(2) Mr. Lynch has entered into a new employment agreement described below to become effective at the Effective Time. The change of control provision in Mr. Lynch s existing employment agreement, which would have provided him with a cash bonus of $675,000 if his employment was terminated under certain circumstances following a change of control, was not included in the new employment agreement. Accordingly, Mr. Lynch will not be entitled to receive any severance or change of control benefits upon the consummation of the Merger other than the equity he will receive as described in footnote 1, above.

(3) Represents (a) $250,000 severance payment and (b) a change of control payment equal to 125% of Mr. Rende s base salary ($387,500). The change of control payment is a double-trigger payment, meaning that it is conditioned upon the Merger occurring and the termination of Mr. Rende s employment by the Company without cause or by Mr. Rende for good reason within 24 months following the Merger).

(4) Represents $23,739 for continuation of medical insurance benefits for one year after termination.

Employment Agreements

In connection with the execution of the Merger Agreement, we entered into a new employment agreement with Thomas J. Lynch, our chairman and chief executive officer, and Parent, which was negotiated after the Lead Director negotiated the merger consideration of $0.27 per share in cash. The new employment agreement will commence only upon the Effective Time and will continue until the third anniversary of the Effective Time, unless terminated earlier as provided in the agreement, or unless extended by mutual written agreement of the Company, Parent and Mr. Lynch. If the Merger is not consummated, the agreement will not take effect. Until the new employment agreement takes effect, the terms of Mr. Lynch s employment will continue to be governed by his existing employment agreement. The existing employment agreement expired on January 2, 2014, but its terms generally continue to apply after its expiration.

The new employment agreement provides for Mr. Lynch to continue to serve as the Company s chief executive officer at a base salary of $540,000 per year. Within 30 days of the Effective Time, the Company will pay Mr. Lynch a one-time cash signing bonus of $150,000. In addition to his base salary, Mr. Lynch is eligible to receive a target annual incentive bonus of up to 65% of his base salary in accordance with the terms of an annual bonus plan approved by the Company s Board of Directors and Parent. From time to time, Mr. Lynch also will be eligible to receive such discretionary bonuses as the Company s Board of Directors and Parent deem appropriate. As additional compensation, Parent will recommend to its board of managers that Mr. Lynch be granted an equity interest in Parent, pursuant to his new employment agreement, in the form of incentive units that are part of a separate series of units from those being issued to the Rollover Shareholders and are subject to vesting and other terms, to be made promptly, but in no event more than

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sixty days, following the Effective Time. The equity interest granted to Mr. Lynch will represent approximately 5% of the outstanding equity interests of Parent outstanding after the Merger.

The new employment agreement provides that if, during the employment term, we terminate Mr. Lynch without cause or he terminates his employment for good reason (as such terms are defined in the new employment agreement), or if we do not continue his employment at the end of the employment term upon substantially similar terms, and if Mr. Lynch delivers to us a general release of all claims in a form and substance acceptable to us, we will be required to pay to him (i) his base salary through the end of the employment term, (ii) any bonus that would have become payable to him through the end of the employment term, (iii) the insurance benefits provided in his employment agreement through the end of the employment term, (iv) the lump sum of $450,000 and (v) medical coverage at our expense for one year commencing on either (a) the last day of the employment term if his employment is terminated during the employment term or (b) the date of termination if his employment is terminated after the end of the employment term; provided that medical coverage will terminate upon becoming covered under a similar program by reason of employment elsewhere. The change of control provision in Mr. Lynch s existing employment agreement, which would have provided him with a cash bonus of $675,000 if his employment was terminated under certain circumstances following a change of control, was not included in the new employment agreement.

The employment agreement provides for us to pay the premiums on a life insurance policy for Mr. Lynch providing a death benefit of $1,500,000 to his designated beneficiary and a disability insurance policy for Mr. Lynch providing a non-taxable benefit of at least $10,000 per month payable to him in the event of his disability. Under the new employment agreement, Mr. Lynch is prohibited from disclosing confidential information about us and employing or soliciting any of our current employees to leave the Company during his employment and for a period of one year thereafter. The employment agreement does not contain any change of control or non-competition provisions.

Compensation of the Lead Director

At a meeting of the Board of Directors held on October 16, 2013, the Board authorized the Company to pay Milton Walters $5,000 per month for a minimum of four months effective September 1, 2013 as compensation for serving in his capacity as Lead Director. On January 30, 2014, the Board authorized the Company to extend these monthly payments through the closing of the Merger.

In recommending and approving his compensation for serving as Lead Director, the Board of Directors considered, among other things, the size of the proposed transaction, the complexities added to the transaction by the involvement of the Consortium Members and Mr. Harley, the time expected to be required by the Lead Director, the need for the Lead Director to evaluate matters in addition to the Consortium Members proposal and the publicly-reported compensation of the special committees and lead directors of other companies.

Indemnification of Directors and Officers

For a description of the indemnification of directors and officers by the Company following the Merger, see *The Merger Agreement Other Covenants and Agreements Indemnification; Directors and Officers Insurance* beginning on page 79.

Material United States Federal Income Tax Considerations

The following is a general discussion of the material U.S. federal income tax consequences of the Merger to U.S. holders and non-U.S. holders (each as defined below) of Common Stock whose shares are converted into the right to receive the merger consideration. We base this summary on the provisions of the Internal Revenue Code of 1986, as amended, or the Code, applicable U.S. Treasury Regulations, judicial authority, and administrative rulings and practice, all of which are subject to change, possibly on a retroactive basis. This discussion is not binding on the Internal Revenue Service or the courts and, therefore, could be subject to challenge, which could be sustained. No ruling is intended to be sought from the Internal Revenue Service with respect to the Merger.

This discussion assumes that each shareholder holds its shares of Common Stock as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). This discussion does not address all aspects of U.S. federal income tax that may be relevant to a shareholder in light of its particular circumstances, or that may apply to a shareholder that is subject to special treatment under the U.S. federal income tax laws (including, for example, insurance companies, dealers in securities or foreign currencies, traders in securities who elect the mark-to-market method of accounting for their securities, shareholders subject to the alternative minimum tax, persons that have a functional currency other than the U.S. dollar, tax-exempt organizations, financial institutions, mutual funds, certain expatriates, corporations that accumulate earnings to avoid U.S. federal income tax, shareholders who hold shares of Common Stock as part of a hedge, straddle, constructive sale or conversion transaction, shareholders who will hold, directly, indirectly or constructively, an equity interest in the surviving corporation or U.S. holders who acquired their shares of Common Stock through the exercise of employee stock options or other compensation arrangements). In addition, the discussion does not address any tax considerations under state, local or foreign laws or U.S. federal laws other than those pertaining to the U.S. federal income tax that may apply to shareholders. You are urged to consult your own tax advisors to determine the tax consequences in your particular circumstances, including the application and effect of any state, local or foreign income and other tax laws, of the receipt of cash in exchange for Common Stock pursuant to the Merger.

If a partnership holds Common Stock, the tax treatment of a partner will generally depend on the status of the partners and the activities of the partnership. If you are a partner of a partnership holding Common Stock, you should consult your tax advisor.

U.S. Holders

For purposes of this discussion, we use the term U.S. holder to mean a beneficial owner of Common Stock that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any state or the District of Columbia;
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person; or
- an estate the income of which is subject to U.S. federal income tax regardless of its source.

The receipt of cash in the Merger by U.S. holders of Common Stock will be a taxable transaction for U.S. federal income tax purposes. In general, a U.S. holder of Common Stock will recognize gain or loss in an amount equal to the difference between:

- the amount of cash received in exchange for the Common Stock; and
- the U.S. holder s adjusted tax basis in the Common Stock.

Such gain or loss generally will be capital gain or loss, and will be long-term capital gain or loss if the holding period in the Common Stock surrendered in the Merger is greater than one year as of the date of the Merger. Long-term capital gains of non-corporate holders, including individuals, are generally eligible for reduced rates of taxation. The deductibility of a capital loss recognized on the exchange is subject to limitations. If a U.S. holder acquired different blocks of Common Stock at different times and different prices, such holder must determine its adjusted tax basis and holding period separately with respect to each block of Common Stock.

A U.S. holder of Common Stock may be subject, under certain circumstances, to information reporting on the cash received in the Merger unless such U.S. holder is a corporation or other exempt recipient. Backup withholding may also apply (currently at a rate of 28%) with respect to the amount of cash received, unless a U.S. holder provides proof of an applicable exemption or a correct taxpayer identification number, and otherwise complies with the applicable requirements of the backup withholding rules. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be refunded or credited against a U.S. holder s U.S. federal income tax liability, if any, provided that such U.S. holder furnishes the required information to the Internal Revenue Service in a timely manner.

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Rollover Shareholders

Parent, the Company and the Rollover Shareholders expect to take the position that the Rollover Shareholders will generally not recognize gain or loss with respect to their contribution of Common Stock, Series A Convertible Preferred Stock and Series B Convertible Preferred Stock, referred to as the Rollover Shares, to Parent. Assuming this position is correct, the Rollover Shareholders tax basis in their Parent membership interests will generally equal their tax basis in the Rollover Shares contributed to Parent and their holding period in the Parent membership interests received by Rollover Shareholders will generally include the holding period of the Rollover Shares. Alternative tax treatments to the Rollover Shareholders are possible, which may in part depend on the particular circumstances of the Rollover Shareholders, and there can be no assurance that the Internal Revenue Service will agree with the expected treatment described above.

Non-U.S. Holders

For the purposes of this discussion, we use the term non-U.S. holder to mean a beneficial owner of Common Stock (other than an entity that is classified as a partnership) that is not a U.S. holder.

Any gain realized upon the exchange of Common Stock for cash pursuant to the Merger by a non-U.S. holder generally will not be subject to U.S. federal income tax unless:

- the gain is effectively connected with a trade or business of the non-U.S. holder in the United States and, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment of the non-U.S. holder or, in the case of an individual non-U.S. holder, a fixed base of business by the non-U.S. holder;
- the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met; or
- we are or have been a United States real property holding corporation for U.S. federal income tax purposes at any time during the shorter of the five-year period ending on the date of the Merger and such non-U.S. holder s holding period in such shares of our Common Stock, and either (i) the non-U.S. holder beneficially owns, or has owned, more than 5% of the total fair market value of our Common Stock at any time during the shorter of the five-year period ending on the date of the Merger or such non-U.S. holder s holding period in such shares of our Common Stock or (ii) our Common Stock is not considered to be regularly traded on an established securities market at any time during the calendar year in which the Merger occurs.

We believe that we are not and have not been a United States real property holding corporation for U.S. federal income tax purposes during the relevant period.

An individual non-U.S. holder described in the first bullet point immediately above will be subject to U.S. federal income tax on the net gain derived from the disposition under applicable graduated U.S. federal income tax rates. An individual non-U.S. holder described in the second bullet point immediately above will be subject to U.S. federal income tax at a 30% gross rate, subject to any reduction or reduced rate under an applicable income tax treaty, on the net gain derived from the disposition, which may be offset by U.S. source capital losses. If a non-U.S. holder that is a foreign corporation falls under the first bullet point immediately above, it will be subject to U.S. federal income tax on its net gain in the same manner as if it were a United States person (as defined under the Code) and, in addition, may be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits, subject to any exemption or lower rate as may be specified by an applicable income tax treaty.

A non-U.S. holder is subject to the backup withholding requirements (described above for U.S. holders). In order for a non-U.S. holder to qualify as an exempt recipient, that non-U.S. holder must submit an appropriate IRS Form W-8 or

Substitute Form W-8.

Regulatory Approvals

No regulatory approvals are required in connection with the merger.

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Anticipated Accounting Treatment of the Merger

The Company, as the surviving corporation, will account for the Merger as a business combination using the acquisition method of accounting for financial accounting purposes, whereby the consideration transferred will be allocated to the identifiable assets acquired and liabilities assumed following FASB Accounting Standards Codification Topic 805, Business Combinations.

Fees and Expenses

The estimated fees and expenses incurred or expected to be incurred in connection with the Merger are as follows:

Description	Amount
Financial advisory fees	$ 80,000
Legal fees and expenses	300,000
Accounting fees and expenses	10,000
Proxy solicitation expenses	10,000
SEC filing fees	407
Printing and mailing costs	30,000
Paying agent fees	20,000
Miscellaneous expenses	9,593
Total	$ 460,000

In addition, it is expected that Parent will incur approximately $400,000 of expenses, including legal and other advisory fees (excluding in all cases the expenses of the Company set forth above) in connection with the Merger.

Except as described in *The Merger Agreement Fees and Expenses* beginning on page 84, all costs and expenses incurred in connection with the Merger, the Merger Agreement and the transactions contemplated thereby will be paid by the party incurring or required to incur such expenses.

Litigation

Between January 24 and 31, 2014, three purported shareholders of the Company filed putative class action lawsuits in New York State Supreme Court challenging the Merger. These actions are: *Bruce H. Paul et al., v. Frederick s of Hollywood Group Inc.*, et al., Index No. 650252/2014 (N.Y. Sup. Ct. Jan. 24, 2014); *David Strasenburgh v. Frederick s of Hollywood Group Inc., et al.*, Index No. 650294/2014 (N.Y. Sup. Ct. Jan. 28, 2014); and *Stephen Dworkin v. Frederick s of Hollywood Group Inc., et al.*, Index No. 650356/2014 (N.Y. Sup. Ct. Jan. 31, 2014). An amended complaint adding plaintiffs and additional allegations was filed in *Bruce H. Paul, et al., v. Frederick s of Hollywood Group Inc., et al.* on February 11, 2014. The complaints collectively name as defendants the Board of Directors, the Company, Parent, Merger Sub, HGI Funding, TTG, TKZ, Fursa and Arsenal.

On March 6, 2014, the parties to those lawsuits submitted to the court a stipulation and proposed order that would consolidate all three actions into a single action captioned *In re Frederick s of Hollywood Group Inc. Shareholder Litigation*, Index No. 650252/2014, and would appoint two of the five firms involved as co-lead counsel and the other three firms as the executive committee. The proposed consolidation order also provided that the amended complaint in *Bruce H. Paul, et al, v. Frederick s of Hollywood Group Inc.*, et al. on February 11, 2014 would be the operative complaint in the consolidated action. The court has not yet entered the proposed consolidation order.

The consolidated amended complaint alleges that the preliminary proxy filed by the Company contained material misstatements and omissions and that the members of the Board of Directors breached their fiduciary duty to maximize shareholder value by pursuing the Merger through a flawed process and for inadequate consideration. The complaint further alleges that (i) the Merger took advantage of a temporary depression in the market price of the Common Stock that occurred due to its delisting from the NYSE MKT LLC, (ii) the Board of Directors acquiesced to unreasonable deal protection devices, (iii) the merger process employed by the Board of Directors was unfair because the process did not include a right for minority shareholders to

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approve the Merger and the Lead Director was not positioned to effectively advocate for the minority shareholders, and (iv) the Board of Directors misstated and/or failed to disclose supposedly material information in the preliminary proxy statement. The complaint further alleges that Merger Sub colluded in or aided and abetted the breaches by the Board of Directors. The complaint seeks, among other things, a declaration that the Merger Agreement was entered in breach of the Board of Directors fiduciary duties and is therefore unenforceable, an injunction barring the consummation of the Merger until full disclosures have been made or rescinding, to the extent already implemented, the Merger, an order directing the Board of Directors to require approval of the majority of the minority shareholders, and an award of costs and disbursements of the action, including attorneys fees. Each of the defendants denies any allegations of wrongdoing and believes that the plaintiffs claims are without merit.

On March 14, 2014, after settlement discussions between plaintiffs counsel and counsel for the Company, the parties agreed to resolve the litigation and permit the Merger to proceed as contemplated. The settlement provides, among other things, that certain agreed supplemental and/or modified disclosures be included in this proxy statement. The settlement was subject to confirmatory discovery by the plaintiffs, which was completed on March 31, 2014, and is now subject to court approval. There is no assurance that the settlement will be approved by the court. If the settlement does not become effective and litigation resumes before the Merger, the outcome in these lawsuits could have an impact on the consummation of the Merger.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This proxy statement, along with the annexes hereto, includes forward-looking statements that reflect our current views as to future events and financial performance with respect to our operations, the expected completion and timing of the Merger and other information relating to the Merger. These statements can be identified by the fact that they do not relate strictly to historical or current facts. There are forward-looking statements throughout this proxy statement, including, among other places, in *Summary Term Sheet* , *Questions and Answers About the Special Meeting and the Merger* , *The Special Meeting* , *Special Factors* , and *Important Information Concerning the Company* , and i statements containing the words aim , anticipate , are confident , estimate , expect , will be , will continue , result , project , intend , plan , believe and other words and terms of similar meaning in conjunction with a discussio future operating or financial performance or other future events. You should be aware that forward-looking statements involve known and unknown risks and uncertainties. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that the actual results or developments we anticipate will be realized, or even if realized, that they will have the expected effects on the business or operations of the Company. These forward-looking statements speak only as of the date on which the statements were made and we undertake no obligation to update or revise any forward-looking statements made in this proxy statement or elsewhere as a result of new information, future events or otherwise, except as required by law. In addition to other factors and matters contained in this document, including the annexes hereto, we believe the following factors could cause actual results to differ materially from those discussed in the forward-looking statements:

the occurrence of any event, change or other circumstance that could give rise to the termination of the Merger Agreement;

the outcome of any legal proceedings that may be instituted against the Company and others relating to the Merger Agreement;

the inability to complete the Merger due to the failure to satisfy the conditions to consummation of the Merger;

the failure of the Merger to close for any other reason;

the risk that the pendency of the Merger disrupts current plans and operations and the potential difficulties in employee retention as a result of the pendency of the Merger;

the fact that directors and officers of the Company have interests in the Merger that are different from, or in addition to, the interests of the Company s unaffiliated shareholders generally in recommending that the Company s shareholders vote to approve the Merger and adopt the Merger Agreement;

the effect of the announcement of the Merger on our business relationships, operating results and business generally;

the amount of the costs, fees, expenses and charges related to the Merger;

and other risks detailed in our filings with the SEC, including our most recent filings on Forms 10-Q and 10-K, as amended. See *Where You Can Find Additional Information* beginning on page 106.

Many of the factors that will determine our future results are beyond our ability to control or predict. In light of the significant uncertainties inherent in the forward-looking statements contained herein, readers should not place undue reliance on forward-looking statements, which reflect management s views only as of the date hereof. We cannot guarantee any future results, levels of activity, performance or achievements.

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THE SPECIAL MEETING

Date, Time and Place

This proxy statement is being furnished to our shareholders as part of the solicitation of proxies by the Board of Directors for use at the Special Meeting to be held on [ ], 2014, starting at 10:00 a.m. local time at 6255 Sunset Boulevard, 6th Floor, Hollywood, California 90028, or at any adjournment or postponement thereof.

The purpose of the Special Meeting is for our shareholders to consider and vote upon the approval of the Merger and adoption of the Merger Agreement. Our shareholders must approve the Merger and adopt the Merger Agreement for the Merger to occur. A copy of the Merger Agreement (including the amendment thereto) is attached to this proxy statement as *Annex A*. This proxy statement and the enclosed form of proxy are first being mailed to our shareholders on or about [ ], 2014.

Record Date and Quorum

The holders of record of Common Stock as of the close of business on [ ], 2014, the record date for the determination of shareholders entitled to notice of and to vote at the Special Meeting, are entitled to receive notice of and to vote at the Special Meeting. On the record date, 39,273,254 shares of Common Stock were outstanding. Holders of Common Stock as of the record date have one vote for each share of Common Stock owned by such shareholder as of the close of business on the record date.

The presence at the Special Meeting, in person or by proxy, of the holders of a majority of shares of Common Stock outstanding on the record date will constitute a quorum, permitting the Company to conduct its business at the Special Meeting. Any shares of Common Stock held in treasury by the Company or by any of our subsidiaries are not considered to be outstanding for purposes of determining a quorum. Once a share is represented at the Special Meeting, it will be counted for the purpose of determining a quorum at the Special Meeting and any adjournment of the Special Meeting. However, if a new record date is set for the adjourned Special Meeting, then a new quorum will have to be established. Proxies received but marked as abstentions will be included in the calculation of the number of shares considered to be present at the Special Meeting. Broker non-votes, as described in *The Special Meeting Voting; Proxies; Revocation Providing Voting Instructions by Proxy* beginning on page 70, also will count for purposes of determining the presence of a quorum if the shares are being voted with respect to any matter at the Special Meeting.

Required Vote

For the Company to complete the Merger, under New York law and the Merger Agreement, shareholders holding at least two-thirds of the aggregate voting power of our Common Stock outstanding at the close of business on the record date must vote FOR the approval of the Merger and adoption of the Merger Agreement. The Merger is not structured to require the approval of at least a majority of the unaffiliated shareholders.

Subject to the terms of the Voting Agreement between us, Parent and the Rollover Shareholders, the Rollover Shareholders have agreed to vote all shares of our Common Stock they beneficially own (and any shares acquired by them after the date of the Voting Agreement) in favor of approving the Merger and adopting the Merger Agreement. See *Agreements Involving the Company s Securities; Transactions Between the Rollover Shareholders and the*

Company Agreements Involving the Company s Securities Voting Agreement beginning on page 87. As of the record date, there were 39,273,254 shares of our Common Stock outstanding, of which the Rollover Shareholders own 27,678,679 shares of Common Stock, representing in the aggregate approximately 70.5% of the issued and outstanding shares of Common Stock. This amount excludes the 63,579,204 shares of Common Stock that the Rollover Shareholders have the right to acquire pursuant to convertible preferred stock, warrants and options held by them. Because the Rollover Shareholders beneficially hold more than two-thirds of our outstanding shares of Common Stock as of the record date, they can satisfy the required vote under New York law and the Merger Agreement to approve the Merger and adopt the Merger Agreement without the affirmative vote of any of our other shareholders.

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Despite the fact that the Rollover Shareholders can satisfy the required vote, we are soliciting proxies and furnishing a proxy statement to shareholders for two reasons. First, we must hold a meeting because we are not permitted to take shareholder action by less than unanimous written consent, without a shareholder meeting, pursuant to our certificate of incorporation and Section 615(a) of the NYBCL. Second, we are soliciting proxies to give the unaffiliated shareholders the opportunity to express their respective views of the Merger, even though their approval is not required as a condition to the transaction.

Except in their capacities as members of our Board of Directors and/or as the Lead Director, as applicable, no officer or director of the Company, nor any of the Rollover Shareholders, has made any recommendation either in support of or in opposition to the Merger or the Merger Agreement. The directors and Executive Officers of the Company have informed the Company that as of date of this proxy statement, they intend to vote in favor of the approval of the Merger and adoption of the Merger Agreement.

Shareholders holding at least a majority of the shares of Common Stock voted at the Special Meeting must vote FOR the Merger-Related Compensation Proposal, in order for such proposal to be approved. However, such approval is not required for, and does not have any impact on, the treatment of the Company stock options and other stock-based awards held by our named executive officers or the completion of the Merger. Approval of the Merger-Related Compensation Proposal is not a condition to the completion of the Merger, and the vote with respect to the Merger-Related Compensation Proposal is advisory only and will not be binding on the Parent or the Company. Because the Rollover Shareholders beneficially hold more than a majority of our outstanding shares of Common Stock as of the record date, they can approve or disapprove the Merger-Related Compensation Proposal regardless of how any other shareholder votes.

Voting; Proxies; Revocation

Attendance

All holders of shares of Common Stock as of the close of business on [ ], 2014, the record date for voting at the Special Meeting, including shareholders of record and beneficial owners of Common Stock registered in the street name of a bank, broker or other nominee, are invited to attend the Special Meeting. If you are a shareholder of record, please be prepared to provide proper identification, such as a driver s license. If you hold your shares in street name , you will need to provide proof of ownership, such as a recent account statement or letter from your bank, broker or other nominee, along with proper identification.

Voting in Person

Shareholders of record as of the record date will be able to vote in person at the Special Meeting. If you are not a shareholder of record as of the record date, but instead hold your shares in street name through a bank, broker or other nominee, you must provide a legal proxy executed in your favor from your bank, broker or other nominee in order to be able to vote in person at the Special Meeting.

Providing Voting Instructions by Proxy

To ensure that your shares are represented at the Special Meeting, we recommend that you provide voting instructions promptly by proxy, even if you plan to attend the Special Meeting in person.

If you are a shareholder of record, you may provide voting instructions by proxy using one of the methods described below.

Submit a Proxy by Telephone or via the Internet. This proxy statement is accompanied by a proxy card with instructions for submitting voting instructions. You may vote by telephone by calling the toll-free number or via the Internet by accessing the Internet address as specified on the enclosed proxy card. Your shares will be voted as you direct in the same manner as if you had completed, signed, dated and returned your proxy card, as described below.

Submit a Proxy Card. If you complete, sign, date and return the enclosed proxy card by mail so that it is received before the Special Meeting, your shares will be voted in the manner directed by you on your proxy card.

If you sign, date and return your proxy card without indicating how you wish to vote, your proxy will be voted in favor of the approval of the Merger and adoption of the Merger Agreement and the Merger-Related Compensation Proposal. If you fail to vote or return your proxy card, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the Special Meeting (unless you are a record holder as of the record date, or you obtain a legal proxy from your bank, broker or other nominee, and attend the Special Meeting in person) and will have the same effect as a vote against the approval of the Merger and adoption of the Merger Agreement, but will not affect the vote regarding the Merger-Related Compensation Proposal.

If your shares are held by a bank, broker or other nominee on your behalf in street name , your bank, broker or other nominee will send you instructions as to how to provide voting instructions for your shares by proxy. Many banks and brokerage firms have a process for their customers to provide voting instructions by telephone or via the Internet, in addition to providing voting instructions by proxy card.

In accordance with the rules of the New York Stock Exchange, banks, brokers and other nominees who hold shares of Common Stock in street name for their customers do not have discretionary authority to vote the shares with respect to the approval of the Merger and adoption of the Merger Agreement. Accordingly, if banks, brokers or other nominees do not receive specific voting instructions from the beneficial owner of such shares they may not vote such shares with respect to the approval of the Merger and adoption of the Merger Agreement. Under such circumstance, a broker non-vote would arise. Broker non-votes, if any, will have the same effect as a vote AGAINST the approval of the Merger and adoption of the Merger Agreement, but will have no effect on the Merger-Related Compensation Proposal, and will count for purposes of determining the presence of a quorum if the shares are being voted with respect to any matter at the Special Meeting. For shares of Common Stock held in street name , only shares of Common Stock affirmatively voted FOR approval of the Merger and adoption of the Merger Agreement will be counted as a favorable vote for such proposal.

Revocation of Proxies

Your proxy is revocable. If you are a shareholder of record, you may revoke your proxy at any time before the vote is taken at the Special Meeting by:

submitting a new proxy with a later date, by using the telephone or Internet proxy submission procedures described above, or by completing, signing, dating and returning a new proxy card by mail to the Company;

attending the Special Meeting and voting in person; or

sending written notice of revocation to the Corporate Secretary of the Company at Frederick s of Hollywood Group Inc., Attn: Secretary, 6255 Sunset Boulevard, Hollywood, California 90028.

Attending the Special Meeting without taking one of the actions described above will not in itself revoke your proxy. Please note that if you want to revoke your proxy by mailing a new proxy card to the Company or by sending a written notice of revocation to the Company, you should ensure that you send your new proxy card or written notice of revocation in sufficient time for it to be received by the Company before the day of the Special Meeting.

If you hold your shares in street name through a bank, broker or other nominee, you will need to follow the instructions provided to you by your bank, broker or other nominee in order to revoke your proxy or submit new voting instructions.

Abstentions

Abstentions will be included in the calculation of the number of shares of Common Stock represented at the Special Meeting for purposes of determining the presence of a quorum. Abstaining from voting will have the same effect as a vote AGAINST the proposal to approve the Merger and adopt the Merger Agreement, but are not deemed voted and will have no effect on the Merger-Related Compensation Proposal.

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Postponements

The Company expects there will be present, in person or by proxy, sufficient favorable voting power to secure the vote of the shareholders of the Company necessary to approve the Merger and adopt the Merger Agreement. The Company does not anticipate that it will postpone the Special Meeting for the purpose of soliciting additional proxies unless it is advised by counsel that failure to do so could reasonably be expected to result in a violation of applicable law. Any postponement of the Special Meeting for the purpose of soliciting additional proxies will allow the Company s shareholders who have already sent in their proxies to revoke them at any time prior to their use at the Special Meeting as postponed.

Solicitation of Proxies

We will bear the cost of solicitation of proxies. This includes the charges and expenses of brokerage firms and others for forwarding solicitation material to beneficial owners of our outstanding Common Stock. We may solicit proxies by mail, personal interview, e-mail, telephone, or via the Internet. The Company has retained a proxy solicitation firm, AST Phoenix Advisors, a division of American Stock Transfer & Trust Company, LLC, to assist it in the solicitation of proxies for the Special Meeting and will pay a fee of $7,500, plus reimbursement of out-of-pocket expenses.

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THE MERGER AGREEMENT

The following is a summary of the material provisions of the Merger Agreement, a copy of which (including the amendment thereto) is attached to this proxy statement as *Annex A*, and which we incorporate by reference into this proxy statement. This summary may not contain all of the information about the Merger Agreement that is important to you. We encourage you to read carefully the Merger Agreement in its entirety, as the rights and obligations of the parties thereto are governed by the express terms of the Merger Agreement and not by this summary or any other information contained in this proxy statement.

Explanatory Note Regarding the Merger Agreement

The following summary of the Merger Agreement, and the copy of the Merger Agreement (including the amendment thereto) attached hereto as *Annex A* to this proxy statement, are intended to provide information regarding the terms of the Merger Agreement and are not intended to modify or supplement any factual disclosures about the Company in its public reports filed with the SEC. In particular, the Merger Agreement and the related summary are not intended to be, and should not be relied upon as, disclosures regarding any facts and circumstances relating to the Company or any of its subsidiaries or affiliates. The Merger Agreement contains representations and warranties by the Company, Parent and Merger Sub which were made only for purposes of that agreement and as of specified dates. The representations, warranties and covenants in the Merger Agreement were made solely for the benefit of the parties to the Merger Agreement; may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures; are made for the purposes of allocating contractual risk between the parties to the Merger Agreement instead of establishing these matters as facts; and may apply contractual standards of materiality or material adverse effect that generally differ from those applicable to investors. In addition, information concerning the subject matter of the representations, warranties and covenants may change after the date of the Merger Agreement, which subsequent information may or may not be fully reflected in the Company s public disclosures. Moreover, the description of the Merger Agreement below does not purport to describe all of the terms of such agreement, and is qualified in its entirety by reference to the full text of such agreement, a copy of which (including the amendment thereto) is attached hereto as *Annex A* and is incorporated herein by reference. Notwithstanding the foregoing, to the extent specific material facts exist that contradict the representations or warranties in the Merger Agreement, the Company has provided corrective disclosure in this proxy statement.

Additional information about the Company may be found elsewhere in this proxy statement and the Company s other public filings. See *Where You Can Find Additional Information* beginning on page 106.

Structure of the Merger

At the Closing of the Merger, Merger Sub will merge with and into the Company and the separate corporate existence of Merger Sub will cease. The Company will be the surviving corporation in the Merger and will continue to be a New York corporation after the Merger. At the Closing of the Merger, the certificate of incorporation of the Company, as in effect immediately prior to the Effective Time, will be amended in accordance with applicable law to reflect the form of certificate of incorporation attached as an exhibit to the Merger Agreement. At the Closing of the Merger, the bylaws of the Company, as in effect immediately prior to the Effective Time, will be amended in accordance with applicable law to reflect the form of bylaws attached as an exhibit to the Merger Agreement. Subject to applicable law, the directors of Merger Sub immediately prior to the Effective Time will from and after the Effective Time be the initial directors of the surviving corporation and will hold office until their respective successors are duly elected and qualified, or their earlier death, resignation or removal. The officers of the Company immediately prior to the

Effective Time will from and after the Effective Time be the initial officers of the surviving corporation and will hold office until their respective successors are duly elected and qualified, or their earlier death, resignation or removal.

When the Merger Becomes Effective

The Closing of the Merger will take place on a date to be specified by the Parent after the satisfaction or waiver of the conditions to Closing stated in the Merger Agreement (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions) or at such

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other time as the parties may agree in writing, but if Parent fails to specify a Closing Date, the Closing Date shall be no later than three business days after such conditions have been satisfied or waived (or June 15, 2014, if earlier). The Merger will become effective at the time, which we refer to as the Effective Time, when the Company and Parent file a certificate of Merger with the Department of State of the State of New York or at such later date or time as Parent and the Company agree in writing and specify in the certificate of Merger.

Effect of the Merger on the Capital Stock

At the Effective Time, each issued and outstanding share of Common Stock immediately prior to the Effective Time, other than the Excluded Shares and the Dissenting Shares, will be converted automatically into and will represent the right to receive $0.27 in cash, without interest, and each such share shall otherwise cease to be outstanding and shall otherwise automatically be cancelled and cease to exist.

At the Effective Time, each issued and outstanding Excluded Share immediately prior to the Effective Time, including each share of capital stock that is currently owned by the Rollover Shareholders (all of which such stock shall, immediately prior to the Effective Time, be held indirectly by Parent pursuant to the terms of the Rollover Agreement), shall cease to be outstanding and shall automatically be cancelled and shall cease to exist.

At the Effective Time, each share of common stock of Merger Sub shall be converted into one share of newly issued common stock of the Company as the surviving corporation of the Merger.

Treatment of Stock Options and Other Stock-Based Awards

Each Company stock option (other than those held by Mr. Harley) that is outstanding immediately prior to the Effective Time, whether or not vested or exercisable, as of the Effective Time, will be cancelled. Each holder will be entitled to receive a payment, if any, in cash from the Company (less any applicable withholding taxes) promptly following the Effective Time, equal to (a) the amount, if any, by which $0.27 exceeds the exercise price per share with respect to the stock option, multiplied by (b) the total number of shares of Common Stock then issuable upon the exercise of the stock option. As of the date of this proxy statement, there are outstanding options to purchase 360,000 shares of Common Stock with an exercise price of less than $0.27, which will be cancelled for an aggregate consideration of $30,900. All of the Company s other outstanding stock options (including all of those held by the Company s directors and Executive Officers) will be cancelled for no consideration.

Each Company share-based award other than a stock option, including restricted share awards (other than those held by Mr. Harley), whether or not vested, as of the Effective Time, will be cancelled. Each holder will be entitled to receive a payment, in cash from the Company (less any applicable withholding taxes) promptly following the Effective Time, equal to (a) $0.27 per share, multiplied by (b) the total number of shares of Common Stock constituting the award. As of the date of this proxy statement, the Company has outstanding an aggregate of 737,194 shares subject to restricted share awards, which will be cancelled in exchange for aggregate consideration of $199,042.38. These amounts include an aggregate of 578,694 shares subject to restricted share awards held by the Company s directors (other than Mr. Harley) and Executive Officers, which will be cancelled for aggregate consideration of $156,247.38.

Each Company warrant (other than those held by Mr. Harley and the other Rollover Shareholders), whether or not vested or exercisable, as of the Effective Time, will be cancelled. Each holder will be entitled to receive a payment, if any, in cash from the Company (less any applicable withholding taxes) promptly following the Effective Time, equal to (a) the amount, if any, by which $0.27 exceeds the exercise price per share with respect to the warrant, multiplied by (b) the total number of shares of Common Stock then issuable upon the exercise of the warrant. However, any Company warrant that will have no value after the Effective Time (because the warrant has an exercise price per share that is greater than the merger consideration and, as of the Effective Time, the holder of the warrant will be entitled to receive, upon exercise of the warrant, only the merger consideration multiplied by the number of shares subject to the warrant), may remain outstanding. As of the date of the proxy statement, the Company has no outstanding warrants (other than those held by the Rollover Shareholders) with an exercise price of less than $0.27 and, accordingly, no consideration will be paid with respect to these warrants.

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Each Company stock option and restricted share award held by Mr. Harley and each warrant held by Mr. Harley and the other Rollover Shareholders, as of the Effective Time, will be cancelled on the terms and conditions set forth in the Rollover Agreement between Parent and the Rollover Shareholders. See *Agreements Involving the Company s Securities; Transactions Between the Rollover Shareholders and the Company Agreements Involving the Company s Securities Rollover Agreement* beginning on page 87.

Dissenting Shares

Notwithstanding anything in the Merger Agreement to the contrary, Dissenting Shares shall not be converted into the right to receive the merger consideration at the Effective Time unless and until the holder of such shares fails to perfect, withdraws or otherwise loses such holder s right to appraisal. If a holder of Dissenting Shares shall withdraw (in accordance with Section 910 of the NYBCL) the demand for such appraisal or shall become ineligible for such appraisal or if a court of competent jurisdiction shall make a final, non-appealable determination that such holder is not entitled to the relief provided by Section 910 of the NYBCL with respect to such Dissenting Shares, then, as of the Effective Time or the occurrence of such event, whichever last occurs, such holder s Dissenting Shares shall cease to be Dissenting Shares and shall be converted or deemed to have been converted, as the case may be, into the right to receive the merger consideration. We have agreed to give Parent (i) prompt notice of any written demands for appraisal, withdrawals (or attempted withdrawals) of demands for appraisal and any other instruments served pursuant to Section 910 of the NYBCL and received by us and (ii) the opportunity to direct all negotiations and proceedings with respect to demands for appraisal.

Payment for the Common Stock in the Merger

Contemporaneously with the Effective Time, Parent will deposit, or cause to be deposited, with a bank or trust company that will be appointed by Parent (and reasonably acceptable to the Company), as the paying agent, in trust for the benefit of the Public Shareholders, sufficient cash to pay to the Public Shareholders the merger consideration of $0.27 per share of Common Stock. As soon as reasonably practicable following the Effective Time but not later than the fifth business day following the Effective Time, the surviving corporation will instruct the paying agent to mail to each Public Shareholder of record of shares of Common Stock that were converted into the merger consideration a letter of transmittal and instructions for use in effecting the surrender of certificates that formerly represented shares of the Common Stock or non-certificated shares represented by book-entry in exchange for the merger consideration.

Representations and Warranties

The Merger Agreement contains representations and warranties of the Company as to, among other things:

corporate organization, existence and good standing, including with respect to its subsidiaries;

the capitalization of the Company and the absence of certain rights to purchase or acquire equity securities of the Company of any of its subsidiaries, the absence of any bonds or other obligations allowing holders the right to vote with shareholders of the Company and the absence of shareholder agreements or voting trusts to which the Company or any of its subsidiaries is a party;

the Company s subsidiaries;

corporate power and authority to enter into the Merger Agreement and the Ancillary Agreements and in each case to consummate the transactions contemplated thereby;

required regulatory filings and authorizations, consents or approvals of governmental entities and consents or approvals required of other third parties;

the accuracy of the Company s and its subsidiaries filings with the SEC and of financial statements included in the SEC filings, and compliance with certain requirements of the Sarbanes-Oxley Act of 2002, as amended, and the rules and regulations thereunder, and with exchange rules;

the absence of certain events or changes since July 27, 2013;

matters relating to information to be included in required filings with the SEC in connection with the Merger;

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the absence of certain suits, actions, proceedings, claims, reviews, investigations, orders, writs or injunctions related to the