FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

PLAYBOY ENTERPRISES INC

CIK:**1072341**| IRS No.: **364249478** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **001-14790** | Film No.: **07698505**
SIC: **4841** Cable & other pay television services

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-14790

Playboy Enterprises, Inc.
(Exact name of registrant as specified in its charter)

Delaware	36-4249478
(State of incorporation)	(I.R.S. Employer Identification Number)
680 North Lake Shore Drive Chicago, IL	60611
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (312) 751-8000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, par value $0.01 per share	New York Stock Exchange
Class B Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes |_| No |X|

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes |_| No |X|

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.|_|

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer |_| Accelerated filer |X| Non-accelerated filer |_|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes |_| No |X|

The aggregate market value of Class A Common Stock held by nonaffiliates on June 30, 2006 (based upon the closing sale price on the New York Stock Exchange), was $13,395,006. The aggregate market value of Class B Common Stock held by nonaffiliates on June 30, 2006 (based upon the closing sale price on the New York Stock Exchange), was $202,055,760.

At February 28, 2007, there were 4,864,102 shares of Class A Common Stock and 28,365,413 shares of Class B Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part II. Item 5 and Part III. Items 10-14 of this report is incorporated herein by reference to the Notice of Annual Meeting of Stockholders and Proxy Statement (to be filed) relating to the Annual Meeting of Stockholders to be held in May 2007.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains "forward-looking statements," including statements in Part I. Item 1. "Business," Part I. Item 1A. "Risk Factors" and Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," among other places, as to expectations, beliefs, plans, objectives and future financial performance, and assumptions underlying or concerning the foregoing. We use words such as "may," "will," "would," "could," "should," "believes," "estimates," "projects," "potential," "expects," "plans," "anticipates," "intends," "continues" and other similar terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which could cause our actual results, performance or outcomes to differ materially from those expressed or implied in the forward-looking statements. We want to caution you not to place undue reliance on any forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

The following are some of the important factors that could cause our actual results, performance or outcomes to differ materially from those discussed in the forward-looking statements:

(1) Foreign, national, state and local government regulations, actions or initiatives, including:

  (a) attempts to limit or otherwise regulate the sale, distribution or transmission of adult-oriented materials, including print, television, video, Internet and wireless materials,

  (b) limitations on the advertisement of tobacco, alcohol and other products which are important sources of advertising revenue for us, or

  (c) substantive changes in postal regulations which could increase our postage and distribution costs;

(2) Risks associated with our foreign operations, including market acceptance and demand for our products and the products of our licensees;

(3) Our ability to manage the risk associated with our exposure to foreign currency exchange rate fluctuations;

(4) Changes in general economic conditions, consumer spending habits, viewing patterns, fashion trends or the retail sales environment which, in each case, could reduce demand for our programming and products and impact our advertising revenues;

(5) Our ability to protect our trademarks, copyrights and other intellectual property;

(6) Risks as a distributor of media content, including our becoming subject to claims for defamation, invasion of privacy, negligence, copyright, patent or trademark infringement, and other claims based on the nature and content of the materials we distribute;

(7) The risk our outstanding litigation could result in settlements or judgments which are material to us;

(8) Dilution from any potential issuance of common stock or convertible debt in connection with financings or acquisition activities;

(9) Competition for advertisers from other publications, media or online providers or any decrease in spending by advertisers, either generally or with respect to the adult male market;

(10) Competition in the television, men's magazine, Internet, new electronic media and product licensing markets;

(11) Attempts by consumers or private advocacy groups to exclude our programming or other products from distribution;

(12) Our television, Internet and wireless businesses' reliance on third parties for technology and distribution, and any changes in that technology and/or unforeseen delays in its implementation which might affect our plans and assumptions;

(13) Risks associated with losing access to transponders or technical failure of transponders or other transmitting or playback equipment that is beyond our control and competition for channel space on linear television platforms or video-on-demand platforms;

(14) Failure to maintain our agreements with multiple system operators, or MSOs, and direct-to-home, or DTH, operators on favorable terms, as well as any decline in our access to, and acceptance by, DTH and/or cable systems and the possible resulting deterioration in the terms, cancellation of fee arrangements or pressure on splits with operators of these systems;

(15) Risks that we may not realize the expected increased sales and profits and other benefits from acquisitions;

(16) Any charges or costs we incur in connection with restructuring measures we may take in the future;

(17) Risks associated with the financial condition of Claxson Interactive Group, Inc., our Playboy TV-Latin America, LLC, joint venture partner;

(18) Increases in paper, printing or postage costs;

(19) Risks associated with certain minimum revenue amounts under certain television distribution agreements;

(20) Effects of the national consolidation of the single-copy magazine distribution system;

(21) Effects of the national consolidation of television distribution companies (e.g., cable MSOs, satellite platforms and telecommunications companies); and

(22) Risks associated with the viability of our subscription-, on demand- and e-commerce-based Internet models.

For a detailed discussion of these and other factors that might affect our performance, see Part I. Item 1A. "Risk Factors" of this Annual Report on Form 10-K.

PLAYBOY ENTERPRISES, INC.
2006 ANNUAL REPORT ON FORM 10-K

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PART I

Item 1. Business

Playboy Enterprises, Inc., together with its subsidiaries and predecessors, is referred to in this Annual Report on Form 10-K by terms such as "we," "us," "our," "Playboy" and the "Company," unless the context requires otherwise. We were organized in 1953 to publish Playboy magazine and are now a brand-driven, international multimedia entertainment company. The Playboy brand is one of the most widely recognized and popular brands in the world. The strength of our brand drives the financial performance of our media and merchandising businesses. Our programming and content are available worldwide on television and online via a network of websites. Playboy magazine is the best-selling monthly men's magazine in the world based on the combined circulation of the U.S. and international editions. Our licensing business leverages the Playboy name, the Rabbit Head Design and our other trademarks globally on a variety of consumer products, retail stores and location-based entertainment.

Our businesses are classified into the following three reportable segments: Entertainment, Publishing and Licensing. Net revenues, income before income taxes, depreciation and amortization and identifiable assets of each reportable segment are set forth in Note (R), Segment Information, to the Notes to Consolidated Financial Statements.

Our trademarks, copyrights and domain names are critical to the success and potential growth of all of our businesses. Our trademarks, which are renewable periodically and which can be renewed indefinitely, include Playboy, the Rabbit Head Design, Playmate and Spice.

ENTERTAINMENT GROUP

Our Entertainment Group operations include the production and marketing of television programming for our domestic and international TV businesses, web-based entertainment experiences, wireless content distribution, e-commerce, DVD products and satellite radio under the Playboy, Spice and other brand names. In 2006, we acquired Club Jenna, Inc. and related companies, or Club Jenna, a multimedia adult entertainment business. Club Jenna adds a premier brand to our businesses with assets that include successful film production, DVD, online and mobile businesses as well as a library of content.

Programming

Our Entertainment Group develops, produces, acquires and distributes a wide range of high-quality lifestyle adult television programming for our domestic and international TV networks, pay-per-view, or PPV, subscription pay-per-month, or PPM, video-on-demand, or VOD, subscription video-on-demand, or SVOD, subscription package, or TIER, and worldwide DVD products. Our proprietary productions include magazine-format shows, reality-based and dramatic series, documentaries, live events and celebrity and Playmate programs. Our programming is featured in a variety of formats, enabling us to leverage our programming costs over multiple distribution platforms. We have produced a number of shows that air on the domestic and international Playboy TV networks and are distributed internationally in countries where we do not have networks. Additionally, some of our programming has been released into DVD titles and/or has been licensed to other networks, such as HBO and Showtime. Our original series programming includes Night Calls, Sexy Girls Next Door, Naked Happy Girls, Naughty Amateur Home Videos and Totally Busted. Additionally, we produce shows and series to air on third-party networks, including Girls Next Door on E!.

We invest in the creation and acquisition of high-quality, adult-oriented programming to support our worldwide entertainment businesses. We invested $38.5 million, $33.1 million and $41.5 million in entertainment programming in 2006, 2005 and 2004, respectively. These amounts, which also include expenditures for licensed programming, resulted in the domestic production of 207, 129 and 212 hours of original programming for Playboy TV in 2006, 2005 and 2004, respectively. At December 31, 2006, our domestic library of primarily exclusive, Playboy-branded original programming totaled approximately 3,000 hours. In addition to investing in our productions, we also acquire high-quality adult movies in various edit standards. A majority of the programming that airs on our Spice Digital Networks is licensed, on an exclusive basis, from third parties. We will continue to both acquire and produce original programming with a heavier

emphasis on producing and delivering content for

multiple electronic delivery platforms, including both long- and short-form programming. In addition to utilizing some of the programming we produce for our websites and for licensing to wireless providers, we invested $5.0 million, $2.2 million and $2.3 million in content specifically for online and wireless initiatives in 2006, 2005 and 2004, respectively.

Our programming is delivered to direct-to-home, or DTH, and cable operators through satellite transponders and through outside content processors. We currently have four transponder service agreements related to our domestic networks, the terms of which extend through 2008, 2013, 2013 and 2014. We also have two international transponder service agreements, the terms of which extend through 2009.

Our state-of-the-art studio in Los Angeles functions as a centralized digital, technical and programming facility for the Entertainment Group. This studio enables us to produce original programming in a high-definition format. We utilize this facility to provide playback, production control and/or origination services for our own television networks. Most of these services are also provided for third parties, generating revenues that offset some of our fixed costs.

Domestic TV

We currently operate several domestic TV networks, including Playboy TV, Playboy TV en Espanol and the Spice Digital Networks.

Playboy TV, our flagship network, is principally programmed with a variety of originally produced, unique entertainment content.

Playboy TV en Espanol, an all-Spanish-language network, is similar to and shares content with the domestic Playboy TV network and includes locally-produced, proprietary Spanish-language and other original Spanish-language content.

We offer adult-themed movie networks under the Spice Digital Networks banner, which includes Club Jenna. Each of these networks features adult movies under exclusive licenses from leading adult studios, offers a distinct thematic focus and is available in a variety of editing standards.

Our domestic TV content is primarily distributed through cable, satellite and telephone companies, or Telcos. Our services are offered on a variety of distribution platforms with various purchase and/or subscription options depending on the network or distributor. Our networks are represented across all platforms and purchase options as outlined below.

The two primary distribution platforms offering our services are terrestrial cable, e.g., Comcast or Time Warner Cable, which includes VOD; and DTH, e.g., DirecTV or EchoStar. In addition, Telcos, e.g., Verizon and AT&T, are beginning to provide cable-style television services through their phone and/or fiber optic lines and are including our products.

Our TV networks are available either as linear channels or as part of a VOD service. Our linear channels, offered on cable, DTH and Telco platforms, are television networks with regularly-scheduled content distributed through a single network feed to all homes at the same time. VOD, which is currently available only on cable platforms, makes content available to the consumer through a television interface at any time the consumer chooses to view it. This is done by storing a selection of content on a server at the local cable system, which consumers may access by using their remote control devices at any time and for a specified time. Consumers then view the content in a DVD-like manner; i.e., they may pause, fast forward, rewind, stop and resume viewing at a later time.

Our products are also available on Telco platforms, which are similar to digital cable, except that the signals are distributed through a phone and/or fiber optic lines to the home. As in cable, Playboy TV is generally being made available as a linear service with an SVOD add-on, while our adult content is provided in the VOD format.

The following table sets forth our domestic and Canadian networks and distribution options:

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Network	Domestic DTH	Domestic Cable	Domestic Telcos	Canadian DTH
<S>	<C>	<C>	<C>	<C>
Playboy TV	PPV/PPM	PPV/PPM/VOD/SVOD	PPM/SVOD	PPM
Playboy TV en Espanol	TIER	PPV/PPM/ TIER	SVOD	PPM
Spice Digital Networks	PPV	PPV/VOD	VOD	---

</TABLE>

In recent years, cable operators have shifted away from analog to digital technology and away from PPV to VOD in order to counteract competition from DTH operators. Digital technology allows for the compression of signals so that several channels may fit into the same bandwidth previously provided by only one analog channel. Furthermore, digital technology allows for the installation of VOD functionality. Our linear networks are delivered almost exclusively on a digital basis.

Playboy TV has the distinction of being the only adult television network available on all major DTH services in both the United States and Canada.

We currently distribute VOD and SVOD programming through cable operators. We are in the process of negotiating with the operators that do not currently offer the SVOD service.

As VOD supplants traditional linear networks, we are seeking to obtain a leading position in this new phase of technology by leveraging the power of our brands, our large library of original programming and our relationships with leading adult studios, while at the same time recognizing that we are operating in a far more fragmented and competitive marketplace with lower barriers to entry.

Our revenues, except in the case of TIERs, reflect our contractual share of the amounts received by the DTH operators, which are based on both the retail rates set by the DTH operators and on the number of buys and/or subscribers.

As part of our distributor negotiations, channel space for our networks is determined at each distributor's corporate level; however, in some cases, we negotiate terms at the corporate level with distribution at the affiliate level. Our distributors determine the retail price of our services.

Our agreements with cable and DTH operators are renewed or renegotiated from time to time in the ordinary course of business. In some cases, following the expiration of an agreement, the respective operator and we agree to continue to operate under the terms of the expired agreement until a new agreement is negotiated. In any event, our agreements with distributors generally may be terminated on short notice without penalty.

International

We currently own and operate or license Playboy-, Spice- and locally-branded TV networks in the United Kingdom, which are further distributed through DTH and cable television throughout greater Europe. Additionally, we have networks in Korea, Hong Kong, Australia, New Zealand, Turkey and Israel. Also, through joint ventures, we have equity interests in networks in Latin America, Iberia and Japan. These international networks, which are generally available on both a PPV and PPM basis, principally carry U.S.-originated content, which is subtitled or dubbed and complemented by some local content. We also license individual programs from our extensive library to broadcasters internationally.

We own a 19.0% interest in Playboy TV-Latin America, LLC, or PTVLA, a joint venture with Claxson Interactive Group, Inc., or Claxson, which operates Playboy TV networks in Latin America and Iberia, as well as Venus, a local adult service, in Latin America. In these markets, PTVLA operates multiple networks, distributes Spice Live and licenses content from the Playboy library to other broadcasters in the territory. Under the terms of our PTVLA operating agreement, while Claxson has management control, we have significant management influence. We provide both programming and the use of our trademarks directly to PTVLA in return for 17.5% of the venture's net revenues with a guaranteed annual minimum. The term of the program supply and trademark agreement for PTVLA expires in 2022, unless terminated earlier in accordance with the terms of the agreement. PTVLA provides the feed for Playboy TV en Espanol and we pay PTVLA a 20% distribution fee for that feed based on the network's net revenues in the U.S. We have an option to purchase up to an additional 30.9% of PTVLA at fair market value through December 23, 2022. In addition, we have the option to purchase the remaining 50.1% of PTVLA at fair market value, exercisable at any time during the period beginning December 23, 2012, and ending December 23, 2022, so long as we have previously or concurrently exercised the initial 49.9% buy-up option. We

have the option to pay the purchase price for the 49.9% buy-up option in cash, shares of our Class B common stock, or Class B stock, or a combination of both. However, if we exercise both options concurrently, we must use cash to acquire the 80.1% of PTVLA that we do not own.

We also hold a 19.9% ownership interest in Playboy Channel Japan, which includes Playboy Channel and Channel Ruby, a local adult service.

We seek the most appropriate and profitable manner in which to build on the powerful Playboy and Spice brands in each international market. In addition, we seek to generate synergies among our networks by combining operations where practicable, through innovative programming and scheduling, through joint programming acquisitions and by coordinating and sharing marketing activities and materials efficiently throughout the territories in which our programming is aired. We also look to develop and establish relationships with international production companies on a local level in order to create original international product for distribution to our various owned and licensed networks.

We believe we can grow our international television business by (a) expanding the distribution reach of existing networks, (b) launching and operating additional networks in existing and new markets and (c) increasing subscription penetration and buy rates with new programming and scheduling tactics as well as targeted marketing activities. In addition, we expect that the continued roll out of digital technology in addressable households in our existing international markets will favorably impact our growth.

We also distribute our branded content internationally via the Internet and wireless platforms. We have significant traffic from international users on our owned and operated websites, Playboy.com and Playboy.co.uk, that results in customers for our other products and services. Additionally, we license international websites that feature a blend of original, local-edition Playboy magazine and U.S. and U.K. websites content. In addition, we have licensees that distribute our content on the wireless platform in many countries. Demand for wireless content is increasing as technology and consumer adoption continue to grow. Our current offerings include graphical images, video clips, mobile television, ringtones and games. We also create integrated cross-platform mobile marketing and promotions to leverage opportunities across our businesses.

Online Subscriptions and E-commerce

We operate various subscription-based websites, or clubs, as well as free and e-commerce websites under our Playboy and other brands.

Our largest club, Playboy Cyber Club, offers access to over 100,000 photos and videos and offers members the ability to see Playmates, an assortment of celebrity content and special "online only" features, including Playboy's franchise of "Cyber Girls" and "Coeds" and an extensive archive of Playboy magazine interviews. The other clubs include three different broadband video-specific membership clubs solely offering high-quality video, two personal Playmate clubs, live video-chat clubs, a thematic pictorial and video club navigable by niche, a club that features pictorials and videos using the Spice brand and a club called Playboy Daily, which is used as a marketing tool and is aimed at consumers who want a Playboy experience at a lower price.

We offer two online VOD theaters under the Playboy and Spice brands that provide consumers the options to view video content on a pay-per-minute basis, to download entire movies for viewing on their computers and/or to burn movies to DVD.

We also offer sites branded under the Club Jenna name, including ClubJenna.com, as well as the niche, reality-based sites produced, marketed and promoted via our large affiliate network. In 2006, we also introduced a first-of-its-kind adult SVOD website, Adult.com, which offers users the ability to pay a recurring subscription fee to stream, download or burn any video in the entire library.

Our Playboy-branded e-commerce website, PlayboyStore.com, combined with our Playboy Catalog, offers customers the ability to purchase Playboy-branded fashions, calendars, DVDs, jewelry, collectibles, back issues of Playboy magazine and special editions as well as select non-Playboy-branded products. The Playboy Catalog mails several times per year to millions of consumers nationwide and in Canada. The Playboy Catalog targets a predominantly male customer base. In November 2006, we launched a new e-commerce website, ShoptheBunny.com, and the BUNNYshop Catalog to target a primarily female audience and showcase Playboy-branded fashions, clubwear, apparel, sleepwear, lingerie and women's accessories. Also in 2006, we made the strategic decision to license our Spice-branded e-commerce website, SpiceTVStore.com, and the Spice Catalog to a third party.

Other Businesses

We launched a site-wide redesign of Playboy.com in 2006. The new Playboy.com website offers more original content leveraging Playboy magazine's editorial assets and providing more opportunities to increase online advertising sales. Additionally, the free area of the website is designed with a goal of converting visitors to purchasers by directing them to our pay sites.

We distribute our proprietary content domestically in DVD format. We also distribute non-Playboy-branded movies and adult DVDs, including titles under our recently acquired Club Jenna brand, and re-package and re-market our catalog of previously released DVD titles. These DVDs are sold in video and music stores, other retail outlets and through our and other catalogs and online sites. Image Entertainment, Inc. is the primary distributor of our Playboy-branded DVD products in the United States and Canada and Vivid Entertainment Group is our distributor for our Club Jenna-branded DVD products. Mammoth Entertainment distributes our titles throughout Europe, Asia and South America.

In 2006, Playboy Radio, a new 24-hour Playboy-branded radio channel, launched on SIRIUS Satellite Radio. The channel features all-new and exclusive content and leverages our entertainment assets by expanding the Playboy brand on the satellite radio platform. The agreement with SIRIUS Satellite Radio replaced our former agreement with XM Satellite Radio Inc.

Alta Loma Entertainment functions as a production company. It leverages our assets, including editorial material and the Playboy brand, as well as icons such as the Playmates, the Playboy Mansion and Hugh M. Hefner, our Editor-In-Chief and Chief Creative Officer, to develop and co-produce original programming, such as the top-rated Girls Next Door on E!.

Competition

Competition among television programming providers is intense for both channel space and viewer spending. Our competition varies in both the type and quality of programming offered, but consists primarily of other premium pay services, such as general-interest premium channels and other adult movie pay services. We compete with the other pay services as we (a) attempt to obtain or renew carriage with DTH operators and individual cable affiliates, (b) negotiate fee arrangements with these operators, (c) negotiate for VOD and SVOD rights and (d) market our programming to consumers through these operators. Over the past several years, all of the competitive factors described above have adversely impacted us, as has consolidation in the DTH and cable systems industries, which has resulted in fewer, but larger, operators. The availability of, and price pressure from, more explicit content on the Internet and more pay television options, both mainstream and adult, also present a significant competitive challenge. We believe the impact on our movie networks is greater than the impact on Playboy TV due to the

strong brand recognition of Playboy, the quality of our original programming and our ability to appeal to a broad range of adult audiences.

On the adult side, with VOD's lower cost of entry for programmers compared to linear networks and capacity constraints disappearing, the market has become significantly more competitive as we have less shelf space. We encourage distributors to increase the dollars they spend marketing the full range of Playboy PPV, VOD, SVOD and monthly subscription options to consumers with particular emphasis on the value of monthly subscriptions. Our strategy in response to Spice is to maintain VOD shelf space while reducing costs.

We also face competition in international markets from both the availability and prevalence of explicit adult content on free television, specifically in Europe, as well as competitive pay services. In the U.K., our networks compete with a total of 41 other adult networks, and in Japan, our channels compete with 14 other adult channels. As in the United States, there are often low barriers to entry, which yield increasing competition, especially from companies in Asia and parts of Europe providing local content as opposed to dubbed U.S. programming.

The Internet is highly competitive, and we continue to compete for visitors, subscribers, shoppers and advertisers. We believe that the primary competitive factors affecting our Internet operations include brand recognition, the quality of our content and products, technology, including the number of broadband homes, pricing, ease of use, sales and marketing efforts and consumer demographics. We have the advantage of leveraging the power of our Playboy and other brands across multiple media platforms.

PUBLISHING GROUP

Our Publishing Group operations include the publication of Playboy magazine, special editions, and other domestic publishing businesses, including books and calendars, as well as the licensing of international editions of

Playboy magazine.

Playboy Magazine

Founded by Mr. Hefner in 1953, Playboy magazine plays a key role in driving the continued popularity and recognition of the Playboy brand as the best-selling monthly men's magazine in the world based on the combined circulation of the U.S. and international editions. Circulation of the U.S. edition is approximately 3.0 million copies monthly, while the combined average circulation of the 22 licensed international editions is approximately 1.1 million copies monthly. According to fall 2006 data published by the independent market research firm of Mediamark Research, Inc., or MRI, approximately one in every eight men in the United States aged 18 to 34 reads the U.S. edition of Playboy magazine.

Playboy magazine is a general-interest magazine, targeted to men, with a reputation for excellence founded on its high-quality photography, entertainment, humor, cartoons and articles on current issues, interests and trends. Playboy magazine consistently includes in-depth, candid interviews with high-profile political, business, entertainment and sports figures, pictorials of famous women, and content by leading authors, including the following:

Interviews	Pictorials	Leading Authors
Halle Berry	Pamela Anderson	Jimmy Breslin
Michael Brown	Drew Barrymore	Ethan Coen
George Clooney	Cindy Crawford	Michael Crichton
Bill Gates	Carmen Electra	Stephen King
Al Franken	Daryl Hannah	Norman Mailer
Tommy Hilfiger	Rachel Hunter	Jay McInerney
Arianna Huffington	Elle Macpherson	Walter Mosley
Michael Jordan	Cindy Margolis	Joyce Carol Oates
Nicole Kidman	Jenny McCarthy	Jane Smiley
Jack Nicholson	Denise Richards	Scott Turow
Donald Trump	Anna Nicole Smith	John Updike
Kanye West	Katarina Witt	Kurt Vonnegut

Playboy magazine has long been known for publishing the work of top photographers, writers and artists. Playboy magazine also features lifestyle articles on consumer electronics and other products, fashion and automobiles and covers the worlds of sports and entertainment.

According to the independent audit agency Audit Bureau of Circulations, or ABC, for the six months ended December 31, 2006, Playboy magazine was the 14th highest-ranking U.S. consumer publication, with a circulation rate base (the total subscription and newsstand circulation guaranteed to advertisers) of 3.0 million. Playboy magazine's circulation rate base for the same period was greater than each of Maxim, Stuff, GQ and Esquire.

Playboy magazine has historically generated approximately two-thirds of its revenues from subscription and newsstand circulation, with the remainder primarily from advertising. Subscription copies represent approximately 92% of total copies sold. Managing Playboy magazine's circulation to be primarily subscription driven provides a relatively stable and desirable circulation base, which we believe is attractive to advertisers. According to MRI, the median age of male Playboy magazine readers is 34, with a median annual household income of approximately $54,000, a demographic that we believe is also attractive to advertisers. We also derive revenues from the rental of Playboy magazine's subscriber list.

We attract new subscribers to Playboy magazine through our own direct mail advertising campaigns, subscription agent campaigns and the Internet, including Playboy.com. Subscription copies of the magazine are delivered through the United States Postal Service as periodical mail. We attempt to contain these costs through presorting and other methods.

Playboy magazine is also available as a digital edition. Each month, digital copies are delivered to subscribers via the Internet. Digital copies may also be purchased on a single issue basis.

Playboy magazine is one of the highest priced magazines in the United States. The basic U.S. newsstand cover price is $5.99 ($6.99 for the December 2006 and January 2007 holiday issues). We generally increase the newsstand cover price by $1.00 when there is a feature of special appeal. We price test from time to time; however, no cover price increases are planned for 2007.

Playboy magazine targets a wide range of advertisers. The following table sets forth advertising by category, as a percent of total advertising pages, and the total number of advertising pages:

Category	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05	Fiscal Year Ended 12/31/04
Retail/Direct mail	28%	27%	22%
Beer/Wine/Liquor	21	22	23
Tobacco	13	10	17
Apparel/Footwear/Accessories	7	1	4
Home electronics	4	6	8
Automotive	4	6	7
Personal hygiene/Hair care	4	6	4
Toiletries/Cosmetics	4	4	3
Other	15	18	12
Total	100%	100%	100%
Total advertising pages	429	479	573

We continue to focus on securing new advertisers, including expanding advertising in underserved categories. We publish the U.S. edition of Playboy magazine in 15 advertising editions: one upper income zip-coded, eight regional, two state and four metropolitan editions. All contain the same editorial material but provide targeting opportunities for advertisers. We implemented 5%, 8% and 4% cost per thousand increases in advertising rates effective with the January 2007, 2006 and 2005 issues, respectively.

Playboy magazine subscriptions are serviced by Communications Data Services, Inc., or CDS. Pursuant to a subscription fulfillment agreement, CDS performs a variety of services, including (a) processing orders or

transactions, (b) receiving, verifying, balancing and depositing payments from subscribers, (c) printing forms and promotional materials, (d) maintaining master files on all subscribers, (e) issuing bills and renewal notices to subscribers, (f) generating labels, (g) resolving customer service complaints as directed by us and (h) furnishing various reports that enable us to monitor and to account for all aspects of the subscription operations. The term of the subscription fulfillment agreement expires June 30, 2011. Either party may terminate the agreement prior to expiration in the event of material nonperformance by, or insolvency of, the other party. We pay CDS specified fees and charges based on the types and amounts of service performed under the agreement. The fees and charges increase annually based on the consumer price index to a maximum of six percent in one year. CDS's liability to us for a breach of its duties under the agreement is limited to actual damages of up to $140,000 per event of breach, except in cases of willful breach or gross negligence, in which case the limit is $280,000. The agreement provides for indemnification by CDS of our shareholders and us against claims arising from actions or omissions by CDS in compliance with the terms of the agreement or in compliance with our instructions.

Domestic distribution of Playboy magazine and special editions to newsstands and other retail outlets is accomplished through Time/Warner Retail Sales and Marketing, or TWRSM, our national distributor. The copies are shipped in bulk to wholesalers, who are responsible for local retail distribution. We receive a substantial cash advance from TWRSM 30 days after the date each issue goes on sale. We recognize revenues from newsstand sales based on estimated copy sales at the time each issue goes on sale and adjust for actual sales upon settlement with TWRSM. These revenue adjustments have not been material. Retailers return unsold copies to wholesalers, who count and then shred the returned copies and report the returns by affidavit. The number of copies sold on newsstands varies from month to month, depending in part on consumer interest in the cover, the pictorials and the editorial features. Our current agreement with TWRSM expires December 2008.

Playboy magazine and special editions are printed at Quad/Graphics, Inc., or Quad, at a single site located in Wisconsin, which ships the products to subscribers and wholesalers. The print runs vary each month based on expected sales and are determined with input from TWRSM. Paper is the principal raw material used in the production of these publications. We use a variety of types of high-quality coated and uncoated papers that are purchased from a number of suppliers around the world.

Magazine publishing companies face intense competition for readers, advertisers and retail shelf space. Magazines and Internet sites primarily aimed at men are Playboy magazine's principal competitors. Other types of media that carry advertising, particularly cable and broadcast television, also compete with Playboy magazine for advertising revenues. Levels of advertising revenues may be affected by, among other things, competition for and spending by advertisers, general economic activity and governmental regulation of

advertising content, such as tobacco products. However, since only approximately one-third of Playboy magazine's revenues and less than 10% of our total revenues are from Playboy magazine advertising, we are not overly dependent on this source of revenue.

Other Domestic Publishing

Our Publishing Group has also created media extensions, such as special editions and calendars, which are primarily sold in newsstand outlets. We published 25 special editions in each of 2006, 2005 and 2004, and we expect to publish the same number in 2007. The U.S. special editions' newsstand cover price is $8.99. We price test from time to time; however, no price increases are planned for 2007. Other domestic publishing also includes the production of calendars and licensing rights to third parties to publish books for which we receive royalties.

International Publishing

We license the right to publish 22 international editions of Playboy magazine to local partners in the following countries: Argentina, Brazil, Bulgaria, Croatia, the Czech Republic, France, Germany, Greece, Hungary, Indonesia, Japan, Mexico, the Netherlands, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Spain, Ukraine and Venezuela.

Local publishing licensees tailor their international editions by mixing the work of their national writers and artists with editorial and pictorial content from the U.S. edition. We monitor the content of the international editions so that they retain the distinctive style, look and quality of the U.S. edition while meeting the needs of their respective markets. The license agreements vary but, in general, are for terms of three to five years and carry a

guaranteed minimum royalty as well as a formula for computing earned royalties in excess of the minimum. Royalty computations are based on both circulation and advertising revenues. The German and Brazilian editions accounted for approximately one-half of our total revenues from international editions in 2006, 2005 and 2004.

LICENSING GROUP

Our Licensing Group operations include the licensing of consumer products carrying one or more of our trademarks and/or images, Playboy-branded retail stores, location-based entertainment and certain revenue-generating marketing activities.

We license the Playboy name, the Rabbit Head Design and other images, trademarks and artwork for the worldwide manufacture, sale and distribution of a multitude of consumer products. We work with our licensees to develop, market and distribute high-quality Playboy-branded merchandise. Our licensed product lines include men's and women's apparel, men's underwear and women's lingerie, accessories, collectibles, cigars, watches, jewelry, fragrances, shoes, luggage, bath and body products, small leather goods, stationery, music, eyewear, barware, home fashions and slot machines. We continually seek to license our brand name and images in new markets and retail categories, including the launch in 2007 of Playboygaming.com, a Playboy-branded online casino and poker site. The group also licenses art-related products based on our extensive art collection, most of which were originally commissioned as illustrations for Playboy magazine. Occasionally, we sell small portions of our art and memorabilia collection through auction houses such as Christie's and Sotheby's. Playboy-branded merchandise is marketed primarily through retail outlets, including department and specialty stores, as well as through our and other e-commerce websites and catalogs.

We also license Playboy concept stores, opening six in the last two years, with locations in Bangkok, Hong Kong, Kuala Lumpur, Melbourne and two in Las Vegas. We expect licensees to open four additional stores in 2007, including a relocated store in Tokyo, and our first store in Europe, which will be in London.

We have recently expanded our licensing activities to include location-based entertainment destinations. Our first venue, located at the Palms Casino Resort in Las Vegas, opened in the fourth quarter of 2006. Our venture partner provided the funding for all of the Playboy elements, which include a 30-foot tall Rabbit Head on the exterior of their new tower, a nightclub, a boutique casino and lounge, a retail store and a sky villa hotel suite. We contributed the Playboy brand and trademarks as well as marketing support.

While our branded products are unique, the licensing business is intensely competitive and is extremely sensitive to economic conditions, shifts in consumer buying habits, fashion and lifestyle trends and changes in the global

retail sales environment.

Company-wide marketing events, which are operated at approximately break-even, consist of the Playboy Jazz Festival and Playmate Promotions. We have produced the Playboy Jazz Festival on an annual basis in Los Angeles at the Hollywood Bowl since 1979 and continue our sponsorship of related community events. Playmate Promotions represents the Playmates in advertising campaigns, trade shows, endorsements, commercials, motion pictures, television and videos.

SEASONALITY

Our businesses are generally not seasonal in nature; however, e-commerce revenues are typically impacted by the holiday buying season, and online subscription revenues are impacted by decreased Internet traffic during the summer months.

PROMOTIONAL AND OTHER ACTIVITIES

We believe that our sales of products and services are enhanced by public recognition of the Playboy brand as symbolic of a lifestyle. In order to establish public recognition, we, among other activities, purchased in 1971 the Playboy Mansion in Los Angeles, California, where Mr. Hefner lives. The Playboy Mansion is used for various corporate activities, and serves as a valuable location for television production, magazine photography and for online, advertising, marketing and sales events. It also enhances our image, as we host many charitable and civic

functions. The Playboy Mansion generates substantial publicity and recognition, which increases public awareness of us and our products and services. As indicated in Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," or MD&A, and Part III. Item 13. "Certain Relationships and Related Transactions," Mr. Hefner pays us rent for that portion of the Playboy Mansion used exclusively for his and his personal guests' residence as well as for the per-unit value of non-business meals, beverages and other benefits received by him and his personal guests. The Playboy Mansion is included in our Consolidated Balance Sheet at December 31, 2006, at a net book value of $1.6 million, including all improvements and after accumulated depreciation. We incur all operating expenses of the Playboy Mansion, including depreciation and taxes, which were $2.1 million, $3.1 million and $3.0 million for 2006, 2005 and 2004, respectively, net of rent received from Mr. Hefner.

The Playboy Foundation provides financial support to many not-for-profit organizations and projects throughout the country concerned with issues historically of importance to Playboy magazine and its readers, including anti-censorship efforts, civil rights, AIDS education, prevention and research, reproductive freedom and social justice.

Our trademarks, copyrights and online domain names are critical to the success and growth potential of all of our businesses. We actively protect and defend them throughout the world and monitor the marketplace for counterfeit products, including by initiating legal proceedings, when warranted, to prevent their unauthorized use.

EMPLOYEES

We employed 782 and 725 full-time employees at February 28, 2007 and 2006, respectively. No employees are represented by collective bargaining agreements. We believe we maintain a satisfactory relationship with our employees.

AVAILABLE INFORMATION

We make available free of charge on our website, www.playboyenterprises.com, our annual, quarterly and current reports, and, if applicable, amendments to those reports, filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission.

Also posted on our website are the charters of the Audit Committee and Compensation Committee of our Board of Directors, our Code of Business Conduct and our Corporate Governance Guidelines. Copies of these documents are available free of charge by sending a request to Investor Relations, Playboy Enterprises, Inc., 680 North Lake Shore Drive, Chicago, Illinois 60611.

As required under Section 302 of the Sarbanes-Oxley Act of 2002, the certifications of our Chief Executive Officer and Chief Financial Officer are filed as exhibits to the Annual Report on Form 10-K. In addition, we submitted to the New York Stock Exchange, or the Exchange, the required annual certifications of our Chief Executive Officer relating to compliance by us with the Exchange's corporate governance listing standards. Copies of these

certifications are available to stockholders free of charge by sending a request to Investor Relations, Playboy Enterprises, Inc., 680 North Lake Shore Drive, Chicago, Illinois 60611.

Item 1A. Risk Factors

In addition to the other information contained in this Annual Report on Form 10-K, the following risk factors should be carefully considered in evaluating our business and us.

We may not be able to protect our intellectual property rights.

We believe that our trademarks, particularly the Playboy name and Rabbit Head Design, and other proprietary rights are critical to our success, growth potential and competitive position. Accordingly, we devote substantial resources to the establishment and protection of our trademarks and other proprietary rights. Our actions to establish and protect our trademarks and other proprietary rights, however, may not prevent imitation of our products by others or prevent others from claiming violations of their trademarks and proprietary rights by us. Any infringement or related claims, even if not meritorious, may be costly and time consuming to litigate, may distract management from other tasks of operating the business and may result in the loss of significant financial and managerial resources, which could harm our business, financial condition or operating results. These concerns are particularly relevant with regard to those international markets, such as China, in which it is especially difficult to enforce intellectual property rights.

Failure to maintain our agreements with multiple system operators, or MSOs, and DTH operators on favorable terms could adversely affect our business, financial condition or results of operations.

We currently have agreements with all of the largest MSOs in the United States. We also have agreements with the principal DTH operators in the United States and Canada. Our agreements with these operators may be terminated on short notice without penalty. If one or more MSOs or DTH operators terminate or do not renew these agreements, or do not renew them on terms as favorable as those of current agreements, our business, financial condition or results of operations could be materially adversely affected.

In addition, competition among television programming providers is intense for both channel space and viewer spending. Our competition varies in both the type and quality of programming offered, but consists primarily of other premium pay services, such as general-interest premium channels, and other adult movie pay services. We compete with other pay services as we attempt to obtain or renew carriage with DTH operators and individual cable affiliates, negotiate fee arrangements with these operators, negotiate for VOD and SVOD rights and market our programming through these operators to consumers. The competition with programming providers has intensified as a result of consolidation in the DTH and cable systems industries, which has resulted in fewer, but larger, operators. Competition has also intensified with VOD's lower cost of entry for programmers compared to linear networks and with capacity constraints disappearing. The impact of industry consolidation, any decline in our access to, and acceptance by, DTH and/or cable systems and the possible resulting deterioration in the terms of agreements, cancellation of fee arrangements or pressure on margin splits with operators of these systems could adversely affect our business, financial condition or results of operations.

Limits on our access to satellite transponders could adversely affect our business, financial condition or results of operations.

Our cable television and DTH operations require continued access to satellite transponders to transmit programming to cable and DTH operators. Material limitations on our access to these systems or satellite transponder capacity could materially adversely affect our business, financial condition or results of operations. Our access to transponders may be restricted or denied if:

- we or the satellite owner are/is indicted or otherwise charged as a defendant in a criminal proceeding;
- the Federal Communications Commission issues an order initiating a proceeding to revoke the satellite owner's authorization to operate the satellite;
- the satellite owner is ordered by a court or governmental authority to deny us access to the transponder;
- we are deemed by a governmental authority to have violated any obscenity law; or

- our satellite transponder providers fail to provide the required services.

In addition to the above, the access of Playboy TV, the Spice Digital Networks and our other networks to transponders may be restricted or denied if a governmental authority commences an investigation or makes an adverse finding concerning the content of their transmissions. Technical failures may also affect our satellite transponder providers' ability to deliver transmission services.

We are subject to risks resulting from our operations outside the United States, and we face additional risks and challenges as we continue to expand internationally.

The international scope of our operations may contribute to volatile financial results and difficulties in managing our business. For the year ended December 31, 2006, we derived approximately 29% of our consolidated revenues from countries outside the United States. Our international operations expose us to numerous challenges and risks, including, but not limited to, the following:

- adverse political, regulatory, legislative and economic conditions in various jurisdictions;
- costs of complying with varying governmental regulations;
- fluctuations in currency exchange rates;
- difficulties in developing, acquiring or licensing programming and products that appeal to a variety of different audiences and cultures;
- scarcity of attractive licensing and joint venture partners;
- the potential need for opening and managing distribution centers abroad; and
- difficulties in protecting intellectual property rights in foreign countries.

In addition, important elements of our business strategy, including capitalizing on advances in technology, expanding distribution of our products and content and leveraging cross-promotional marketing capabilities, involve a continued commitment to expanding our business internationally. This international expansion will require considerable management and financial resources.

We cannot assure you that one or more of these factors or the demands on our management and financial resources would not harm any current or future international operations and our business as a whole.

Any inability to identify, fund investment in and commercially exploit new technology could have a material adverse impact on our business, financial condition or results of operations.

We are engaged in a business that has experienced significant technological change over the past several years and is continuing to undergo technological change. Our ability to implement our business plan and to achieve the results projected by management will depend on management's ability to anticipate technological advances and implement strategies to take advantage of technological change. Any inability to identify, fund investment in and commercially exploit new technology or the commercial failure of any technology that we pursue, such as VOD and SVOD, could result in our business becoming burdened by obsolete technology and could have a material adverse impact on our business, financial condition or results of operations.

Our online operations are subject to security risks and systems failures.

Online security breaches could materially adversely affect our business, financial condition or results of operations. Any well-publicized compromise of security could deter use of the Internet in general or use of the Internet to conduct transactions that involve transmitting confidential information or downloading sensitive materials in particular. In offering online payment services, we may increasingly rely on technology licensed from third parties to provide the security and authentication necessary to effect secure transmission of confidential information such as customer credit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other developments could compromise or breach the algorithms that we use to protect our customers' transaction data. If third parties are able to penetrate our network security or otherwise misappropriate confidential information, we could be subject to liability, which could result in litigation. In addition,

experienced programmers or "hackers" may attempt to misappropriate proprietary information or cause interruptions in our services that could require us to expend significant capital and resources to protect against or remediate these

problems. Increased scrutiny by regulatory agencies, such as the Federal Trade Commission and state agencies, of the use of customer information could also result in additional expenses if we are obligated to reengineer systems to comply with new regulations or to defend investigations of our privacy practices.

The uninterrupted performance of our computer systems is critical to the operations of our websites. Our computer systems are located at external third-party sites, and, as such, may be vulnerable to fire, loss of power, telecommunications failures and other similar catastrophes. In addition, we may have to restrict access to our websites to solve problems caused by computer viruses or other system failures. Our customers may become dissatisfied by any disruption or failure of our computer systems that interrupts our ability to provide our content. Repeated system failures could substantially reduce the attractiveness of our websites and/or interfere with commercial transactions, negatively affecting our ability to generate revenues. Our websites must accommodate a high volume of traffic and deliver regularly-updated content. Our sites have, on occasion, experienced slow response times and network failures. These types of occurrences in the future could cause users to perceive our websites as not functioning properly and therefore induce them to frequent websites other than ours. We are also subject to risks from failures in computer systems other than our own because our customers depend on their own Internet service providers for access to our sites. Our revenues could be negatively affected by outages or other difficulties customers experience in accessing our websites due to Internet service providers' system disruptions or similar failures unrelated to our systems. Our insurance policies may not adequately compensate us for any losses that may occur due to any failures in our Internet systems or the systems of our customers' Internet service providers.

Piracy of our television networks, programming and photographs could materially reduce our revenues and adversely affect our business, financial condition or results of operations.

The distribution of our subscription programming by MSOs and DTH operators requires the use of encryption technology to assure that only those who pay can receive programming. It is illegal to create, sell or otherwise distribute mechanisms or devices to circumvent that encryption. Nevertheless, theft of subscription television programming has been widely reported. Theft of our programming reduces future potential revenue. In addition, theft of our competitors' programming can also increase our churn rate. Although MSOs and DTH operators continually review and update their conditional access technology, there can be no assurance that they will be successful in developing or acquiring the technology needed to effectively restrict or eliminate signal theft.

Additionally, the development of emerging technologies, including the Internet and online services, poses the risk of making piracy of our intellectual property more prevalent. Digital formats, such as the ones we use to distribute our programming through MSOs, DTH and the Internet, are easier to copy, download or intercept. As a result, users can download, duplicate and distribute unauthorized copies of copyrighted programming and photographs over the Internet or other media, including DVDs. As long as pirated content is available, many consumers could choose to download or purchase pirated intellectual property rather than pay to subscribe to our services or purchase our products.

National consolidation of the single-copy magazine distribution system may adversely affect our ability to obtain favorable terms on the distribution of Playboy magazine and special editions and may lead to declines in profitability and circulation.

In the past decade, the single-copy magazine distribution system has undergone dramatic consolidation. According to an economic study released by Magazine Publishers of America in October 2001, the number of magazine wholesalers has declined from more than 180 independent distribution owners to just four large wholesalers that handle 90% of the single-copy distribution business. Currently, we rely on a single national distributor, TWRSM, for the distribution of Playboy magazine and special editions to newsstands and other retail outlets. As a result of this industry consolidation, we face increasing pressure to lower the prices we charge to wholesalers and increase our sell-through rates. If we are forced to lower the prices we charge wholesalers, we may experience declines in revenue. If we are unable to meet targeted sell-through rates, we may incur greater expenses in the distribution process. The combination of these factors could negatively impact the profitability and newsstand circulation for Playboy magazine and special editions.

If we are unable to generate revenues from advertising and sponsorships, or if we were to lose our large advertisers or sponsors, our business would be harmed.

If companies perceive Playboy magazine, Playboy.com or any of our other free websites to be limited or ineffective advertising mediums, they may be reluctant to advertise in our products or to be sponsors in us. Our ability to generate significant advertising and sponsorship revenues depends upon several factors, including, among others, the following:

- our ability to maintain a large, demographically attractive subscriber base for Playboy magazine and Playboy.com and any of our other free websites;
- our ability to offer attractive advertising rates;
- our ability to attract advertisers and sponsors; and
- our ability to provide effective advertising delivery and measurement systems.

Our advertising revenues are also dependent on the level of spending by advertisers, which is impacted by a number of factors beyond our control, including general economic conditions, changes in consumer purchasing and viewing habits and changes in the retail sales environment. Our existing competitors, as well as potential new competitors, may have significantly greater financial, technical and marketing resources than we do. These companies may be able to undertake more extensive marketing campaigns, adopt aggressive advertising pricing policies and devote substantially more resources to attracting advertising customers.

We rely on third parties to service our Playboy magazine subscriptions and to print and distribute the magazine and special editions. If these third parties fail to perform, our business could be harmed.

We rely on CDS to service Playboy magazine subscriptions. The magazine and special editions are printed at Quad at a single site located in Wisconsin, which ships the product to subscribers and wholesalers. We rely on a single national distributor, TWRSM, for the distribution of Playboy magazine and special editions to newsstands and other retail outlets. If CDS, Quad or TWRSM is unable to or does not perform and we are unable to find alternative services in a timely fashion, our business could be adversely affected.

Increases in paper prices or postal rates could adversely affect our operating performance.

Paper costs are a substantial component of the manufacturing and direct marketing expenses of our publishing business and the direct marketing expenses of our online business. The market for paper has historically been cyclical, resulting in volatility in paper prices. An increase in paper prices could materially adversely affect our operating performance unless and until we can pass any increases through to the consumer.

The cost of postage also affects the profitability of Playboy magazine and our e-commerce business. An increase in postage rates could materially adversely affect our operating performance unless and until we can pass the increase through to the consumer.

If we experience a significant decline in our circulation rate base, our results could be adversely affected.

According to ABC, Playboy magazine was the 14th highest-ranking U.S. consumer publication for the six months ended December 31, 2006. Our circulation is primarily subscription driven, with subscription copies comprising approximately 92% of total copies sold. If we either experience a significant decline in subscriptions because we lose existing subscribers or do not attract new subscribers, our results could be adversely affected.

We may not be able to compete successfully with direct competitors or with other forms of entertainment.

We derive a significant portion of our revenues from subscriber-based fees, advertising and licensing, for which we compete with various other media, including magazines, newspapers, television, radio and Internet websites that offer customers information and services similar to those that we provide. We also compete with providers of alternative leisure-time activities and media. Competition could result in price reductions, reduced

margins or loss of market share, any of which could have a material adverse effect on our business, financial condition or results of operations.

We face competition on both country and regional levels. In addition, each of our businesses competes with companies that deliver content through the same platforms and with companies that operate in different media businesses. Many of our competitors, including large entertainment and media enterprises, have greater financial and human resources than we do. We cannot assure you that we can remain competitive with companies that have greater resources or that offer alternative entertainment and information options.

Government regulations could adversely affect our business, financial condition or results of operations.

Our businesses are regulated by governmental authorities in the countries in which we operate. Because of our international operations, we must comply with diverse and evolving regulations. Regulation relates to, among other things, licensing, access to satellite transponders, commercial advertising, subscription rates, foreign investment, Internet gaming, use of confidential customer information and content, including standards of decency/obscenity. Changes in the regulation of our operations or changes in interpretations of existing regulations by courts or regulators or our inability to comply with current or future regulations could adversely affect us by reducing our revenues, increasing our operating expenses and/or exposing us to significant liabilities. While we are not able to reliably predict particular regulatory developments that could affect us adversely, those regulations related to adult content, the Internet, privacy and commercial advertising illustrate some of the potential difficulties we face.

- Adult content. Regulation of adult content could prevent us from making our content available in various jurisdictions or otherwise have a material adverse effect on our business, financial condition or results of operations. The governments of some countries, such as China and India, have sought to limit the influence of other cultures by restricting the distribution of products deemed to represent foreign or "immoral" influences. Regulation aimed at limiting minors' access to adult content could also increase our cost of operations and introduce technological challenges, such as by requiring development and implementation of age verification systems.

- Internet. Various governmental agencies are considering a number of legislative and regulatory proposals that may lead to laws or regulations concerning various aspects of the Internet, including online content, intellectual property rights, user privacy, taxation, access charges, liability for third-party activities and jurisdiction. Regulation of the Internet could materially adversely affect our business, financial condition or results of operations by reducing the overall use of the Internet, reducing the demand for our services or increasing our cost of doing business.

- Regulation of commercial advertising. We receive a significant portion of our advertising revenues from companies selling alcohol and tobacco products. For the year ended December 31, 2006, beer/wine/liquor and tobacco represented 21% and 13%, respectively, of the total advertising pages in Playboy magazine. Significant limitations on the ability of those companies to advertise in Playboy magazine or on our websites because of either legislative, regulatory or court action could materially adversely affect our business, financial condition or results of operations. In August 1996, the Food & Drug Administration announced regulations that prohibited the publication of tobacco advertisements containing drawings, colors or pictures. While those regulations were later held unconstitutional by the Supreme Court of the United States, future attempts may be made by other federal agencies to impose similar or other types of advertising limitations.

Our business involves risks of liability claims for media content, which could adversely affect our business, financial condition or results of operations.

As a distributor of media content, we may face potential liability for:

- defamation;

- invasion of privacy;

- negligence;
- copyright or trademark infringement; and
- other claims based on the nature and content of the materials distributed.

These types of claims have been brought, sometimes successfully, against broadcasters, publishers, online services and other disseminators of media content. We could also be exposed to liability in connection with material available through our websites. Any imposition of liability that is not covered by insurance or is in excess of insurance coverage could have a material adverse effect on us. In addition, measures to reduce our exposure to liability in connection with material available through our websites could require us to take steps that would substantially limit the attractiveness of our websites and/or their availability in various geographic areas, which would negatively affect their ability to generate revenues.

Private advocacy group actions targeted at our content could result in limitations on our ability to distribute our products and programming and negatively impact our brand acceptance.

Our ability to operate successfully depends on our ability to obtain and maintain distribution channels and outlets for our products. From time to time, private advocacy groups have sought to exclude our programming from local pay television distribution because of the adult-oriented content of the programming. In addition, from time to time, private advocacy groups have targeted Playboy magazine and its distribution outlets and advertisers, seeking to limit the magazine's availability because of its adult-oriented content. In addition to possibly limiting our ability to distribute our products and programming, negative publicity campaigns, lawsuits and boycotts could negatively affect our brand acceptance and cause additional financial harm by requiring that we incur significant expenditures to defend our business or by discouraging investors from investing in our securities.

In pursuing selective acquisitions, we may incur various costs and liabilities and we may never realize the anticipated benefits of the acquisitions.

If appropriate opportunities become available, we may acquire businesses, products or technologies that we believe are strategically advantageous to our business. Transactions of this sort could involve numerous risks, including:

- unforeseen operating difficulties and expenditures arising from the process of integrating any acquired business, product or technology, including related personnel;
- diversion of a significant amount of management's attention from the ongoing development of our business;
- dilution of existing stockholders' ownership interest in us;
- incurrence of additional debt;
- exposure to additional operational risk and liability, including risks arising from the operating history of any acquired businesses;
- entry into markets and geographic areas where we have limited or no experience;
- loss of key employees of any acquired companies;
- adverse effects on our relationships with suppliers and customers; and
- adverse effects on the existing relationships of any acquired companies, including suppliers and customers.

Furthermore, we may not be successful in identifying appropriate acquisition candidates or consummating acquisitions on terms favorable or acceptable to us or at all.

When we acquire businesses, products or technologies, our due diligence reviews are subject to inherent uncertainties and may not reveal all potential risks. We may therefore fail to discover or inaccurately assess undisclosed or contingent liabilities, including liabilities for which we may have responsibility as a successor to the seller or the target company. As a successor, we may be responsible for any past or continuing violations of law by

the seller or the target company, including violations of decency laws. Although we generally attempt to seek contractual protections, such as representations and warranties and indemnities, we cannot be sure that we will obtain such provisions in our acquisitions or that such provisions will fully protect us from all unknown, contingent or other liabilities or costs. Finally, claims against us relating to any acquisition may necessitate our seeking claims against the seller for which the seller may not indemnify us or that may exceed the scope, duration or amount of the seller's indemnification obligations.

Our significant debt could adversely affect our business, financial condition or results of operations.

We have a significant amount of debt. At December 31, 2006, we had total financing obligations of $115.0 million, all of which consisted of our 3.00% convertible senior subordinated notes due 2025. In addition, we have a $50.0 million revolving credit facility. At December 31, 2006, there were no borrowings and $10.6 million in letters of credit outstanding under this facility, permitting $39.4 million of available borrowings under this facility.

The amount of our existing and future debt could adversely affect us in a number of ways, including the following:

- we may be unable to obtain additional financing for working capital, capital expenditures, acquisitions and general corporate purposes;
- debt-service requirements could reduce the amount of cash we have available for other purposes;
- we could be disadvantaged as compared to our competitors, such as in our ability to adjust to changing market conditions; and
- we may be restricted in our ability to make strategic acquisitions and to exploit business opportunities.

Our ability to make payments of principal and interest on our debt depends upon our future performance, general economic conditions and financial, business and other factors affecting our operations, many of which are beyond our control. If we are not able to generate sufficient cash flow from operations in the future to service our debt, we may be required, among other things:

- to seek additional financing in the debt or equity markets;
- to refinance or restructure all or a portion of our debt; and/or
- to sell assets.

These measures might not be sufficient to enable us to service our debt. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms.

The terms of our existing credit facility impose restrictions on us that may affect our ability to successfully operate our business.

Our existing credit facility contains covenants that limit our actions. These covenants could materially and adversely affect our ability to finance our future operations or capital needs or to engage in other business activities that may be in our best interests. The covenants limit our ability to, among other things:

- incur or guarantee additional indebtedness;
- repurchase capital stock;
- make loans and investments;
- enter into agreements restricting our subsidiaries' abilities to pay dividends;
- create liens;
- sell or otherwise dispose of assets;

- enter new lines of business;
- merge or consolidate with other entities; and
- engage in transactions with affiliates.

The credit facility also contains financial covenants requiring us to maintain specified minimum net worth and interest coverage ratios.

Our ability to comply with these covenants and requirements may be affected by events beyond our control, such as prevailing economic conditions and changes in regulations, and if such events occur, we cannot be sure that we will be able to comply.

We depend on our key personnel.

We believe that our ability to successfully implement our business strategy and to operate profitably depends on the continued employment of some of our senior management team. If these members of the management team become unable or unwilling to continue in their present positions, our business, financial condition or results of operations could be materially adversely affected.

Ownership of Playboy Enterprises, Inc. is concentrated.

As of December 31, 2006, Mr. Hefner beneficially owned 69.53% of our Class A common stock. As a result, given that our Class B stock is nonvoting, Mr. Hefner possesses influence on matters including the election of directors as well as transactions involving a potential change of control. Mr. Hefner may support, and cause us to pursue, strategies and directions with which holders of our securities disagree. The concentration of our share ownership may delay or prevent a change in control, impede a merger, consolidation, takeover or other transaction involving us or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Location	Primary Use
Office Space Leased:	
Chicago, Illinois	This space serves as our corporate headquarters and is used by all of our operating groups and executive and administrative personnel.
Los Angeles, California	This space serves as our Entertainment Group's headquarters and is utilized by executive and administrative personnel.
New York, New York	This space serves as our Publishing and Licensing Groups' headquarters, and the Entertainment Group and executive and administrative personnel use a limited amount of space.
London, England	This space is used by our Playboy TV U.K. executive and administrative personnel and as a programming facility.
Operations Facilities Leased:	
Los Angeles, California	This space is used by our Entertainment Group as a centralized digital, technical and programming facility. We also utilize parts of this facility to handle similar functions for others.
Santa Monica, California	This space is used by our Publishing Group as a photography studio and offices.
Rocklin, California	This space is used by our Entertainment Group in the production and distribution of content.
Scottsdale, Arizona	This space is used by our Entertainment Group in the production of content.
Property Owned:	
Los Angeles, California	The Playboy Mansion is used for various corporate activities and serves as a valuable location for television production, magazine photography and for online, advertising and sales events. It also enhances our image as host

for many charitable and civic functions.

Item 3. Legal Proceedings

On February 17, 1998, Eduardo Gongora, or Gongora, filed suit in state court in Hidalgo County, Texas, against Editorial Caballero SA de CV, or EC, Grupo Siete International, Inc., or GSI, collectively the Editorial Defendants, and us. In the complaint, Gongora alleged that he was injured as a result of the termination of a publishing license agreement, or the License Agreement, between us and EC for the publication of a Mexican edition of Playboy magazine, or the Mexican Edition. We terminated the License Agreement on or about January 29, 1998, due to EC's failure to pay royalties and other amounts due us under the License Agreement. On February 18, 1998, the Editorial Defendants filed a cross-claim against us. Gongora alleged that in December 1996 he entered into an oral agreement with the Editorial Defendants to solicit advertising for the Mexican Edition to be distributed in the United States. The basis of GSI's cross-claim was that it was the assignee of EC's right to distribute the Mexican Edition in the United States and other Spanish-speaking Latin American countries outside of Mexico. On May 31, 2002, a jury returned a verdict against us in the amount of approximately $4.4 million. Under the verdict, Gongora was awarded no damages. GSI and EC were awarded $4.1 million in out-of-pocket expenses and approximately $0.3 million for lost profits, respectively, even though the jury found that EC had failed to comply with the terms of the License Agreement. On October 24, 2002, the trial court signed a judgment against us for $4.4 million plus pre- and post-judgment interest and costs. On November 22, 2002, we filed post-judgment motions challenging the judgment in the trial court. The trial court overruled those motions and we vigorously pursued an appeal with the State Appellate Court sitting in Corpus Christi challenging the verdict. We have posted a bond in the amount of approximately $9.4 million, which represents the amount of the judgment, costs and estimated pre- and post-judgment interest, in connection with the appeal. On May 25, 2006, the State Appellate Court reversed the judgment by the trial court, rendered judgment for us on the majority of the plaintiffs' claims and remanded the remaining claims for a new trial. On July 14, 2006, the plaintiffs filed a motion for rehearing and en banc reconsideration, which we opposed. On October 12, 2006, the State Appellate Court denied plaintiff's motion. On December 27, 2006, we filed a petition for review with the Texas Supreme Court. We, on advice of legal counsel, believe that it is not probable that a material judgment against us will be obtained. In accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, or Statement 5, no liability has been accrued.

On May 17, 2001, Logix Development Corporation, or Logix, D. Keith Howington and Anne Howington filed suit in state court in Los Angeles County Superior Court in California against Spice Entertainment Companies, Inc., or Spice, Emerald Media, Inc., or EMI, Directrix, Inc., or Directrix, Colorado Satellite Broadcasting, Inc., New Frontier Media, Inc., J. Roger Faherty, or Faherty, Donald McDonald, Jr., and Judy Savar. On February 8, 2002, plaintiffs amended the complaint and added as a defendant Playboy, which acquired Spice in 1999. The complaint alleged 11 contract and tort causes of action arising principally out of a January 18, 1997, agreement between EMI and Logix in which EMI agreed to purchase certain explicit television channels broadcast over C-band satellite. The complaint further sought damages from Spice based on Spice's alleged failure to provide transponder and uplink services to Logix. Playboy and Spice filed a motion to dismiss the plaintiffs' complaint. After pre-trial motions, Playboy was dismissed from the case and a number of causes of action were dismissed against Spice. A trial date for the remaining breach of contract claims against Spice was set for December 10, 2003, and then continued, first to February 11, 2004, and then to March 17, 2004. Spice and the plaintiffs filed cross-motions for summary judgment or, in the alternative, for summary adjudication, on September 5, 2003. Those motions were heard on November 19, 2003, and were denied. In February 2004, prior to the trial, Spice and the plaintiffs agreed to a settlement in the amount of $8.5 million, which we recorded as a charge in the fourth quarter of 2003. We paid $1.0 million, $1.0 million and $6.5 million in 2006, 2005 and 2004, respectively. In the fourth quarter of 2004, we received a $5.6 million insurance recovery partially related to the prior year litigation settlement with Logix.

On April 12, 2004, Faherty filed suit in the United States District Court for the Southern District of New York against Spice, Playboy, Playboy Enterprises International, Inc., or PEII, D. Keith Howington, Anne Howington and Logix. The complaint alleges that Faherty is entitled to statutory and contractual indemnification from Playboy, PEII and Spice with respect to defense costs and liabilities incurred by Faherty in the litigation described in the preceding paragraph, or the Logix litigation. The complaint further alleges that Playboy, PEII, Spice, D. Keith Howington, Anne Howington and Logix conspired to deprive Faherty of his alleged right to indemnification by excluding him from the settlement of the Logix litigation. On June 18, 2004, a jury entered a special verdict finding Faherty personally liable for $22.5 million in damages to the plaintiffs in the Logix litigation. A judgment was entered on the verdict on or around August 2, 2004. Faherty filed post-trial motions for a judgment

notwithstanding the verdict and a new trial, but these motions were both denied on or about September 21, 2004. On October 20, 2004, Faherty filed

a notice of appeal from the verdict. As of November 30, 2006, the appeal was fully briefed. In consideration of this appeal, Faherty and Playboy have agreed to seek a temporary stay of the indemnification action filed in the United States District Court for the Southern District of New York. In the event Faherty's indemnification and conspiracy claims go forward against us, we believe they are without merit and that we have good defenses against them. As such, based on the information known to us to date, we do not believe that it is probable that a material judgment against us will result. In accordance with Statement 5, no liability has been accrued.

On September 26, 2002, Directrix filed suit in the U.S. Bankruptcy Court in the Southern District of New York against Playboy Entertainment Group, Inc. In the complaint, Directrix alleged that it was injured as a result of the termination of a Master Services Agreement under which Directrix was to perform services relating to the distribution, production and post-production of our cable networks and a sublease agreement under which Directrix would have subleased office, technical and studio space at our Los Angeles production facility. Directrix also alleged that we breached an agreement under which Directrix had the right to transmit and broadcast certain versions of films through C-band satellite, commonly known as the TVRO market, and through Internet distribution. On November 15, 2002, we filed an answer denying Directrix's allegations, along with counterclaims against Directrix relating to the Master Services Agreement and seeking damages. On May 15, 2003, we filed an amended answer and counterclaims. On July 30, 2003, Directrix moved to dismiss one of the amended counterclaims, and on October 20, 2003, the Court denied Directrix's motion. The parties were engaged in discovery. In January 2007, the parties agreed in principle to a settlement and release of the claims between them. Under the settlement, which is subject to the approval of the Bankruptcy Court, we agreed to provide a payment in the amount of $1.8 million, which we recorded as a charge in the fourth quarter of 2006. The settlement will be paid in 2007. The settlement is a compromise of disputed claims and is not an admission of liability. We believe we had good defenses against Directrix's claims, but made the reasonable business decision to settle the litigation to avoid further management distraction and defense costs, which we had estimated would have approximately equaled the amount of the settlement.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock price information, as reported in the New York Stock Exchange Composite Listing, is set forth in Note (T), Quarterly Results of Operations (Unaudited), to the Notes to Consolidated Financial Statements. Our securities are traded on the exchange listed on the cover page of this Annual Report on Form 10-K under the ticker symbols PLA A (Class A voting) and PLA (Class B nonvoting). At February 28, 2007, there were 3,330 and 8,419 holders of record of Class A common stock and Class B common stock, or Class B stock, respectively. There were no cash dividends declared during 2006, 2005 or 2004.

As previously reported in our Current Report on Form 8-K, dated March 9, 2005 and filed March 15, 2005, and our Current Report on Form 8-K, dated March 28, 2005 and filed April 1, 2005 and as more fully described in Note (L), Financing Obligations, to the Notes to Consolidated Financial Statements, in March 2005, we issued and sold in a private placement $115.0 million aggregate principal amount of our 3.00% convertible senior subordinated notes due 2025.

The following graph sets forth the five-year cumulative total stockholder return on our Class B stock with the cumulative total return of the Russell 2000 Stock Index and with our peer group for the period from December 31, 2001, through December 31, 2006. The graph reflects $100 invested on December 31, 2001, in stock or index, including reinvestment of dividends. Our peer group is comprised of Time Warner Inc., Meredith Corporation, MGM Mirage, Playboy Enterprises, Inc., Primedia, Inc., The Walt Disney Company, World Wrestling Entertainment, Inc. and Viacom Inc.

[THE FOLLOWING TABLE WAS REPRESENTED BY A LINE GRAPH IN THE PRINTED MATERIAL.]

	12/01	12/02	12/03	12/04	12/05	12/06
Playboy Enterprises, Inc.	100.00	59.98	95.68	72.76	82.24	67.85
Russell 2000	100.00	79.52	117.09	138.55	144.86	171.47
Peer Group	100.00	63.32	80.10	83.58	75.10	94.95

Other information required under this Item is contained in our Notice of Annual Meeting of Stockholders and Proxy Statement, or collectively, the Proxy Statement (to be filed), relating to the Annual Meeting of Stockholders to be held in May 2007, which will be filed within 120 days after the close of our fiscal year ended December 31, 2006, and is incorporated herein by reference.

Item 6. Selected Financial Data
(in thousands, except per share amounts
and number of employees)

<TABLE>
<CAPTION>

	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05	Fiscal Year Ended 12/31/04	Fiscal Year Ended 12/31/03	Fiscal Year Ended 12/31/02
<S>	<C>	<C>	<C>	<C>	<C>
Selected financial data (1)					
Net revenues	$ 331,142	$ 338,153	$ 329,376	$ 315,844	$ 277,622
Interest expense, net	(3,164)	(4,769)	(13,108)	(15,946)	(15,022)
Net income (loss)	2,285	(735)	9,989	(7,557)	(17,135)
Net income (loss) applicable to common shareholders	2,285	(735)	9,561	(8,450)	(17,135)
Basic and diluted earnings (loss) per common share					
Net income (loss)	0.07	(0.02)	0.30	(0.31)	(0.67)
EBITDA: (2)					
Net income (loss)	2,285	(735)	9,989	(7,557)	(17,135)
Adjusted for:					
Interest expense	5,611	6,986	13,687	16,309	15,147
Income tax expense	2,496	3,998	3,845	4,967	8,544
Depreciation and amortization	42,218	42,540	47,100	49,558	51,619
Amortization of deferred financing fees	535	635	1,266	1,407	993
Stock options and restricted stock awards	1,859	601	682	45	2,748
Equity in operations of investments	94	383	71	80	(279)
EBITDA	$ 55,098	$ 54,408	$ 76,640	$ 64,809	$ 61,637
At period end					
Cash and cash equivalents and marketable securities and short-term investments	$ 35,748	$ 52,052	$ 50,720	$ 34,878	$ 6,795
Total assets	435,783	428,969	416,330	413,809	365,470
Long-term financing obligations	115,000	115,000	80,000	115,000	68,865
Redeemable preferred stock	--	--	--	16,959	--
Total shareholders' equity	$ 163,628	$ 157,247	$ 162,158	$ 100,344	$ 81,523
Long-term financing obligations as a percentage of total capitalization	41%	41%	32%	52%	44%
Number of common shares outstanding					
Class A voting	4,864	4,864	4,864	4,864	4,864
Class B nonvoting	28,362	28,261	28,521	22,579	21,181
Number of full-time employees	789	709	645	592	581
Selected operating data					
Cash investments in Company-produced and licensed entertainment programming	$ 38,475	$ 33,075	$ 41,457	$ 44,727	$ 41,717
Cash investments in online content	5,031	2,242	2,317	2,436	4,434
Total cash investments in programming and content	43,506	35,317	43,774	47,163	46,151
Amortization of investments in Company-produced and licensed entertainment programming	36,564	37,450	41,695	40,603	40,626
Amortization of investments in online content	5,241	2,626	2,317	2,436	4,434
Total amortization of programming and content	$ 41,805	$ 40,076	$ 44,012	$ 43,039	$ 45,060

</TABLE>

For a more detailed description of our financial position, results of operations and accounting policies, please refer to Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," or MD&A, and Part II. Item 8. "Financial Statements and Supplementary Data."

(1) 2006 included $2.0 million of restructuring expenses. 2005 included $19.3 million of debt extinguishment expense related to the redemption of $80.0 million of 11.00% senior secured notes, or senior secured notes, issued by

our subsidiary PEI Holdings, Inc., or Holdings. 2004 included $5.9 million of debt extinguishment expense related to the redemption of $35.0 million of the senior secured notes and a $5.6 million insurance recovery partially related to a litigation settlement recorded in the prior year. 2003 included an $8.5 million charge related to the litigation settlement and $3.3 million of debt extinguishment expense related to prior financing obligations, which were paid upon completion of our debt offering. 2002 included a $5.8 million noncash income tax charge related to our adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, and $6.6 million in restructuring expenses.

(2) EBITDA represents earnings from continuing operations before interest expense, income taxes, depreciation of property and equipment, amortization of intangible assets, amortization of investments in entertainment programming, amortization of deferred financing fees, stock options and restricted stock awards related to stock-based compensation and equity in operations of investments. We evaluate our operating results based on several factors, including EBITDA. We consider EBITDA an important indicator of the operational strength and performance of our ongoing businesses, including our ability to provide cash flows to pay interest, service debt and fund capital expenditures. EBITDA eliminates the uneven effect across business segments of noncash depreciation of property and equipment and amortization of intangible assets. Because depreciation and amortization are noncash charges, they do not affect our ability to service debt or make capital expenditures. EBITDA also eliminates the impact of how we fund our businesses and the effect of changes in interest rates, which we believe relate to general trends in global capital markets but are not necessarily indicative of our operating performance. Finally, EBITDA is used to determine compliance with some of the terms of our credit facility. EBITDA should not be considered an alternative to any measure of performance or liquidity under generally accepted accounting principles in the United States. Similarly, EBITDA should not be inferred as more meaningful than any of those measures.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Since our inception in 1953 as the publisher of Playboy magazine, we have become a brand-driven, international multimedia entertainment company. Today, our businesses are classified into three reportable segments: Entertainment, Publishing and Licensing.

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our results of operations and financial condition. The discussion should be read in conjunction with the financial statements and the accompanying notes.

REVENUES

We currently generate most of our Entertainment Group revenues from pay-per-view, or PPV, fees for our television programming offerings, including Playboy- and Spice-branded domestic and international television programming. Our television revenues are affected by factors including shelf space, retail price and marketing, which are controlled by the distributors, as well as the revenue splits we negotiate with distributors and the demand for our programming. We believe television revenues will increasingly be generated from video-on-demand, or VOD, and subscription video-on-demand, or SVOD, purchases by consumers. Internationally, we own and operate or license Playboy-, Spice- and locally-branded television networks or blocks of programming and we have equity interests in additional networks through joint ventures. In the Internet space, we also receive licensing fees from Playboy- and other-branded websites and from content delivered via wireless devices to providers outside of the United States. We derive subscription revenues from multiple online clubs, which offer unique content under various brands, including Playboy and Spice. E-commerce revenues include the sale of our branded and third-party consumer products, both online and through direct mail. In addition, we monetize online traffic via advertising in conjunction with our magazine ad sales efforts. Entertainment Group revenues are also generated from the sale of DVDs and from license fees for Playboy Radio on SIRIUS Satellite Radio.

Publishing Group revenues are primarily circulation driven for Playboy magazine and special editions and include both subscription and newsstand sales. Additionally, the group generates revenues from advertising sales in Playboy magazine as well as from circulation and advertising royalties from our licensed

international editions.

Licensing Group revenues are principally generated from royalties on the wholesale sale of our branded products around the world, as well as from location-based entertainment. We also generate revenues from periodic auction sales of small portions of our art and memorabilia collection and from marketing events such as the annual Playboy Jazz Festival.

COSTS AND OPERATING EXPENSES

Entertainment Group expenses include television programming amortization, online content, network distribution, hosting, sales and marketing and administrative expenses. Programming amortization and content expenses are expenditures associated with the creation of Playboy programming, the licensing of third-party programming for our adult movie business and the creation of content for our websites and wireless and satellite radio providers.

Publishing Group expenses include manufacturing, subscription promotion, editorial, shipping and administrative expenses. Manufacturing, which includes the production of the magazine, represents the largest cost for the group.

Licensing Group expenses include agency fees, promotion, development and administrative expenses.

Corporate Administration and Promotion expenses include general corporate costs such as technology, legal, security, human resources, finance and investor relations and communications, as well as expenses related to company-wide marketing, promotions and the Playboy Mansion.

RESULTS OF OPERATIONS (1)

The following table sets forth our results of operations (in millions, except per share amounts):

<TABLE>
<CAPTION>

	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05	Fiscal Year Ended 12/31/04
<S>	<C>	<C>	<C>
Net revenues			
Entertainment			
Domestic TV	$ 82.5	$ 98.6	$ 96.9
International	55.7	52.1	45.3
Online subscriptions and e-commerce	52.1	46.9	40.2
Other	10.7	6.4	6.9
Total Entertainment	201.0	204.0	189.3
Publishing			
Playboy magazine	80.7	89.4	101.5
Special editions and other	9.8	10.5	11.9
International publishing	6.6	6.6	6.4
Total Publishing	97.1	106.5	119.8
Licensing			
International licensing	22.8	19.0	12.4
Domestic licensing	5.4	5.2	4.9
Marketing events	3.0	3.0	2.8
Other	1.8	0.5	0.2
Total Licensing	33.0	27.7	20.3
Total net revenues	$ 331.1	$ 338.2	$ 329.4
Net income (loss)			
Entertainment			
Before programming amortization and online content expenses	$ 65.1	$ 81.2	$ 77.0
Programming amortization and online content expenses	(41.8)	(40.1)	(44.0)
Total Entertainment	23.3	41.1	33.0
Publishing	(5.4)	(6.5)	6.2
Licensing	18.9	16.0	10.6
Corporate Administration and Promotion	(25.7)	(19.6)	(18.2)

Segment income	11.1	31.0	31.6
Restructuring expenses	(2.0)	(0.1)	(0.7)
Operating income	9.1	30.9	30.9
Nonoperating income (expense)			
Investment income	2.4	2.2	0.6
Interest expense	(5.6)	(7.0)	(13.7)
Amortization of deferred financing fees	(0.5)	(0.6)	(1.3)
Minority interest	--	(1.6)	(1.4)
Debt extinguishment expenses	--	(19.3)	(5.9)
Insurance settlement	--	--	5.6
Other, net	(0.6)	(1.3)	(1.0)
Total nonoperating expense	(4.3)	(27.6)	(17.1)
Income before income taxes	4.8	3.3	13.8
Income tax expense	(2.5)	(4.0)	(3.8)
Net income (loss)	$ 2.3	$ (0.7)	$ 10.0
Net income (loss)	$ 2.3	$ (0.7)	$ 10.0
Dividend requirements of preferred stock	--	--	(0.4)
Income (loss) applicable to common shareholders	$ 2.3	$ (0.7)	$ 9.6
Basic and diluted earnings (loss) per common share	$ 0.07	$ (0.02)	$ 0.30

</TABLE>

(1) Certain amounts reported for prior periods have been reclassified to conform to the current year's presentation.

2006 COMPARED TO 2005

Our revenues decreased $7.1 million, or 2%, compared to the prior year due to a continued decrease in revenues from our Publishing Group combined with lower revenues from our Entertainment Group, partially offset by higher revenues from our Licensing Group.

Segment income decreased $19.9 million, or 64%, compared to the prior year due to significantly lower results from our Entertainment Group combined with higher Corporate Administration and Promotion expenses, partially offset by improved results from our Licensing and Publishing Groups.

Operating income of $9.1 million for the current year included $2.0 million of restructuring expenses primarily related to a cost reduction plan implemented during the year.

Net income of $2.3 million improved $3.0 million over the prior year as the lower operating results previously discussed were more than offset by debt extinguishment and minority interest expenses of $19.3 million and $1.6 million, respectively, in the prior year and decreases of $1.5 million and $1.4 million in income tax and interest expenses, respectively, in the current year.

Entertainment Group

The following discussion focuses on the revenue and profit contribution before programming amortization and online content expenses of each of our Entertainment Group businesses.

Revenues from our domestic TV networks decreased $16.1 million, or 16%, in 2006.

Playboy TV network revenues decreased $6.0 million in 2006 with cable revenues decreasing $3.0 million and direct-to-home, or DTH, revenues decreasing $1.2 million. These decreases were largely due to the continued impact of a consumer shift from PPV to VOD purchasing.

Movie business revenues decreased $12.2 million in 2006 primarily due to the decline of PPV as a result of less overall carriage of adult linear networks and less shelf space in VOD compared to linear PPV. We expect these trends to continue to negatively impact our movie networks. The loss of two channels to a competitor on the largest satellite TV provider also contributed to the lower movie revenues. We expect the loss of carriage and the impact of less shelf space to unfavorably impact movie business revenues and profitability through

2007. Additionally, 2007 will also include an increase in expense of approximately $1.3 million related to a change in the estimated useful lives of certain distribution agreements.

The prior year was favorably impacted by the discontinuation of a distributor's high-definition subscription service agreement, which resulted in the accelerated recognition of $1.4 million of deferred revenues associated with the agreement.

Revenues from VOD increased $0.9 million in 2006.

Revenues associated with our studio facility increased $1.2 million in 2006 primarily due to the addition of new third-party networks.

Profit contribution from our domestic TV networks decreased $22.4 million as a result of the lower revenues previously discussed combined with a $1.8 million legal settlement in the fourth quarter of the current year and increased expenses primarily related to marketing and staffing. See Part I. Item 3. "Legal Proceedings" for additional information.

International revenues increased $3.6 million, or 7%, in 2006. International television revenues increased $2.7 million in 2006 primarily due to increased DTH and cable revenues from our U.K. television business combined with favorable foreign currency exchange rates, partially offset by lower revenues from several third-party licensees. International online and wireless revenues increased $0.9 million due to higher royalties combined with revenues from our acquisition of Club Jenna, Inc. and related companies, or Club Jenna, a multimedia adult entertainment

business, in the current year. International profit contribution was flat as a result of the higher revenues previously discussed, offset mostly by higher international distribution and staffing expenses.

Online subscriptions and e-commerce revenues increased $5.2 million, or 11%, in 2006. Positive results from our acquisitions of an affiliate network of websites late in the prior year and Club Jenna in the current year were partially offset by the impacts of a termination payment we received in the prior year related to the discontinuation of a marketing alliance and the licensing of our Spice Catalog in the current year. Online subscriptions and e-commerce profit contribution decreased $0.2 million, or 1%, as the revenue increases previously discussed were more than offset by costs associated with the acquired businesses and higher marketing expenses. We expect our online subscription business to continue its year-over-year growth in 2007 as broadband penetration increases and as we continue to expand our product offerings, particularly in video.

Revenues from other businesses increased $4.3 million, or 69%, in 2006, driven by worldwide DVD sales and advertising revenues from the acquired businesses combined with revenues resulting from the current-year launch of Playboy Radio on SIRIUS Satellite Radio. Profit contribution increased $1.5 million, or 100%, in 2006 due to the revenue increases previously discussed, partially offset by higher costs largely related to the acquired businesses.

The group's administrative expenses decreased $5.0 million, or 20%, in 2006 due to the elimination of our intra-company agreements related to trademark, content and administrative fees that had been paid by Playboy.com, Inc., or Playboy.com, to us as a result of our October 2005 repurchase of the remaining minority interest of Playboy.com, partially offset by higher staffing-related expenses, in large part associated with the acquired businesses.

Programming amortization and online content expenses increased $1.7 million, or 4%, in 2006, primarily due to new programming costs to support our acquired businesses and Playboy Radio, partially offset by a change in the mix of television programming.

Segment income for the group decreased $17.8 million, or 43%, in 2006 compared to 2005 due to the previously discussed operating results.

Publishing Group

Playboy magazine revenues decreased $8.7 million, or 10%, in 2006. Advertising revenues decreased $4.0 million due to 10% fewer advertising pages coupled with a 4% decrease in average net revenue per page. Advertising sales for the 2007 first quarter magazine issues are closed, and we expect to report approximately 22% higher advertising revenues and a 15% increase in advertising pages compared to the 2006 first quarter. Subscription revenues also decreased $4.0 million primarily due to lower average revenue per copy combined with fewer copies served. Newsstand revenues decreased $0.7 million primarily due to 15% fewer copies sold in the current year. This decrease was partially mitigated by

the impact of a $1.00 cover price increase effective with the February 2006 issue.

Revenues from special editions and other decreased $0.7 million, or 7%, in 2006. Special editions revenues decreased $0.5 million primarily due to 15% fewer newsstand copies sold in the current year, partially offset by the impact of a $1.00 cover price increase effective with the November 2005 issues and by a favorable variance related to prior issues.

International publishing revenues were flat for the year.

The group's segment loss improved $1.1 million, or 17%, as lower subscription acquisition amortization, editorial content, manufacturing, advertising sales, marketing and administration expenses were partially offset by the lower revenues previously discussed and by higher operating expenses related to international publishing in the current year.

We believe that the Publishing Group's 2007 segment profitability will be consistent with the financial performance of the last two years.

Licensing Group

Licensing Group revenues increased $5.3 million, or 19%, in 2006 primarily due to higher international royalties, principally from Europe, and royalties from our new location-based entertainment venue at the Palms Casino Resort in Las Vegas, which opened in the fourth quarter of the current year. The group's segment income increased $2.9 million, or 19%, due to the increased revenues previously discussed, partially offset by higher growth-related costs. We expect that in 2007 the Licensing Group will report 15-20% increases versus 2006 in revenues and segment income.

Corporate Administration and Promotion

Corporate Administration and Promotion expenses increased $6.1 million, or 31%, in 2006 primarily due to the elimination of our intra-company agreements related to trademark, content and administrative fees as a result of the Playboy.com minority interest repurchase previously discussed and higher promotional spending. In 2007, Corporate Administration and Promotion expenses will include an increase of approximately $2.0 million related to expensing certain trademark costs that we previously capitalized.

Restructuring Expenses

In 2006, we implemented a cost reduction plan that will result in lower overhead costs and annual programming and editorial expenses. As a result of the 2006 restructuring plan, we reported a charge of $2.1 million related to costs associated with a workforce reduction of 15 employees. In addition, we recorded a favorable adjustment of $0.2 million and an unfavorable adjustment of $0.1 million related to the 2002 and 2001 restructuring plans, respectively, as a result of changes in plan assumptions primarily related to excess office space. During the year, we made cash payments of $1.7 million, $0.2 million and $26 thousand related to our 2006, 2002 and 2001 restructuring plans, respectively. Of the total costs related to our restructuring plans, approximately $11.9 million was paid by December 31, 2006, with the remaining $0.7 million to be paid through 2008.

In 2005, we recorded an additional charge of $0.1 million related to the 2002 restructuring plan as a result of changes in plan assumptions primarily related to excess office space. There were no additional charges related to the 2001 restructuring plan.

In 2004, we recorded a restructuring charge of $0.5 million related to the realignment of our entertainment and online businesses. In addition, primarily due to excess office space, we recorded additional charges of $0.4 million related to the 2002 restructuring plan and reversed $0.2 million related to the 2001 restructuring plan as a result of changes in plan assumptions.

Nonoperating Income (Expense)

Nonoperating expense decreased $23.3 million, or 84%, in 2006. The prior year included $19.3 million of debt extinguishment expense related to a debt refinancing and $1.6 million of minority interest expense related to the previously discussed repurchase of the remaining minority interest in Playboy.com. The current year reflects a decrease in interest expense of $1.4 million, which is also a result of our 2005 debt refinancing.

Income Tax Expense

Our effective income tax rate differs from the U.S. statutory rate primarily as a result of foreign income and withholding tax, for which no

current U.S. income tax benefit is recognized, and the deferred tax treatment of certain indefinite-lived intangibles.

In 2006, we modified the assumptions related to the useful lives of certain distribution agreements that previously were classified as indefinite-lived. As these distribution agreements are now being amortized, the deferred tax liability related to the distribution agreements that is expected to be realized within the net operating loss, or NOL, carryforward period may be netted against our deferred tax asset. In 2006, we recorded an income tax benefit for $2.6 million of the $3.9 million deferred tax liability related to the distribution agreement modification. In 2005, our effective income tax rate differed from the U.S. statutory rate primarily as a result of the reduction in

the valuation allowance corresponding to the utilization of our NOL carryforwards. The benefit of our NOL carryforwards was partially offset by foreign income and withholding tax, for which no current U.S. income tax benefit is recognized, and the deferred tax treatment of certain indefinite-lived intangibles.

2005 COMPARED TO 2004

Our revenues increased $8.8 million, or 3%, compared to 2004 due to higher revenues from our Entertainment and Licensing Groups, partially offset by expected lower revenues from our Publishing Group.

Operating income of $30.9 million was flat for 2005, reflecting improved results from our Entertainment and Licensing Groups, offset by significantly lower results from our Publishing Group and higher Corporate Administration and Promotion expenses.

The net loss of $0.7 million for 2005 included $19.3 million of debt extinguishment expense. A decrease in interest expense related to our first quarter debt refinancing favorably impacted 2005. In 2004, we recorded $5.9 million of debt extinguishment expense and received a $5.6 million insurance recovery partially related to a charge recorded in 2004 for a litigation settlement with Logix Development Corporation, or Logix.

Entertainment Group

The following discussion focuses on the revenue and profit contribution before programming amortization and online content expenses of each of our Entertainment Group businesses.

Revenues from our domestic TV networks increased $1.7 million, or 2%, in 2005. DTH revenues increased $2.9 million primarily due to subscriber growth and an increase in average PPV buys. The revenue increases were partially offset by decreased Playboy TV cable PPV buys, as certain cable companies continue migrating consumers from linear channels to VOD. As a result of this transition to VOD, revenues from Playboy TV cable decreased $2.0 million in 2005. Movie business revenues decreased $3.7 million primarily as a result of decreased PPV buys stemming from the transition to VOD. Total VOD revenues increased $2.8 million in 2005 due to the continued roll out of VOD service in additional cable systems as well as to a growing number of consumer buys in existing cable systems. Revenues associated with renting our studio facility and providing various related services to third parties increased $0.8 million in 2005. Domestic TV network revenues were favorably impacted by the discontinuation of a distributor's high-definition subscription service agreement, which resulted in the accelerated recognition of the remaining $1.4 million of deferred revenue associated with the service agreement. In 2004, movie business revenues were impacted by a $1.5 million unfavorable adjustment from an unanticipated retroactive rate reduction related to the earlier acquisition of one large multiple system operator by another. Profit contribution from domestic TV networks decreased $0.2 million for 2005. A $1.3 million adjustment for a contractual obligation related to licensed programming combined with higher overhead costs related to the operation of our production facility more than offset the revenue increases described above.

International revenues increased $6.8 million, or 15%, in 2005. International television revenues increased $4.7 million in 2005 primarily due to increased revenues from several third-party licensees and new networks in operation for a full year in Australia and Germany. Additionally, the launch of three DTH channels in the U.K. contributed favorably to 2005 revenues. International online and wireless revenues increased $2.1 million, or 67%, due to increased royalties from existing wireless partners and new license agreements. Profit contribution from our international entertainment businesses increased $3.7 million in 2005 due to the higher revenues previously discussed, partially offset by increased marketing and operating costs related to the newly launched channels.

Online subscriptions and e-commerce revenues increased $6.7 million, or

17%, in 2005. Online subscription revenues increased $4.6 million in 2005 primarily due to the acquisition of an affiliate network of websites late in the year. E-commerce revenues increased $2.1 million in 2005 as a result of a $1.2 million payment we received related to the termination of a marketing alliance combined with increased catalog and business-to-business revenues. Profit contribution was flat for 2005 as the revenue increases discussed above were mostly offset by higher online subscription expenses primarily due to increased technology and marketing initiatives and expenses related to our newly acquired affiliate network of websites. Also offsetting were higher e-commerce expenses primarily due to catalog production, marketing, product and fulfillment expenses.

Profit contribution from other businesses decreased $0.1 million in 2005. Lower worldwide DVD cost of sales and marketing expenses combined with higher Alta Loma and online advertising revenues were more than offset by lower worldwide DVD revenues and a $1.1 million favorable adjustment recorded in 2004.

The group's administrative expenses decreased $0.8 million in 2005 primarily due to lower legal costs in 2005 and a contractually obligated severance charge recorded in 2004, partially offset by higher performance-based compensation expense in 2005.

Programming amortization and online content expenses decreased $3.9 million, or 9%, primarily due to the mix of programming.

As a result of the above, segment income for the group increased $8.1 million, or 25%, in 2005 compared to 2004.

Publishing Group

Playboy magazine revenues decreased $12.1 million, or 12%, in 2005. Advertising revenues decreased $6.7 million due to fewer advertising pages and slightly lower net revenue per page. Newsstand revenues in 2005 were $3.6 million lower principally due to fewer copies sold during 2005, partially offset by higher display costs in 2004. Additionally, 2005 included an unfavorable variance of $0.6 million related to prior years' issues. Subscription revenues decreased $1.8 million primarily due to lower average revenue per copy, partially offset by an increase in the number of subscription copies served and lower bad debt expense in 2005. Higher favorable adjustments recorded in 2004 to recognize revenues for paid subscriptions that were not served also contributed to the decrease in 2005.

Revenues from our other domestic publishing businesses decreased $1.4 million, or 12%. This was primarily due to fewer newsstand copies of special editions sold in 2005 combined with an unfavorable variance related to prior years' issues, partially offset by higher display costs in 2004.

International publishing revenues increased $0.2 million, or 3%.

The group's segment profitability decreased $12.7 million in 2005 as a result of the lower revenues discussed above combined with higher paper costs of $1.7 million and higher subscription acquisition expenses of $1.0 million, partially offset by a decrease of $3.2 million in editorial content expenses in 2005.

Licensing Group

Licensing Group revenues increased $7.4 million, or 37%, in 2005 primarily due to higher royalties from existing and new licensees in Europe and Asia. The group's segment income increased $5.4 million, or 50%, due to the revenue increase, partially offset by higher revenue-related expenses and development costs related to our location-based entertainment business.

Corporate Administration and Promotion

Corporate Administration and Promotion expenses for 2005 increased $1.4 million, or 8%, largely due to an increase in performance-based compensation and audit expenses, partially offset by the impact of a legal settlement in 2004.

Restructuring Expenses

In 2005, we recorded an additional charge of $0.1 million related to the 2002 restructuring plan as a result of changes in plan assumptions primarily related to excess office space. There were no additional charges related to the 2001 restructuring plan. Of the total costs related to these restructuring plans, approximately $10.0 million was paid by December 31, 2005, with the remainder of $1.2 million to be paid through 2007.

In 2004, we recorded a restructuring charge of $0.5 million relating to the realignment of our entertainment

and online businesses. In addition, primarily due to excess office space, we recorded additional charges of $0.4 million related to the 2002 restructuring plan and reversed $0.2 million related to the 2001 restructuring plan as a result of changes in plan assumptions.

Income Tax Expense

Our effective income tax rate differs from U.S. statutory rates primarily as a result of the increase in the valuation allowance related to the recognition of our NOL carryforwards and the effect of the deferred tax treatment of certain indefinite-lived intangibles.

In 2005, we increased the valuation allowance, as adjusted, by $2.6 million related to the recognition of our NOLs and the effect of the deferred tax treatment of certain acquired intangibles. In 2004, we decreased the valuation allowance by $9.2 million, of which $4.8 million was due to the reduction in the deferred tax asset related to 2004 net income with the remainder primarily due to the expiration of a portion of our capital loss carryforward and the deferred tax treatment of certain acquired intangibles.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2006, we had $26.7 million in cash and cash equivalents compared to $26.1 million in cash and cash equivalents at December 31, 2005. We also had $3.0 million of auction rate securities, or ARS, included in marketable securities and short-term investments at December 31, 2006, compared to $21.0 million at December 31, 2005. This decrease is primarily related to our acquisition of Club Jenna and capital expenditures in the current year. ARS generally have long-term maturities; however, these investments have characteristics similar to short-term investments because at predetermined intervals, typically every 28 days, there is a new auction process. Total financing obligations were $115.0 million at both December 31, 2006 and December 31, 2005.

At December 31, 2006, cash generated from our operating activities, existing cash and cash equivalents and marketable securities and short-term investments were fulfilling our liquidity requirements. We also had a $50.0 million credit facility, which can be used for revolving borrowings, issuing letters of credit or a combination of both. At December 31, 2006, there were no borrowings and $10.6 million in letters of credit outstanding under this facility, resulting in $39.4 million of available borrowings under this facility.

We believe that cash on hand and operating cash flows, together with funds available under our credit facility and potential access to credit and capital markets, will be sufficient to meet our operating expenses, capital expenditures and other contractual obligations as they become due.

DEBT FINANCING

In March 2005, we issued and sold $115.0 million aggregate principal amount of our 3.00% convertible senior subordinated notes due 2025, or convertible notes, which included $15.0 million due to the initial purchasers' exercise of the over-allotment option. The convertible notes bear interest at a rate of 3.00% per annum on the principal amount of the notes, payable in arrears on March 15 and September 15 of each year, payment of which began on September 15, 2005. In addition, under certain circumstances beginning in 2012, if the trading price of the convertible notes exceeds a specified threshold during a prescribed measurement period prior to any semi-annual interest period, contingent interest will become payable on the convertible notes for that semi-annual interest period at an annual rate of 0.25% per annum.

The convertible notes are convertible into cash and, if applicable, shares of our Class B common stock, or Class B stock, based on an initial conversion rate, subject to adjustment, of 58.7648 shares per $1,000 principal amount of the convertible notes (which represents an initial conversion price of approximately $17.02 per share) only under the following circumstances: (a) during any fiscal quarter after the fiscal quarter ending March 31, 2005, if the closing sale price of our Class B stock for each of 20 or more consecutive trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price in effect on that trading day; (b) during the five business day period after any five consecutive trading day period in which the average trading price per $1,000 principal amount of convertible notes over that five consecutive trading day period was equal to or less than 95% of the average conversion value of the convertible

notes during that period; (c) upon the occurrence of specified corporate transactions, as set forth in the indenture governing the convertible notes; or (d) if we have called the convertible notes for redemption. Upon conversion of a convertible note, a holder will receive cash in an amount equal to the lesser of the aggregate conversion value of the note being converted and the aggregate principal amount of the note being converted. If the aggregate conversion value of the convertible note being converted is greater than the cash amount received by the holder, the holder will also receive an amount in whole shares of Class B stock equal to the aggregate conversion value less the cash amount received by the holder. A holder will receive cash in lieu of any fractional shares of Class B stock. The maximum conversion rate, subject to adjustment, is 76.3942 shares per $1,000 principal amount of convertible notes.

The convertible notes mature on March 15, 2025. On or after March 15, 2010, if the closing price of our Class B stock exceeds a specified threshold, we may redeem any of the convertible notes at a redemption price in cash equal to 100% of the principal amount of the convertible notes plus any accrued and unpaid interest up to, but excluding, the redemption date. On or after March 15, 2012, we may at any time redeem any of the convertible notes at the same redemption price. On each of March 15, 2012, March 15, 2015 and March 15, 2020, or upon the occurrence of a fundamental change, as specified in the indenture governing the convertible notes, holders may require us to purchase all or a portion of their convertible notes at a purchase price in cash equal to 100% of the principal amount of the notes, plus any accrued and unpaid interest up to, but excluding, the purchase date.

The convertible notes are unsecured senior subordinated obligations of Playboy Enterprises, Inc. and rank junior to all of the issuer's senior debt, including its guarantee of our subsidiary PEI Holdings, Inc., or Holdings, borrowings under our credit facility; equally with all of the issuer's future senior subordinated debt; and, senior to all of the issuer's future subordinated debt. In addition, the assets of the issuer's subsidiaries are subject to the prior claims of all creditors, including trade creditors, of those subsidiaries.

CREDIT FACILITY

At December 31, 2006, we had a $50.0 million credit facility, which provides for revolving borrowings of up to $50.0 million and the issuance of up to $30.0 million in letters of credit, subject to a maximum of $50.0 million in combined borrowings and letters of credit outstanding at any time. Borrowings under the credit facility bear interest at a variable rate, equal to a specified Eurodollar, LIBOR or base rate plus a specified borrowing margin based on our Adjusted EBITDA, as defined in the credit agreement. We pay fees on the outstanding amount of letters of credit based on the margin that applies to borrowings that bear interest at a rate based on LIBOR. All amounts outstanding under the credit facility will mature on April 1, 2008. Holdings' obligations as borrower under the credit facility are guaranteed by us and each of our other United States subsidiaries. The obligations of the borrower and nearly all of the guarantors under the credit facility are secured by a first-priority lien on substantially all of the borrower's and the guarantors' assets.

CALIFA ACQUISITION

The Califa Entertainment Group, Inc., or Califa, acquisition agreement gives us the option of paying $7.0 million of the remaining $11.8 million purchase price consideration in cash or our Class B stock. We intend to make a total of $8.0 million in payments that are due in 2007 in cash. We also have the option of accelerating remaining acquisition payments. See the Contractual Obligations table for the future cash obligations related to our acquisitions. See Note (B), Acquisition, to the Notes to Consolidated Financial Statements for additional information relating to the Califa acquisition.

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities was $9.4 million for 2006, a decrease of $18.4 million compared to the prior year primarily due to the operating and nonoperating results previously discussed.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash provided by investing activities was $1.7 million for 2006. Proceeds from the sales of marketable securities and short-term investments of $17.4 million were used primarily to fund the $7.7 million due at closing

for the acquisition of Club Jenna and $7.5 million for capital expenditures, which where primarily technology related. The Club Jenna acquisition requires us to make additional payments of $1.6 million, $1.7 million, $2.3 million and $4.3 million in 2007, 2008, 2009 and 2010, respectively.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used for financing activities was $11.1 million for 2006 primarily due to payments of $11.6 million in connection with acquisition liabilities. The prior year reflects $115.0 million of proceeds from our convertible notes, and the use of the proceeds to pay $95.2 million in connection with the purchase and retirement of all of the $80.0 million outstanding principal amount of 11.00% senior secured notes issued by one of our subsidiaries and $5.1 million of related financing fees. Proceeds from the convertible notes offering were also used to purchase 381,971 shares of our Class B stock for $5.0 million. Additionally, we repurchased the remaining outstanding Playboy.com Series A Preferred Stock that was held by Hugh M. Hefner, our Editor-In-Chief and Chief Creative Officer, and an unrelated third party for $14.1 million in the prior year period.

EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

The positive effect of foreign currency exchange rates on cash and cash equivalents during 2006 was due to the weakening of the U.S. dollar against foreign currencies, primarily the pound sterling. Conversely, the negative effect of foreign currency exchange rates on cash and cash equivalents during the prior year was due to the strengthening of the U.S. dollar against foreign currencies, primarily the pound sterling.

CONTRACTUAL OBLIGATIONS

The following table sets forth a summary of our contractual obligations and commercial commitments at December 31, 2006, as further discussed in the Notes to Consolidated Financial Statements (in thousands):

<TABLE>
<CAPTION>

	2007	2008	2009	2010	2011	Thereafter	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Long-term financing obligations (1)	$ 3,450	$ 3,450	$ 3,450	$ 3,450	$ 3,450	$ 161,575	$ 178,825
Operating leases	13,699	13,654	9,324	8,997	9,129	67,158	121,961
Purchase obligations:							
Licensed programming commitments (2)	7,452	5,224	4,000	4,667	4,000	--	25,343
Other: (3)							
Acquisition liabilities (1), (4)	11,669	2,700	3,300	5,300	750	--	23,719
Transponder service agreements	$ 6,963	$ 6,982	$ 4,875	$ 3,480	$ 3,480	$ 7,395	$ 33,175

</TABLE>

(1) Includes interest and principal commitments.

(2) Represents our non-cancelable obligations to license programming from other studios. Typically, the licensing of the programming allows us access to specific titles or in some cases the studio's entire library over an extended period of time. We broadcast this programming on our networks throughout the world, as appropriate.

(3) We have obligations of $6.2 million recorded in "Other noncurrent liabilities" at December 31, 2006, under two nonqualified deferred compensation plans, which permit certain employees and all non-employee directors to annually elect to defer a portion of their compensation. These amounts have not been included in the table, as the dates of payment are not known at the balance sheet date.

(4) Includes liabilities related to the acquisitions of Califa, Playboy TV International, LLC, Club Jenna and an affiliate network of websites.

CRITICAL ACCOUNTING POLICIES

Our financial statements are prepared in conformity with generally accepted accounting principles in the United States, which require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We believe that of our significant accounting policies, the following are the more complex and critical areas. For additional information about our accounting policies, see Note (A), Summary of Significant Accounting Policies, to the Notes to Consolidated Financial Statements.

REVENUE RECOGNITION

Domestic Television

Our domestic television revenues were $82.5 million and $98.6 million for the years ended December 31, 2006 and 2005, respectively. In order to record our

revenues, we estimate the number of PPV buys and monthly subscriptions using a number of factors including, but not exclusively, the average number of buys and subscriptions in the prior three months based on actual payments received and historical data by geographic location. Upon recording the revenue, we also record the related receivable. We have reserves for uncollectible receivables based on our experience and monitor and adjust these reserves on a quarterly basis. At December 31, 2006 and 2005, we had receivables of $13.2 million and $17.2 million, respectively, related to domestic television. We record adjustments to revenue on a monthly basis as we obtain actual payments from the providers. Actual subscriber information and payment are generally received within three months. Historically, our adjustments have not been material. At any point, our exposure to a material adjustment to revenue is mitigated because, generally, only the most recent two to three months would not have been fully adjusted to actual based on payments received.

International Television

Our international television revenues were $49.5 million and $46.9 million for the years ended December 31, 2006 and 2005, respectively. In order to record our revenues, we estimate the number of PPV and VOD buys and monthly subscriptions using a number of factors including, but not exclusively, the average number of buys and subscriptions in the prior month based on subscription and billing reports provided by platform operators. Upon recording the revenue, we also record the related receivable. We have reserves for uncollectible receivables based on our experience and monitor and adjust these reserves on a monthly basis. At December 31, 2006 and 2005, we had receivables of $8.0 million and $8.5 million, respectively, related to international television. We record adjustments to revenue on a monthly basis as we obtain subscription and billing reports from the platform operators. Actual subscriber information is generally received within one month. Historically, our adjustments have not been material. At any point, our exposure to a material adjustment to revenue is mitigated because, generally, only the most recent month would not have been fully adjusted to actual based on the prior month's reports.

Playboy Magazine

Our Playboy magazine revenues were $80.7 million and $89.4 million for the years ended December 31, 2006 and 2005, respectively, of which 12.1% and 11.7% were derived from newsstand sales in the respective years. Our print run, which is developed with input from Time/Warner Retail Sales and Marketing, our national distributor, varies each month based on expected sales. Our expected sales are based on analyses of historical demand based on a number of variables, including content, time of year and the cover price. We record our revenues for each month's issue utilizing our expected sales. Our revenues are recorded net of a provision for estimated returns. Substantially all of the magazines to be returned are returned within 90 days of the date that the subsequent issue goes on sale. We adjust our provision for returns based on actual returns of the magazine. Historically, our annual adjustments to Playboy magazine newsstand revenues have not been material and are driven by differences in actual consumer demand as compared to expected sales. At any point, our exposure to a material adjustment to revenue is mitigated because, generally, only the most recent two to three issues would not have been fully adjusted to actual based on actual returns received.

DEFERRED REVENUES

At December 31, 2006, we had $34.3 million and $4.0 million of deferred revenues related to Playboy magazine subscriptions and online subscriptions, respectively. Sales of Playboy magazine and online subscriptions, less estimated cancellations, are deferred and recognized as revenues proportionately over the subscription periods. Our estimates of cancellations are based on historical experience and current marketplace conditions and are adjusted monthly on the basis of actual results. We have not experienced significant deviations between estimated and actual results.

STOCK-BASED COMPENSATION

Our stock-based compensation expense related to stock options was $3.1 million for the year ended December 31, 2006. On January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, or Statement 123(R), which is a revision of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, under the modified prospective method. We estimate the value of stock options on the date of grant using the Lattice Binomial model, or Lattice model. The Lattice model requires extensive analysis of actual exercise behavior data and a number of complex assumptions including expected volatility, risk-free interest rate, expected dividends and option cancellations. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We measure

stock-based compensation cost at the grant date based on the value of the award and recognize the expense over the vesting period. Compensation expense, as recognized under Statement 123(R), for all stock-based compensation awards is recognized using the straight-line attribution method.

RELATED PARTY TRANSACTIONS

HUGH M. HEFNER

We own a 29-room mansion located on five and one-half acres in Los Angeles, California. The Playboy Mansion is used for various corporate activities, and serves as a valuable location for television production, magazine photography and for online, advertising, marketing and sales events. It also enhances our image as host for many charitable and civic functions. The Playboy Mansion generates substantial publicity and recognition, which increases public awareness of us and our products and services. Its facilities include a tennis court, swimming pool, gymnasium and other recreational facilities as well as extensive film, video, sound and security systems. The Playboy Mansion also includes accommodations for guests and serves as an office and residence for Mr. Hefner. It has a full-time staff that performs maintenance, serves in various capacities at the functions held at the Playboy Mansion and provides our and Mr. Hefner's guests with meals, beverages and other services.

Under a 1979 lease entered into with Mr. Hefner, the annual rent Mr. Hefner pays to us for his use of the Playboy Mansion is determined by independent experts who appraise the value of Mr. Hefner's basic accommodations and access to the Playboy Mansion's facilities, utilities and attendant services based on comparable hotel accommodations. In addition, Mr. Hefner is required to pay the sum of the per-unit value of non-business meals, beverages and other benefits he and his personal guests receive. These standard food and beverage per-unit values are determined by independent expert appraisals based on fair market values. Valuations for both basic accommodations and standard food and beverage units are reappraised every three years and are annually adjusted between appraisals based on appropriate consumer price indexes. Mr. Hefner is also responsible for the cost of all improvements in any Hefner residence accommodations, including capital expenditures, that are in excess of normal maintenance for those areas.

Mr. Hefner's usage of Playboy Mansion services and benefits is recorded through a system initially developed by the professional services firm of PricewaterhouseCoopers LLP, and now administered by us, with appropriate modifications approved by the audit and compensation committees of the Board of Directors. The lease dated June 1, 1979, as amended, between Mr. Hefner and us renews automatically at December 31st each year and will continue to renew unless either Mr. Hefner or we terminate it. The rent charged to Mr. Hefner during 2006 included the appraised rent and the appraised per-unit value of other benefits, as described above. Within 120 days after the end of our fiscal year, the actual charge for all benefits for that year is finally determined. Mr. Hefner pays or receives credit for any difference between the amount finally determined and the amount he paid over the course

of the year. We estimated the sum of the rent and other benefits payable for 2006 to be $0.9 million, and Mr. Hefner paid that amount during 2006. The actual rent and other benefits paid for 2005 and 2004 were $1.1 million and $1.3 million, respectively.

We purchased the Playboy Mansion in 1971 for $1.1 million and in the intervening years have made substantial capital improvements at a cost of $14.2 million through 2006 (including $2.7 million to bring the Hefner residence accommodations to a standard similar to the Playboy Mansion's common areas). The Playboy Mansion is included in our Consolidated Balance Sheets at December 31, 2006 and 2005, at a net book value of $1.6 million and $1.5 million, respectively, including all improvements and after accumulated depreciation. We incur all operating expenses of the Playboy Mansion, including depreciation and taxes, which were $2.1 million, $3.1 million and $3.0 million for 2006, 2005 and 2004, respectively, net of rent received from Mr. Hefner.

RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the United States Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, or SAB 108. SAB 108 addresses quantifying the financial statement effects of misstatements, specifically, how the effects of prior year uncorrected errors must be considered in quantifying misstatements using both a balance sheet and income statement approach and evaluating whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 became effective with our fiscal year ended December 31, 2006, and did not have an impact on our results of operations or financial condition.

In September 2006, the Financial Accounting Standards Board, or the FASB, issued Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R), or Statement 158. Statement 158 requires an entity to (a) recognize in its statement of financial position an asset or an obligation for a defined benefit postretirement plan's funded status, (b) measure a defined benefit postretirement plan's assets and obligations that determine its funded status as of the end of the employer's fiscal year and (c) recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the changes occur. We adopted the recognition and related disclosure provisions of Statement 158 effective December 31, 2006. The measurement date provision of Statement 158 is effective at the end of 2008. We do not expect the measurement date provision of adopting Statement 158 to have a significant impact on our future results of operations or financial condition.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, or Statement 157. Statement 157 provides enhanced guidance for using fair value to measure assets and liabilities. We are required to adopt Statement 157 effective at the beginning of 2008. We are currently evaluating the impact of adopting Statement 157 on our future results of operations or financial condition.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, or FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure and transition. We are required to adopt FIN 48 effective at the beginning of 2007. We do not expect the adoption of FIN 48 to have a significant impact on our results of operations or financial condition.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks, including changes in foreign currency exchange rates. In order to manage the risk associated with our exposure to such fluctuations, we enter into various hedging transactions that have been authorized pursuant to our policies and procedures. We have derivative instruments that have been designated and qualify as cash flow hedges, which are entered into in order to hedge the variability of cash flows to be received related to forecasted royalty payments denominated in the Japanese Yen and the Euro. We hedge these royalties with forward contracts for periods not exceeding 12 months. We formally document all relationships between hedging instruments and hedged items, as well as our risk management objectives and strategies for undertaking various hedge transactions. We link all hedges that are designated as cash flow hedges to forecasted transactions. We also assess, both at the inception of the hedge and on an on-going basis, whether the derivatives used in hedging transactions are effective in offsetting changes in cash flows of the hedged items. Any hedge ineffectiveness is recorded in earnings. We do not use financial instruments for trading purposes.

We prepared sensitivity analyses to determine the impact of a hypothetical 10% devaluation of the U.S. dollar relative to the foreign currencies of the countries to which we have exposure, primarily Japan and Germany. Based on our sensitivity analyses at December 31, 2006 and 2005, such a change in foreign currency exchange rates would affect our annual consolidated operating results, financial position and cash flows by approximately $0.5 million in each period.

At December 31, 2006 and 2005, we did not have any floating interest rate exposure. All of our outstanding debt as of those dates consisted of 3.00% convertible senior subordinated notes due 2025, or convertible notes, which are fixed-rate obligations. The fair value of the $115.0 million aggregate principal amount of the convertible notes will be influenced by changes in market interest rates, the share price of our Class B stock and our credit quality. At December 31, 2006, the convertible notes had an implied fair value of $110.2 million.

Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements and supplementary data are set forth in this Annual Report on Form 10-K as follows:

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The supplementary data regarding quarterly results of operations are set forth in Note (T), Quarterly Results of Operations (Unaudited), to the Notes to Consolidated Financial Statements.

PLAYBOY ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05	Fiscal Year Ended 12/31/04
Net revenues	$ 331,142	$ 338,153	$ 329,376
Costs and expenses			
Cost of sales	(262,242)	(250,319)	(240,835)
Selling and administrative expenses	(57,816)	(56,838)	(56,894)
Restructuring expenses	(1,998)	(149)	(744)
Total costs and expenses	(322,056)	(307,306)	(298,473)
Gains on disposal	29	14	2
Operating income	9,115	30,861	30,905
Nonoperating income (expense)			
Investment income	2,447	2,217	579
Interest expense	(5,611)	(6,986)	(13,687)
Amortization of deferred financing fees	(535)	(635)	(1,266)
Minority interest	--	(1,557)	(1,436)
Debt extinguishment expenses	--	(19,280)	(5,908)
Insurance settlement	--	--	5,638
Other, net	(635)	(1,357)	(991)
Total nonoperating expense	(4,334)	(27,598)	(17,071)
Income before income taxes	4,781	3,263	13,834
Income tax expense	(2,496)	(3,998)	(3,845)
Net income (loss)	$ 2,285	$ (735)	$ 9,989
Net income (loss)	$ 2,285	$ (735)	$ 9,989
Dividend requirements of preferred stock	--	--	(428)
Net income (loss) applicable to common shareholders	$ 2,285	$ (735)	$ 9,561
Weighted average number of common shares outstanding			
Basic	33,171	33,163	31,581
Diluted	33,276	33,163	31,767
Basic and diluted earnings (loss) per common share	$ 0.07	$ (0.02)	$ 0.30

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

PLAYBOY ENTERPRISES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

<TABLE>
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	Dec. 31, 2006	Dec. 31, 2005
<S>	<C>	<C>
Assets		
Cash and cash equivalents	$ 26,748	$ 26,089
Marketable securities and short-term investments	9,000	25,963
Receivables, net of allowance for doubtful accounts of $3,688 and $3,883, respectively	47,728	46,296
Receivables from related parties	1,791	1,928
Inventories	12,599	12,846
Deferred subscription acquisition costs	9,931	10,452
Other current assets	9,426	8,761
Total current assets	117,223	132,335
Property and equipment, net	17,407	13,771
Long-term receivables	4,665	2,628
Programming costs, net	55,183	52,683
Goodwill	132,974	122,448
Trademarks	63,794	61,139
Distribution agreements, net of accumulated amortization of $3,435 and $2,779, respectively	29,705	30,362
Other noncurrent assets	14,832	13,603
Total assets	$ 435,783	$ 428,969
Liabilities		
Acquisition liabilities	$ 10,773	$ 11,782
Accounts payable	28,846	25,429
Accrued salaries, wages and employee benefits	4,896	10,068
Deferred revenues	45,050	45,987
Accrued litigation settlement	1,800	1,000
Other liabilities and accrued expenses	14,124	16,396
Total current liabilities	105,489	110,662
Financing obligations	115,000	115,000
Acquisition liabilities	9,692	11,792
Net deferred tax liabilities	18,422	17,555
Other noncurrent liabilities	23,552	16,713
Total liabilities	272,155	271,722
Shareholders' equity		
Common stock, $0.01 par value		
Class A voting-- 7,500,000 shares authorized; 4,864,102 issued	49	49
Class B nonvoting-- 75,000,000 shares authorized; 28,743,914 and 28,643,443 issued, respectively	287	286
Capital in excess of par value	227,775	223,537
Accumulated deficit	(57,691)	(59,976)
Treasury stock, at cost, 381,971 shares	(5,000)	(5,000)
Accumulated other comprehensive loss	(1,792)	(1,649)
Total shareholders' equity	163,628	157,247
Total liabilities and shareholders' equity	$ 435,783	$ 428,969

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

PLAYBOY ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)

<TABLE>

<CAPTION>

	Preferred Stock	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Accum. Deficit	Treasury Stock	Accum. Other Comp. Loss(1)	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 2003	$ 16,959	$ 49	$ 226	$ 152,969	$ (68,802)	$ --	$ (1,057)	$ 100,344
Net income	--	--	--	--	9,989	--	--	9,989
Shares issued or vested under stock plans, net	--	--	--	619	--	--	--	619
Conversion of Playboy preferred A to Playboy class B common	(16,959)	--	15	16,721	--	--	--	(223)
Preferred stock dividends	--	--	--	--	(428)	--	--	(428)
Shares issued in public equity offering	--	--	44	51,815	--	--	--	51,859
Other comprehensive loss	--	--	--	--	--	--	(163)	(163)
Other	--	--	--	161	--	--	--	161
Balance at December 31, 2004	--	49	285	222,285	(59,241)	--	(1,220)	162,158
Net loss	--	--	--	--	(735)	--	--	(735)
Shares issued or vested under stock plans, net	--	--	1	1,219	--	--	--	1,220
Minimum benefit liability adjustment	--	--	--	--	--	--	(341)	(341)
Other comprehensive loss	--	--	--	--	--	--	(88)	(88)
Treasury stock purchase	--	--	--	--	--	(5,000)	--	(5,000)
Other	--	--	--	33	--	--	--	33
Balance at December 31, 2005	--	49	286	223,537	(59,976)	(5,000)	(1,649)	157,247
Net income	--	--	--	--	2,285	--	--	2,285
Shares issued or vested under stock plans, net	--	--	1	4,238	--	--	--	4,239
Adjustment to initially apply FASB Statement 158	--	--	--	--	--	--	(1,396)	(1,396)
Other comprehensive income	--	--	--	--	--	--	1,253	1,253
Balance at December 31, 2006	$ --	$ 49	$ 287	$ 227,775	$ (57,691)	$ (5,000)	$ (1,792)	$ 163,628

</TABLE>

(1) Accumulated other comprehensive loss consisted of the following:

	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05
Unrealized gain on marketable securities	$ 247	$ 134
Derivative gain	105	7
Minimum benefit liability adjustment	--	(341)
Adjustment to initially apply FASB Statement 158	(1,396)	--
Actuarial liability adjustment	(155)	--
Foreign currency translation loss	(593)	(1,449)
Accumulated other comprehensive loss	$ (1,792)	$ (1,649)

Comprehensive income (loss) was as follows:

<TABLE>
<CAPTION>

	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05	Fiscal Year Ended 12/31/04
<S>	<C>	<C>	<C>
Net income (loss)	$ 2,285	$ (735)	$ 9,989
Unrealized gain (loss) on marketable securities	113	(24)	423
Derivative gain (loss)	98	87	(52)
Minimum benefit liability adjustment	--	(341)	--
Actuarial gain on liability	186	--	--
Foreign currency translation gain (loss)	856	(151)	(534)
Total other comprehensive income (loss)	1,253	(429)	(163)
Comprehensive income (loss)	$ 3,538	$ (1,164)	$ 9,826

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

PLAYBOY ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

<TABLE>
<CAPTION>

	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05	Fiscal Year Ended 12/31/04
<S>	<C>	<C>	<C>
Cash flows from operating activities			
Net income (loss)	$ 2,285	$ (735)	$ 9,989
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation of property and equipment	3,971	3,188	3,169
Amortization of intangible assets	1,683	1,902	2,236
Amortization of investments in entertainment programming	36,564	37,450	41,695
Stock-based compensation	2,326	155	129
Amortization of deferred financing fees	535	635	1,266
Minority interest	--	1,557	1,436
Debt extinguishment expenses	--	19,280	5,908
Equity losses in operations of investments	94	383	451
Insurance settlement	--	--	5,638
Deferred income taxes	867	2,532	1,146
Changes in current assets and liabilities:			
Receivables	(103)	(1,112)	6,926
Receivables from related parties	137	(647)	(55)
Inventories	247	(409)	(420)
Deferred subscription acquisition costs	521	2,652	(1,345)
Other current assets	(1,460)	299	1,596
Accounts payable	3,771	3,084	396
Accrued salaries, wages and employee benefits	(3,796)	2,776	(3,721)
Deferred revenues	(937)	(5,434)	(2,542)
Acquisition liability interest	459	(55)	(2,340)
Accrued litigation settlements	800	(1,875)	(5,500)
Other liabilities and accrued expenses	(2,145)	(719)	(6,707)
Net change in current assets and liabilities	(2,506)	(1,440)	(13,712)
Investments in entertainment programming	(38,475)	(33,075)	(41,457)
Increase in trademarks	(2,734)	(2,242)	(2,014)
(Increase) decrease in other noncurrent assets	(52)	(69)	428
Decrease in accrued litigation settlement	--	--	(1,000)
Increase (decrease) in other noncurrent liabilities	2,690	(1,244)	852
Other, net	2,174	(499)	(24)
Net cash provided by operating activities	9,422	27,778	16,136
Cash flows from investing activities			
Payments for acquisitions	(7,761)	(8,283)	--
Proceeds from disposal	--	--	152
Purchases of investments	(574)	(53,446)	(20,000)
Proceeds from sales of investments	18,000	51,511	--
Additions to property and equipment	(7,546)	(5,590)	(2,875)
Other, net	(427)	--	137
Net cash provided by (used for) investing activities	1,692	(15,808)	(22,586)
Cash flows from financing activities			
Proceeds from equity offering	--	--	51,859
Proceeds from financing obligations	--	115,000	--
Repayment of financing obligations	--	(80,000)	(35,000)
Payment of debt extinguishment expenses	--	(15,197)	(3,850)
Payment of acquisition liabilities	(11,628)	(8,804)	(11,271)
Purchase of treasury stock	--	(5,000)	--
Payment of deferred financing fees	--	(5,077)	--
Payment of preferred stock dividends	--	--	(651)
Repurchase of minority interest in a controlled subsidiary	--	(14,074)	--
Proceeds from stock-based compensation	494	1,066	490
Other, net	--	(39)	(18)
Net cash provided by (used for) financing activities	(11,134)	(12,125)	1,559
Effect of exchange rate changes on cash and cash equivalents	679	(424)	227
Net increase (decrease) in cash and cash equivalents	659	(579)	(4,664)
Cash and cash equivalents at beginning of year	26,089	26,668	31,332
Cash and cash equivalents at end of year	$ 26,748	$ 26,089	$ 26,668

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Playboy Enterprises, Inc., together with its subsidiaries through which we conduct business, is a brand-driven, international multimedia entertainment company with operations in the following business segments: Entertainment, Publishing and Licensing.

Principles of Consolidation: The consolidated financial statements include our accounts and all majority-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Reclassifications: Certain amounts reported for prior periods have been reclassified to conform to the current year's presentation.

New Accounting Pronouncements: In September 2006, the United States Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, or SAB 108. SAB 108 addresses quantifying the financial statement effects of misstatements, specifically, how the effects of prior year uncorrected errors must be considered in quantifying misstatements using both a balance sheet and income statement approach and evaluating whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 became effective with our fiscal year ended December 31, 2006, and did not have an impact on our results of operations or financial condition.

In September 2006, the Financial Accounting Standards Board, or the FASB, issued Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R), or Statement 158. Statement 158 requires an entity to (a) recognize in its statement of financial position an asset or an obligation for a defined benefit postretirement plan's funded status, (b) measure a defined benefit postretirement plan's assets and obligations that determine its funded status as of the end of the employer's fiscal year and (c) recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the changes occur. We adopted the recognition and related disclosure provisions of Statement 158 effective December 31, 2006. The measurement date provision of Statement 158 is effective at the end of 2008. We do not expect the measurement date provision of adopting Statement 158 to have a significant impact on our future results of operations or financial condition.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, or Statement 157. Statement 157 provides enhanced guidance for using fair value to measure assets and liabilities. We are required to adopt Statement 157 effective at the beginning of 2008. We are currently evaluating the impact of adopting Statement 157 on our future results of operations or financial condition.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, or FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure and transition. We are required to adopt FIN 48 effective at the beginning of 2007. We do not expect the adoption of FIN 48 to have a significant impact on our results of operations or financial condition.

Revenue Recognition: Domestic and international TV direct-to-home, or DTH, and cable revenues are recognized based on estimates of pay-per-view, or PPV, buys and monthly subscriber counts reported each month

by the system operators and adjusted to actual. The net adjustments to actual have not been material. International TV third-party revenues are recognized upon identification of programming scheduled for networks, delivery of programming to customers and/or upon the commencement of the license term. Revenues from the sale of Playboy magazine and online subscriptions are recognized over the terms of the subscriptions. Revenues from newsstand sales of Playboy magazine and special editions (net of estimated returns) and revenues from the sale of Playboy magazine advertisements are recorded when each issue goes on sale. Revenues from e-commerce, except for those from licensed operations, are recognized when the items are shipped, which is when title passes. Royalties from licensing our trademarks in our international publishing, product licensing and location-based entertainment businesses are generally recognized on a straight-line basis over the terms of the related agreements.

Stock-Based Compensation: On January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, or Statement 123(R), which is a revision of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, or Statement 123, under the modified prospective method. Statement 123(R) supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, or APB 25, and amends Statement of Financial Accounting Standards No. 95, Statement of Cash Flows. Statement 123(R) requires that all stock-based compensation to employees, including grants of employee stock options, be recognized in the income statement based on its fair value. Under the modified prospective method, results for prior periods have not been restated.

Stock-based compensation expense is based on awards ultimately expected to vest, reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience. In our pro forma information required under Statement 123 for the periods prior to fiscal 2006, we accounted for forfeitures as they occurred. Under the fair value recognition provisions of Statement 123(R), we measure stock-based compensation cost at the grant date based on the value of the award and recognize the expense over the vesting period. Compensation expense, as recognized under Statement 123(R), for all stock-based compensation awards is recognized using the straight-line attribution method. Stock-based compensation expense is reflected in our Consolidated Statements of Operations in "Selling and administrative expenses" and the proceeds are reflected in our Consolidated Statements of Cash Flows in "Proceeds from stock-based compensation." See Note (O), Stock-Based Compensation.

Cash Equivalents: Cash equivalents are temporary cash investments with an original maturity of three months or less at the date of purchase and are stated at cost, which approximates fair value.

Marketable Securities: Marketable securities are classified as available-for-sale securities, stated at fair value and accounted for under the specific identification method. Net unrealized holding gains and losses are included in "Accumulated other comprehensive loss."

Accounts Receivable and Allowance for Doubtful Accounts: Trade receivables are reported at their outstanding unpaid balances less an allowance for doubtful accounts. The allowance for doubtful accounts is increased by charges to income and decreased by chargeoffs (net of recoveries) or by reversals to income. We perform periodic evaluations of the adequacy of the allowance based on our past loss experience and adverse situations that may affect a customer's ability to pay.

Inventories: Inventories are stated at the lower of cost (specific cost and average cost) or fair value.

Property and Equipment: Property and equipment are stated at cost. Costs incurred for computer software developed or obtained for internal use are capitalized for application development activities and are immediately expensed for preliminary project activities or post-implementation activities. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. The useful life for building improvements is ten years; furniture and equipment ranges from one to ten years; and software ranges from one to five years. Leasehold improvements are depreciated using the straight-line method over the shorter of their estimated useful lives or the terms of the related leases. Repair and maintenance costs are expensed as incurred and major betterments are capitalized. Sales and retirements of property and equipment are recorded by removing the related cost and accumulated depreciation from the accounts, after which any related gains or losses are recognized.

Advertising Costs: We expense advertising costs as incurred, except for

direct response advertising. Direct response advertising consists primarily of costs associated with the promotion of Playboy magazine subscriptions, principally the production of direct mail solicitation materials and postage, and the distribution of direct- and e-commerce catalog mailings. In accordance with AICPA Statement of Position 93-7, Reporting on Advertising Costs, these capitalized direct response advertising costs are amortized over the period during which the future benefits are expected to be received, generally six to 12 months.

Programming Amortization and Online Content Costs: Original programming and film acquisition costs are primarily assigned to the domestic and international networks and are capitalized and amortized utilizing the straight-line method, generally over three years. Online content expenditures are generally expensed as incurred. We believe that these methods provide a reasonable matching of expenses with total estimated revenues over the periods that revenues associated with films, programs and online content are expected to be realized. Film and program costs are stated at the lower of unamortized cost or estimated net realizable value as determined on a specific identification basis and are classified on the Consolidated Balance Sheets as noncurrent assets. See Note (K), Programming Costs, Net.

Intangible Assets: In accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, we do not amortize goodwill and trademarks with indefinite lives, but subject them to annual impairment tests. Noncompete agreements are being amortized using the straight-line method over the lives of the agreements, either five or ten years. Distribution agreements are being amortized using the straight-line method over the lives of the agreements, ranging from three months to 27 and one-half years. Capitalized trademark costs include costs associated with the acquisition, registration and/or renewal of our trademarks. In the fourth quarter of 2006, we began expensing certain costs associated with the defense of such trademarks. As a result, we expensed $0.5 million for 2006. A program supply agreement is amortized using the straight-line method over the ten-year life of the agreement. Copyright costs are being amortized using the straight-line method over 15 years. Other intangible assets continue to be amortized over their useful lives. The noncompete agreements, program supply agreement and copyright costs are all included in "Other noncurrent assets."

In 2002, we completed the required transitional impairment tests for goodwill and indefinite-lived intangible assets, which did not result in an impairment charge. Deferred tax liabilities related to these assets with indefinite lives will be realized only if there is a disposition or an impairment of the value of these intangible assets. We currently have net operating losses, or NOLs, available to offset deferred tax liabilities realized within the NOL carryforward period. However, we cannot be certain that NOLs will be available when the deferred tax liabilities related to these intangible assets are realized. Therefore, in 2002, we recorded a noncash income tax provision of $7.1 million for these deferred tax liabilities, which included $5.8 million related to the cumulative effect of changing the accounting for amortization from prior years.

In the fourth quarter of 2006, we modified the assumptions related to the useful lives of certain distribution agreements that previously were classified as indefinite-lived. As these distribution agreements are now being amortized, the deferred tax liability related to the distribution agreements that is expected to be realized within the NOL carryforward period may be netted against our deferred tax asset. In 2006, we recorded an income tax benefit for $2.6 million of the $3.9 million deferred tax liability related to the modification to the lives of these distribution agreements. The additional amortization in 2006 related to this change in estimate was $0.3 million.

In 2004, we sold our Sarah Coventry trademarks and service marks for their approximate book value, pursuant to an agreement that was amended in 2006, under which we will continue to receive payments through December 31, 2011. Such trademarks and service marks revert back to us in the event of a default by the buyer.

As a result of the restructuring of the ownership of Playboy TV International, LLC, or PTVI, in 2002, we acquired distribution agreements of $3.4 million with a weighted average life of approximately four years and a program supply agreement of $3.2 million with a life of ten years. The weighted average life of the aggregate of the definite-lived intangible assets acquired was approximately seven years. We also acquired distribution agreements of $9.0 million, which were previously determined to be indefinite-lived. In 2006, we modified the lives to 27 and one-half years, which did not materially impact our results of operations.

The following table sets forth our amortizable intangible assets (in thousands):

<TABLE>
<CAPTION>

	December 31, 2006			December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Noncompete agreements	$ 14,000	$ 13,415	$ 585	$ 14,000	$ 13,185	$ 815
Distribution agreements	33,140	3,435	29,705	3,151	2,779	372
Program supply agreement	3,226	1,290	1,936	3,226	968	2,258
Trademark license agreements	2,880	262	2,618	--	--	--
Copyrights	1,983	1,143	840	2,047	1,011	1,036
Other	420	348	72	267	267	--
Total amortizable intangible assets	$ 55,649	$ 19,893	$ 35,756	$ 22,691	$ 18,210	$ 4,481

</TABLE>

At December 31, 2006 and 2005, our indefinite-lived intangible assets not subject to amortization included goodwill of $133.0 million and $122.4 million, respectively, and trademarks of $63.8 million and $61.1 million, respectively.

At December 31, 2006 and 2005, goodwill by reportable segment, reflected entirely in the Entertainment Group, was $133.0 million and $122.4 million, respectively. For the years ended December 31, 2006 and 2005, the aggregate amount of goodwill acquired was $10.6 million and $10.5 million, respectively.

The aggregate amortization expense for intangible assets with definite lives for 2006, 2005 and 2004 was $1.7 million, $1.9 million and $2.2 million, respectively. The aggregate amortization expense for intangible assets with definite lives is expected to total approximately $2.4 million, $2.3 million, $2.3 million, $2.3 million and $2.2 million for 2007, 2008, 2009, 2010 and 2011, respectively.

We conduct our annual impairment testing of goodwill and indefinite-lived intangible assets as of every October 1st. If the carrying amount of the asset is not recoverable based on a forecasted-discounted cash flow analysis, such asset would be reduced by the estimated shortfall of fair value to recorded value. We must make assumptions regarding forecasted-discounted cash flows to determine a reporting unit's estimated fair value. If these estimates or related assumptions change in the future, we may be required to record an impairment charge. Based upon our impairment testing, we determined that no impairments of intangible assets existed as of October 1, 2006.

In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we evaluate the potential impairment of finite-lived acquired intangible assets when appropriate. If the carrying amount of the asset is not recoverable based on a forecasted-undiscounted cash flow analysis, such asset would be reduced by the estimated shortfall of fair value to recorded value.

Derivative Financial Instruments: We account for derivative instruments in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, which requires all derivative instruments to be recognized as either assets or liabilities on the balance sheet at fair value regardless of the purpose or intent for holding the derivative instrument. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated as and qualifies as part of a hedging relationship and, further, on the type of relationship.

We formally document all relationships between hedging instruments and hedged items, as well as our risk management objectives and strategies for undertaking various hedge transactions. At December 31, 2006, we had derivative instruments that have been designated as and qualify as cash flow hedges, which are entered into in order to hedge the variability of cash flows to be received related to forecasted royalty payments denominated in the

Japanese Yen and the Euro. We hedge these royalties with forward contracts for periods not exceeding 12 months. The fair value and carrying value of our forward contracts are not material. Since these derivative instruments are designated and qualify as cash flow hedges, the effective portion of the gain or

loss on the derivative instruments is being deferred and reported as a component of "Accumulated other comprehensive loss" and is reclassified into earnings in the same line item where the royalty revenue is recognized.

We had net unrealized gains of $0.1 million and $7 thousand in 2006 and 2005, respectively, included in "Accumulated other comprehensive loss," which represents the effective portion of changes in fair value of the cash flow hedges. We do not expect any significant losses to be reclassified from "Accumulated other comprehensive loss" to earnings within the next 12 months.

Earnings per Common Share: We compute basic and diluted earnings per share, or EPS, in accordance with Statement of Financial Accounting Standards No. 128, Earnings per Share. Basic EPS is computed by dividing net income (loss) applicable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS adjusts basic EPS for the dilutive effects of stock options and other potentially dilutive financial instruments. See Note (E), Earnings per Common Share.

Equity Investments: Prior to the 2002 restructuring of the ownership of PTVI, the equity method was used to account for our 19.9% interest in the common stock of PTVI due to our ability to exercise significant influence over PTVI's operating and financial policies. Equity in operations of PTVI included our 19.9% interest in the results of PTVI, the elimination of unrealized profits on certain transactions between us and PTVI and gains related to the transfer of certain assets to PTVI. Beginning in 2003, the equity method is used to account for our 19.0% investment in Playboy TV-Latin America, LLC, or PTVLA, since the restructuring gave us the ability to exercise influence over PTVLA. The cost method was used prior to the restructuring.

Minority Interest: In 2001, our subsidiary Playboy.com, Inc., or Playboy.com, issued $15.3 million of its Series A Preferred Stock, of which $5.0 million was purchased by Hugh M. Hefner, our Editor-In-Chief and Chief Creative Officer. In connection with the restructuring of our international TV joint ventures, we received the Playboy.com Series A Preferred Stock that was owned by an affiliate of Claxson Interactive Group, Inc., or Claxson. In 2005, we repurchased the remaining outstanding Playboy.com Series A Preferred Stock that was held by Mr. Hefner and an unrelated third party for $14.1 million. Included in this amount was $3.9 million of accrued dividends. Pursuant to its terms, the Playboy.com Series A Preferred Stock was canceled, retired and ceased to be outstanding as a result of the repurchases. Subsequently, Playboy.com became a wholly owned subsidiary of ours.

Foreign Currency Translation: Assets and liabilities in foreign currencies related to our international TV foreign operations were translated into U.S. dollars at the exchange rate existing at the balance sheet date. The net exchange differences resulting from these translations were included in "Accumulated other comprehensive loss." Revenues and expenses were translated at average rates for the period.

(B) ACQUISITION

In July 2001, we acquired The Hot Network and The Hot Zone networks, together with the related television assets of Califa Entertainment Group, Inc., or Califa. In addition, we acquired the Vivid TV network and the related television assets of V.O.D., Inc., or VODI, a separate entity owned by the sellers. We collectively refer to Califa and VODI as the Califa acquisition. These networks now operate as the Spice Digital Networks. The addition of these networks into our movie networks portfolio enabled us to offer consumers a wider range of adult programming. We accounted for the acquisition under the purchase method of accounting. Accordingly, the results of these networks since the acquisition date have been included in our Consolidated Statements of Operations. In connection with the acquisition and purchase price allocations, the Entertainment Group recorded goodwill of $27.4 million, which is deductible over 15 years for income tax purposes. Future obligations were recorded at their net present value and are reported in the Consolidated Balance Sheets as a component of current and noncurrent "Acquisition liabilities."

We recorded $30.8 million of intangible assets separate from goodwill consisting of $28.5 million for distribution agreements and $2.3 million for noncompete agreements. All of the noncompete agreements are being amortized over approximately eight years, which are the weighted average lives of these agreements. Distribution agreements of $7.5 million were being amortized over approximately two years, which were the weighted average

useful lives of these agreements. Distribution agreements of $21.0 million, which were previously determined to be indefinite-lived, are now being amortized over their modified useful lives of 27 and one-half years.

The total consideration for the acquisition was $70.0 million and is required to be paid in installments over a ten-year period ending in 2011. The

nominal consideration for Califa's assets was $28.3 million. We also assumed the obligations of Califa related to a note payable and noncompete liability. The nominal consideration for VODI's assets was $41.7 million. We were obligated to pay up to an additional $12.0 million in consideration upon the achievement of specified financial performance targets, $5.0 million of which we paid on February 28, 2003 and $7.0 million of which we paid on March 1, 2004. The amounts were recorded at the acquisition date as part of acquisition liabilities.

We may accelerate all or any portion of the remaining unpaid purchase price, but only by making the accelerated payments in cash, at a discount rate to be mutually agreed upon by the parties in good-faith negotiations. However, if the parties are unable to agree on the discount rate, we may, at our sole discretion, elect to accelerate the payment at a 12% discount rate.

The Califa acquisition agreement gave us the option of paying up to $71.0 million of the scheduled payments in cash or our Class B common stock, or Class B stock. The number of shares, if any, we issue in connection with a particular payment or particular payments is based on the trading prices of the Class B stock surrounding the applicable payment dates. Prior to each scheduled payment of consideration, we must provide the sellers with written notice specifying the portion of the purchase price payment that we intend to pay in cash and the portion in Class B stock. In each of 2006 and 2005, we paid the sellers $8.0 million in cash. On February 14, 2007, we informed the sellers that we would be making the last payment, which is payable in cash or Class B stock, of $7.0 million, in the form of cash. All remaining payments must also be made in cash.

The following table sets forth the remaining installments of consideration (in thousands):

2007	$ 8,000
2008	1,000
2009	1,000
2010	1,000
2011	750
Total future payments	$ 11,750

(C) RESTRUCTURING EXPENSES

In 2006, we implemented a cost reduction plan that will result in lower overhead costs and annual programming and editorial expenses. As a result of the 2006 restructuring plan, we reported a charge of $2.1 million related to costs associated with a workforce reduction of 15 employees. In addition, we recorded a favorable adjustment of $0.2 million and an unfavorable adjustment of $0.1 million related to the 2002 and 2001 restructuring plans, respectively, as a result of changes in plan assumptions primarily related to excess office space. During the year, we made cash payments of $1.7 million, $0.2 million and $26 thousand related to our 2006, 2002 and 2001 restructuring plans, respectively. Of the total costs related to our restructuring plans, approximately $11.9 million was paid by December 31, 2006, with the remaining $0.7 million to be paid through 2008.

In 2005, we recorded an additional charge of $0.1 million related to the 2002 restructuring plan as a result of changes in plan assumptions primarily related to excess office space. There were no additional charges related to the 2001 restructuring plan.

In 2004, we recorded a restructuring charge of $0.5 million relating to the realignment of our entertainment and online businesses. In addition, primarily due to excess office space, we recorded additional charges of $0.4 million related to the 2002 restructuring plan and reversed $0.2 million related to the 2001 restructuring plan as a result of changes in plan assumptions.

The following table sets forth the activity and balances of our restructuring reserves for the years ended December 31, 2006 and 2005 (in thousands):

<TABLE>
<CAPTION>

	Workforce Reduction	Consolidation of Facilities and Operations	Total
<S>	<C>	<C>	<C>
Balance at December 31, 2004	$ 179	$ 1,827	$ 2,006
Adjustments to previous estimates	17	132	149
Cash payments	(196)	(749)	(945)

Balance at December 31, 2005	--	1,210	1,210
Reserve recorded	2,103	--	2,103
Adjustments to previous estimates	--	(105)	(105)
Other	--	(574)	(574)
Cash payments	(1,673)	(263)	(1,936)
Balance at December 31, 2006	$ 430	$ 268	$ 698

(D) INCOME TAXES

The following table sets forth the income tax provision (in thousands):

	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05	Fiscal Year Ended 12/31/04
Current:			
State	$ 120	$ 105	$ 93
Foreign	1,509	1,361	2,606
Total current	1,629	1,466	2,699
Deferred:			
Federal	160	2,302	1,042
State	707	230	104
Foreign	--	--	--
Total deferred	867	2,532	1,146
Total income tax provision	$ 2,496	$ 3,998	$ 3,845

The U.S. statutory tax rate applicable to us for each of 2006, 2005 and 2004 was 35%. The following table sets forth the reconciliation of the income tax provision to the provision computed at the U.S. statutory tax rate (in thousands):

	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05	Fiscal Year Ended 12/31/04
Statutory rate tax provision	$ 1,673	$ 1,142	$ 4,842
Increase (decrease) in taxes resulting from:			
Foreign income and withholding tax on licensing income	1,509	1,629	2,606
State income taxes	158	335	197
Nondeductible expenses	175	295	661
Increase (decrease) in valuation allowance	1,327	2,632	(9,163)
Tax benefit of foreign taxes paid or accrued	(2,503)	(1,843)	(1,341)
Tax benefit of state/foreign NOLs	(181)	(188)	--
Expiration of capital loss carryforward	--	--	5,969
Tax audit adjustment	281	--	--
Other	57	(4)	74
Total income tax provision	$ 2,496	$ 3,998	$ 3,845

Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement and tax bases of assets and liabilities using enacted tax rates expected to

apply in the years in which the temporary differences are expected to reverse.

In 2006, we modified the assumptions related to the useful lives of certain distribution agreements that previously were classified as indefinite-lived. As these distribution agreements are now being amortized, the deferred tax liability related to the distribution agreements that is expected to be realized within the NOL carryforward period may be netted against our deferred tax asset. In 2006, we recorded an income tax benefit for $2.6 million of the $3.9 million deferred tax liability related to the distribution agreement modification.

In 2006, the valuation allowance increased by $1.9 million related to the recognition of the deferred tax benefit of our NOLs and foreign tax credits and the effect of the deferred tax treatment of certain acquired intangibles. In 2005, the valuation allowance, as adjusted, increased by $2.6 million related to the recognition of the deferred tax benefit of our NOLs and the effect of the deferred tax treatment of certain acquired intangibles.

The following table sets forth the significant components of our deferred tax assets and deferred tax liabilities (in thousands):

<TABLE>
<CAPTION>

	Dec. 31, 2006	Dec. 31, 2005
<S>	<C>	<C>
Deferred tax assets:		
NOL carryforwards	$ 47,476	$ 45,263
Capital loss carryforwards	1,629	1,870
Tax credit carryforwards	13,505	11,001
Temporary difference related to PTVI	6,651	7,423
Other deductible temporary differences	32,580	27,731
Total deferred tax assets	101,841	93,288
Valuation allowance	(77,180)	(75,295)
Deferred tax assets	24,661	17,993
Deferred tax liabilities:		
Deferred subscription acquisition costs	(4,808)	(4,594)
Intangible assets	(27,587)	(23,530)
Other taxable temporary differences	(10,688)	(7,424)
Deferred tax liabilities	(43,083)	(35,548)
Deferred tax liabilities, net	$ (18,422)	$ (17,555)

</TABLE>

At December 31, 2006, we had federal NOLs of $102.7 million expiring from 2009 through 2026, state and local NOLs of $94.6 million expiring from 2007 through 2026 and foreign NOLs of $13.1 million that have no expiration date. Also at December 31, 2006, we had capital loss carryforwards of $4.7 million expiring in 2007. In addition, foreign tax credit carryforwards of $12.4 million and minimum tax credit carryforwards of $1.1 million are available to reduce future U.S. federal income taxes. The foreign tax credit carryforwards expire in 2014 through 2016 and the minimum tax credit carryforwards have no expiration date.

(E) EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted EPS (in thousands, except per share amounts):

<TABLE>
<CAPTION>

	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05	Fiscal Year Ended 12/31/04
<S>	<C>	<C>	<C>
Numerator:			
For basic EPS - net income (loss)	$ 2,285	$ (735)	$ 9,561
Preferred stock dividends	--	--	428
For diluted EPS - net income (loss)	$ 2,285	$ (735)	$ 9,989
Denominator:			
For basic EPS - weighted average shares	33,171	33,163	31,581
Effect of dilutive potential common shares:			
Employee stock options and other	105	--	186
Dilutive potential common shares	105	--	186
For diluted EPS - weighted average shares	33,276	33,163	31,767
Basic and Diluted EPS	$ 0.07	$ (0.02)	$ 0.30

</TABLE>

</TABLE>

The following table sets forth the number of shares related to outstanding options to purchase our Class B stock, the potential shares of Class B stock contingently issuable under our 3.00% convertible senior subordinated notes due 2025, or convertible notes, and our Playboy Series A convertible preferred stock, or Playboy Preferred Stock. These shares were not included in the computations of diluted EPS for the years presented, as their inclusion would have been antidilutive (in thousands):

<TABLE>
<CAPTION>

	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05	Fiscal Year Ended 12/31/04
<S>	<C>	<C>	<C>
Stock options	3,387	2,371	2,336
Convertible notes	6,758	6,758	--
Playboy preferred stock	--	--	743
Total	10,145	9,129	3,079

</TABLE>

(F) FINANCIAL INSTRUMENTS

Fair Value: The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. For cash and cash equivalents, receivables and certain other current assets, the amounts reported approximated fair value due to their short-term nature. As described in Note (L), Financing Obligations, in March 2005, we issued and sold in a private placement $115.0 million aggregate principal amount of our convertible notes. As of December 31, 2006 and 2005, the fair value of the convertible notes was determined to be $110.2 million and $116.7 million, respectively. For foreign currency forward contracts, the fair value was estimated using quoted market prices established by financial institutions for comparable instruments, which approximated the contracts' values.

Concentrations of Credit Risk: Concentration of credit risk with respect to accounts receivable is limited due to the wide variety of customers to whom and segments from which our products are sold and/or licensed.

(G) MARKETABLE SECURITIES AND SHORT-TERM INVESTMENTS

The following table sets forth marketable securities, primarily purchased in connection with our deferred compensation plans, and short-term investments, which represent auction rate securities, or ARS, (in thousands):

<TABLE>
<CAPTION>

	Dec. 31, 2006	Dec. 31, 2005
<S>	<C>	<C>
Cost of marketable securities	$ 5,753	$ 4,829
Cost of short-term investments	3,000	21,000
Gross unrealized holding gains	341	215
Gross unrealized holding losses	(94)	(81)
Fair value of marketable securities and short-term investments	$ 9,000	$ 25,963

</TABLE>

We purchased $0.6 million of marketable securities and received proceeds of $18.0 million from the sale of short-term investments in 2006. We realized gains totaling $31 thousand and $0.1 million in 2006 and 2005, respectively. There were no such proceeds in 2004 and, therefore, no gains or losses were realized. Included in "Comprehensive income (loss)" were a net unrealized holding gain of $0.1 million and a net unrealized holding loss of $24 thousand for 2006 and 2005, respectively. We recognized interest income of $0.6 million, $0.9 million and $0.1 million on ARS during 2006, 2005 and 2004, respectively.

(H) INVENTORIES

The following table sets forth inventories, which are stated at the lower of cost (specific cost and average cost) or fair value (in thousands):

<TABLE>
<CAPTION>

	Dec. 31, 2006	Dec. 31, 2005
<S>	<C>	<C>
Paper	$ 2,917	$ 3,939
Editorial and other prepublication costs	7,425	6,529
Merchandise finished goods	2,257	2,378
Total inventories	$ 12,599	$ 12,846

</TABLE>

(I) ADVERTISING COSTS

At December 31, 2006 and 2005, advertising costs of $7.3 million and $8.1 million, respectively, were deferred and included in "Deferred subscription acquisition costs" and "Other current assets." For 2006, 2005 and 2004, our advertising expense was $26.6 million, $25.7 million and $24.8 million, respectively.

(J) PROPERTY AND EQUIPMENT, NET

The following table sets forth property and equipment, net (in thousands):

<TABLE>
<CAPTION>

	Dec. 31, 2006	Dec. 31, 2005
<S>	<C>	<C>
Land	$ 292	$ 292
Buildings and improvements	8,773	8,712
Furniture and equipment	24,288	20,658
Leasehold improvements	13,670	11,564
Software	11,623	10,169
Total property and equipment	58,646	51,395
Accumulated depreciation	(41,239)	(37,624)
Total property and equipment, net	$ 17,407	$ 13,771

</TABLE>

(K) PROGRAMMING COSTS, NET

The following table sets forth programming costs, net (in thousands):

<TABLE>
<CAPTION>

	Dec. 31, 2006	Dec. 31, 2005
<S>	<C>	<C>
Released, less amortization	$ 43,228	$ 38,044
Completed, not yet released	4,207	4,589
In-process	7,748	10,050
Total programming costs, net	$ 55,183	$ 52,683

</TABLE>

Based on management's estimate of future total gross revenues at December 31, 2006, approximately 53% of the completed original programming costs is expected to be amortized during 2007. We expect to amortize virtually all of the released, original programming costs during the next three years. At December 31, 2006, we had $14.4 million of film acquisition costs, which are typically amortized using the straight-line method, generally over three years or less, which is our estimate of the length of time during which we plan to re-air a film or program on our television networks.

(L) FINANCING OBLIGATIONS

The following table sets forth financing obligations (in thousands):

<TABLE>
<CAPTION>

	Dec. 31, 2006	Dec. 31, 2005

Convertible senior subordinated notes, interest of 3.00%	$115,000	$115,000
Total financing obligations	$115,000	$115,000

DEBT FINANCINGS

In March 2005, we issued and sold $115.0 million aggregate principal amount of our convertible notes, which included $15.0 million due to the initial purchasers' exercise of the over-allotment option. The net proceeds of approximately $110.3 million from the issuance and sale of the convertible notes, after deducting the initial purchasers' discount and offering expenses, were used, together with available cash, (a) to complete a tender offer and consent solicitation for, and to purchase and retire all of the $80.0 million outstanding principal amount of the 11.00% senior secured notes, or senior secured notes, issued by our subsidiary PEI Holdings, Inc., or Holdings, for a total of approximately $95.2 million, including the bond tender premium and consent fee of $14.9 million and other expenses of $0.3 million, (b) to purchase 381,971 shares of our Class B stock for an aggregate purchase price of $5.0 million concurrently with the sale of the convertible notes and (c) for working capital and general corporate purposes.

The convertible notes bear interest at a rate of 3.00% per annum on the principal amount of the notes, payable in arrears on March 15th and September 15th of each year, payment of which began on September 15, 2005. In addition, under certain circumstances beginning in 2012, if the trading price of the convertible notes exceeds a specified threshold during a prescribed measurement period prior to any semi-annual interest period, contingent interest will become payable on the convertible notes for that semi-annual interest period at an annual rate of 0.25% per annum.

The convertible notes are convertible into cash and, if applicable, shares of our Class B stock based on an initial conversion rate, subject to adjustment, of 58.7648 shares per $1,000 principal amount of the convertible notes (which represents an initial conversion price of approximately $17.02 per share) only under the following circumstances: (a) during any fiscal quarter after the fiscal quarter ending March 31, 2005, if the closing sale price of our Class B stock for each of 20 or more consecutive trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price in effect on that trading day; (b) during the five business day period after any five consecutive trading day period in which the average trading price per $1,000 principal amount of convertible notes over that five consecutive trading day period was equal to or less than 95% of the average conversion value of the convertible notes during that period;

(c) upon the occurrence of specified corporate transactions, as set forth in the indenture governing the convertible notes; or (d) if we have called the convertible notes for redemption. Upon conversion of a convertible note, a holder will receive cash in an amount equal to the lesser of the aggregate conversion value of the note being converted and the aggregate principal amount of the note being converted. If the aggregate conversion value of the convertible note being converted is greater than the cash amount received by the holder, the holder will also receive an amount in whole shares of Class B stock equal to the aggregate conversion value less the cash amount received by the holder. A holder will receive cash in lieu of any fractional shares of Class B stock. The maximum conversion rate, subject to adjustment, is 76.3942 shares per $1,000 principal amount of the convertible notes.

The convertible notes mature on March 15, 2025. On or after March 15, 2010, if the closing price of our Class B stock exceeds a specified threshold, we may redeem any of the convertible notes at a redemption price in cash equal to 100% of the principal amount of the convertible notes, plus any accrued and unpaid interest up to, but excluding, the redemption date. On or after March 15, 2012, we may at any time redeem any of the convertible notes at the same redemption price. On each of March 15, 2012, March 15, 2015 and March 15, 2020, or upon the occurrence of a fundamental change, as specified in the indenture governing the convertible notes, holders may require us to purchase all or a portion of their convertible notes at a purchase price in cash equal to 100% of the principal amount of the notes, plus any accrued and unpaid interest up to, but excluding, the purchase date.

The convertible notes are unsecured senior subordinated obligations of Playboy Enterprises, Inc. and rank junior to all of the issuer's senior debt, including its guarantee of Holdings' borrowings under our credit facility; equally with all of the issuer's future senior subordinated debt; and, senior to all of the issuer's future subordinated debt. In addition, the assets of the

issuer's subsidiaries are subject to the prior claims of all creditors, including trade creditors, of those subsidiaries.

CREDIT FACILITY

At December 31, 2006, we had a $50.0 million credit facility, which provides for revolving borrowings of up to $50.0 million and the issuance of up to $30.0 million in letters of credit, subject to a maximum of $50.0 million in combined borrowings and letters of credit outstanding at any time. Borrowings under the credit facility bear interest at a variable rate, equal to a specified Eurodollar, LIBOR or base rate plus a specified borrowing margin based on our Adjusted EBITDA, as defined in the credit agreement. We pay fees on the outstanding amount of letters of credit based on the margin that applies to borrowings that bear interest at a rate based on LIBOR. All amounts outstanding under the credit facility will mature on April 1, 2008. Holdings' obligations as borrower under the credit facility are guaranteed by us and each of our other United States subsidiaries. The obligations of the borrower and nearly all of the guarantors under the credit facility are secured by a first-priority lien on substantially all of the borrower's and the guarantors' assets.

FINANCING FROM RELATED PARTY

At December 31, 2002, Playboy.com had an aggregate of $27.2 million of outstanding indebtedness to Mr. Hefner, in the form of three promissory notes. Upon the closing of the senior secured notes offering on March 11, 2003, Playboy.com's debt to Mr. Hefner was restructured. One promissory note, in the amount of $10.0 million, was extinguished in exchange for shares of Holdings Series A Preferred Stock with an aggregate stated value of $10.0 million. The two other promissory notes, in a combined principal amount of $17.2 million, were extinguished in exchange for $0.5 million in cash and shares of Holdings Series B Preferred Stock with an aggregate stated value of $16.7 million. Pursuant to the terms of an exchange agreement between us, Holdings, Playboy.com and Mr. Hefner and certificates of designation governing the Holdings Series A and Series B Preferred Stocks, we were required to exchange the Holdings Series A Preferred Stock for shares of Playboy Class B stock and to exchange the Holdings Series B Preferred Stock for shares of Playboy Preferred Stock.

On May 1, 2003, we exchanged the Holdings Series A Preferred Stock plus accumulated dividends for 1,122,209 shares of Playboy Class B stock and exchanged the Holdings Series B Preferred Stock for 1,674 shares of Playboy Preferred Stock with an aggregate stated value of $16.7 million. The Playboy Preferred Stock accrued dividends at a rate of 8.00% per annum, which were paid semi-annually.

The Playboy Preferred Stock was convertible at the option of Mr. Hefner, the holder, into shares of our Class

B stock at a conversion price of $11.2625, which was equal to 125% of the weighted average closing price of our Class B stock over the 90-day period prior to the exchange of Holdings Series B Preferred Stock for Playboy Preferred Stock.

In 2005, we repurchased the remaining outstanding Playboy.com Series A Preferred Stock that was held by Mr. Hefner and an unrelated third party. These shares were part of the $15.3 million issued by our subsidiary Playboy.com in 2001 of which $5.0 million was purchased by Mr. Hefner. Pursuant to its terms, the Playboy.com Series A Preferred Stock was canceled, retired and ceased to be outstanding as a result of the repurchases. Subsequently, Playboy.com became a wholly owned subsidiary of ours.

(M) BENEFIT PLANS

Our Employees Investment Savings Plan is a defined contribution plan consisting of two components: a profit sharing plan and a 401(k) plan. The profit sharing plan covers all employees who have completed 12 months of service of at least 1,000 hours. Our discretionary contribution to the profit sharing plan is distributed to each eligible employee's account in an amount equal to the ratio of each eligible employee's compensation, subject to Internal Revenue Service limitations, to the total compensation paid to all such employees. Total contributions for 2006, 2005 and 2004 related to this plan were $0.3 million, $1.5 million and $1.3 million, respectively.

Eligible employees may participate in our 401(k) plan upon their date of hire. Our 401(k) plan offers several mutual fund investment options. The purchase of our stock is not an option. We make matching contributions to our 401(k) plan based on each participating employee's contributions and eligible compensation. Our matching contributions for 2006, 2005 and 2004 related to this plan were $1.4 million, $1.3 million and $1.2 million, respectively.

We have two nonqualified deferred compensation plans, which permit certain

employees and all nonemployee directors to annually elect to defer a portion of their compensation. A match is provided to employees who participate in the deferred compensation plan, at a certain specified minimum level, and whose annual eligible earnings exceed the salary limitation contained in the 401(k) plan. All amounts contributed and earnings credited under these plans are general unsecured obligations. Such obligations totaled $6.2 million and $5.3 million for 2006 and 2005, respectively, and are included in "Other noncurrent liabilities."

We currently maintain a practice of paying a separation allowance under our salary continuation policy to employees with at least five years of continuous service who voluntarily terminate employment with us and are at age 60 or thereafter, which is not funded. Payments in 2006, 2005 and 2004 under this policy were approximately $0.3 million, $0.2 million and $40 thousand, respectively. In 2006, 2005 and 2004 we recorded expenses, based on actuarial estimates, of $0.6 million, $0.5 million and $0.5 million, respectively. We adopted the recognition and related disclosure provisions of Statement 158 effective December 31, 2006, with the projected benefit obligation reflected in "Other noncurrent liabilities." Prior to 2006, the accumulated benefit obligation was also reflected in "Other noncurrent liabilities." At December 31, 2006 and 2005, the accumulated benefit obligation was $3.7 million and $3.6 million, respectively. At December 31, 2006 and 2005, the projected benefit obligation was $5.1 million and $5.0 million, respectively. In 2005, we recorded an additional minimum liability of $0.3 million to "Accumulated other comprehensive loss." Our estimated future benefit payments are $0.6 million, $0.6 million, $0.7 million and $0.7 million for 2007, 2008, 2009, 2010 and 2011, respectively, and $3.7 million for the five-year period ending December 31, 2016. The assumptions we used to compute the projected benefit obligation included a discount rate of 5.75% and a rate of compensation increase of 4.00%.

The following table sets forth the incremental effects of applying Statement 158 on individual line items of our Consolidated Balance Sheet at December 31, 2006 (in thousands):

<TABLE>
<CAPTION>

	Before Application of Statement 158	Adjustments	After Application of Statement 158
<S>	<C>	<C>	<C>
Liability for pension benefits	$ 3,710	$ 1,396	$ 5,106
Total liabilities	270,759	1,396	272,155
Accumulated other comprehensive loss	(396)	(1,396)	(1,792)
Total shareholders' equity	$ 165,024	$ (1,396)	$ 163,628

</TABLE>

(N) COMMITMENTS AND CONTINGENCIES

Our principal lease commitments are for office space, operations facilities and furniture and equipment. Some of these leases contain renewal or end-of-lease purchase options.

The following table sets forth rent expense, net (in thousands):

<TABLE>
<CAPTION>

	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05	Fiscal Year Ended 12/31/04
<S>	<C>	<C>	<C>
Minimum rent expense	$ 15,437	$ 14,670	$ 13,495
Sublease income	--	--	(419)
Rent expense, net	$ 15,437	$ 14,670	$ 13,076

</TABLE>

There was no contingent rent expense in 2006, 2005 and 2004.

The following table sets forth the minimum future commitments at December 31, 2006, under operating leases with initial or remaining noncancelable terms in excess of one year (in thousands):

2007	$ 13,774
2008	13,654
2009	9,324

2010	8,997
2011	9,129
Later years	67,158
Less minimum sublease income	(75)
Minimum lease commitments, net	$ 121,961

Our entertainment programming is delivered to DTH and cable operators through communications satellite transponders. We currently have four transponder service agreements related to our domestic networks, the terms of which extend through 2008, 2013, 2013 and 2014. We also have two international transponder service agreements, the terms of which extend through 2009. At December 31, 2006, future commitments related to these six agreements were $7.0 million, $7.0 million, $4.9 million, $3.5 million and $3.5 million for 2007, 2008, 2009, 2010 and 2011, respectively, and $7.4 million thereafter.

In 2006, we recorded $1.8 million, based on an agreement in principle, for the settlement of litigation with Directrix, Inc., or Directrix. The settlement amount, subject to Bankruptcy Court approval, will be paid in 2007. The settlement is a compromise of disputed claims and is not an admission of liability. We believe that we had good defenses against Directrix's claims, but made the reasonable business decision to settle the litigation to avoid further management distraction and defense costs, which we had estimated would have approximately equaled the amount of the settlement.

In 2006, we acquired Club Jenna, Inc. and related companies, a multimedia adult entertainment business, to complement our existing television, online and DVD businesses. As the pro forma results would not be materially different from actual results, they are not presented. We paid $7.7 million at closing with additional payments of

$1.6 million, $1.7 million, $2.3 million and $4.3 million required in 2007, 2008, 2009 and 2010, respectively. Pursuant to the acquisition agreement, we are also obligated to make future contingent earnout payments based primarily on sales of existing content of the acquired business over a ten-year period and on content produced by the acquired business during the five-year period after the closing of the acquisition. If the required performance benchmarks are achieved, any contingent earnout payments will be recorded as additional purchase price. In 2006, no earnout payments were earned.

In 2005, we acquired an affiliate network of websites to complement our existing online business. We paid $8.0 million at closing, $2.0 million in 2006 and an additional payment of $2.0 million is required in 2007. Pursuant to the asset purchase agreement, we are also obligated to make future contingent earnout payments over a five-year period based primarily on the financial performance of the acquired business. If the required performance benchmarks are achieved, any contingent earnout payments will be recorded as additional purchase price and/or compensation expense. During 2006, an earnout payment of $0.1 million was made and recorded as additional purchase price.

In 2003, we recorded $8.5 million for the settlement of litigation with Logix Development Corporation, which related to events prior to our 1999 acquisition of Spice Entertainment Companies, Inc. We made payments of $1.0 million, $1.0 million and $6.5 million in 2006, 2005 and 2004, respectively.

In 2002, a $4.4 million verdict was entered against us by a state trial court in Texas in a lawsuit with a former publishing licensee. We terminated the license in 1998 due to the licensee's failure to pay royalties and other amounts due us under the license agreement. We appealed and the State Appellate Court reversed the judgment by the trial court, rendered judgment for us on the majority of plaintiffs' claims and remanded the remaining claims for a new trial. We filed a petition for review with the Texas Supreme Court. We have posted a bond in the amount of approximately $9.4 million, which represents the amount of the judgment, costs and estimated pre- and post-judgment interest. We, on advice of legal counsel, believe that it is not probable that a material judgment against us will be sustained and have not recorded a liability for this case in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies.

(O) STOCK-BASED COMPENSATION

We have stock plans for key employees and nonemployee directors, which provide for the grant of nonqualified and incentive stock options and/or shares of restricted stock units, deferred stock and other equity awards in our Class B stock. The Compensation Committee of the Board of Directors, which is composed entirely of independent nonemployee directors, administers all the plans. These plans are designed to further our growth, development and financial success by providing key employees with strong additional incentives to maximize long-term stockholder value. The Compensation Committee believes that this objective can be best achieved through assisting key employees to become owners of our stock,

which aligns their interests with our interests. As stockholders, key employees will benefit directly from our growth, development and financial success. These plans also enable us to attract and retain the services of those executives whom we consider essential to our long-range success by providing these executives with a competitive compensation package and an opportunity to become owners of our stock. At December 31, 2006, we had 3,088,954 shares of our Class B stock available for grant under these plans.

Stock options, exercisable for shares of our Class B stock, generally vest over a two-to four-year period from the grant date and expire ten years from the grant date.

Restricted stock unit grants provide for the issuance of our Class B stock if three-year cumulative operating income target thresholds are met. If the operating income minimum threshold is not achieved, the restricted stock units for that grant are forfeited.

One of our stock plans pertaining to nonemployee directors also allows for the issuance or deferral of our Class B stock as awards and payments for retainer, committee and meeting fees.

Finally, we also have an Employee Stock Purchase Plan, or ESPP, that provides substantially all regular full- and part-time employees an opportunity to purchase shares of our Class B stock through payroll deductions. The

funds are withheld and then used to acquire stock on the last trading day of each quarter, based on that day's closing price less a 15% discount. ESPP expense is reflected in our Consolidated Statements of Operations in "Selling and administrative expenses" and the proceeds are reflected in our Consolidated Statements of Cash Flows in "Proceeds from stock-based compensation." At December 31, 2006, we had 89,751 shares of our Class B stock available for purchase under this plan.

Valuation Information

Upon adoption of Statement 123(R), we began estimating the value of stock options on the date of grant using the Lattice Binomial model, or Lattice model. Prior to the adoption of Statement 123(R), the value of each employee stock option was estimated on the date of grant using the Black-Scholes model for the purpose of pro forma financial information in accordance with Statement 123. The Lattice model requires extensive analysis of actual exercise behavior data and a number of complex assumptions including expected volatility, risk-free interest rate, expected dividends and option cancellations.

The following table sets forth the assumptions used for the Lattice model in 2006 and the Black-Scholes model in 2005:

	Fiscal Year Ended December 31,	
	2006	2005
Expected volatility	37% - 38%	46%
Risk-free interest rate	4.32% - 4.80%	3.80% - 4.18%
Expected dividends	-	-

The expected life of stock options represents the weighted average period the stock options are expected to remain outstanding and is a derived output of the Lattice model. The expected life of stock options is impacted by all of the underlying assumptions and calibration of the Lattice model. The Lattice model assumes that exercise behavior is a function of the option's remaining vested life and the extent to which the option's fair value exceeds the exercise price. The Lattice model estimates the probability of exercise as a function of these two variables based upon the entire history of exercises and cancellations on all past option grants.

The weighted average expected life for options granted during 2006 using the Lattice model was 5.9 years and the weighted average expected life for options granted during 2005 using the Black-Scholes model was 6.0 years. The weighted average fair value per share for stock options granted during 2006, using the Lattice model, was $6.03 and the weighted average fair value per share for stock options granted during 2005, using the Black-Scholes model, was $5.85.

Stock Option Activity

The following table sets forth stock option activity for the year ended December 31, 2006:

	Number of Shares	Weighted Average Exercise Price

Outstanding at December 31, 2005	3,374,135	$ 15.85
Granted	805,500	13.64
Exercised	(29,666)	11.17
Canceled	(467,553)	13.63
Outstanding at December 31, 2006	3,682,416	$ 15.65

At December 31, 2006, the weighted average remaining contractual lives of options outstanding and options exercisable were 5.6 years and 4.3 years, respectively. At December 31, 2006, the number of options exercisable and the weighted average exercise price of options exercisable were 2,613,750 and $16.69, respectively.

During 2006, we had proceeds of $0.3 million from exercises of stock options. The aggregate intrinsic value for options exercised during 2006 was approximately $0.1 million. There were 805,500 options granted in 2006,

which had an aggregate intrinsic value of $0.3 million. The aggregate intrinsic values of options outstanding and options exercisable at December 31, 2006, were $1.1 million and $0.8 million, respectively. The aggregate intrinsic values for options granted and options exercised during 2005 were $1.2 million and $0.5 million, respectively.

As a result of adopting Statement 123(R) on January 1, 2006, our income (loss) from continuing operations before income taxes, income (loss) from continuing operations and net income (loss) for 2006 was $3.2 million lower than if we had continued to account for stock-based compensation under APB 25. Basic and diluted EPS for 2006 was $0.10 lower than if we had continued to account for stock-based compensation under APB 25.

The following table sets forth stock-based compensation expense related to stock options and to our ESPP for 2006 and pro forma amounts for 2005 and 2004 (in thousands, except per share amounts):

<TABLE>
<CAPTION>

	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05	Fiscal Year Ended 12/31/04
<S>	<C>	<C>	<C>
Stock options	$ 3,141	$ 2,950	$ 2,759
ESPP	29	16	17
Total	$ 3,170	$ 2,966	$ 2,776
Net income (loss)			
As reported	$ 2,285	$ (735)	$ 9,989
Fair value of stock-based compensation excluded from net income, gross		(2,966)	(2,776)
Pro forma		$ (3,701)	$ 7,213
Basic and diluted EPS			
As reported	$ 0.07	$ (0.02)	$ 0.30
Pro forma		$ (0.11)	$ 0.22

</TABLE>

As of December 31, 2006, there was $4.0 million of unrecognized stock-based compensation expense related to non-vested stock options, which will be recognized over a weighted average period of 1.5 years.

Restricted Stock Unit Activity

At December 31, 2006, we had 333,000 restricted stock units outstanding, none of which were vested, and all of which were performance-based awards contingent upon meeting certain performance goals.

The following table sets forth the activity and balances of our restricted stock units for the years ended December 31, 2006, 2005 and 2004:

	Number of Shares	Weighted Average Grant-Date Fair Value

Outstanding at December 31, 2003	-	$ -
Granted	173,000	14.04
Canceled	(9,000)	14.23
Outstanding at December 31, 2004	164,000	14.03
Granted	182,000	11.85
Canceled	(27,000)	12.42
Outstanding at December 31, 2005	319,000	12.92
Granted	233,500	13.51
Forfeited	(112,000)	14.23
Canceled	(107,500)	12.42
Outstanding at December 31, 2006	333,000	$ 12.89

In 2006, we determined that the minimum threshold associated with the 2004 grants was not achieved and those grants were forfeited. Also in 2006, we determined that it was unlikely that the minimum threshold associated with the 2006 grants would be met. Therefore, in 2006 we reversed $1.9 million of stock-based compensation expense, which included $0.6 million and $0.7 million that was recorded in 2005 and 2004, respectively, related to these restricted stock unit grants. As of December 31, 2006, there was no unrecognized stock-based compensation expense related to non-vested restricted stock units to be recognized in future periods.

Other Equity Awards

We issued 53,444 shares of our Class B stock during 2006 related to other equity awards. Stock-based compensation expense related to other equity awards was $0.6 million, $0.2 million and $0.3 million for 2006, 2005 and 2004, respectively.

Employee Stock Purchase Plan

Stock-based compensation expense related to our ESPP was $29 thousand for 2006.

Income Taxes

On November 10, 2005, the FASB issued Staff Position No. 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards, or Staff Position 123(R)-3. We have elected to adopt the alternative transition method provided in Staff Position 123(R)-3 for calculating the tax effects of stock-based compensation pursuant to Statement 123(R). The alternative transition method simplifies the calculation of the beginning balance of the additional paid-in capital pool, or APIC pool, related to the tax effect of employee stock-based compensation. This method also has subsequent impact on the APIC pool and Consolidated Statements of Cash Flows relating to the tax effects of employee stock-based compensation awards that are outstanding upon adoption of Statement 123(R).

Under Statement 123(R), the income tax effects of share-based payments are recognized for financial reporting purposes only if such awards would result in deductions on our income tax returns. The settlement of share-based payments to date that would have resulted in an excess tax benefit would have increased our existing NOL carryforward. Under Statement 123(R), no excess tax benefits resulting from the settlement of a share-based payment can result in a tax deduction before realization of the tax benefit; i.e., the recognition of excess tax benefits cannot be recorded until the excess benefit reduces current income taxes payable. Additionally, as a result of our existing NOL carryforward position, no tax benefit relating to share-based payments has been recorded for the year ended December 31, 2006.

(P) PUBLIC EQUITY OFFERING

On April 26, 2004, we completed a public offering of 6,021,340 Class B shares at $12.69 per share, before underwriting discounts. Included in this offering were 4,385,392 shares sold by Playboy, 1,485,948 shares sold by Mr. Hefner, and 150,000 shares sold by Ms. Christie Hefner, our Chairman and Chief Executive Officer. Playboy's shares included 3,600,000 initial shares, plus an additional 785,392 shares due to the underwriters' exercise of their over-allotment option. The shares sold by Mr. Hefner consisted of all of the shares of Class B stock he received upon conversion, at the time of the offering, of all of the outstanding shares of Playboy Preferred Stock. Mr. Hefner and Ms. Hefner paid for expenses related to this transaction based on the number of shares each sold proportionate to the total number of shares sold in the offering.

Net proceeds to us from the sale of our shares were approximately $51.9 million. On June 11, 2004, we used $39.8 million of the net proceeds of this

sale to redeem $35.0 million in aggregate principal amount of the outstanding senior secured notes, which included a $3.9 million bond redemption premium and accrued and unpaid interest of $0.9 million. We used approximately $0.7 million of the net proceeds to pay accrued and unpaid dividends on the Playboy Preferred Stock up to the time of conversion. The balance of the net proceeds was used for general corporate purposes on an ongoing basis.

(Q) CONSOLIDATED STATEMENTS OF CASH FLOWS

The following table sets forth cash paid for interest and income taxes (in thousands):

	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05	Fiscal Year Ended 12/31/04
Interest	$ 5,308	$ 8,615	$ 21,326
Income taxes	$ 1,976	$ 2,416	$ 2,544

In 2005, we used the net proceeds from the convertible notes to, among other things, complete a tender offer and consent solicitation for, and to purchase and retire all of the $80.0 million outstanding principal amount of Holdings' senior secured notes. See Note (L), Financing Obligations.

(R) SEGMENT INFORMATION

Our businesses are currently classified into the following three reportable segments: Entertainment, Publishing and Licensing. Entertainment Group operations include the production and marketing of television programming for our domestic and international TV networks, web-based entertainment experiences, wireless content distribution, e-commerce, worldwide DVD products and satellite radio under the Playboy, Spice and other brand names. Publishing Group operations include the publication of Playboy magazine, as well as other domestic publishing businesses, including special editions, books and calendars and the licensing of international editions of Playboy magazine. Licensing Group operations include the licensing of consumer products carrying one or more of our trademarks and/or images, Playboy-branded retail stores, location-based entertainment and certain revenue-generating marketing activities.

These reportable segments are based on the nature of the products offered. Our chief operating decision maker evaluates performance and allocates resources based on several factors, of which the primary financial measure is segment operating results. The accounting policies of the reportable segments are the same as those described in Note (A), Summary of Significant Accounting Policies.

The following table sets forth financial information by reportable segment (in thousands): (1)

	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05	Fiscal Year Ended 12/31/04
Net revenues (2)			
Entertainment	$ 201,068	$ 203,994	$ 189,311
Publishing	97,078	106,513	119,816
Licensing	32,996	27,646	20,249
Total	$ 331,142	$ 338,153	$ 329,376
Income before income taxes			
Entertainment	$ 23,299	$ 41,130	$ 32,943
Publishing	(5,374)	(6,471)	6,233
Licensing	18,927	15,969	10,678
Corporate Administration and Promotion	(25,768)	(19,632)	(18,207)
Restructuring expenses	(1,998)	(149)	(744)
Gains on disposal	29	14	2
Nonoperating expense	(4,334)	(27,598)	(17,071)
Total	$ 4,781	$ 3,263	$ 13,834

	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05	Fiscal Year Ended 12/31/04

Depreciation and amortization (3),(4)			
Entertainment	$ 41,056	$ 41,603	$ 45,847
Publishing	190	159	231
Licensing	28	13	28
Corporate Administration and Promotion	944	765	994
Total	$ 42,218	$ 42,540	$ 47,100
Identifiable assets (3),(5)			
Entertainment	$ 288,540	$ 274,473	$ 262,498
Publishing	38,146	38,833	45,724
Licensing	9,386	7,539	5,331
Corporate Administration and Promotion	99,711	108,124	102,777
Total	$ 435,783	$ 428,969	$ 416,330

(1) Certain amounts reported for the prior periods have been reclassified to conform to the current year's presentation.

(2) Net revenues include revenues attributable to foreign countries of approximately $96,238, $89,731 and $78,337 in 2006, 2005 and 2004, respectively. Revenues from the U.K. were $39,330, $34,451 and $29,657 in 2006, 2005 and 2004, respectively. No other individual foreign country's revenue was material. Revenues are generally attributed to countries based on the location of customers, except licensing royalties for which revenues are attributed based upon the location of licensees.

(3) The majority of our property and equipment and capital expenditures are reflected in Corporate Administration and Promotion; depreciation, however, is partially allocated to the reportable segments.

(4) Amounts include depreciation of property and equipment, amortization of intangible assets and amortization of investments in entertainment programming.

(5) Our long-lived assets located in foreign countries were not material.

(S) RELATED PARTY TRANSACTIONS

In 1971, we purchased the Playboy Mansion in Los Angeles, California, where Mr. Hefner lives. The Playboy Mansion is used for various corporate activities, and serves as a valuable location for television production, magazine photography and for online, advertising and sales events. It also enhances our image, as we host many charitable and civic functions. The Playboy Mansion generates substantial publicity and recognition, which increase public awareness of us and our products and services. Mr. Hefner pays us rent for that portion of the Playboy Mansion used exclusively for his and his personal guests' residence as well as the per-unit value of non-business meals, beverages and other benefits received by him and his personal guests. The Playboy Mansion is included in our Consolidated Balance Sheets at December 31, 2006 and 2005, at a net book value, including all improvements and after accumulated depreciation, of $1.6 million and $1.5 million, respectively. The operating expenses of the Playboy Mansion, including depreciation and taxes, were $2.1 million, $3.1 million and $3.0 million for 2006, 2005 and 2004, respectively, net of rent received from Mr. Hefner. We estimated the sum of the rent and other benefits payable for 2006 to be $0.9 million, and Mr. Hefner paid that amount during 2006. The actual rent and other benefits paid for 2005 and 2004 were $1.1 million and $1.3 million, respectively.

On April 26, 2004, Mr. Hefner converted his $16.7 million of Playboy Preferred Stock into 1,485,948 shares of our Class B stock and sold these shares as part of our public equity offering on that date. See Note (P), Public Equity Offering.

In 2005, we repurchased the remaining outstanding Playboy.com Series A Preferred Stock that was held by Mr. Hefner and an unrelated third party. These shares were part of $15.3 million issued by our subsidiary Playboy.com in 2001, of which $5.0 million was purchased by Mr. Hefner. See Note (L), Financing Obligations.

(T) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth a summary of the unaudited quarterly results of operations for 2006 and 2005 (in thousands, except share amounts):

<TABLE>
<CAPTION>

	Quarters Ended

2006	Mar. 31	June 30	Sept. 30	Dec. 31
<S>	<C>	<C>	<C>	<C>
Net revenues	$ 82,120	$ 80,477	$ 82,297	$ 86,248
Operating income (loss)	3,531	(1,224)	3,716	3,092
Net income (loss)	789	(3,307)	1,137	3,666
Basic and diluted earnings (loss) per common share	0.02	(0.10)	0.03	0.11
Common stock price				
Class A high	13.40	13.03	9.85	12.29
Class A low	12.20	8.30	8.71	9.35
Class B high	15.50	14.50	10.20	12.65
Class B low	$ 12.85	$ 8.90	$ 9.02	$ 9.16

</TABLE>

<TABLE>
<CAPTION>

	Quarters Ended			
2005	Mar. 31	June 30	Sept. 30	Dec. 31
<S>	<C>	<C>	<C>	<C>
Net revenues	$ 83,451	$ 82,871	$ 80,884	$ 90,947
Operating income	10,908	7,309	5,349	7,295
Net income (loss)	(13,119)	4,640	3,178	4,566
Basic and diluted earnings (loss) per common share	(0.39)	0.14	0.10	0.14
Common stock price				
Class A high	13.55	12.20	12.80	13.49
Class A low	10.51	10.85	11.15	11.30
Class B high	14.85	13.37	14.41	15.88
Class B low	$ 11.33	$ 11.80	$ 12.57	$ 13.14

</TABLE>

Quarterly and year-to-date computations of per share amounts are made independently; therefore, the sum of per share amounts for the quarters may not equal per share amounts for the year.

Operating loss for the quarter ended June 30, 2006, included $1.9 million of restructuring expense. See Note (C), Restructuring Expenses.

Net loss for the quarter ended March 31, 2005, included $19.3 million of debt extinguishment expense related to the redemption of $80.0 million aggregate principal amount of Holdings senior secured notes. See Note (L), Financing Obligations.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Playboy Enterprises, Inc.

We have audited the accompanying Consolidated Balance Sheets of Playboy Enterprises, Inc. and subsidiaries, or the Company, as of December 31, 2006 and 2005, and the related Consolidated Statements of Operations, Consolidated Statements of Shareholders' Equity and Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the index of Part IV, Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note (A), Note (N) and Note (P) to the Notes to

Consolidated Financial Statements, the Company adopted Statement of Financial Accounting Standards No. 123 (revised), Share-Based Payment effective January 1, 2006, and certain provisions of Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans as of December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 9, 2007, expressed an unqualified opinion thereon.

/s/Ernst & Young LLP

Chicago, Illinois
March 9, 2007

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of December 31, 2006. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2006, our disclosure controls and procedures are effective.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

Under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2006. In making this evaluation, management used the criteria set forth in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management believes that our internal control over financial reporting is effective as of December 31, 2006.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

(c) Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

To the Board of Directors and Shareholders of Playboy Enterprises, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Playboy Enterprises, Inc., or the Company, maintained effective internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public

Company Accounting Oversight Board (United States), or PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the PCAOB, the Consolidated Balance Sheets of the Company as of December 31, 2006 and 2005, and the related Consolidated Statements of Operations, Consolidated Statements of Shareholders' Equity and Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2006, and our report dated March 9, 2007, expressed an unqualified opinion thereon.

/s/Ernst & Young LLP

Chicago, Illinois
March 9, 2007

(d) Change in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting during the fiscal quarter ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 is included in our Proxy Statement (to be filed) relating to the Annual Meeting of Stockholders to be held in May 2007, which will be filed within 120 days after the close of our fiscal year ended December 31, 2006, and is incorporated herein by reference, pursuant to General Instruction G(3).

We have adopted a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer and Corporate Controller. That code is part of our Code of Business Conduct, which is available free of charge through our website, www.playboyenterprises.com, and is available in print to any shareholder who sends a request for a paper copy to: Investor Relations, Playboy

Enterprises, Inc., 680 North Lake Shore Drive, Chicago, Illinois 60611. We intend to include on our website any amendment to, or waiver from, a provision of the Code of Business Conduct that applies to our Chief Executive Officer, Chief Financial Officer and Corporate Controller that relates to any element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K.

Item 11. Executive Compensation

The information required by Item 11 is included in our Proxy Statement (to be filed) relating to the Annual Meeting of Stockholders to be held in May 2007, which will be filed within 120 days after the close of our fiscal year ended December 31, 2006, and is incorporated herein by reference (excluding the Report of the Compensation Committee and the Performance Graph), pursuant to General Instruction G(3).

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information regarding outstanding options and shares reserved for future issuance as of December 31, 2006:

<TABLE>
<CAPTION>

	Class B Common Stock		
	Number of Options Outstanding	Weighted Average Exercise Price of Options Outstanding	Number of Shares Remaining for Future Issuance
<S>	<C>	<C>	<C>
Total equity compensation plans approved by security holders	3,682,416	$15.65	3,088,954

</TABLE>

The other information required by Item 12 is included in our Proxy Statement (to be filed) relating to the Annual Meeting of Stockholders to be held in May 2007, which will be filed within 120 days after the close of our fiscal year ended December 31, 2006, and is incorporated herein by reference, pursuant to General Instruction G(3).

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is included in our Proxy Statement (to be filed) relating to the Annual Meeting of Stockholders to be held in May 2007, which will be filed within 120 days after the close of our fiscal year ended December 31, 2006, and is incorporated herein by reference, pursuant to General Instruction G(3).

Item 14. Principal Accounting Fees and Services

The information required by Item 14 is included in our Proxy Statement (to be filed) relating to the Annual Meeting of Stockholders to be held in May 2007, which will be filed within 120 days after the close of our fiscal year ended December 31, 2006, and is incorporated herein by reference, pursuant to General Instruction G(3).

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES AND EXHIBITS

(1) Financial Statements

Our Financial Statements and Supplementary Data following are as set forth under Part II. Item 8. of this Annual Report on Form 10-K:

All other schedules have been omitted because they are not required, are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

(3) Exhibits

See Exhibit Index, which appears at the end of this document and which is incorporated herein by reference.

PLAYBOY ENTERPRISES, INC. AND SUBSIDIARIES
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Allowance deducted in the balance sheet from the asset to which it applies:					
Fiscal Year Ended December 31, 2006:					
Allowance for doubtful accounts	$ 3,883	$ 592	$ 144 (1)	$ 931 (2)	$ 3,688
Allowance for returns	$ 27,777	$ 242	$ 41,322 (3)	$ 44,689 (4)	$ 24,652
Deferred tax asset valuation allowance	$ 75,295	$ 1,327 (6)	$ 558 (5)	$ --	$ 77,180
Fiscal Year Ended December 31, 2005:					
Allowance for doubtful accounts	$ 3,897	$ 890	$ 706 (1)	$ 1,610 (2)	$ 3,883
Allowance for returns	$ 28,284	$ 260	$ 44,960 (3)	$ 45,727 (4)	$ 27,777
Deferred tax asset valuation allowance	$ 72,663	$ 2,632 (6)	$ --	$ --	$ 75,295
Fiscal Year Ended December 31, 2004:					
Allowance for doubtful accounts	$ 4,364	$ 239	$ 1,133 (1)	$ 1,839 (2)	$ 3,897
Allowance for returns	$ 27,137	$ 203	$ 43,766 (3)	$ 42,822 (4)	$ 28,284
Deferred tax asset valuation allowance	$ 84,454	$ --	$ (2,628) (7)	$ 9,163 (8)	$ 72,663

Notes:

(1) Primarily represents provisions for unpaid subscriptions charged to net revenues.

(2) Primarily represents uncollectible accounts written off less recoveries.

(3) Represents provisions charged to net revenues for estimated returns of Playboy magazine, other domestic publishing products and domestic DVD products.

(4) Represents settlements on provisions previously recorded.

(5) Represents noncash federal tax adjustment related to the adoption of Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R).

(6) Represents noncash federal income tax expense related to increasing the valuation allowance.

(7) Represents adjustments to net operating loss and tax credit carryovers.

(8) Represents noncash federal income tax benefit related to reducing the valuation allowance.

EXHIBIT INDEX

All agreements listed below may have additional exhibits, which are not attached. All such exhibits are available upon request, provided the requesting party shall pay a fee for copies of such exhibits, which fee shall be limited to our reasonable expenses incurred in furnishing these documents.

Exhibit Number	Description
#2.1	Asset Purchase Agreement, dated as of June 29, 2001, by and among Playboy Enterprises, Inc., Califa Entertainment Group, Inc., V.O.D., Inc., Steven Hirsch, Dewi James and William Asher (incorporated by reference to Exhibit 2.1 from the Current Report on Form 8-K dated July 6, 2001)
3.1	Certificate of Incorporation of Playboy Enterprises, Inc. (incorporated by reference to Exhibit 3 from our quarterly report on Form 10-Q dated March 31, 2003)
3.2	Amended and Restated Bylaws of Playboy Enterprises, Inc. (incorporated by reference to Exhibit 3.4 from the Current Report on Form 8-K dated March 15, 1999)
3.3	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Playboy Enterprises, Inc. (incorporated by reference to Exhibit 3.2 from our quarterly report on Form 10-Q dated June 30, 2004, or the June 30, 2004 Form 10-Q)
4.1	Indenture, dated March 15, 2005, between Playboy Enterprises, Inc. and LaSalle Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 from the Current Report on Form 8-K dated March 9, 2005, or the March 9, 2005 Form 8-K)
4.2	Form of 3.00% Convertible Senior Subordinated Notes due 2025 (included in Exhibit 4.1)
4.3	Registration Rights Agreement, dated March 15, 2005, among Playboy Enterprises, Inc. and the Initial Purchasers named therein (incorporated by reference to Exhibit 4.2 from the March 9, 2005 Form 8-K)
10.1	Playboy Magazine Printing and Binding Agreement
#a	October 22, 1997 Agreement between Playboy Enterprises, Inc. and Quad/Graphics, Inc. (incorporated by reference to Exhibit 10.4 from our transition period report on Form 10-K for the six months ended December 31, 1997, or the Transition Period Form 10-K)
#b	Amendment to October 22, 1997 Agreement dated as of March 3, 2000 (incorporated by reference to Exhibit 10.1 from our quarterly report on Form 10-Q for the quarter ended March 31, 2000)
c	Second Amendment to October 22, 1997 Agreement dated as of March 2, 2004 (incorporated by reference to Exhibit 10.1 from our

annual report on Form 10-K for the year ended December 31, 2003, or the 2003 Form 10-K)

10.2 Playboy Magazine Distribution Agreement

a July 2, 1999 Agreement between Warner Publisher Services, Inc. and Playboy Enterprises, Inc. (incorporated by reference to Exhibit 10.4 from our quarterly report on Form 10-Q for the quarter ended September 30, 1999)

#b May 4, 2004 Agreement between Warner Publisher Services, Inc. and Playboy Enterprises, Inc. (incorporated by reference to Exhibit 10.1 from the June 30, 2004 Form 10-Q)

c Amendment to May 4, 2004 Agreement dated as of December 12, 2005

d Amendment to December 12, 2005 Agreement dated as of January 13, 2006

(items (c) and (d) incorporated by reference to Exhibits 10.2(c) and 10.2(d), respectively, from our annual report on Form 10-K for the year ended December 31, 2005, or the 2005 Form 10-K)

10.3 Playboy Magazine Subscription Fulfillment Agreement

a July 1, 1987 Agreement between Communications Data Services, Inc. and Playboy Enterprises, Inc. (incorporated by reference to Exhibit 10.12(a) from our annual report on Form 10-K for the year ended June 30, 1992, or the 1992 Form 10-K)

b Amendment dated as of June 1, 1988 to said Fulfillment Agreement (incorporated by reference to Exhibit 10.12(b) from our annual report on Form 10-K for the year ended June 30, 1993, or the 1993 Form 10-K)

c Amendment dated as of July 1, 1990 to said Fulfillment Agreement (incorporated by reference to Exhibit 10.12(c) from our annual report on Form 10-K for the year ended June 30, 1991, or the 1991 Form 10-K)

d Amendment dated as of July 1, 1996 to said Fulfillment Agreement (incorporated by reference to Exhibit 10.5(d) from our annual report on Form 10-K for the year ended June 30, 1996, or the 1996 Form 10-K)

#e Amendment dated as of July 7, 1997 to said Fulfillment Agreement (incorporated by reference to Exhibit 10.6(e) from the Transition Period Form 10-K)

#f Amendment dated as of July 1, 2001 to said Fulfillment Agreement (incorporated by reference to Exhibit 10.1 from our quarterly report on Form 10-Q for the quarter ended September 30, 2001, or the September 30, 2001 Form 10-Q)

#g Seventh Amendment (related to Subscription Fulfillment Agreement, dated July 1, 1987, as amended), dated March 7, 2006, by and between Communications Data Services, Inc. and Playboy Enterprises International, Inc. (incorporated by reference to Exhibit 10.9 from our quarterly report on Form 10-Q for the quarter ended March 31, 2006, or the March 31, 2006 Form 10-Q)

10.4 Transponder Service Agreements

a SKYNET Transponder Service Agreement dated March 1, 2001 between Playboy Entertainment Group, Inc. and Loral Skynet (incorporated by reference to Exhibit 10.1 from our quarterly report on Form 10-Q for the quarter ended March 31, 2001)

b SKYNET Transponder Service Agreement dated February 8, 1999 by and between Califa Entertainment Group, Inc. and Loral Skynet

c Transfer of Service Agreement dated February 22, 2002 between Califa Entertainment Group, Inc., Loral Skynet and Spice Hot Entertainment, Inc.

d Amendment One to the Transponder Service Agreement between Spice Hot Entertainment, Inc. and Loral Skynet dated February 28, 2002

(items (b), (c) and (d) incorporated by reference to Exhibits 10.4(b), (c) and (d), respectively, from our annual report on Form 10-K for the

year ended December 31, 2001, or the 2001 Form 10-K)

e Transponder Service Agreement dated August 12, 1999 between British Sky Broadcasting Limited and The Home Video Channel Limited (incorporated by reference to Exhibit 10.4(e) from our annual report on Form 10-K for the year ended December 31, 2002, or the 2002 Form 10-K)

f First Amendment dated as of May 7, 2004 between Playboy and Loral Skynet extending its current term expiration of January 31, 2010 to January 31, 2013

g Intelsat LLC acquired assets of Loral Skynet effective March 17, 2004

(items (f) and (g) incorporated by reference to Exhibits 10.4(f) and (g), respectively, from our annual report on Form 10-K for the year ended December 31, 2004, or the 2004 Form 10-K)

h Transfer of Service Agreement (related to Contract Number T79903021), dated as of October 25, 2004, among Spice Hot Entertainment, Inc., Andrita Studios, Inc., and Loral Skynet

#i Transfer of Service Agreement (related to Contract Number T70102100), dated February 4, 2004, among Playboy Entertainment Group, Inc., Andrita Studios, Inc. and Loral Skynet

j Amendment No. 1 to Contract Number T70102100 (IA7-C15) dated as of May 7, 2004, between Intelsat USA Sales Corp. and Andrita Studios, Inc.

#k Agreement Concerning Skynet Space Segment Service (Contract Number T70309257), dated as of November 20, 2003, between Andrita Studios, Inc. and Loral Skynet

#l Amendment No. 1 to Contract Number T70309257 (IA7-C9) dated as of May 7, 2004, between Intelsat USA Sales Corp. and Andrita Studios, Inc.

#m Digital Channel Platform Agreement (Contract Number GSS0210100) dated as of February 4, 2003, between Loral Skynet and Playboy Entertainment Group, Inc.

#n Amendment No. 1 to Contract Number GSS0210100 (Digital Channel Platform) dated as of May 7, 2004, between Intelsat USA Sales Corp. and Playboy Entertainment Group, Inc.

(items (h) through (n) incorporated by reference to Exhibits 10.1 through 10.4.2, respectively, from the March 31, 2006 Form 10-Q)

#10.5 Omnibus Amendment to Agreements between Playboy Entertainment Group, Inc. Andrita Studios, Inc. and Intelsat USA Sales Corp., dated as of December 22, 2005 (incorporated by reference to Exhibit 10.5 from the March 31, 2006 Form 10-Q)

10.6 Playboy TV UK Limited and UK/BENELUX Limited

#a Contract for a Combined Compressed Uplink and Eurobird Space Segment Service, dated as of May 12, 2003, between British Telecommunications plc and Playboy TV UK Limited

b Contract Amendment Agreement (Number 1) dated as of May 12, 2003, between British Telecommunications plc and Playboy TV UK Limited

#c Contract for a Combined Compressed Uplink and Eurobid Space Segment Service, dated as of May 12, 2004, between British Telecommunications plc and Playboy TV UK/BENELUX Limited

#d Contract Amendment Agreement (Number 1) dated as of November 30, 2004, between British Telecommunications plc and Playboy TV UK/BENELUX Limited

(items (a) through (d) incorporated by reference to Exhibits 10.6.1 through 10.7.2, respectively, from the March 31, 2006 Form 10-Q)

#10.7 Playboy TV - Latin America, LLC Agreements

a Second Amended and Restated Operating Agreement for Playboy TV - Latin America, LLC, effective as of April 1, 2002, by and between Playboy Entertainment Group, Inc. and Lifford International Co.

Ltd. (BVI)

b Playboy TV - Latin America Program Supply and Trademark License Agreement, dated as of December 23, 2002 and effective as of April 1, 2002, by and between Playboy Entertainment Group, Inc. and Playboy TV - Latin America, LLC

(items (a) and (b) incorporated by reference to Exhibits 10.1 and 10.2, respectively, from the Current Report on Form 8-K dated December 23, 2002, or the December 23, 2002 Form 8-K, and filed with the Securities Exchange Commission, or SEC, on February 12, 2003)

@c Third Amended and Restated Operating Agreement for Playboy TV - Latin America, LLC, effective as of November 10, 2006, by and between Playboy Entertainment Group, Inc. and Lifford International Co. Ltd. (BVI)

@d Amended and Restated Program Supply and Trademark License Agreement, dated as of November 10, 2006, between Playboy Entertainment Group, Inc. and Playboy TV - Latin America, LLC.

#10.8 Amended and Restated Full-Time Satellite and Terrestrial Services Agreement, dated as of September 30, 2003, between T-Systems Canada, Inc. and STV International B.V. (incorporated by reference to Exhibit 10.8 from the March 31, 2006 Form 10-Q)

#10.9 Agreement dated as of January 1, 2006, between Time/Warner Retail Sales & Marketing Inc. (f/k/a Warner Publisher Services, Inc.) and Playboy Enterprises, Inc. (incorporated by reference to Exhibit 10.10 from the March 31, 2006 Form 10-Q)

#10.10 Satellite Capacity Lease, dated as of August 21, 2006, by and among Playboy Entertainment Group, Inc., Spice Hot Entertainment, Inc. and Transponder Encryption Services Corporation (incorporated by reference to Exhibit 10.3 from our quarterly report on Form 10-Q for the quarter ended September 30, 2006, or the September 30, 2006 Form 10-Q)

10.11 Transfer Agreement, dated as of December 23, 2002, by and among Playboy Enterprises, Inc., Playboy Entertainment Group, Inc., Playboy Enterprises International, Inc., Claxson Interactive Group Inc.,

Carlyle Investments LLC (in its own right and as a successor in interest to Victoria Springs Investments Ltd.), Carlton Investments LLC (in its own right and as a successor in interest to Victoria Springs Investments Ltd.), Lifford International Co. Ltd. (BVI) and Playboy TV International, LLC. (incorporated by reference to Exhibit 2.1 from the December 23, 2002 Form 8-K, and filed with the SEC on January 7, 2003)

#10.12 Amended and Restated Affiliation and License Agreement dated May 17, 2002 between DirecTV, Inc. and Playboy Entertainment Group, Inc., Spice Entertainment, Inc., Spice Hot Entertainment, Inc. and Spice Platinum Entertainment, Inc. regarding DBS Satellite Exhibition of Programming (incorporated by reference to Exhibit 10.1 from our quarterly report on Form 10-Q dated June 30, 2002, or the June 30, 2002 Form 10-Q)

#10.13 Affiliation Agreement dated July 8, 2004 between Playboy Entertainment Group, Inc., Spice Entertainment, Inc., Spice Hot Entertainment, Inc., and Time Warner Cable Inc. (incorporated by reference to Exhibit 10.1 from our quarterly report on Form 10-Q dated September 30, 2004, or the September 30, 2004 Form 10-Q)

10.14 Affiliation Agreement between Spice, Inc., and Satellite Services, Inc.

a Affiliation Agreement, dated November 1, 1992, between Spice, Inc., and Satellite Services, Inc.

b Amendment No. 1, dated September 29, 1994, to Affiliation Agreement, dated November 1, 1992, between Spice, Inc., and Satellite Services, Inc.

c Letter Agreement, dated July 18, 1997, amending the Affiliation Agreement, dated November 1, 1992, between Spice, Inc., and Satellite Services, Inc.

d Letter Agreement, dated December 18, 1997, amending the Affiliation Agreement, dated November 1, 1992, between Spice, Inc., and Satellite Services, Inc.

e Amendment, effective September 26, 2005, to Affiliation Agreement, dated November 1, 1992, between Spice, Inc., and

Satellite Services, Inc.

(items (a) through (e) incorporated by reference to Exhibits 10.1.1 through 10.1.5, respectively, from our quarterly report on Form 10-Q dated September 30, 2005, or the September 30, 2005 Form 10-Q)

10.15 Affiliation Agreement between Playboy Entertainment Group, Inc., and Satellite Services, Inc.

a Affiliation Agreement, dated February 10, 1993, between Playboy Entertainment Group, Inc., and Satellite Services, Inc.

b Amendment, effective September 26, 2005, to Affiliation Agreement, dated February 10, 1993, between Playboy Entertainment Group, Inc., and Satellite Services, Inc.

(items (a) and (b) incorporated by reference to Exhibits 10.2.1 and 10.2.2, respectively, from the September 30, 2005 Form 10-Q)

10.16 Master Lease Agreement dated December 22, 2003 between The Walden Asset Group, LLC and Playboy Entertainment Group, Inc.

a Master Lease Agreement

b Equipment Schedule No. 1

c Acceptance Certificate for Equipment Schedule No. 1

(items (a) through (c) incorporated by reference to Exhibit 10.8 from the 2003 Form 10-K)

10.17 Acknowledgement of Assignment dated December 22, 2003 among Playboy Entertainment Group, Inc., The Walden Asset Group, LLC and General Electric Capital Corporation (incorporated by reference to Exhibit 10.9 from the 2003 Form 10-K)

#10.18 Corporate Guaranty dated December 22, 2003 executed by General Electric Capital Corporation regarding the Master Lease Agreement dated December 22, 2003 (incorporated by reference to Exhibit 10.10 from the 2003 Form 10-K)

#10.19 Fulfillment and Customer Service Services Agreement dated January 2, 2004 between Infinity Resources, Inc. and Playboy.com, Inc. (incorporated by reference to Exhibit 10.2 from the June 30, 2004 Form 10-Q)

@#10.20 Amended and Restated Agreement, dated September 16, 2006, by and between Playboy Entertainment Group, Inc. and Spice Hot Entertainment, Inc., and DirecTV, Inc.

10.21 Amended and Restated Credit Agreement, effective April 1, 2005, or the Credit Agreement, among PEI Holdings, Inc., as borrower, and Bank of America, N.A., as Agent and the other lenders from time to time party thereto

a Credit Agreement (incorporated by reference to Exhibit 10.1 to our quarterly report on Form 10-Q dated March 31, 2005)

b First Amendment to the Credit Agreement dated March 10, 2006 among PEI Holding, Inc., as borrower, Bank of America, N.A., as Agent, and the other Lenders Party thereto (incorporated by reference to Exhibit 10.15(b) from the 2005 Form 10-K)

c Master Corporate Guaranty, dated March 11, 2003

d Security Agreement, dated as of March 11, 2003, between PEI Holdings, Inc. and Bank of America, N.A., as Agent under the Credit Agreement

e Security Agreement, dated as of March 11, 2003, among Playboy Enterprises, Inc. and each of the domestic subsidiaries of PEI Holdings, Inc. set forth on the signature pages thereto and Bank of America, N.A., as Agent under the Credit Agreement

f Pledge Agreement, dated as of March 11, 2003, between PEI Holdings, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

g Pledge Agreement, dated as of March 11, 2003, among Chelsea Court

Holdings LLC, as the limited partner in 1945/1947 Cedar River C.V., Candlelight Management LLC, as the general partner in 1945/1947 Cedar River C.V., and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

h Pledge Agreement, dated as of March 11, 2003, between Claridge Organization LLC and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

i Pledge Agreement, dated as of March 11, 2003, between Playboy Clubs International, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

j Pledge Agreement, dated as of March 11, 2003, between CPV Productions, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

k Pledge Agreement, dated as of March 11, 2003, between Playboy Entertainment Group, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

l Pledge Agreement, dated as of March 11, 2003, between Playboy Gaming International, Ltd. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

m Pledge Agreement, dated as of March 11, 2003, between Playboy Entertainment Group, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

n Pledge Agreement, dated as of March 11, 2003, between Playboy Enterprises, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

o Pledge Agreement, dated as of March 11, 2003, between Playboy Enterprises International, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

p Pledge Agreement, dated as of March 11, 2003, between Planet Playboy, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

q Pledge Agreement, dated as of March 11, 2003, between Spice Entertainment, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

r Pledge Agreement, dated as of March 11, 2003, between Playboy TV International, LLC and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

s Pledge Agreement, dated as of March 11, 2003, between Playboy TV International, LLC and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

t Trademark Security Agreement, dated as of March 11, 2003, by AdultVision Communications, Inc., Alta Loma Entertainment, Inc., Lifestyle Brands, Ltd., Playboy Entertainment Group, Inc., Spice Entertainment, Inc., Playboy Enterprises International, Inc. and Spice Hot Entertainment, Inc. in favor of Bank of America, N.A., as Agent under the Credit Agreement

u Copyright Security Agreement, dated March 11, 2003, by After Dark Video, Inc., Alta Loma Distribution, Inc., Alta Loma Entertainment, Inc., Impulse Productions, Inc., Indigo Entertainment, Inc., MH Pictures, Inc., Mystique Films, Inc., Playboy Entertainment Group, Inc., Precious Films, Inc. and Women Productions, Inc. in favor of Bank of America, N.A., as Agent under the Credit Agreement

v Lease Subordination Agreement, dated as of March 11, 2003, by and among Hugh M. Hefner, Playboy Enterprises International, Inc. and Bank of America, N.A., as Agent for various lenders

w Deed of Trust with Assignment of Rents, Security Agreement and Fixture Filing, dated as of March 11, 2003, made and executed by Playboy Enterprises International, Inc. in favor of Fidelity National Title Insurance Company for the benefit of Bank of America, N.A., as Agent for Lenders under the Credit Agreement

(items (c) through (w) incorporated by reference to Exhibits 10.9(b) through (u), respectively, from the 2002 Form 10-K)

x Pledge Amendment, dated July 22, 2003, between Playboy Entertainment Group, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement (incorporated by reference to Exhibit 10.9(i)-1 from our May 19, 2003 Form S-4)

y First Amendment, dated September 15, 2004, to Deed of Trust With Assignment of Rents, Security Agreement and Fixture Filing, dated as of March 11, 2003, made and executed between Playboy Enterprises International, Inc. and Bank of America, N.A., as Agent (incorporated by reference to Exhibit 10.4 from the September 30, 2004 Form 10-Q)

z Second Amendment, dated as of April 27, 2006, to the Credit Agreement, or the Second Amendment

aa Reaffirmation of Guaranty, dated as of April 27, 2006, to the Credit Agreement, by each of the Guarantors, pursuant to the Second Amendment

bb Third Amendment, dated as of May 15, 2006, to the Credit Agreement

cc Pledge Amendment, dated as of May 15, 2006, from Playboy Enterprises International, Inc.

dd Pledge Amendment, dated as of May 15, 2006, from Playboy Entertainment Group, Inc.

ee Joinder to the Master Corporate Guaranty, dated as of May 15, 2006, by Playboy.com, Inc., Playboy.com Internet Gaming, Inc., Playboy.com Racing, Inc., SpiceTV.com, Inc., and CJI Holdings, Inc., and accepted by Bank of America, N.A., as agent for Lenders

ff Joinder to Security Agreement, dated as of May 15, 2006, by Playboy.com, Inc., Playboy.com Internet Gaming, Inc., Playboy.com Racing, Inc., SpiceTV.com, Inc. and CJI Holdings, Inc., and accepted by Bank of America, N.A., as agent for the Lenders

gg Pledge Agreement, dated as of May 15, 2006, between Playboy.com, Inc. and Bank of America, N.A., as agent for the Lenders

hh Pledge Agreement, dated as of May 15, 2006, between Playboy.com Internet Gaming Inc. and Bank of America, N.A., as agent for the Lenders

ii Trademark Security Agreement, dated as of May 15, 2006, by Playboy.com, Inc. in favor of Bank of America, N.A., as agent for the Lenders

jj Copyright Security Agreement, dated as of May 15, 2006, by Playboy.com, Inc. in favor of Bank of America, N.A., as agent for the Lenders

(items (z) through (jj) incorporated by reference to Exhibits 10.1.1 through 10.2.9, respectively, from our quarterly report on Form 10-Q for the quarter ended June 30, 2006, or the June 30, 2006 Form 10-Q)

kk Fourth Amendment, dated as of July 21, 2006, to the Credit Agreement, or the Fourth Amendment

ll Reaffirmation of Guaranty, dated as of July 21, 2006, by each of the Guarantors, pursuant to the Fourth Amendment

mm Fifth Amendment, dated as of September 28, 2006, to the Credit Agreement, or the Fifth Amendment

nn Reaffirmation of Guaranty, dated as of September 28, 2006, by each of the Guarantors, pursuant to the Fifth Amendment

oo Joinder and Amendment No. 1 to Master Corporate Guaranty, dated as of September 28, 2006, by Playboy Enterprises, Inc., Playboy Enterprises International, Inc., Spice Hot Entertainment, Inc. and Spice Platinum Entertainment, Inc., and accepted by Bank of America, N.A., as agent for the Lenders.

(items (kk) through (oo) incorporated by reference to Exhibits 10.1.1 through 10.2.3, respectively, from the September 30, 2006 Form 10-Q)

10.22 Exchange Agreement, dated as of March 11, 2003, among Hugh M. Hefner, Playboy.com, Inc., PEI Holdings, Inc. and Playboy Enterprises, Inc. (incorporated by reference to Exhibit 4.2 from the 2002 Form 10-K)

10.23 Playboy Mansion West Lease Agreement, as amended, between Playboy Enterprises, Inc. and Hugh M. Hefner

a Letter of Interpretation of Lease

b Agreement of Lease

(items (a) and (b) incorporated by reference to Exhibits 10.3(a) and (b), respectively, from the 1991 Form 10-K)

c Amendment to Lease Agreement dated as of January 12, 1998 (incorporated by reference to Exhibit 10.2 from our quarterly report on Form 10-Q for the quarter ended March 31, 1998, or the March 31, 1998 Form 10-Q)

d Lease Subordination Agreement, dated as of March 11, 2003, by and among Hugh M. Hefner, Playboy Enterprises International, Inc. and Bank of America, N.A., as Agent for various lenders (see Exhibit 10.21(v))

(item (d) incorporated by reference to Exhibit 10.9(t) from the 2002 Form 10-K)

10.24 Los Angeles Office Lease Documents

a Agreement of Lease dated April 23, 2002 between Los Angeles Media Tech Center, LLC and Playboy Enterprises, Inc. (incorporated by reference to Exhibit 10.4 from the June 30, 2002 Form 10-Q)

b First Amendment to April 23, 2002 Lease dated June 28, 2002 (incorporated by reference to Exhibit 10.4 from our quarterly report on Form 10-Q for the quarter ended September 30, 2002, or the September 30, 2002 Form 10-Q)

c Second Amendment to April 23, 2002 Lease dated September 23, 2004 (incorporated by reference to Exhibit 10.2 from the September 30, 2004 Form 10-Q)

10.25 Chicago Office Lease Documents

a Office Lease dated April 7, 1988 by and between Playboy Enterprises, Inc. and LaSalle National Bank as Trustee under Trust No. 112912 (incorporated by reference to Exhibit 10.7(a) from the 1993 Form 10-K)

b First Amendment to April 7, 1988 Lease dated October 26, 1989 (incorporated by reference to Exhibit 10.15(b) from our annual report on Form 10-K for the year ended June 30, 1995, or the 1995 Form 10-K)

c Second Amendment to April 7, 1988 Lease dated June 1, 1992 (incorporated by reference to Exhibit 10.1 from our quarterly report on Form 10-Q for the quarter ended December 31, 1992)

d Third Amendment to April 7, 1988 Lease dated August 30, 1993 (incorporated by reference to Exhibit 10.15(d) from the 1995 Form 10-K)

e Fourth Amendment to April 7, 1988 Lease dated August 6, 1996 (incorporated by reference to Exhibit 10.20(e) from the 1996 Form 10-K)

f Fifth Amendment to April 7, 1988 Lease dated March 19, 1998

(incorporated by reference to Exhibit 10.3 from the March 31, 1998 Form 10-Q)

g Sixth Amendment to April 7, 1988 Lease effective May 1, 2006 (incorporated by reference to Exhibit 10.9.1 from the September 30, 2006 Form 10-Q)

10.26 New York Office Lease Documents

a Agreement of Lease dated August 11, 1992 between Playboy Enterprises, Inc. and Lexington Building Co. (incorporated by reference to Exhibit 10.9(b) from the 1992 Form 10-K)

b Second Amendment to August 11, 1992 Lease dated June 28, 2004 (incorporated by reference to Exhibit 10.4 from the June 30, 2004 Form 10-Q)

10.27 Los Angeles Studio Facility Lease Documents

a Agreement of Lease dated September 20, 2001 between Kingston Andrita LLC and Playboy Entertainment Group, Inc. (incorporated by reference to Exhibit 10.3(a) from the September 30, 2001 Form 10-Q)

b First Amendment to September 20, 2001 Lease dated May 15, 2002 (incorporated by reference to Exhibit 10.3 from the June 30, 2002 Form 10-Q)

c Second Amendment to September 20, 2001 Lease dated July 23, 2002 (incorporated by reference to Exhibit 10.6 from the September 30, 2002 Form 10-Q)

d Third Amendment to September 20, 2001 Lease dated October 31, 2002

e Fourth Amendment to September 20, 2001 Lease dated December 2, 2002

f Fifth Amendment to September 20, 2001 Lease dated December 31, 2002

g Sixth Amendment to September 20, 2001 Lease dated January 31, 2003

(items (d) through (g) incorporated by reference to Exhibits 10.17(d) through (g), respectively, from the 2002 Form 10-K)

h Guaranty dated September 20, 2001 by Playboy Entertainment Group, Inc. in favor of Kingston Andrita LLC (incorporated by reference to Exhibit 10.3(c) from the September 30, 2001 Form 10-Q)

i Seventh Amendment to September 20, 2001 Lease dated July 23, 2003 (incorporated by reference to Exhibit 10.1 from our quarterly report on Form 10-Q dated September 30, 2003)

10.28 Rocklin Studio Facility Lease Documents

a Agreement of Lease dated September 21, 2005 between Joseph H. Lackey and ICS Entertainment, Inc. (incorporated by reference to Exhibit 10.22(a) from the 2005 Form 10-K)

*10.29 Selected Company Remunerative Plans

a Executive Protection Program dated March 1, 1990 (incorporated by reference to Exhibit 10.18(c) from the 1995 Form 10-K)

b Amended and Restated Deferred Compensation Plan for Employees effective January 1, 1998

c Amended and Restated Deferred Compensation Plan for Board of Directors effective January 1, 1998

(items (b) and (c) incorporated by reference to Exhibits 10.2(a) and (b), respectively, from our quarterly report on Form 10-Q for the quarter ended June 30, 1998)

d Amended and Restated Playboy Enterprises, Inc. Board of Directors' Deferred Compensation Plan, effective January 1, 2005

e Amended and Restated Playboy Enterprises, Inc. Deferred Compensation Plan, effective January 1, 2005

f Fourth Amendment, dated as of August 30, 2006, to the Playboy Enterprises, Inc. Employee Investment Savings Plan (as amended

and restated January 1, 1997)

(items (d) through (f) incorporated by reference to Exhibits 10.4 through 10.6, respectively, from the September 30, 2006 Form 10-Q)

*10.30 1991 Directors' Plan

a Playboy Enterprises, Inc. 1991 NonQualified Stock Option Plan for NonEmployee Directors, as amended

b Playboy Enterprises, Inc. 1991 NonQualified Stock Option Agreement for NonEmployee Directors

(items (a) and (b) incorporated by reference to Exhibits 10.4(rr) and (nn), respectively, from the 1991 Form 10-K)

c Playboy Enterprises, Inc. 1991 NonQualified Stock Option Plan for NonEmployee Directors, as amended (incorporated by reference to Exhibit 10.23(c) from the 2004 Form 10-K)

*10.31 1995 Stock Incentive Plan

a Second Amended and Restated Playboy Enterprises, Inc. 1995 Stock Incentive Plan (incorporated by reference to Exhibit 10.25(a) from the 2003 Form 10-K)

b Form of NonQualified Stock Option Agreement for NonQualified Stock Options which may be granted under the Plan

c Form of Incentive Stock Option Agreement for Incentive Stock Options which may be granted under the Plan

d Form of Restricted Stock Agreement for Restricted Stock issued under the Plan

(items (b), (c) and (d) incorporated by reference to Exhibits 4.3, 4.4 and 4.5, respectively, from our Registration Statement No. 33-58145 on Form S-8 dated March 20, 1995)

e Form of Section 162(m) Restricted Stock Agreement for Section 162(m) Restricted Stock issued under the Plan (incorporated by reference to Exhibit 10.1(e) from the 1997 Form 10-K)

f Amendment to the Second Amended and Restated Playboy Enterprises, Inc. 1995 Stock Incentive Plan (incorporated by reference to Exhibit 10.24(f) from the 2004 Form 10-K)

g Amendment to the Second Amended and Restated Playboy Enterprises, Inc. 1995 Stock Incentive Plan, effective August 30, 2006 (incorporated by reference to Exhibit 10.7 from the September 30, 2006 Form 10-Q)

@h Amendment to the Second Amended and Restated Playboy Enterprises, Inc. 1995 Stock Incentive Plan, effective November 29, 2006

*10.32 1997 Directors' Plan

a Amended and Restated 1997 Equity Plan for NonEmployee Directors of Playboy Enterprises, Inc. (incorporated by reference to Exhibit 10.6(a) from the 2003 Form 10-K)

b Form of Restricted Stock Agreement for Restricted Stock issued under the Plan (incorporated by reference to Exhibit 10.1(b) from our quarterly report on Form 10-Q for the quarter ended September 30, 1997)

c Amendment to the Amended and Restated 1997 Equity Plan for Non-Employee Directors of Playboy Enterprises, Inc. (incorporated by reference to Exhibit 10.25(c) from the 2004 Form 10-K)

@d Amendment to the Amended and Restated 1997 Equity Plan for Non-Employee Directors of Playboy Enterprises, Inc., effective November 29, 2006

*10.33 Form of Nonqualified Option Agreement between Playboy Enterprises, Inc. and each of Dennis S. Bookshester and Sol Rosenthal (incorporated by reference to Exhibit 4.4 from our Registration Statement No. 333-30185 on Form S-8 dated June 27, 1997)

*10.34 Employee Stock Purchase Plan

a Playboy Enterprises, Inc. Employee Stock Purchase Plan, as amended and restated (incorporated by reference to Exhibit 10.2 from our quarterly report on Form 10-Q for the quarter ended March 31, 1997)

b Amendment to Playboy Enterprises, Inc. Employee Stock Purchase Plan, as amended and restated (incorporated by reference to Exhibit 10.4 from our June 30, 1999 Form 10-Q)

c Playboy Enterprises, Inc. Employee Stock Purchase Plan, as amended and restated through April 25, 2006 (incorporated by reference to Exhibit 10.3 from the June 30, 2006 Form 10-Q)

@d Amendment to the Playboy Enterprises, Inc. Employee Stock Purchase Plan, effective November 29, 2006

*10.35 Selected Employment, Termination and Other Agreements

a Form of Severance Agreement by and between Playboy Enterprises, Inc. and each of Linda Havard, Christie Hefner, Martha Lindeman, Richard Rosenzweig, Howard Shapiro and Alex Vaickus (incorporated by reference to Exhibit 10.23(a) from the 2001 Form 10-K)

b Memorandum dated May 21, 2002 regarding severance agreement for Linda Havard (incorporated by reference to Exhibit 10.6 from the June 30, 2002 Form 10-Q)

c Employment Agreement dated as of September 15, 2006, between Playboy Enterprises, Inc. and Robert Meyers

d Severance Agreement dated as of September 18, 2006, between Playboy Enterprises, Inc. and Robert Meyers

(items (c) and (d) are incorporated by reference to Exhibits 10.8.1 and 10.8.2, respectively, from the September 30, 2006 Form 10-Q)

@21 Subsidiaries

@23 Consent of Ernst & Young LLP

@31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

@31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

@32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* Indicates management compensation plan

Certain information omitted pursuant to a request for confidential treatment filed separately with and granted by the SEC

@ Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PLAYBOY ENTERPRISES, INC.

March 16, 2007

By /s/Linda Havard

Linda G. Havard
Executive Vice President,
Finance and Operations,
and Chief Financial Officer
(Authorized Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/Christie Hefner — March 16, 2007

Christie Hefner
Chairman of the Board,
Chief Executive Officer and Director
(Principal Executive Officer)

/s/Richard S. Rosenzweig — March 16, 2007

Richard S. Rosenzweig
Executive Vice President and Director

/s/Dennis S. Bookshester — March 16, 2007

Dennis S. Bookshester
Director

/s/David I. Chemerow — March 16, 2007

David I. Chemerow
Director

/s/Donald G. Drapkin — March 16, 2007

Donald G. Drapkin
Director

/s/Charles Hirschhorn — March 16, 2007

Charles Hirschhorn
Director

/s/Jerome H. Kern — March 16, 2007

Jerome H. Kern
Director

/s/Russell I. Pillar — March 16, 2007

Russell I. Pillar
Director

/s/Sol Rosenthal — March 16, 2007

Sol Rosenthal
Director

/s/Linda Havard — March 16, 2007

Linda G. Havard
Executive Vice President,
Finance and Operations,
and Chief Financial Officer
(Principal Financial and
Accounting Officer)

Exhibit 10.7c

THIRD AMENDED AND RESTATED OPERATING AGREEMENT FOR PLAYBOY TV - LATIN AMERICA, LLC A CALIFORNIA LIMITED LIABILITY COMPANY

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EXHIBITS

THIRD AMENDED AND RESTATED
OPERATING AGREEMENT
FOR
PLAYBOY TV - LATIN AMERICA, LLC
A CALIFORNIA LIMITED LIABILITY COMPANY

This Third Amended and Restated Operating Agreement (this "Agreement") of Playboy TV - Latin America, LLC, a limited liability company organized under the laws of the State of California (the "Company"), is made and entered into on November 10, 2006, by and between Playboy Entertainment Group, Inc., a Delaware corporation (together with its permitted successors and assigns "PEGI") and Lifford International Co. Ltd., an International Business Company incorporated under the laws of the British Virgin Islands (together with its permitted successors and assigns "Lifford"), with reference to the following facts:

A. On June 14, 1996, Articles of Organization for the Company were filed with the California Secretary of State, and PEGI and Bloomfield Mercantile, Inc. executed an operating agreement (the "Initial Operating Agreement").

B. On November 4, 1998, Bloomfield Mercantile, Inc. assigned all of its rights and obligations under the Initial Operating Agreement to Lifford and Lifford was admitted as a Member to the Company.

C. On November 10, 1998, PEGI and Lifford amended and restated the Initial Operating Agreement in its entirety effective as of June 14, 1996 (the "First Amended and Restated Operating Agreement").

D. On December 23, 2002 and effective as of April 1, 2002, PEGI and Lifford amended and restated the First Amended and Restated Operating Agreement in its entirety effective as of April 1, 2002 (the "Second Amended and Restated Operating Agreement").

E. On June 17, 2004, PEGI and Lifford amended the Second Amended and Restated Operating Agreement (the "Amendment").

F. The parties desire to amend and restate the Second Amended and Restated Operating Agreement in order to, among other things, (i) include the terms of the Amendment; (ii) modify the terms of the PEGI Buy-Up Option and Additional Buy-Up Option and (iii) provide certain agreements with respect to the development, launch and operation by the Company, through a newly formed, wholly owned subsidiary Playboy Lifestyle Holding, LLC, a Delaware limited liability company ("Playboy Lifestyle Holding"), and its soon to be formed, wholly owned subsidiary, an Argentine limited liability company ("Newco" and collectively with Playboy Lifestyle Holding, the "Playboy Lifestyle Companies"), of the Playboy Lifestyle Business, each as more fully set forth in this Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt, adequacy and legal sufficiency of which are hereby acknowledged, the parties hereby amend and restate the Second Amended and Restated Operating Agreement in its entirety under the laws of the State of California upon the terms and subject to the conditions of this Agreement as follows:

ARTICLE I
DEFINITIONS

When used in this Agreement, the following terms shall have the meanings set forth below:

"AAA" has the meaning set forth in Section 16.3.

"Act" means the Beverly-Killea Limited Liability Company Act, codified in the California Corporations Code, Section 17000 et seq., as the same may be amended from time to time.

"Additional Buy-Up Option" has the meaning set forth in Section 9.8.

"Adult-Oriented" means, with respect to a Channel or program, that such Channel or program features content that is comparable to or more explicit than the content that is exhibited on the Channels in the Territory as of the date of this Agreement; it being understood that content that would be rated no more restrictively than "R" by the Motion Picture Association of America as such rating standards are currently in effect is not "Adult-Oriented" content.

"Adult-Oriented Television Business" means the business of owning or operating an Adult-Oriented television service or distributing, supplying or producing Adult-Oriented programming in the Media.

"Affiliate" means any Person, directly or indirectly through one or more intermediaries, controlling, controlled by, or under common control with the specified Person. The term "control" (and "controlled" and "controlling," respectively), as used in the immediately preceding sentence, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the specified Person (whether by the holding of shares or other equity interests, the possession of voting rights or otherwise).

"Agent" has the meaning set forth in Section 13.1.

"Agreement" means this Third Amended and Restated Operating Agreement, as originally executed and as amended from time to time in accordance with the terms hereof.

"Amended Affiliation Agreement" means that certain Amended and Restated Affiliation Agreement, dated the date hereof, by and between the Company and PTV BV.

"Annual Budget" has the meaning set forth in Section 6.2.

"Articles" means the Articles of Organization for the Company originally filed with the California Secretary of State and as amended from time to time.

"Bankruptcy" with respect to a Member means: (a) the filing of an application by a Member for, or such Member's consent to, the appointment of a trustee, receiver, or custodian of such Member's other assets; (b) the entry of an order for relief with respect to a Member in proceedings under the Bankruptcy Code, as amended or superseded from time to time; (c) the making by a Member of a general assignment for the benefit of creditors; (d) the entry of an order, judgment, or decree by any court of competent jurisdiction appointing a trustee, receiver, or custodian of the assets of a Member unless the proceedings and the person appointed are dismissed within ninety (90) days; or (e) the failure by a Member generally to pay such Member's debts as the debts become due within the meaning of Section 303(h)(1) of the Bankruptcy Code, as determined by the Bankruptcy Court, or the admission in writing of such Member's inability to pay its debts as they become due.

"Bankruptcy Code" means the United States Bankruptcy Code, 11 U.S.C. 101 et seq.

"Basic Cable" has the meaning currently or hereafter commonly understood in the television industry, but will also include for all purposes of this Agreement any broadcast or other transmission (whether by satellite or otherwise) to television sets or other television devices, now or hereafter known, of a program service (other than any free television terrestrial broadcast station) (a) that is included as part of a package of program services for which members of the public pay a periodic fee for the right to receive such package of program services, and (b) for which program service a separate fee is not generally charged for the right to receive the particular service in question.

"Branded" means a television service or a Program or block of Programs where PEGI's or any PEGI Affiliate's name or trademarks are used either in connection or close affiliation with the service or the Program or block of Programs, or any related advertising.

"Branded Format Programming" has the meaning set forth in the Program Supply Agreement.

"Business Plan" has the meaning set forth in Section 6.1.

"Capital Account" means with respect to any Member the capital account that the Company establishes and maintains for such Member pursuant to Section 3.4 and Article 1 of Exhibit B.

"Capital Call" has the meaning set forth in Section 3.3.

"Capital Call Due Date" has the meaning set forth in Section 3.3.

"Capital Contribution" means the total value of cash and fair market value of property (including promissory notes or other obligation to contribute cash or property) contributed and/or services rendered or to be rendered to the Company by Members, other than the Venus Contribution.

"Caribbean Basin" means the following territories: Anguilla, Antigua and Barbuda, Aruba, Barbados, Bermuda, The British Virgin Islands, The Cayman Islands, Cuba, Dominica, Dominican Republic, Grenada, Haiti, Jamaica, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, and the Turks and Caicos Islands.

"Channels" means Playboy TV - Latin America, the television program service based on PEGI's Playboy television network as programmed by PEGI in the United States from time-to-time, the Spice Networks, Venus, the G-Channel and the Playboy Lifestyle Channel, and any other television program service added from time-to-time, in each case, as provided for reception within the Territory by the Company or any of its Subsidiaries in accordance with this Agreement and the Program Supply Agreement (each, a "Channel").

"Cisneros Group" means (i) Gustavo A. Cisneros, Ricardo J. Cisneros, their respective wives and direct descendants or any entity, including trusts, in which Gustavo A. Cisneros and/or Ricardo J. Cisneros or their respective

wives and direct descendants hold, directly or indirectly, at least 50.1% of the economic benefit or the total shares, participations or interests in (however designated) corporate stock, partnership interests, limited liability company interests, or any equivalents thereof of such entity, and which is controlled, directly or indirectly, by any of such persons; or (ii) any entity, including trusts, which is controlled, directly or indirectly, by any of Gustavo A. Cisneros and/or Ricardo J. Cisneros or their respective wives and direct descendants.

"Claim" has the meaning set forth in Section 15.2.

"Claxson" means Claxson Interactive Group Inc., an International Business Company incorporated under the laws of the British Virgin Islands.

"Claxson Guarantee Obligation" has the meaning set forth in Section 12.2.3.

"Claxson Offer" has the meaning set forth in Section 2.8.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, the provisions of succeeding law, and to the extent applicable, the Treasury Regulations.

"Company" has the meaning set forth in the preamble.

"Company Format Programming" has the meaning set forth in the Program Supply Agreement.

"Company Produced Programming" shall mean Programs produced by the Company for exhibition on the Channels.

"Company Produced Programming Budget" has the meaning set forth in Section 6.2.1.

"Corporations Code" means the California Corporations Code, as amended from time to time, and the provisions of succeeding law.

"CPI" means the Consumer Price Index for all Urban Consumers as released by the Bureau of Labor Statistics, U.S. Department of Labor. If the Bureau of Labor Statistics, U.S. Department of Labor (i) substantially revises the methodology (in contrast to benchmark adjustments or other corrections of previously published data), (ii) discontinues publication of any of the data referred to above or (iii) temporarily discontinues publication of any of the data referred to above, the parties shall select a substitute for the revised or discontinued data, in order to provide substitute data to lead to the same adjustment result, insofar as possible, as would have been achieved by continuing the use of the original data as it may have fluctuated had it not been revised or discontinued.

"Dissolution Event" has the meaning set forth in Section 12.2.

"Distributable Cash" means the amount of cash that the Management Committee deems available for distribution to the Members, taking into account all debts, liabilities and obligations of the Company then due and amounts that the Management Committee deems necessary to place into reserves for customary and usual claims with respect to the Company's business.

"Distribution Agreement" means that certain Second Amended and Restated Distribution Agreement, dated the date hereof, between the Company and PEGI.

"DTM" has the meaning set forth in Section 3.6.

"DTM Arrangement" has the meaning set forth in Section 3.6.

"EBITDA" means, for any period, the consolidated earnings from continuing operations of the Company and its Subsidiaries for such period before interest expense, income taxes, the cumulative effect of changes in accounting

principle, depreciation of property and equipment, amortization of intangible assets, amortization of investments in entertainment programming and amortization of deferred financing fees.

"Economic Interest" means a Member's share of one or more of the Company's Net Income, Net Losses, and distributions of the Company's assets pursuant to this Agreement and the Act, but shall not include any other rights of a Member, including, but not limited to, the right to vote or participate in the management, or except as provided in Section 17106 of the Corporations Code, any right to information concerning the business and affairs, of the Company.

"Fair Market Value" with respect to the Company or any asset thereof means the value determined pursuant to Exhibit C.

"Feasibility Study" has the meaning set forth in Section 2.7.

"First Amended and Restated Operating Agreement" has the meaning set forth in the recitals.

"Fiscal Year" means the Company's fiscal year, which shall be the calendar year.

"Former Member" has the meaning set forth in Section 10.1.

"Former Member's Interest" has the meaning set forth in Section 10.1.

"Fully-Participating Member" has the meaning set forth in Section 3.3.1.

"GAAP" has the meaning set forth in Section 11.1.

"G-Channel" means that certain pay-per-view, adult content channel, launched in 2004, and owned and distributed by the Company or any successor channels.

"General Manager" has the meaning set forth in Section 5.4.2.

"Iberia" means Spain, Portugal and Andorra.

"Iberia Arrangements" has the meaning set forth in Section 3.6.

"Imagen" means Imagen Satelital S.A., an Argentine corporation

"Initial Operating Agreement" has the meaning set forth in the recitals.

"Initial Option Percentage" has the meaning set forth in Section 9.8.

"Lifestyle Linear Television Business" means the business of owning or operating a Lifestyle Oriented, advertising supported, 24 hours a day 7 days a week linear television programming service (which may also be distributed on a pay per view or video on demand basis offered as a premium on demand or subscription on demand solely to subscribers of the 24 hours a day, 7 days a week linear television programming service).

"Lifestyle Media Business" means the business of owning or operating a Lifestyle Oriented programming service or distributing, supplying or producing Lifestyle Oriented programming in the Playboy Lifestyle Media.

"Lifestyle Oriented" means, with respect to content, programs or advertising supported Channels, such content, program, or advertising supported Channel, that is primarily focused on themes associated with the attitudes and values of a group of persons or social classification, including without limitation, habits of consumption, dress, recreation and way of living; it being understood that Lifestyle Oriented content does not include "Adult-Oriented" content.

"Lifford" has the meaning set forth in the preamble.

"Lifford Managers" has the meaning set forth in Section 5.2.1.

"Lifford US" has the meaning set forth in Section 9.10(b).

"Major Currency" as used herein shall mean US Dollars, UK Pounds, Euros or Japanese Yen.

"Majority Interest" means one or more Percentage Interests of Members that taken together exceed fifty percent (50%) of the aggregate of all Percentage Interests.

"Management Co." means Claxson USA II, Inc., a Florida corporation (formerly known as Claxson USA, Inc.)

"Management Committee" has the meaning set forth in Section 5.1.1.

"Management Services Agreement" means the Amended and Restated Management Services Agreement dated the date hereof between the Company and Management Co. relating to the provision of services by Management Co.

"Manager" has the meaning set forth in Section 5.2.1.

"Marketable Security" shall mean common stock or an American Depositary Receipt that is listed for trading on the New York Stock Exchange, the NASDAQ National Market System, or the London Stock Exchange.

"Marketing Budget" has the meaning set forth in Section 6.2.1.

"Media" means all forms of linear and nonlinear television exhibition, transmission and distribution whether now existing or developed in the future and whether on a subscription, pay-per-view, video-on-demand or free basis, including but not limited to the following: (i) conventional VHF or UHF television broadcast, (ii) Basic Cable and pay cable, (iii) "over the air pay" subscription television (STV), (iv) direct broadcasting by satellite (DBS), (v) master antenna television systems (MATV), (vi) multipoint distribution services (MDS), (vii) multichannel multipoint distribution services (MMDS), (viii) satellite master antenna television systems (SMATV), (ix) microwave transmission and (x) IP television encrypted to a set top box. Solely with respect to the Playboy Lifestyle Business (other than the Playboy Lifestyle Channel), Media shall include the Playboy Lifestyle Media as defined below. Notwithstanding the foregoing, except as provided herein, in the Program Supply Agreement or any Related Documents, Media shall exclude Streaming.

"Mediation Period" has the meaning set forth in Section 2.8.1.

"Member" means each Person who (a) is an initial signatory to this Agreement or has been admitted to the Company as a Member in accordance with this Agreement and (b) has not resigned, withdrawn, been expelled or dissolved.

"Member Offerees" has the meaning set forth in Section 9.3.

"Membership Interest" means a Member's entire interest in the Company including the Member's Economic Interest, the right to vote on or participate in the management, and the right to receive information concerning the business and affairs, of the Company.

"Negotiated Purchase Price" has the meaning set forth in Section 9.3.

"Net Income" and "Net Losses" have the meanings set forth in Article 2 of Exhibit B hereto.

"Newco" has the meaning set forth in the recitals.

"Non-Contributing Member" has the meaning set forth in Section

3.3.1.

"Notice" has the meaning set forth in Section 16.2.

"Offer Notification" has the meaning set forth in Section 9.3.

"Offered Membership Interest" has the meaning set forth in Section 9.3.

"Optional Capital Contribution" has the meaning set forth in Section 3.3.

"PEGI" has the meaning set forth in the preamble.

"PEGI Buy-Up Option" has the meaning set forth in Section 9.8.

"PEGI Managers" has the meaning set forth in Section 5.2.1.

"PEI" means Playboy Enterprises, Inc., a Delaware corporation.

"PEI Rejection" has the meaning set forth in Section 2.8.1.

"PEI Reply" has the meaning set forth in Section 2.8.1.

"PEI Representatives" has the meaning set forth in Section 11.2.4.

"PEI Second Rejection" has the meaning set forth in Section 2.8.1.

"PEI Stock" has the meaning set forth in Section 9.8(b).

"Percentage Interest" means the percentage of a Member set forth opposite the name of such Member under the column "Member's Percentage Interest" in Exhibit A hereto, as such percentage may be adjusted from time to time pursuant to the terms of this Agreement.

"Person" means an individual, general partnership, limited partnership, limited liability company, corporation, trust, estate, real estate investment trust, association or any other entity.

"Playboy Lifestyle Business" means, the business of owning or operating the Playboy Lifestyle Programming Services or distributing, licensing, sublicensing, supplying or producing Playboy Lifestyle Programming Services in the Playboy Lifestyle Media.

"Playboy Lifestyle Capital Contribution" has the meaning set forth in Section 3.3.2.

"Playboy Lifestyle Channel" has the meaning set forth in the Program Supply Agreement.

"Playboy Lifestyle Channel USA" has the meaning set forth in the Program Supply Agreement.

"Playboy Lifestyle Channel USA Non-Competition" has the meaning set forth in Section 2.8.1.

"Playboy Lifestyle Companies" has the meaning set forth in the recitals.

"Playboy Lifestyle Holding" has the meaning set forth in the recitals.

"Playboy Lifestyle Media" means the Media and any and all other forms of audiovisual distribution, exhibition and transmission now known or hereafter devised, linear and non linear, including but not limited to wireless transmission technologies, wireless messaging technologies and other wireless network technologies primarily intended to transmit voice, video, still images, or data to mobile devices (including cellular phones, handhelds, and personal

digital assistants), video on demand, near video on demand, or portable media players. Notwithstanding the foregoing, except as provided herein, in the Program Supply Agreement or any Related Documents, Playboy Lifestyle Media shall exclude Streaming, including IP television that is not encrypted to a set top box.

"Playboy Lifestyle Note" means that certain Senior Secured Credit Promissory Note dated as of the date hereof executed by Playboy Lifestyle Holding and payable to the order of Lifford, which, except as provided in the related Pledge and Security Agreement executed as of the date hereof, shall be nonrecourse to the Company.

"Playboy Lifestyle Programming Service" means any Branded or Unbranded programming service or content and the marketing thereof in the Playboy Lifestyle Media, including

through promotional websites, that is Lifestyle Oriented and is not Adult Oriented, including, without limitation, the Playboy Lifestyle Channel.

"Program" or "Programming" means any program which is, or may be scheduled to be, broadcast or transmitted on the Channels.

"Program Supply Agreement" means the Amended and Restated Program Supply Agreement, executed concurrently herewith dated the date hereof, between PEGI and the Company with respect to the supply of programming for the Channels and the license of certain trademarks.

"Proposed Purchaser" has the meaning set forth in Section 9.4(a).

"PTV BV" has the meaning set forth in Section 9.10(a).

"PTV Holdings" has the meaning set forth in Section 9.10(a).

"PTV UK" has the meaning set forth in Section 3.6.

"PTV US" has the meaning set forth in Section 9.10(a).

"PTV US Affiliation Agreement" means that certain Amended and Restated Affiliation Agreement, dated the date hereof, by and between the Company and PTV US.

"Purchase Notification" has the meaning set forth in Section 9.3.

"Reference Rate" means the reference rate as set forth from time to time by The Bank of America Corporation.

"Related Documents" means those agreements set forth on Exhibit H attached hereto.

"Remaining Members" has the meaning set forth in Section 10.1.

"Remediable Breach" has the meaning set forth in Section 12.2.2(b).

"Renewal" has the meaning set forth in Section 5.4.5.

"Required Expenditure Adjustment" has the meaning set forth in Section 6.2.3.

"Response" has the meaning set forth in Section 16.2.

"Rules" has the meaning set forth in Section 16.3.

"Sales Services Agreement" Amended and Restated Sales Services Agreement, dated as of the date hereof, by and between Imagen and the Company.

"SEC" means the U.S. Securities and Exchange Commission.

"Second Amended and Restated Operating Agreement" has the meaning

set forth in the recitals.

"Second Option Percentage" has the meaning set forth in Section 9.8.

"Securities Act" has the meaning set forth in Section 15.1.6.

"Securities Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Selling Member" has the meaning set forth in Section 9.3.

"Shortfall" has the meaning set forth in Section 6.2.3.

"Spice Networks" means collectively, Spice Digital Networks, Club Jenna, Spice:Xcess, fresh! and shorteez, and successor networks, if any, as PEGI may include from time-to-time, as programmed by PEGI.

"Streaming" means the delivery of audio and/or visual programming whether in real time or by program download (including, but not limited to, RealVideo, any format that operates on the Windows Media Player or any other streaming or direct download audio and/or visual software) through the data delivery protocol known as TCP/Internet Protocol or any successor or replacement protocol to any recipient for purposes of viewing.

"Subsequent Transfer Offer Period" has the meaning set forth in Section 9.3.

"Subsequent Third-Party Transfer Offer Period" has the meaning set forth in Section 9.4(b).

"Subsidiary" means, with respect to any Person at any time, any corporation, partnership, limited liability company or other entity, a majority of the equity interests of which shall, at the time as of which any determination is made, be owned, controlled or held by such Person either directly or through Subsidiaries of such Person.

"Tax Matters Member" shall be Lifford or such Member's successor as designated pursuant to Section 11.8.

"Term" has the meaning set forth in Section 12.1.

"Terms" has the meaning set forth in Section 9.3.

"Territory" means (a) Mexico and each country comprising Central and South America; (b) Spain, Portugal and Andorra (c) the Caribbean Basin and (d) the territories and possessions of each of the foregoing.

"Third Party" has the meaning set forth in Section 17.14.2(a).

"Third Party Buyer" has the meaning set forth in Section 9.3.

"Third Party Transfer Notice" has the meaning set forth in Section 9.4(a).

"Third-Party Transfer Offer Period" has the meaning set forth in Section 9.4(b).

"Transfer" has the meaning set forth in Section 9.1.

"Transfer Offer Period" has the meaning set forth in Section 9.3.

"Treasury Regulations" has the meaning set forth in Exhibit B.

"Unbranded" means a television service or a Program or block of Programs where PEGI's or any PEGI Affiliate's name or trademarks are not used either in connection or close affiliation with the service or the Program or block of Programs or any related advertising other than in customary production, logo credits or end sequences of such Program or block of Programs, for use

solely in the credit block in advertising for such Program, where applicable.

"US Lifestyle Territory" means the United States and Canada, their territories and possessions.

"US Option Confirmation" has the meaning set forth in Section 2.8.1.

"US Option Period" has the meaning set forth in Section 2.8.1.

"Venus" means that certain premium and pay-per-view adult content channel, launched in 1994, and owned and distributed throughout Latin America by Claxson and its Subsidiaries and Affiliates.

"Venus Argentina" has the meaning set forth in Section 9.11.

"Venus Assets" has the meaning set forth in the Venus Contribution Agreement.

"Venus Contribution" means Claxson's contribution of Venus to the Company pursuant to the Venus Contribution Agreement.

"Venus Contribution Agreement" means that certain Venus Contribution Agreement dated as of December 23, 2002, by and among Claxson, Lifford, the Company and PEGI.

"Venus Entities" has the meaning set forth in Section 9.11.

"Venus International" has the meaning set forth in Section 9.11.

"Web Site Revenue Share Agreement" means the Amended and Restated Web Site Revenue Share Agreement, dated the date hereof, by and among Playboy.com, Inc., a Delaware corporation, Claxson and the Company.

"Wireless Distribution Agreement" means the Wireless Distribution Agreement, dated September 1, 2005, by and between Playboy.com, Inc. and the Company which the parties agree will be amended or restated to reflect the Playboy Lifestyle Business within thirty (30) days of the date hereof.

"Withdrawal Dissolution Event" means, with respect to any Member, one or more of the following: the expulsion, Bankruptcy, dissolution or occurrence of any other event that terminates the continued membership of any Member unless the other Member(s) consent to continue the business of the Company pursuant to Section 10.1.

"Zagasse" has the meaning set forth in Section 9.10(b).

ARTICLE II
ORGANIZATIONAL MATTERS

2.1 Formation. Pursuant to the Act, the Members formed a limited liability company under the laws of the State of California by filing the Articles with the California Secretary of State and entering into the Initial Operating Agreement. The rights and liabilities of the Members shall be determined pursuant to the Act and this Agreement. To the extent that the rights or obligations of any Member are different by reason of any provision of this Agreement than they would be in the absence of such provision, this Agreement shall, to the extent permitted by the Act, control.

2.2 Name. The name of the Company shall be "Playboy TV - Latin America, LLC." The Management Committee shall be permitted to change the name of the Company to any name approved by the PEGI Managers, such approvals not to be unreasonably withheld. The business of the Company may be conducted under such name in compliance with applicable laws. The General Manager shall file any fictitious name certificates and similar filings, and any amendments thereto, that the Management Committee considers appropriate or advisable. Notwithstanding the foregoing, if there is no PEGI Manager on the Management Committee or PEGI is no longer a Member, at PEGI's request the Articles shall be amended to change the name of the Company to a name that does not contain or

utilize any Playboy trademarks or any confusingly similar designation or mark.

2.3 [Intentionally Omitted].

2.4 Office and Agent. The Company shall continuously maintain an office and registered agent in the State of California as required by the Act. The principal office of the Company shall be as the Management Committee may determine. The Company also may have such offices, anywhere within and without the State of California, as the Management Committee from time to time may determine, or the business of the Company may require. The registered agent shall be as stated in the Articles or as otherwise determined by the Management Committee.

2.5 Addresses of the Members, the Managers and the General Manager. The respective addresses of the Members are set forth on Exhibit A, which exhibit will be modified from time to time to reflect changes therein. The respective addresses of the Managers and the General Manager shall be maintained in the books of the Company and made available to any Member on request.

2.6 Purpose of Company. The purpose of the Company is to engage in any lawful activity for which a limited liability company may be organized under the Act. Notwithstanding the foregoing, without the majority approval of the Management Committee and subject to the veto right under Section 5.1.2(a), the Company shall not engage in any business other than (i) the Adult-Oriented Television Business in the Territory; (ii) licensing programming to third parties in the Territory, except for Company Produced Programming, which can be distributed worldwide to PEGI or one of its Affiliates pursuant to the terms of the Distribution Agreement; (iii) development and marketing of Adult-Oriented commercial websites, subject to any restrictions set forth in the Web Site Revenue Share Agreement, targeted to Spanish and Portuguese language audiences in the Territory, including the Company websites, Venus commercial website and Spice websites; (iv) the Playboy Lifestyle Business in the Territory; (v) licensing Company Produced Programming and Company Format Programming produced for the Playboy Lifestyle Business (other than Branded Format Programming) or otherwise to third parties worldwide in any and all media now known or hereafter devised; (vi) content distribution via wireless media in the Territory, including pursuant to the Wireless Distribution Agreement; and (vii) such other activities ancillary and related thereto as may be necessary, advisable or appropriate, in the reasonable opinion of the Management Committee to further the businesses set forth in clauses (i) - (vi) above. Notwithstanding any territorial or other restrictions contained in this Agreement, the parties hereto acknowledge that the distribution of the Channels in Puerto Rico in the Spanish language via DirecTV Latin America, LLC, so long as such distribution is conducted solely in Puerto Rico in Spanish via DTH, shall not be deemed to violate any such territorial restrictions. Notwithstanding any territorial or other restrictions contained in this Agreement, Branded Company Produced Programming and Branded Company Format Programming produced for the Playboy Lifestyle Business may only be exploited in the US Lifestyle Territory with the written consent of PEGI, such consent not to be unreasonably withheld.

2.7 Feasibility Study. The Playboy Lifestyle Companies shall conduct and complete a feasibility study (the "Feasibility Study") within twenty one (21) months of this Agreement, to determine the feasibility and economic benefit of creating a Playboy Lifestyle Channel USA in both the English and Spanish languages in the US Lifestyle Territory. The cost incurred by the Playboy Lifestyle Companies to complete or cause the Feasibility Study to be completed shall be financed by the proceeds of the Playboy Lifestyle Note and shall not exceed Five Hundred Thousand Dollars (U.S.$500,000). If the costs incurred for the completion of the Feasibility Study are less than U.S.$200,000, PEI shall have the right to reject the Feasibility Study to serve as the basis for Claxson to make the Claxson Offer (as defined below). The Playboy Lifestyle Companies shall actively seek input from and provide updates for each stage of the Feasibility Study to representatives of each of Claxson and PEI. Upon completion of the Feasibility Study, the Playboy Lifestyle Companies shall furnish a copy of the Feasibility Study to Claxson and PEI.

2.8 Option to Develop the Playboy Lifestyle Channel USA in the US Lifestyle Territory.

2.8.1 On or prior to the date that is ninety (90) days after the completion of the Feasibility Study, Claxson may, in its sole and discretionary option, offer to PEI a written proposal for the creation, including a suggested time frame for the launch, of the Playboy Lifestyle Channel USA in the US Lifestyle Territory which shall not exceed 12 months from the US Option Confirmation (the "Claxson Offer"). If Claxson fails or refuses to make a timely Claxson Offer, all of the terms and conditions related to the US Lifestyle Territory shall be null and void and of no further effect and PEI shall have no further obligations with respect to the Playboy Lifestyle Channel USA in the US Lifestyle Territory including PEI's and its Subsidiaries non compete obligations set forth in Section 14.3.1, provided, however, that Claxson shall be bound by the non compete obligations regarding the Lifestyle Linear Television Business in the US Lifestyle Territory set forth in Sections 14.3.2 and 14.3.4. If Claxson makes a timely Claxson Offer to PEI, PEI shall have ninety (90) days to, in writing, accept, reject or provide comments and modifications in good faith to the Claxson Offer (the "PEI Reply"). If PEI accepts the Claxson Offer it will be deemed as a "US Option Confirmation". If PEI rejects the Claxson Offer or fails or refuses to make a timely PEI Reply it will be deemed as a rejection ("PEI Rejection") and PEI and its Subsidiaries shall be bound by the non compete obligations regarding the Lifestyle Linear Television Business in the US Lifestyle Territory set forth in Sections 14.3.3 and 14.3.4. If PEI provides Claxson with a timely PEI Reply other than a US Option Confirmation, the parties shall have an additional thirty (30) days to meet, confer and agree to the terms and conditions of the Claxson Offer as modified by the PEI Reply and as further negotiated by the parties in such 30-day period. If Claxson fails or refuses to meet and confer with PEI during such 30-day period, all of the terms and conditions related to the US Lifestyle Territory shall be null and void and of no further effect and PEI shall have no further obligations with respect to the Playboy Lifestyle Channel USA in the US Lifestyle Territory including PEI's and its Subsidiaries non compete obligations set forth in Section 14.3.1, provided, however, that Claxson shall be bound by the non compete obligations regarding the Lifestyle Linear Television Business in the US Lifestyle Territory set forth in Sections 14.3.2 and 14.3.4. If the parties can not agree on the terms and conditions during such thirty (30) day period, the parties shall continue their discussions in good faith for a period of 180 days (the "Mediation Period") with the participation of a non-binding mediator appointed by the parties who will work in mediating and resolving the differences for the launch and development of the Playboy Lifestyle Channel USA in the US Lifestyle Territory. Unless the parties otherwise agree, Fred Vierra shall act as the mediator. If Claxson fails or refuses to participate during the Mediation Period, all of the terms and conditions related to the US Lifestyle Territory shall be null and void and of no further effect and PEI shall have no further obligations with respect to the Playboy Lifestyle Channel USA in the US Lifestyle Territory including PEI's and its Subsidiaries non compete obligations set forth in Section 14.3.1, provided, however, that Claxson shall be bound by the non compete obligations regarding the Lifestyle Linear Television Business in the US Lifestyle Territory set forth in Sections 14.3.2 and 14.3.4. If during the Mediation Period the parties agree to the terms and conditions for the creation, including a suggested time frame for the launch, of the Playboy Lifestyle Channel USA in the US Lifestyle Territory, it will be deemed a "US Option Confirmation." If after the expiration of the Mediation Period, the parties have not reached an agreement for the launch and development of the Playboy Lifestyle Channel USA in the US Lifestyle Territory it will be deemed a rejection by PEI to launch the Playboy Lifestyle Channel USA in the US Lifestyle Territory ("PEI Second Rejection"), and PEI and its Subsidiaries shall be bound by the non-competition provisions related to the Lifestyle Linear Television Business in the US Lifestyle Territory set forth in Sections 14.3.3 and 14.3.4 ("Playboy Lifestyle Channel USA Non-Competition"). If the parties reach an agreement on the terms and conditions for the launch and development of the Playboy Lifestyle Channel USA in the US Lifestyle Territory, including an estimated time schedule for the launch of the channel, the parties shall be bound by the non-competition provisions related to the Lifestyle Linear Television Business in the US Lifestyle Territory set forth in Section 14.3. The period from the date of this Agreement until the expiration of the Mediation Period shall be hereinafter referred to as the "US Option Period".

2.8.2 Notwithstanding the above, during the period of discussion of the Feasibility Study and the negotiation of the Claxson Offer, PEI and Claxson agree to consult on the potential development and expansion of the Playboy Lifestyle Channel USA into other forms of media, other than the Playboy Lifestyle Channel USA, including other forms of non-linear television, on-line and wireless media distribution.

2.9 On-line Internet Rights Good Faith Negotiation. Except with respect to the US Lifestyle Territory, PEI and Claxson agree to negotiate in good faith, for a period of 180 days following the date of this Agreement, to determine reasonable terms and conditions, for the extension of the distribution of the Adult Oriented Television Business and the Playboy Lifestyle Business (which for purposes of the Playboy Lifestyle Business shall include a 6% license fee calculated based on the gross annual revenues earned and actually collected by the Playboy Lifestyle Companies for the applicable business), for on-line Internet rights, including Streaming, in the Territory other than Brazil.

2.10 Playboy Lifestyle Rights of Good Faith Negotiation. If PEI or any of its Affiliates determines to extend the Playboy Lifestyle Business or a competing business into any territory outside of the Territory other than the United States and its territories and possessions which are subject to Section 2.8, PEI agrees to negotiate in good faith with Claxson to determine reasonable terms and conditions, for the participation of Claxson or its Affiliates in the extension of the distribution of the Playboy Lifestyle Business into such territory.

ARTICLE III
CAPITAL CONTRIBUTIONS

3.1 Capital Contribution. Each Member has contributed the amounts set forth on Exhibit A. Exhibit A shall be revised to reflect any additional contributions contributed in accordance with Section 3.3. Notwithstanding anything to the contrary contained herein, the parties agree and acknowledge that the Venus Contribution shall have no impact on the Capital Accounts of Lifford and PEGI.

3.2 Additional Capital Contributions. No Member shall be required to make any additional Capital Contributions.

3.3 Optional Capital Contributions. The Management Committee may reasonably determine in good faith from time to time, that additional Capital Contributions from the Members (each, an "Optional Capital Contribution") are necessary or appropriate for the conduct of the Company's business, including without limitation, expansion or diversification thereof. Upon the Management Committee making such a determination, the Company shall provide written notice of such request for additional Capital Contributions (a "Capital Call") to each Member not less than thirty (30) days prior to the date such Optional Capital Contributions are due (the "Capital Call Due Date"). Such notice shall set forth the aggregate amount of the Capital Call, the purposes for which such Capital Contributions will be used and the date on which Optional Capital Contributions are due. No Member shall be obligated to make any such Capital Contributions. However, each Member shall have the opportunity, but not the obligation, to participate in a Capital Call on a pro rata basis in accordance with its Percentage Interest by making an Optional Capital Contribution. In addition, a Member may elect to make its Optional Capital Contribution conditional (a "Conditional Capital Contribution") upon the other Members making their respective Optional Capital Contributions, in which event such Conditional Capital Contribution shall be deemed made, if at all, only at such time as the other Members make their respective Optional Capital Contributions. If a Member elects to make a Conditional Capital Contribution and the other Members decline or fail to make their respective Optional Capital Contributions, then the Company shall immediately return the Conditional Capital Contribution to the Member making such Conditional Capital

Contribution and such Conditional Capital Contribution shall be deemed never to have been made. Immediately following any Optional Capital Contribution by a Member, the Percentage Interests shall be adjusted to reflect the new relative

proportions of the Capital Accounts of the Members. Each of Lifford and PEGI will have the right, by written notice to the General Manager and the other Members at least five (5) business days prior to the Capital Call Due Date, to fund its Optional Capital Contributions through retention by the Company of the fees payable under the Related Documents then accrued, to the extent sufficient to cover such requirements, subject to the timely review and approval of the other Members of the offset amount.

3.3.1 If a Member (a "Non-Contributing Member") does not make an Optional Capital Contribution equal to its pro rata share of the Capital Call by the Capital Call Due Date, the Company shall notify each Member that made an Optional Capital Contribution equal to its pro rata share of such Capital Call (each, a "Fully-Participating Member") that such Fully-Participating Member may, within the fourteen (14) day period from the date of such notice, increase its Optional Capital Contribution to the Company to cover amounts that the Non-Contributing Member declined to contribute on a pro rata basis, in which case the Percentage Interests of the Members shall be adjusted to reflect the new relative proportions of the Capital Accounts of the Members.

3.3.2 Until the full payment or acceleration of all Obligations (as defined in the Playboy Lifestyle Note) under the Playboy Lifestyle Note, the Members of the Company (other than Lifford or its Affiliates who are then Members of the Company) shall have the option to make an additional Capital Contribution in an amount equal to the number obtained by multiplying the aggregate amount of such Members' Percentage Interest by the quotient obtained by dividing the sum of the outstanding amount of principal and interest then outstanding under the Playboy Lifestyle Note by Lifford's (or its Affiliates who are then Members of the Company) Percentage Interest (the "Playboy Lifestyle Capital Contribution"). This option may only be exercised if all of the Members of the Company (other than Lifford or its Affiliates who are then Members of the Company) agree to make the Playboy Lifestyle Capital Contribution. If this option is exercised (i) the Company shall immediately contribute the amount of the Playboy Lifestyle Capital Contribution to the Playboy Lifestyle Companies and (ii) Lifford (or its Affiliates who are then Members of the Company) shall be deemed to have made a Playboy Lifestyle Capital Contribution in the amount of principal and interest outstanding under the Playboy Lifestyle Note and the loan evidenced by the Playboy Lifestyle Note shall be capitalized and converted into Membership Interests which for the avoidance of doubt shall result in no change in the respective Member's Percentage Interest. For purposes of illustration only, if $81.00 in principal and simple interest is owed under the Playboy Lifestyle Note and Lifford's Percentage Interest is 81% and PEGI's Percentage Interest is 19% and the Members agree to make the Playboy Lifestyle Capital Contribution, then PEGI will be required to make a Capital Contribution of $19.00 to the Company and in exchange for the capitalization of the Playboy Lifestyle Note, Lifford will be deemed to have made a Capital Contribution of $81.00 through the surrender and capitalization of the loan under the Playboy Lifestyle Note for the same amount and as a result, no change in the respective Member's Percentage interest will occur. (i.e., .19 x ($81/.81) = $19). For clarification purposes, pursuant to Section 8 of the Playboy Lifestyle Note, upon the exercise of the option to make the Playboy Lifestyle Capital Contribution, the total amount of interest accrued under the Playboy Lifestyle Note, whether paid or unpaid, shall be recalculated as simple interest, without compounding.

3.4 Capital Accounts. The Company has established an individual Capital Account for each Member in accordance with Article 1 of Exhibit B hereto. If a Member transfers all or a part of its Membership Interest in accordance with this Agreement, such Member's Capital Account attributable to the transferred Membership Interest shall carry over to the new owner of such Membership Interest pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(l). Each Member's Capital Account as of the date hereof is set forth in Exhibit A hereto.

3.5 No Interest. No Member shall be entitled to receive any interest on its Capital Contributions.

3.6 Iberia Agreements. The parties acknowledge that Playboy TV UK Limited, a wholly owned subsidiary of PEGI ("PTV UK") has entered into certain agreements through Desarrollos Tecnicos Multimedia s.l. ("DTM"), relating to the

distribution of Private Spice and The Adult Channel in Iberia (the "DTM Arrangement"). The parties agree and acknowledge that, notwithstanding anything to the contrary contained in the Agreement, PEGI shall have the right to modify the DTM Arrangement and enter into other arrangements, in its own right or through its Affiliates or agents, to distribute Private Spice in Iberia, as determined by PEGI in its sole and absolute discretion from time to time, including but not limited to via DTH (together with the DTM Arrangement, the "Iberia Arrangements"). The parties hereby agree that PEGI shall pay over to the Company fifty percent (50%) of the net revenues that it receives from the Iberia Arrangements, net of all payments due and payable to its agents relating to the Iberia Arrangement and any withholding required by applicable law, following the end of the applicable quarter. It is understood and agreed that the initial sales agent for distribution of Private Spice in Iberia other than the DTM Arrangement will be Imagen pursuant to the Sales Services Agreement.

ARTICLE IV
ALLOCATIONS OF NET INCOME AND NET LOSSES AND DISTRIBUTIONS

4.1 Allocations of Net Income and Net Loss. Net Income and Net Loss shall be allocated to the Members in accordance with Article 1 of Exhibit B.

4.2 Distribution of Distributable Cash by the Company. Subject to applicable law and any limitations contained elsewhere in this Agreement, the Management Committee shall cause the Company to distribute Distributable Cash on a quarterly basis to the Members, which distributions shall be made to the Members in proportion to their Percentage Interests as of the end of the relevant quarter.

4.3 Form of Distribution. Except as provided in Section 12.7, a Member, regardless of the nature of the Member's Capital Contribution, has no right to demand and receive any distribution from the Company in any form other than money. No Member may be compelled to accept from the Company a distribution of any asset in kind in lieu of a proportionate distribution of money being made to other Members. Except upon a dissolution and the winding up of the Company, no Member may be compelled to accept a distribution of any asset in kind.

4.4 Restriction on Distributions.

4.4.1 Restriction. No distribution shall be made if, after giving effect to the distribution:

(a) The Company would not be able to pay its debts as they become due in the usual course of business.

(b) The Company's total assets would be less than the sum of its total liabilities.

4.4.2 Method of Determination. The Management Committee may base a determination that a distribution is not prohibited on any of the following: (i) financial statements prepared on the basis of accounting practices and principles that are generally consistent with those used to prepare the Company's audited financial statements; (ii) a fair valuation; or (iii) any other method that is reasonable in the circumstances.

Except as provided in Section 17254(e) of the Corporations Code, the effect of a distribution is measured as of the date the distribution is authorized if the payment occurs within one hundred twenty (120) days after the date of authorization, or the date payment is made if it occurs more than one hundred twenty (120) days of the date of authorization.

4.4.3 Personal Liability. A Member or Manager who votes for a distribution in violation of this Agreement or the Act is personally liable to the Company for the amount of the distribution that exceeds what could have been distributed without violating this Agreement or the Act if it is established that the Member or Manager did not act in compliance with the terms of this Agreement. Any Member or Manager who is so liable shall be entitled to compel contribution from (a) each other Member or Manager who also is so liable and (b) each Member for the amount the Member received with knowledge of facts

indicating that the distribution was made in violation of this Agreement or the Act.

4.5 Return of Distributions. Except for distributions made in violation of the Act or this Agreement, no Member shall be obligated to return any distribution to the Company or pay the amount of any distribution for the account of the Company or to any creditor of the Company. The amount of any distribution returned to the Company by a Member or paid by a Member for the account of the Company or to a creditor of the Company shall be added to the account or accounts from which it was subtracted when it was distributed to the Member.

4.6 Withholding. Notwithstanding any other provision of this Agreement, the Management Committee is authorized to take any action that it determines to be necessary or appropriate to cause the Company to comply with any federal, state, local or foreign withholding requirement with respect to any payment, allocation or distribution by the Company to any Member or other person. Any amount withheld pursuant to the preceding sentence shall be treated as a distribution to the Member to which such amount would have been distributed under this Agreement but for the withholding. If any such withholding requirement with respect to any Member exceeds the amount distributable to such Member under this Agreement, or if any such withholding requirement was not satisfied with respect to any item previously paid, allocated or distributed to such Member, such Member or any successor or assignee with respect to such Member's interest hereby indemnifies and agrees to hold harmless the other Members and the Company for such excess amount or such unsatisfied withholding requirement, as the case may be, and any penalties assessed on such amounts.

ARTICLE V
MANAGEMENT AND CONTROL OF THE COMPANY

5.1 The Management Committee.

5.1.1 General Scope of Authority. The business and affairs of the Company shall be managed by a management committee of the Company (the "Management Committee") appointed and constituted in the manner provided in Section 5.2 hereof. The Management Committee shall be responsible for all aspects of the operations and development of the Company and, except as otherwise expressly provided for in this Agreement, the Management Committee shall have exclusive authority and full discretion with respect to the management of the business of the Company and shall have the exclusive right, power and authority to cause the Company to do, or cause to be done, all acts and actions which in its sole judgment are necessary, proper, convenient or desirable in order to operate and conduct the business of the Company and to carry out and fulfill the purposes of the Company.

5.1.2 Veto Rights. Notwithstanding anything to the contrary contained in this Agreement: (i) the Lifford Managers may (so long as Lifford or any of its Affiliates is a Manager) and the PEGI Managers may (so long as PEGI or any of its Affiliates is a Manager) veto any decision of the

Management Committee to perform, or cause the Company to perform, any of the acts or transactions described in subsections (d) and (h) below; and (ii) the Lifford Managers may (so long as Lifford and its Affiliates hold, in aggregate, Percentage Interests equal to at least 10%) and the PEGI Managers may (so long as PEGI and its Affiliates hold, in aggregate, Percentage Interests equal to at least 10%) veto any decision of the Management Committee to perform, or cause the Company to perform, any of the following acts or transactions:

(a) any material change in the basic business of the Company as defined in Section 2.6;

(b) any material acquisition or sale by the Company of any business (whether by asset purchase, stock purchase, merger or other business combination);

(c) any borrowing by the Company or making or guaranteeing loans by the Company or incurrence or guaranteeing of obligations of others by the

Company in the aggregate at any time exceeding the lesser of (i) one times EBITDA of the Company for the most recent Fiscal Year or (ii) $5.0 million; provided, however, that the Company may not pledge, transfer, assign or otherwise encumber its rights under any agreements with PEI (or its Affiliates), including without limitation, any of the Related Documents, in connection with the foregoing;

(d) the sale of all or substantially all of the assets of the Company or the merger, consolidation or reorganization of the Company with or into another Person;

(e) the acceptance of any additional capital other than Optional Capital Contributions or Playboy Lifestyle Capital Contributions from any Member pursuant to Section 3.3;

(f) the issuance of Membership Interests except in connection with an Optional Capital Contribution or a Playboy Lifestyle Capital Contribution for a Member pursuant to Section 3.3;

(g) other than pursuant to the Related Documents, transactions with any Member or any Affiliate of any Member;

(h) commencement by the Company of a voluntary case under the Bankruptcy Code or any applicable bankruptcy, insolvency or other similar law now or hereafter in effect; or consent by the Company to the entry of an order for relief in an involuntary case, or to the conversion of an involuntary case to a voluntary case under any such law; or consent by the Company to the appointment of or taking of possession by a receiver, trustee or other custodian for all or substantially all of its property; or making by the Company of a general assignment for the benefit of creditors;

(i) any amendment, modification or waiver relating to a Related Document;

(j) any distribution by the Company on the Membership Interests other than distributions of Distributable Cash;

(k) loans by the Company to any Member or any Affiliate of any Member;

(l) the selection or replacement of the Company's accountants if the selected or replacement accountants are not one of the following firms: PricewaterhouseCoopers, LLP, KPMG, LLP, Ernst & Young, LLP or Deloitte & Touche LLP or

(m) (i) filing any tax return or (ii) making any tax election or taking any position with respect to any examination audit or proceeding by a taxing authority that could have an adverse impact on any Member or the Company.

The PEGI Managers and the Lifford Managers shall cause the Company to enforce the veto rights set forth in this Section to apply to the Company's Subsidiaries.

5.2 Members of the Management Committee; Appointment and Removal; Voting.

5.2.1 For so long as Lifford (or its Affiliates) and PEGI (or its Affiliates) are the only Members, the Management Committee shall consist of five members, three representatives selected by Lifford (the "Lifford Managers") and two representatives selected by PEGI (the "PEGI Managers"). The number of Managers shall not be amended without the approval of both the Lifford and the PEGI Managers. No other Member shall have the right to appoint Managers. Each member of the Management Committee is referred to as a "Manager", and, collectively, as the "Managers". A Manager need not be a resident of the State of California or a citizen of the United States. To the fullest extent permitted by law, no Manager shall be deemed an agent or sub-agent of the Company. Each Member, by execution of this Agreement, agrees to, consents to, and acknowledges the delegation of powers and authority to such Managers and the Management Committee, and to the actions and decisions of such Managers and the Management

Committee within the scope of such Manager's and Management Committee's authority as provided herein. No Manager shall have the authority in his capacity as a Manager to enter into any transaction on behalf of the Company.

5.2.2 Each of Lifford and PEGI shall have the absolute and unconditional right from time to time to designate the Managers appointed by it by delivery of written notice to the Members. A Manager may be removed with or without cause at the sole discretion of the Member that appointed that Manager by delivery of written notice to the other Members. A vacancy on the Management Committee may only be filled by the Member that originally appointed the Manager whose death, disability, removal or resignation created such vacancy. Each of Lifford and PEGI shall also have the right to appoint alternates to each Manager by designating the name of such alternates in a written notice to the other Members. In case of the absence of a Manager, any individual designated as an alternate for that Manager shall have the right and power to exercise all rights and powers of the absent Manager.

5.2.3 The current Lifford Managers and PEGI Managers will serve on the Management Committee until their death, disability, removal or resignation.

5.2.4 Except as provided in Section 5.1.2 or as otherwise specifically provided in this Agreement, the affirmative vote of Managers holding the Majority Interests shall be required for any decision or approval of the Management Committee or to cause the Company to engage in any act or transaction. The Managers shall have voting power in proportion to the ratio of Percentage Interests held by the Member appointing them. All Managers appointed by a Member will collectively exercise such voting power and each Member entitled to designate Managers will designate one Manager to vote on behalf of all Managers appointed by such Member in the event of a disagreement among the Managers appointed by such Member.

5.3 Meetings of the Management Committee.

5.3.1 Regular quarterly meetings of the Management Committee shall be held without call or notice at such time as shall from time to time be fixed by standing resolution of the Management Committee. Special meetings of the Management Committee may be held at any time whenever called by any Manager. Written Notice of a special meeting of the Management Committee shall be given to the

other Managers by the Manager calling the meeting at least seventy-two (72) hours before such special meeting.

5.3.2 All meetings of the Management Committee shall be held at such location as the Management Committee shall agree by majority vote; provided, however, at least one (1) meeting per year shall be held in Miami or Los Angeles as the Management Committee shall agree by majority vote. The presence of at least one Lifford Manager and at least one PEGI Manager at a duly noticed meeting of the Management Committee shall constitute a quorum for the transaction of business; provided, however, that with respect to the taking of any action for which the vote of any Managers may be excluded or any matter for which a unanimous vote is required to take action (e.g., pursuant to Section 5.1.2), the presence of at least one Manager appointed by each Member whose Managers are entitled to vote on such action shall constitute a quorum for purpose of taking such action. Managers may participate in a meeting through the use of conference telephone or similar communications equipment, and such Managers shall be considered present in person as long as all Managers participating in such meeting can hear one another.

5.3.3 Every act of the Management Committee taken at any meeting of the Management Committee, however called and noticed or wherever held, shall be as valid as though made or performed at a meeting duly held after regular call and notice, if a quorum is present and if, either before or after the meeting, each of the Managers not present or who, though present, has prior to the meeting or at its commencement, protested the lack of proper notice to such Manager, signs a written waiver of notice or a written consent to holding such meeting or approval of the minutes thereof.

5.3.4 Any action required or permitted to be taken at any meeting of the Management Committee may be taken without a meeting if one Lifford Manager and one PEGI Manager consent thereto in writing, and the writing is filed with the minutes of proceedings of the Management Committee.

5.4 Delegation of Authority; General Manager and Other Officers.

5.4.1 General Power to Delegate Authority. The Management Committee may delegate the right, power and authority to manage the day-to-day business, affairs, operations and activities of the Company to any officer of the Company or Management Co. pursuant to the Management Services Agreement, or to any other Person with the prior approval of the PEGI Managers, subject to the ultimate direction, control and supervision of the Management Committee; provided, however, that no officer or other Person, including without limitation Management Co., shall be authorized to take any action or engage in any activity where unanimous approval of the Management Committee is required or where the approval of a specified Person is required, without first obtaining the required approvals.

5.4.2 The General Manager. The Members intend that the Management Committee delegate the management of the day-to-day business, affairs, operations and activities of the Company to a general manager (the "General Manager"). Subject to the supervisory powers of the Management Committee, the General Manager shall have general and active management of the business of the Company and shall see that all orders and resolutions of the Management Committee are carried into effect. The General Manager shall have the power to execute any agreements and instruments on behalf of the Company, except where the execution thereof shall be expressly reserved by the Management Committee or delegated by the Management Committee to some other officer or agent of the Company. The General Manager shall have such other powers and duties as may be prescribed by the Management Committee or this Agreement.

5.4.3 Duties of the General Manager. Unless and until any of the following duties are delegated to another officer by the Management Committee, the General Manager shall:

(a) attend all meetings of the Management Committee and all meetings of the Members, unless directed not to do so by the Management Committee, and record all the proceedings of the meetings in a book to be kept for that purpose;

(b) give, or cause to be given, notice of all special meetings of the Management Committee and all meetings of the Members;

(c) keep, or cause to be kept, at the principal executive office, a register, or a duplicate register, showing the names of all Members and their addresses, their Percentage Interests, and all documents described in this Agreement or required under the Act to be maintained at the principal executive office of the Company;

(d) keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the Company, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, Membership Interests and Economic Interests, which books of account shall at all reasonable times be open to inspection by any Manager or his/her representatives;

(e) have or supervise the custody of the funds and securities of the Company, keep or cause to be kept full and accurate accounts of receipts and disbursements in books belonging to the Company, and deposit or cause to be deposited all monies and other valuable effects in the name and to the credit of the Company in such depositories as may be designated by the Management Committee;

(f) disburse or cause to be disbursed the funds of the Company as may be ordered by the Management Committee, taking proper vouchers for such disbursements, and render to the Management Committee, at their regular meetings, or when Members so require, at a meeting of the Members, an account of

the financial condition of the Company; and

(g) prepare or cause to be prepared the various financial statements and reports required to be delivered to the Members in this Agreement.

5.4.4 Additional Officers. The Company may have such other officers with such powers and duties as the Management Committee shall determine from time to time.

5.4.5 Officers Serve at the Pleasure of the Management Committee. Subject to whatever rights an officer may have under a contract of employment with the Company, all officers of the Company shall serve at the pleasure of the Management Committee. Other than the renewal on substantially similar terms of the employment agreement of an officer, including, but not limited to the General Manager, of the Company (a "Renewal"), the Company shall not enter into any new employment agreement or amend any existing employment agreement with an officer of the Company, including, but not limited to, the General Manager, without the prior approval of the PEGI Managers during any of the following time periods: (i) the period of time commencing upon the receipt of an Offer Notification from Lifford pursuant to Section 9.3 hereof and expiring on the later of (a) the date that PEGI may no longer exercise its right of first offer or (b) the date of closing on PEGI's purchase of the additional Membership Interests pursuant to such right of first offer; (ii) the period of time commencing upon the receipt of a Third-Party Transfer Notice pursuant to Section 9.4 hereof and expiring on the later of (a) the date that PEGI may no longer exercise its right of first refusal of (b) the date of closing on PEGI's purchase of the additional Membership Interests pursuant to such right of first refusal; and (iii) the period of time

commencing upon PEGI's notice that it is exercising its buy-up option pursuant to Section 9.8 hereof and expiring upon the closing of PEGI's purchase of additional Membership Interests pursuant to such buy-up option; provided, however, that any Renewal during any such time periods shall not be for a term extending beyond the end of such time periods and shall not result in the Company being subject to any liabilities with respect to such officer after the end of such time periods.

5.5 Interested Party Transactions.

5.5.1 Approval. Except for transactions provided in the Related Documents, the Company shall only engage in a transaction with a Member or any Affiliate of a Member if the transaction is on terms and conditions fair and reasonable to the Company and at least as favorable to the Company as those generally available in a similar transaction between parties operating at arm's length and is approved by the Management Committee. A transaction shall conclusively be deemed to have met the above requirements if, after full disclosure, the transaction is unanimously approved by the Management Committee. In addition, any transaction between the Company and any member of the Cisneros Group, for so long as any such member directly or indirectly holds an interest in Claxson, shall be subject to the approval of the PEGI Managers. Each Member agrees to disclose to the Management Committee the nature and extent of the interest of such Member and its Affiliates in any transaction to be acted on by the Management Committee pursuant to this Section 5.5.1 prior to such action. Subject to applicable law, if a Member or an Affiliate thereof engages in a transaction with the Company, such Member and/or such Affiliate shall have the same rights and obligations with respect thereto as a Person who is not a Member.

5.5.2 Termination and Remedies. With respect to any contract between the Company and a Member or any Affiliate of a Member, including but not limited to every Related Document, the Managers appointed by the Members independent of such contract shall have the right, acting by majority vote, to determine what actions, if any, should be taken upon the other party's default or non-performance and to cause the Company to exercise any and all remedies it may have under such contract or applicable law, including without limitation, the termination of such contract.

5.5.3 Priority of Payments. Except for payments to be made pursuant

to the Playboy Lifestyle Note, to the extent such note has not been capitalized pursuant to Section 3.3.2, the General Manager and the Management Committee shall cause any payments made to Lifford and its Affiliates to be made pari passu with payments to be made to PEGI and its Affiliates.

5.6 Performance of Duties; Liability of Managers.

5.6.1 Standards. A Manager shall not be liable to the Company or to any Member for any loss or damage sustained by the Company or any Member, unless the loss or damage shall have been the result of fraud, deceit, gross negligence, reckless or intentional misconduct, or a knowing violation of law by the Manager. The Managers shall perform their managerial duties in good faith, in a manner they reasonably believe to be in the best interests of the Company and its Members, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances. A Manager who so performs the duties of Manager shall not have any liability by reason of being or having been a Manager of the Company.

5.7 Management Company. The Members intend that the General Manager delegate certain of the day-to-day operational and financial responsibilities of the Company to Management Co., subject to the terms and conditions of the Management Services Agreement. Such services shall be rendered under the supervision of the General Manager and, as set forth in the Management Services Agreement, shall include, without limitation, the following services: financial management, payroll services and

accounting; collections and accounts payable; facilities acquisition and management; and management of day to day business and legal affairs.

5.8 Insurance. The Members shall cause the Company to secure errors and omissions and other customary liability insurance for the Company covering exhibitions of programming by the Company, which insurance policies shall meet Claxson's customary standards, and liability and other insurance covering the activities of the Company consistent with good business customs and practices in the Territory and the other locations in which the Company conducts business. All insurance policies shall name each Member and their respective Affiliates as named insureds.

ARTICLE VI
BUSINESS PLANS AND ANNUAL BUDGETS

6.1 The Business Plan.

6.1.1 The Business Plan. The Management Committee and the General Manager shall conduct the business of the Company in accordance with the three year Business Plans and the Annual Budgets (each as defined below), as adjusted from time to time by the Management Committee. The financial model for the operation of the Company and the Channels, as annually updated pursuant to Section 6.1.2, is the "Business Plan."

6.1.2 Additions to Business Plan. The Business Plan shall be updated annually by the Management Committee not later than sixty (60) days prior to the conclusion of the then current Fiscal Year and each Business Plan so adopted shall cover the next three (3) consecutive Fiscal Years.

6.2 Annual Budgets. The annual update to the Business Plan shall include a budget for the coming Fiscal Year (the "Annual Budget"). The General Manager will prepare the Annual Budget and present it to the Management Committee for approval at least sixty (60) days prior to commencement of the applicable Fiscal Year. The approved Annual Budget for a given Fiscal Year will supersede the data contained in the Business Plan for that Fiscal Year.

6.2.1 Adjustment to Annual Budget. Beginning January 1, 2003 and ending December 31, 2003, the Company shall spend one million dollars ($1,000,000) to produce Company Produced Programming (the "Company Produced Programming Budget") and shall spend one million two hundred thousand dollars ($1,200,000) for marketing purposes (the "Marketing Budget") for the Channels in each case not including any amounts spent on the Playboy Lifestyle Programming

Service. For each subsequent Fiscal Year during the term of the Program Supply Agreement, the Company shall spend the Company Produced Programming Budget and the Marketing Budget, each of which shall be adjusted each Fiscal Year by any change in the CPI. Notwithstanding the foregoing, pursuant to Section 9.2 of the Program Supply Agreement, in the event PEGI elects not to renew the Program Supply Agreement, Sections 6.2.1, 6.2.2 and 6.2.3 herein shall terminate on January 1, 2020. Subject to Section 6.2.3, the Company shall not spend less than the annual Marketing Budget and Company Produced Programming Budget for that Fiscal Year without the prior written approval of the PEGI Managers.

6.2.2 Required Local Programming Expenditures Allocations. In each of Fiscal Years 2004 through 2007, the Company shall spend at least seventy percent (70%) of the Company Produced Programming Budget to produce Branded Company Produced Programming and no more than thirty percent (30%) of the Company Produced Programming Budget to produce Unbranded Company Produced Programming. In each of Fiscal Years 2008 through 2022, the Company shall spend at least sixty percent (60%) of the Company Produced Programming Budget to produce Branded Company

Produced Programming and no more than forty percent (40%) of the Company Produced Programming Budget to produce Unbranded Company Produced Programming.

6.2.3 Adjustment to Company Produced Programming Budget and Marketing Budget. In the event that the Company would be unable to meet its obligations as they become due if it met its payment obligations to PEGI pursuant to the Program Supply Agreement (a "Shortfall"), the Management Committee, in its sole discretion, may reduce the amount of the annual Company Produced Programming Budget and annual Marketing Budget by an amount equal to the Shortfall in order to allow the Company to make such payments to PEGI (a "Required Expenditure Adjustment"); provided, however, except for payments required to be made pursuant to the Playboy Lifestyle Note, the Management Committee shall cause any payments made to PEGI or Lifford and their respective Affiliates or members of the Cisneros Group, thereafter to be reduced pari passu with such Required Expenditure Adjustment; provided, further, that if the cash flow provided from operations of the Company after any Required Expenditure Adjustment is sufficient to enable the Company to make all or any part of the annual Company Produced Programming Budget or annual Marketing Budget in effect prior to such Required Expenditure Adjustment, then the Company shall fund the maximum possible local Company Produced Programming Budget and Marketing Budget until such initial annual required Company Produced Programming Budget or annual Marketing Budget has been met. The Management Committee shall make no more than two (2) such Required Expenditure Adjustments during the Term.

ARTICLE VII
[INTENTIONALLY OMITTED]

ARTICLE VIII
MEMBERS

8.1 Limited Liability. Except as required under the Act or as expressly set forth in this Agreement, no Member shall be personally liable for any debt, obligation, or liability of the Company, whether that liability or obligation arises in contract, tort, or otherwise. In the event any Member becomes personally liable for any debt, obligation or liability of the Company arising from any action or approval of the Members or Management Committee taken without the approval of such Member or the Managers appointed by such Member where such approval is required under the terms hereof, then, in addition to any other rights set forth herein, the Members taking or who appointed the Managers taking such action shall indemnify and hold harmless such Member from and against any liability, loss, claim or damage, including but not limited to, reasonable attorneys fees and cost, arising from or relating to such action.

8.2 Admission of Additional Members. Subject to Sections 5.1.2 and 9.2, the Management Committee may admit to the Company additional Members. Any additional Members shall obtain Membership Interests and will participate in the management, Net Income, Net Losses, and distributions of the Company on such terms as are determined by the Management Committee.

8.3 Withdrawals or Resignations. No Member may withdraw or resign from the Company.

8.4 Termination of Membership Interest. Upon the transfer of a Member's Membership Interest in violation of this Agreement or the occurrence of a Withdrawal Dissolution Event as to such Member that does not result in the dissolution of the Company, the Membership Interest of a Member shall be terminated by the Managers designated by the other Members or such Membership Interest shall be purchased by the Company or remaining Members as provided herein. Each Member acknowledges and agrees that such termination or purchase of a Membership Interest upon the occurrence of any of the foregoing events is not unreasonable under the circumstances existing as of the date hereof.

8.5 Remuneration To Members. Except as otherwise authorized in, or pursuant to, this Agreement, no Member is entitled to remuneration for acting in the Company business, subject to the entitlement of Managers or Members winding up the affairs of the Company to reasonable compensation.

8.6 Members Are Not Agents; No Management Authority. Pursuant to this Agreement and the Articles, the management of the Company is vested in the Management Committee. No Member, acting solely in the capacity of a Member, is an agent of the Company nor can any Member in such capacity bind nor execute any instrument on behalf of the Company. The Members shall have no power to participate in the management of the Company except as expressly authorized by this Agreement and except as expressly required by the Act.

8.7 Meetings of Members.

8.7.1 Date, Time and Place of Meetings of Members; Secretary. Meetings of Members may be held at such date, time and place within or without the State of California as the Management Committee may fix from time to time. No annual or regular meetings of Members is required. At any Members' meeting, the General Manager shall preside at the meeting and shall act as secretary of the meeting.

8.7.2 Power to Call Meetings. Unless otherwise prescribed by the Act, meetings of the Members may be called by the Management Committee acting by majority vote or by any Member or group of Members holding more than fifteen percent (15%) of the Percentage Interests for the purpose of addressing any matters on which the Members may vote.

8.7.3 Notice of Meeting. Written notice of a meeting of Members shall be sent or otherwise given to each Member not less than ten (10) nor more than sixty (60) days before the date of the meeting. The notice shall specify the place, date and hour of the meeting and the general nature of the business to be transacted. No other business may be transacted at such meeting without the consent of all Members. Upon written request to the General Manager by any Person entitled to call a meeting of Members, the General Manager shall immediately cause notice to be given to the Members entitled to vote that a meeting will be held at a time requested by the Person calling the meeting, not less than ten (10) days nor more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after the receipt of the request, the Person entitled to call the meeting may give the notice.

8.7.4 Manner of Giving Notice; Affidavit of Notice. Notice of any meeting of Members shall be given either personally or by first-class mail or telegraphic or other written communication, charges prepaid, addressed to the Member at the address of that Member appearing on the books of the Company or given by the Member to the Company for the purpose of notice.

8.7.5 Validity of Action. Any action approved at a meeting other than by unanimous approval of those entitled to vote, shall be valid only if the general nature of the proposal so approved was stated in the notice of meeting or in any written waiver of notice.

8.7.6 Quorum. The presence in person or by proxy of the holders of a Majority Interest shall constitute a quorum at a meeting of Members. The Members present at a duly called or held meeting at which a quorum is present may

continue to do business until adjournment, notwithstanding the loss of a quorum, if any action taken after loss of a quorum (other than adjournment) is approved by at least Members holding a Majority Interest.

8.7.7 Adjourned Meeting; Notice. Any Members' meeting, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the Membership Interests represented at that meeting, either in person or by proxy, but in the absence of a quorum, no other business may be transacted at that meeting, except as provided in Section 8.7.6. When any meeting of Members is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place are announced at a meeting at which the adjournment is taken, unless a new record date for the adjourned meeting is subsequently fixed, or unless the adjournment is for more than forty-five (45) days from the date set for the original meeting, in which case the Managers shall set a new record date. At any adjourned meeting the Company may transact any business that might have been transacted at the original meeting.

8.7.8 Waiver of Notice or Consent. The actions taken at any meeting of Members however called and noticed, and wherever held, have the same validity as if taken at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, each of the Members entitled to vote, who was not present in person or by proxy, signs a written waiver of notice or consents to the holding of the meeting or approves the minutes of the meeting. All such waivers, consents or approvals shall be filed with the Company records or made a part of the minutes of the meeting.

Attendance of a Member or its representative at a meeting shall constitute a waiver of notice of that meeting, except when the Member or such representative objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters not included in the notice of the meeting if that objection is expressly made at the meeting. Neither the business to be transacted nor the purpose of any meeting of Members need be specified in any written waiver of notice.

8.7.9 Action by Written Consent Without a Meeting. Any action that may be taken at a meeting of Members may be taken without a meeting, if a consent in writing setting forth the action so taken, is signed and delivered to the Company within sixty (60) days of the record date for that action by Members having not less than the minimum number of votes that would be necessary to authorize or take that action at a meeting at which all Members entitled to vote on that action at a meeting were present and voted. All such consents shall be filed with the General Manager and shall be maintained in the Company records. Any Member giving a written consent, or the Member's proxy holders, may revoke the consent by a writing received by the General Manager before written consents of the number of votes required to authorize the proposed action have been filed.

Unless the consents of all Members entitled to vote have been solicited in writing, notice of any Member approval without a meeting by less than unanimous written consent, shall be given at least ten (10) days before the consummation of the action authorized by such approval to those Members entitled to vote who have not consented in writing.

8.7.10 Telephonic Participation by Member at Meetings. Members may participate in any Members' meeting through the use of any means of conference telephones or similar communications equipment as long as all Members participating can hear one another. A Member so participating is deemed to be present in person at the meeting.

8.7.11 Record Date.

(a) Fixed By Managers or Members. To enable the Company to determine the Members of record entitled to notices of any meeting or to vote, or entitled to receive any distribution or

to exercise any rights in respect of any distribution or to exercise any rights in respect of any other lawful action, the Management Committee or Members representing more than fifteen percent (15%) of the Percentage Interests, may fix, in advance, a record date, that is not more than sixty (60) days nor less than ten (10) days prior to the date of the meeting and not more than sixty (60) days prior to any other action.

(b) If Not Fixed. If no record date is fixed, the record date for determining Members entitled to notice of or to vote at a meeting of Members shall be at the close of business on the business day preceding the day on which notice is given or, if notice is waived, at the close of business on the business day preceding the day on which the meeting is held. The record date for determining Members entitled to give consent to Company action in writing without a meeting shall be the day on which the first written consent is given. The record date for determining Members for any other purpose shall be at the close of business on the day on which the Management Committee adopts the resolution relating thereto, or the sixtieth (60th) day prior to the date of the other action, whichever is later.

8.7.12 Proxies. Every Member entitled to vote on any matter shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the General Manager. A proxy shall be deemed signed if the Member's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission, electronic transmission or otherwise) by the Member or the Member's attorney in fact. A proxy may be transmitted by an oral telephonic transmission if it is submitted with information from which it may be determined that the proxy was authorized by the Member or the Member's attorney in fact. A validly executed proxy that does not state that it is irrevocable shall continue in full force and effect unless revoked by the Person executing it, before the vote pursuant to that proxy, by a writing delivered to the General Manager stating that the proxy is revoked, or by a subsequent proxy executed by, or attendance at the meeting and voting in person by, the Person executing the proxy; provided, however, that no proxy shall be valid after the expiration of eleven (11) months from the date of the proxy, unless otherwise provided in the proxy. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Corporations Code Sections 705(e) and 705(f) or any successor provisions.

ARTICLE IX
TRANSFER AND ASSIGNMENT OF INTERESTS

9.1 Transfer and Assignment of Interests. No Member shall be entitled to transfer, assign, sell, encumber or in any way alienate or dispose of (each, a "Transfer"), including to an Affiliate, all or any portion of its Membership Interest if such Transfer: (i) is to a party which is materially less creditworthy than the transferring Member (taking into account the obligations of such transferring Member's Affiliates under this Agreement and the Related Documents); or, (ii) would cause the termination or dissolution of the Company. Notwithstanding the foregoing, a Member shall be entitled to pledge all of such Member's Membership Interest as collateral as part of a blanket pledge of all of such Member's assets to a financial institution. Transfers in violation of this Article 9 shall be null and void and the transferee shall have no right to vote or participate in the management of the business, property and affairs of the Company, to exercise any rights of a Member or to receive the share of one or more of the Company's Net Income, Net Losses and distributions of the Company's assets to which the transferor would otherwise be entitled. After the consummation of any transfer of any part of a Membership Interest, the Membership Interest so transferred shall continue to be subject to the terms and provisions of this Agreement and any further transfers shall be required to comply with all the terms and provisions of this Agreement. If the secured party receiving a pledge of an Economic Interest of a Member forecloses on such Economic Interest, such Person shall not be admitted as a Member, shall not be entitled to further transfer or otherwise dispose of such Economic Interest without the approval of the Members and shall have no rights of a Member other than the right to receive the share of one or more of the Company's Net

Income, Net Losses and distributions of the Company's assets to which the pledging Member would otherwise be entitled.

9.2 Further Restrictions on Transfer of Interests. In addition to other restrictions found in this Agreement, no Member shall Transfer all or any part of its Membership Interest: (a) without compliance with Section 15.1.9, and (b) if the Membership Interest to be transferred, assigned, sold or exchanged, when added to the total of all other Membership Interests sold or exchanged in the preceding twelve (12) consecutive months prior thereto, would cause the termination of the Company under the Code, as determined by the Managers. Notwithstanding anything to the contrary contained in this Agreement, Lifford (nor any of its respective Affiliates which may hold Membership Interests, collectively) shall not Transfer any Membership Interest to any of the Persons set forth on Exhibit E or any of such Persons' Affiliates, successors or assigns.

9.3 Right of First Offer. In addition to other restrictions found in this Agreement, in the event any Member (such Member being herein referred to as the "Selling Member"), desires to Transfer any of its Membership Interest to any Person which is not an Affiliate of such Selling Member, and, in the case of Lifford, any member of the Cisneros Group (a "Third Party Buyer"), such Selling Member must first make a bona fide offer in good faith (including as to price and terms) to Transfer such Membership Interest to the other Members (such other Members being referred to as the "Member Offerees") on a pro rata basis and must Transfer such Membership Interest to any Member Offeree that accepts such offer as set forth below. In the event any such Selling Member desires to Transfer such offered Membership Interest, such Selling Member will notify in writing (the "Offer Notification") the Company and the Member Offerees of such desire setting forth the amount of the Membership Interest proposed to be Transferred and the proposed purchase price thereof (the "Offered Membership Interest") and other terms of the proposed sale (the "Terms"); provided, that the consideration must be in United States Dollars and must constitute a bona fide, good faith offer. For a period of thirty (30) days following the receipt of the Offer Notification, the Selling Member and the Member Offerees shall negotiate in good faith to agree upon a final purchase price and terms for the Offered Membership Interest (a "Negotiated Purchase Price"). If the Selling Member and the Member Offerees agree on a Negotiated Purchase Price, then the Member Offerees shall purchase the Offered Membership Interest at the Negotiated Purchase Price. If the Selling Member and the Member Offerees are unable in good faith to agree on a purchase price and terms, the Member Offerees shall have the right for a period of fifteen (15) days following the end of the thirty (30) day negotiation period, to elect to purchase all or any portion of its pro rata share of such Offered Membership Interest on the Terms originally set forth in the Offer Notification (the "Transfer Offer Period"). If the Member Offeree elects not to purchase the Offered Membership Interest prior to the termination of the forty-five (45) day period, such Member Offeree shall be deemed to have waived its right to purchase the Offered Membership Interest under this Section 9.3 (but not under any other section of this Agreement). If any Member Offeree desires to purchase such Offered Membership Interest, it will notify in writing (the "Purchase Notification") the Selling Member of such desire. In the event that any Member Offeree does not elect to purchase its full pro rata share of any such Offered Membership Interest, such unpurchased Offered Membership Interest will be offered by the Selling Member to the other Member Offerees (if any) subscribing to purchase the Offered Membership Interest on a pro rata basis for a period of fifteen (15) days commencing on the expiration of the Transfer Offer Period (the "Subsequent Transfer Offer Period"); provided, however, that if there is only one other Member, there shall be no Subsequent Transfer Offer Period. In the event that, after compliance with the foregoing provisions of this Section 9.3, the Member Offerees, taken together, fail to purchase all of the Offered Membership Interest, then (i) the Member Offerees shall have no right to purchase any of the Offered Membership Interest (other than pursuant to Section 9.4 or 9.8 below), and (ii) such Selling Member may offer to Transfer all of the Offered Membership Interest to any Person; provided, however, that any such Transfer must be made in accordance with the provisions set forth in Section 9.4 below. The closing of any purchase by the Member Offerees of any of the Offered Membership Interest as

provided in this Section 9.3 will take place at the offices of the Company on such date as designated by the Member Offerees occurring within fifteen (15) days after the expiration of the Subsequent Transfer Offer Period, or if there be none, the Transfer Offer Period. At such closing, the Member Offerees will be entitled to receive customary representations and warranties from the Selling Member regarding ownership and title of the Offered Membership Interest and the Company will evidence such Transfer on the books of the Company.

9.4 Right of First Refusal.

(a) Subject to, and after compliance with, the requirements set forth in Section 9.3 above, in the event any Selling Member desires to Transfer any of its Membership Interest to any Third Party Buyer who shall have made a written bona fide offer to purchase such Membership Interest, which, in the Selling Member's reasonable judgment, has a substantial likelihood of closing and is not subject to a financing or other material contingency other than applicable antitrust or similar clearances, provided, that such offer may be subject to a financing contingency if such offer is accompanied by financing commitments from institutions of national standing in the United States or other international institutions of comparable standing on usual and customary terms, the Selling Member will promptly furnish to the Company and all Member Offerees written notification (the "Third Party Transfer Notice") of such desire to Transfer such Membership Interest and of the bona fide offered price for such Membership Interest, the method of payment of such offered price (which must be in either cash in a Major Currency or Marketable Securities, provided that such Marketable Securities must be freely tradable upon the receipt thereof by the Selling Member), the identity of the prospective purchaser or purchasers (the "Proposed Purchaser") and all other pertinent terms and conditions of such bona fide offer to purchase such Membership Interest.

(b) For a period of thirty (30) days commencing on the date that the Member Offerees receive the Third-Party Transfer Notice (provided, that, in the event that the price for the Membership Interest set forth in the Third Party Transfer Notice is less than 80% of the price set forth in the Offer Notification delivered by the Selling Member to the other Members pursuant to Section 9.3, or the consideration is different than, or the terms are more favorable to the third party than the terms set forth in the Offer Notification, such period shall be extended for an additional five (5) business days, the Member Offerees will have the right to elect to purchase on a pro rata basis all (but not less than all) of the Membership Interest on the same terms and conditions as described in the Third-Party Transfer Notice and at the bona fide offer price using cash in a Major Currency if the Proposed Purchaser is using cash in a Major Currency, or using its own Marketable Securities or cash, if the Proposed Purchaser intends to use its own Marketable Securities as consideration (the "Third Party Transfer Offer Period"); provided, that if PEGI is a Member Offeree and desires to use PEI Stock as its own Marketable Securities, (i) the PEI Stock so used shall have the registration rights set forth on Exhibit G hereto; (ii) the closing of PEGI's purchase and the transfer of the PEI Stock shall occur on the effective date of the registration statement filed by PEI with respect to such PEI Stock; and (iii) the number of shares of PEI Stock issued with respect to such payment will be determined at the time the registration statement filed by PEI with respect to such PEI Stock becomes effective by dividing (x) the aggregate consideration by (y) the average closing trading price for PEI Stock for the twenty (20) trading days ending on the trading day three trading days prior to the effective date of such registration statement. Any Member Offeree desiring to purchase any Membership Interest must notify the Selling Member in writing of such desire. In the event that any Member Offeree does not elect to purchase its full pro rata share of any Membership Interest proposed to be Transferred, such unpurchased Membership Interest will be offered by the Selling Member to the other Member Offerees (if any) subscribing to purchase Membership Interests on a pro rata basis for a period of 15 days commencing on the expiration of the Third-Party Transfer Offer Period (the "Subsequent Third Party Transfer Offer Period"); provided, however, that if there is only one other Member, there shall be no Subsequent Third Party Transfer Offer Period. No such Membership

Interest may be made available for purchase by any Proposed Purchaser pursuant to the remaining provisions of this Section 9.4 unless and until all Member Offerees have had an opportunity to purchase all such Membership Interest in accordance with the provisions of this clause (b).

(c) Except as otherwise provided in Section 9.4(b), the closing of any purchase by the Member Offerees of any Membership Interest as provided in this Section 9.4 will take place at the offices of the Company on such date as designated by the Member Offerees occurring within 15 days after the expiration of the Subsequent Third-Party Transfer Offer Period, or if there be none, the Third-Party Transfer Offer Period. At such closing, the Member Offerees will be entitled to receive customary representations and warranties from the Selling Member regarding ownership and title of the subject Membership Interest and the Company will evidence such Transfer on the books of the Company.

(d) In the event that, after compliance with the foregoing provisions of this Section 9.4, the Member Offerees fail to purchase all of the Membership Interest proposed to be Transferred by the Selling Member, then for a period of one-hundred-twenty (120) days commencing on the date that no Member Offeree remains entitled to exercise its right to purchase any Membership Interest in accordance with the foregoing provisions of this Section 9.4, the Selling Member may Transfer to the Proposed Purchaser any of the Membership Interest described in the Third-Party Transfer Notice which the Member Offerees are not purchasing; provided, however, that (1) any such Transfer to the Proposed Purchaser must be made for the consideration and upon the terms and conditions set forth in the Third-Party Transfer Notice, (2) any such transfer to the Proposed Purchaser remains subject to those restrictions on transfers contained in this Agreement, including the restrictions on transfer included in this Article 9, and (3) at the closing of any such Transfer, the Proposed Purchaser executes and delivers to the Company a counterpart of, or an agreement adopting, this Agreement. Such Member Offerees who fail to purchase all of the Membership Interest proposed to be transferred by the Selling Member shall be deemed to have consented to the Transfer of the Membership Interest to the Third-Party Transferee. If the Selling Member shall not consummate the Transfer of such remaining Membership Interest to the Proposed Purchaser within such one-hundred-twenty (120) day period, such Membership Interest shall remain subject to the provisions of this Agreement and the Seller Member shall not thereafter Transfer any such Membership Interest to any Person without again first complying with all of the provisions of this Agreement.

9.5 Substitution of Members. A transferee of a Membership Interest shall have the right to become a substitute Member only if (a) the requirements of Sections 9.1 and 9.2 relating to securities and tax requirements hereof are met, (b) the requirements of Sections 9.3 and 9.4 relating to rights of first offer and rights of first refusal are met, (c) such Person executes an instrument reasonably satisfactory to the Management Committee accepting and adopting the terms and provisions of this Agreement, and (c) such Person pays any reasonable expenses in connection with its admission as a new Member. The admission of a Member shall not result in the release of the Member who assigned the Membership Interest from any liability that such Member may have to the Company.

9.6 Effective Date of Permitted Transfers. Any permitted transfer of all or any portion of a Membership Interest shall be effective as of the first business day following the date upon which the requirements of Sections 9.1, 9.2, 9.3, 9.4 and 9.5 have been met. The General Manager shall promptly provide the Members with written notice of such transfer. Any transferee of a Membership Interest shall take subject to the restrictions on transfer imposed by this Agreement.

9.7 Rights of Legal Representatives. If a Member who is an individual dies or is adjudged by a court of competent jurisdiction to be incompetent to manage the Member's person or property, the Member's executor, administrator, guardian, conservator, or other legal representative may exercise all of the Member's rights for the purpose of settling the Member's estate or administering the Member's

property, including any power the Member has under this Agreement to give an

assignee the right to become a Member. If a Member is a corporation or other entity and is dissolved or terminated, the powers of that Member may be exercised by its legal representative or successor.

9.8 PEGI Buy-Up Option.

(a) On or before December 23, 2022, PEGI (or its Affiliates who are then Members of the Company) has the option to acquire up to thirty and nine-tenths percent (30.9%) of additional Membership Interests in the Company (the applicable percentage from time to time being the "Initial Option Percentage") by purchasing such additional Membership Interests from Lifford (and any of its Affiliates which hold Membership Interests, collectively) (the "PEGI Buy-Up Option") provided, however; (i) that if PEGI (and its Affiliates, collectively) Transfers Membership Interests to any Person(s) which is not an Affiliate of PEGI, the Initial Option Percentage will be adjusted downward, pro rata, in accordance with the decline in PEGI's and its Affiliates' aggregate Membership Interests in the Company; (ii) in the event that Lifford receives additional Membership Interests in the Company, the Initial Option Percentage shall be increased in accordance with the then outstanding Membership Interests of the Company such that following the exercise by PEGI of its option to acquire the Initial Option Percentage pursuant to this Section 9.8, PEGI and any third Person not affiliated with Lifford shall hold forty-nine and nine-tenths percent (49.9%) of the Membership Interests of the Company. Starting on December 23, 2012 and continuing through December 23, 2022, PEGI (or its Affiliates who are then Members of the Company) has the option (the "Additional Buy-Up Option") to acquire up to the remaining fifty and one-tenth percent (50.1%) of additional Membership Interest in the Company (the applicable percentage from time to time being the "Second Option Percentage") by purchasing all of the additional Membership Interests owned by Lifford (and any of its Affiliates which hold Membership Interests, collectively); provided, that PEGI (or its Affiliates) has previously or concurrently exercised its option to acquire the entire Initial Option Percentage, it being the intent of the Members that PEGI would own one hundred percent (100%) of the Membership Interests following PEGI's purchase of the Second Option Percentage, and payment therefor.

(b) PEGI's buy-in price for the Initial Option Percentage and the Second Option Percentage will be a pro rata portion of the Fair Market Value of the Company at the time of purchase (as determined in accordance with Exhibit C). PEGI may pay the purchase price for the Initial Option Percentage or the Second Option Percentage in cash, shares of PEI's Class B common stock ("PEI Stock") (if upon the closing of any such transaction such stock is a Marketable Security) or a combination of cash and PEI Stock, which election will be set forth in PEGI's notice that it is exercising its buy-up option. If PEGI elects to pay for some or all of its purchase with cash, it will make such payment prior to the later of (i) sixty (60) days after the delivery of such notice or (ii) twenty (20) days after the final determination of Fair Market Value with respect to such purchase. If PEGI elects to pay for some or all of its purchase with PEI Stock, such transfer of stock will be made on or prior to the date that is the later of (i) ninety (90) days after the delivery of such notice, (ii) twenty (20) days after the final determination of Fair Market Value with respect to such purchase or (iii) the effective date of the registration statement filed by PEI with respect to the PEI Stock. The number of shares of PEI Stock issued with respect to such payment will be determined at the time the registration statement filed by PEI with respect to such shares becomes effective by dividing (x) the aggregate consideration elected by PEGI to be paid in PEI Stock by (y) the average closing trading price for PEI Stock for the twenty (20) trading days ending on the trading day three trading days prior to the effective date of such registration statement. The closing of any purchase by PEGI as provided in this Section 9.8 shall take place at the offices of the Company (i) on such date as mutually agreed to by PEGI and Lifford, if PEGI elects to pay the purchase price solely in cash, or (ii) if PEI elects to pay any or all of the purchase price in shares of PEI Stock, on the date on which the registration statement filed by PEI with respect to such shares is declared effective. In the event that the registration statement to be filed with respect to the PEI Stock has not become effective

within one-hundred-eighty (180) days from the date of the delivery of PEGI's notice of its election to exercise the PEGI Buy-Up Option or Additional Buy-Up

Option, Lifford shall have the option to either: (i) allow an extension of such one-hundred-eighty (180) day period, or (ii) refuse to allow such extension and cause the applicable option to expire, unless PEGI pays for the applicable option in cash within fifteen (15) days from the expiration of such one-hundred-eighty (180) day period. At such closing, PEGI will be entitled to receive customary representations and warranties from Lifford (and any of its Affiliates which hold Membership Interests, collectively) regarding ownership and title of the purchased Membership Interest and the Company will evidence such Transfer on the books of the Company. After the date on which the cash portion of the purchase price is due, PEGI may determine that it wishes to pay all or any part of the portion of the purchase price previously elected to be paid in PEI Stock in cash, in which event such additional cash payment will be due immediately. In the event PEGI fails to timely pay for any additional Percentage Interests for which it exercised its buy-up option, Lifford may elect either: (i) to terminate permanently PEGI's right to purchase such Percentage Interests; or (ii) to cause the Company to withhold any payments otherwise due to PEGI under this Agreement or the Program Supply Agreement or any other agreement that requires the Company to make payments to PEGI or its Affiliates and to pay such amounts to Lifford until Lifford is paid in full (including interest at the Reference Rate from the date such payment was due) for such additional interests, and Lifford will then transfer such interests to PEGI.

(c) If PEGI pays for some or all of the Initial Option Percentage or the Second Option Percentage in PEI Stock, Lifford shall have registration rights and obligations with respect to the PEI Stock as set forth in Exhibit G.

(d) In the event Lifford sells Membership Interests representing fifty and one-tenths percent (50.1%) or more of the Company to a third party after giving PEGI the opportunity to exercise its right of first offer and right of first refusal pursuant to Sections 9.3 and 9.4 of this Agreement (which Lifford may do at any time), the Additional PEGI Buy-Up Option will terminate.

9.9 Claxson Control Over Membership Interest. Subject to a Member's right to transfer and assign its Membership Interest pursuant to the right of first offer in Section 9.3, right of first refusal in Section 9.4 and PEGI's Buy-Up Option in Section 9.8, at all times during the term of this Agreement, Claxson will, directly or indirectly, (i) own 100% of the Membership Interest owned by Lifford on the date of this Agreement, (ii) retain all voting rights with respect to such Membership Interest, (iii) retain all rights to participate in the management of the business, property and affairs of the Company with respect to such Membership Interest, and (iv) retain all rights to the Economic Interest with respect to such Membership Interest, subject to Claxson's right to pledge all of its indirect Membership Interest as collateral as part of a blanket pledge of all such Member's assets to a financial institution.

9.10 Playboy Television B.V. and PTVLA U.S., LLC

(a) The Members hereby agree and acknowledge that Playboy Television B.V., a Netherlands limited liability company ("PTV BV") has been created by the Members and their Affiliates to distribute the Channels in Spain and Mexico, that Playboy TV Holdings, LLC, a Delaware limited liability company ("PTV Holdings"), has been created by the Members and their Affiliates to serve as a holding company for PTV BV, and that PTVLA U.S., LLC, a Delaware limited liability company ("PTV US") has been created by the Members and their Affiliates to distribute the Channels in the United States, Canada and Puerto Rico. At all times during the Term, Claxson and PEI will, directly or indirectly, (i) own the same percentage ownership interest in PTV Holdings or PTV US as they may hold in the Company from time to time; (ii) in the event of transfer of any Membership Interest, transfer a corresponding percentage of such Equity Interest to the same purchaser so long as such transfer does not have a material adverse tax effect on any member of PTV Holdings or PTV US; (iii) retain all voting

rights with respect to such Equity Interests, (iv) retain all rights to participate in the management of the business, property and affairs of PTV Holdings and PTV US with respect to such Equity Interests. Without the prior written consent of the PEGI Managers, Claxson and Lifford shall not, and shall cause their respective Subsidiaries and Affiliates (including without limitation

PTV Holdings, PTV BV and PTV US) not to:

(i) take any action with respect to PTV Holdings, PTV BV or PTV US that would require the consent of the PEGI Managers as set forth in Section 5.1.2, determined as if the definition of "Company" contained therein included, for the purposes of this Section 9.10(a)(i) only, PTV Holdings, PTV BV and PTV US;

(ii) authorize the issuance of or issue any additional Equity Interests in PTV Holdings, PTV BV or PTV US, other than to the Company in connection with a capital contribution;

(iii) allow or permit PTV Holdings to conduct any business other than owning all of the issued and outstanding Equity Interests of PTV BV;

(iv) allow or permit PTV BV to conduct any business other than the licensing of rights from PEGI and the sublicensing of such rights in the territory of Spain and Mexico in the English, Spanish and Portuguese languages as contemplated and permitted by the Amended Affiliation Agreement;

(v) allow or permit PTV US to conduct any business other than the licensing of rights from the Company and the sublicensing of such rights to PEGI in the territory of the United States, Canada and Puerto Rico in the Spanish language as contemplated and permitted by the PTV US Affiliation Agreement and the Distribution Agreement;

(vi) amend or modify the certificate of formation, deed of incorporation, operating agreement, by-laws or any other constitutive or organizational document of PTV Holdings, PTV BV or PTV US;

(vii) sell any of the assets of PTV Holdings, PTV BV or PTV US, except in the ordinary course of business, or merge, consolidate or reorganize PTV Holdings, PTV BV or PTV US with or into another Person, other than another wholly owned Subsidiary of the Company; or

(viii) take any action with respect to PTV Holdings, PTV BV or PTV US that would have a disproportionate adverse impact (financial or otherwise) on PEGI or its Subsidiaries or Affiliates.

(b) In the event that PEGI at any time acquires additional Membership Interests in the Company, whether pursuant to Section 9.3, 9.4 or 9.8 hereof or otherwise, at the closing of the acquisition by PEGI of such Membership Interests, PEGI shall have the right, exercisable by written notice to Lifford not later than two days prior to the date of such closing:

(i) with respect to PTV Holdings and PTV BV, to elect that either: (i) Lifford or its Affiliates shall contribute to PEGI a corresponding membership interest in PTV Holdings, and in the event that PEGI so

elects, Claxson shall cause Zagasse Corp., N.V., a Netherlands Antilles limited liability company ("Zagasse"), or any other Affiliate of Claxson that then holds an interest in PTV Holdings, to contribute to PEGI for no additional consideration and at no additional cost to PEGI a corresponding membership interest in PTV Holdings simultaneously with the closing of PEGI's acquisition of additional Membership Interests in the Company, such that following such closing, PEGI's

membership interest in PTV Holdings shall be equal to PEGI's Membership Interest in the Company. Notwithstanding the foregoing, in the event that PEGI acquires 100% of the Membership Interests in the Company, PEGI may, in lieu of acquiring all of the membership interests in PTV Holdings, elect to dissolve PTV Holdings and PTV BV. In such event, Claxson shall, and shall cause its Subsidiaries to, take all actions necessary or desirable to effect such dissolution simultaneously with, and effective as of, the closing of PEGI's acquisition of additional Membership Interests in the Company; and

(ii) with respect to PTV US, to elect that either: (i) Lifford or its Affiliates shall contribute to PEGI a corresponding membership interest in PTV US, and in the event that PEGI so elects, Claxson shall cause Lifford US, Inc., a Delaware corporation ("Lifford US"), or any other Affiliate of Claxson that then holds an interest in PTV US, to contribute to PEGI for no additional consideration and at no additional cost to PEGI a corresponding membership interest in PTV US simultaneously with the closing of PEGI's acquisition of additional Membership Interests in the Company, such that following such closing, PEGI's membership interest in PTV US shall be equal to PEGI's Membership Interest in the Company. Notwithstanding the foregoing, in the event that PEGI acquires 100% of the Membership Interests in the Company, PEGI may, in lieu of acquiring all of the membership interests in PTV US, elect to dissolve PTV US. In such event, Claxson shall, and shall cause its Subsidiaries to, take all actions necessary or desirable to effect such dissolution simultaneously with, and effective as of, the closing of PEGI's acquisition of additional Membership Interests in the Company.

9.11 Venus Operations. The Members hereby agree and acknowledge that Contribution S.R.L., an Argentine limited liability company ("Venus Argentina"), and Venus TV International, Inc., a British Virgin Islands corporation ("Venus International", and together with Venus Argentina, the "Venus Entities") will be acquired by the Company to own and operate the Venus Channels in the Territory. Without the prior written consent of the PEGI Managers, the Company shall not, and shall cause Venus Argentina and Venus International not to:

(a) Transfer the Venus Assets from the Venus Entities to any other Person, including without limitation the Company or any of its Subsidiaries or Affiliates;

(b) allow or permit the Transfer of any assets from any other Person, including the Company and any of its Subsidiaries or Affiliates, to either or both of the Venus Entities;

(c) allow or permit the Venus Entities to own any assets other than the Venus Assets;

(d) operate the Venus Entities other than as stand-alone entities, provided, however, that the Company may manage either or both of the Venus entities;

(e) allow or permit the Venus Channels to be operated other than as businesses separate and distinct from the other Channels and businesses of the Company, provided, however, that the Company may manage either or both of the Venus entities;

(f) commingle any of the assets of a Venus Entity with any other assets of the Company and its Subsidiaries and Affiliates; or

(g) merge the Venus Entities, merge any other Person into a Venus Entity or otherwise combine the operations of the Venus Entities with any other Person.

9.12 Playboy Lifestyle Holding and Newco. The Members hereby acknowledge and agree that Playboy Lifestyle Holding and Newco have been formed and will soon to be formed respectively by the Company to develop, launch and operate the Playboy Lifestyle Business in the Territory, and to fund the Feasibility Study to develop the Playboy Lifestyle Channel USA in the US Lifestyle Territory whereby Playboy Lifestyle Holding will borrow up to U.S.$5,000,000 pursuant to the Playboy Lifestyle Note to fund the operation of the Playboy Lifestyle Business in the Territory through Newco. Except as may be required in connection with the Playboy Lifestyle Note or any related documents, without the prior written consent of the PEGI Managers, the Company shall not, and shall cause Playboy Lifestyle Holding and Newco not to:

(a) take any action with respect to Playboy Lifestyle Holding and Newco that would require the consent of the PEGI Managers as set forth in Section 5.1.2, determined as if the definition of "Company" contained therein included, for the purposes of this Section 9.12(a)(i) only, Playboy Lifestyle Holding and Newco;

(b) authorize the issuance of or issue any additional Equity Interests in Playboy Lifestyle Holding or Newco, other than to the Company in connection with a capital contribution;

(c) allow or permit Playboy Lifestyle Holding to conduct any business other than (x) owning all of the issued and outstanding Equity Interests of Newco, (y) issuing the Playboy Lifestyle Note and (iii) the Playboy Lifestyle Business as contemplated and permitted by this Agreement;

(d) allow or permit Newco to conduct any business other than the Playboy Lifestyle Business as contemplated and permitted by this Agreement;

(e) amend or modify the certificate of formation, deed of incorporation, operating agreement, by-laws or any other constitutive or organizational document of Playboy Lifestyle Holding or Newco;

(f) sell any of the assets of Playboy Lifestyle Holding or Newco, except in the ordinary course of business, or merge, consolidate or reorganize Playboy Lifestyle Holding or Newco with or into another Person, other than another wholly owned Subsidiary of the Company;

(g) take any action with respect to Playboy Lifestyle Holding or Newco that would have a disproportionate adverse impact (financial or otherwise) on PEGI or its Subsidiaries or Affiliates;

(h) operate Playboy Lifestyle Holding and Newco other than as stand-alone entities, provided, however, that the Company may manage either or both of these entities;

(i) allow or permit the Playboy Lifestyle Holding or Newco to be operated other than as businesses separate and distinct from the other Channels and businesses of the Company, provided, however, that the Company may manage either or both of these entities or

(j) commingle any of the assets of Playboy Lifestyle Holding or Newco with any other assets of the Company and its Subsidiaries and Affiliates.

ARTICLE X
CONSEQUENCES OF DEATH, DISSOLUTION RETIREMENT OR BANKRUPTCY OF MEMBER

10.1 Withdrawal Dissolution Event. Upon the occurrence of a Withdrawal Dissolution Event, the Company shall dissolve unless the remaining Members (the "Remaining Members") holding all of the remaining Membership Interests consent within ninety (90) days of the Withdrawal Dissolution Event to the continuation of the business of the Company. If the Remaining Members consent to the

continuation of the business of the Company, the Remaining Members and/or, if applicable pursuant to Section 10.4, the Company shall purchase, and the Member whose actions or conduct resulted in the Withdrawal Dissolution Event ("Former Member") or such Former Member's legal representative shall sell, the Former Member's Membership Interest ("Former Member's Interest") as provided in this Article 10 to avoid dissolution of the Company.

10.2 Purchase Price. The purchase price for the Former Member's Interest shall be the lesser of (i) the positive Capital Account balance of the Former Member or (ii) the Fair Market Value of the Former Member's Interest. Notwithstanding the foregoing, if the Withdrawal Dissolution Event results from a breach of this Agreement by the Former Member, the purchase price paid by the Remaining Members and/or the Company shall be reduced by an amount equal to the damages suffered by such purchasing parties as a result of such breach.

10.3 Notice of Intent to Purchase. Within thirty (30) days after the General Manager has notified the Remaining Members as to the purchase price of the Former Member's Interest determined in accordance with Section 10.2, each Remaining Member shall notify the General Manager in writing of its desire to purchase a portion of the Former Member's Interest. The failure of any Remaining Member to submit a notice within the applicable period shall constitute an election on the part of the Member not to purchase any of the Former Member's Interest. Each Remaining Member so electing to purchase shall be entitled to purchase a portion of the Former Member's Interest in the same proportion that the Percentage Interest of the Remaining Member bears to the aggregate of the Percentage Interests of all of the Remaining Members electing to purchase the Former Member's Interest.

10.4 Election to Purchase Less Than All of the Former Member's Interest. If any Remaining Member elects to purchase none or less than all of its pro rata share of the Former Member's Interest, then the Remaining Members can elect to purchase more than their pro rata share. If the Remaining Members fail to purchase the entire interest of the Former Member, the Company shall purchase any remaining share of the Former Member's Interest.

10.5 Payment of Purchase Price. The purchase price shall be paid by the Remaining Members and/or the Company, as the case may be, at the closing one-fifth (1/5) in cash and the balance of the purchase price in four equal annual principal installments, plus accrued interest, and be payable each year on the anniversary date of the closing. Any such payment by the Company shall be made solely out of Distributable Cash allocable to the Remaining Members. The unpaid principal balance shall accrue interest at the current applicable federal rate as provided in the Code for the month in which the initial payment is made, but the Company and the Remaining Members shall have the right to prepay in full or

in part at any time without penalty. The obligation to pay the balance due shall be evidenced by a promissory note, and if purchased by a Remaining Member, secured by a pledge of the Membership Interest being purchased.

10.6 Closing of Purchase of Former Member's Interest. The closing for the sale of a Former Member's Interest pursuant to this Article 10 shall be held on a business day at the principal office of the Company no later than sixty (60) days after the determination of the purchase price. At the closing, the Former Member or such Former Member's legal representative shall deliver to the Company or the Remaining Members an instrument of transfer (containing warranties of title and no encumbrances) conveying the Former Member's Interest. The Former Member or such Former Member's legal representative, the Company and the Remaining Members shall do all things and execute and deliver all papers as may be necessary fully to consummate such sale and purchase in accordance with the terms and provisions of this Agreement.

10.7 Purchase Terms Varied by Agreement. Nothing contained herein is intended to prohibit Members from agreeing upon other terms and conditions for the purchase by the Company or any Member of the Membership Interest of any Member in the Company desiring to retire, withdraw or resign, in whole or in part, as a Member.

ARTICLE XI
ACCOUNTING, RECORDS, REPORTING BY MEMBERS

11.1 Books and Records. The books and records of the Company shall be kept, and the financial position and the results of its operations recorded, in accordance with United States generally accepted accounting principles as in effect from time to time ("GAAP") and the accounting methods followed for United States federal income tax purposes. The books and records of the Company shall reflect all the Company transactions and shall be appropriate and adequate for the Company's business. The Company shall maintain at its principal office all of the following:

(a) A current list of the full name and last known business or residence address of each Member, together with the Capital Contributions, Capital Account and Percentage Interest of each Member;

(b) A current list of the full name and business or residence address of each Manager;

(c) A copy of the Articles and any and all amendments thereto together with executed copies of any powers of attorney pursuant to which amendments thereto have been executed;

(d) Copies of the Company's federal, state, and local income tax or information returns and reports, if any, for the six (6) most recent taxable years;

(e) A copy of this Agreement and any and all amendments thereto together with executed copies of any powers of attorney pursuant to which this Agreement or any amendments thereto have been executed;

(f) Copies of the financial statements of the Company, if any, for the six (6) most recent Fiscal Years; and

(g) The Company's books and records as they relate to the internal affairs of the Company for at least the current and past four (4) Fiscal Years.

11.2 Delivery to Members and Inspection.

11.2.1 Delivery Upon Request. Upon the request of any Member for purposes reasonably related to the interest of that Person as a Member, the General Manager shall promptly deliver to the requesting Member, at the expense of the Company, a copy of the information required to be maintained by Sections 11.1(a), (b) and (d), and a copy of this Agreement, as amended. The General Manager shall promptly furnish to a Member a copy of any amendment to the Articles or this Agreement executed by a Manager pursuant to a power of attorney from the Member.

11.2.2 Inspection. Each Member has the right, upon reasonable request for purposes reasonably related to the interest of the Person as Member to:

(a) inspect and copy during normal business hours any of the Company records described in Sections 11.1(a) through (g); and

(b) obtain from the General Manager, promptly after their becoming available, a copy of the Company's federal, state, and local income tax or information returns for each Fiscal Year.

11.2.3 Authorized Persons. Any request, inspection or copying by a Member under this Section 11.2 may be made by that Person or that Person's agent or attorney.

11.2.4 PEI Additional Right of Inspection. Upon reasonable notice, the Company shall, and shall cause the Company's independent public accountants and outside counsel and each of the Company's employees, agents and representatives to: (i) afford the officers, employees and authorized agents, independent public accountants, outside counsel, financing sources and

representatives of PEI (the "PEI Representatives") access, during normal business hours, to the offices, properties, other facilities, books and records of the Company and to the Company's independent public accountants and outside counsel and those employees, agents and representatives of the Company who have any knowledge relating to the business, assets and properties of the Company or the Channels and (ii) furnish promptly to the PEI Representatives such additional financial and operating data and other information regarding the business, assets and properties of the Company or the Channels as PEI may from time to time reasonably request; provided, however, that PEI shall not be entitled to exercise such rights of inspection more than once in a twelve (12) month period, unless Lifford or any of its Affiliates are in breach of this Agreement, in which case there shall be no limit on the number of such inspections.

11.3 Statements.

11.3.1 Annual Report. The General Manager shall cause an audited annual report to be sent to each of the Members not later than thirty (30) days after the close of each fiscal year or sooner if the reporting obligations of PEI or Claxson are accelerated due to a change in applicable SEC or other regulatory requirements. The report shall contain a balance sheet as of the end of the Fiscal Year and an income statement and statement of changes in financial position for the Fiscal Year. The report shall be prepared in accordance with GAAP consistently applied and fairly present the results of operations and financial condition of the Company and its Subsidiaries for the periods covered thereby. Such financial statements shall be accompanied by the report thereon, if any, of the independent accountants engaged by the Company.

11.3.2 Monthly Report. The General Manager shall cause a monthly report to be sent to each of the Members not later than twenty (20) days after the end of each month during a Fiscal Year, subject to customary year-end adjustments. The report shall contain a balance sheet as of the last day of such month and an income statement and statement of changes in financial position for the period then

ended. The report shall be prepared in accordance with GAAP consistently applied and fairly present the results of operations and financial condition of the Company and its Subsidiaries for the periods covered thereby subject to customary year-end adjustments. Such financial statements will be unaudited but will prepared on a consistent basis with the Company's audited annual report described above.

11.3.3 Tax Information. The General Manager shall cause to be prepared at least annually, at Company expense, information necessary for the preparation of the Members' federal and state income tax returns. The General Manager shall send or cause to be sent to each Member within ninety (90) days after the end of each taxable year such information as is necessary to complete federal, state, and local income tax or information returns, and a copy of the Company's federal, state, and local income tax or information returns for that year.

11.4 Financial and Other Information. The General Manager shall provide such financial and other information relating to the Company, as a Member may reasonably request.

11.5 Filings. The General Manager, at Company expense, shall cause the income tax returns for the Company to be prepared and timely filed with the appropriate authorities. Within seventy five (75) days after the close of the taxable year, the General Manager shall deliver to the Managers copies of such returns for their approval pursuant to Section 5.1.2(m) prior to the filing due date. The General Manager, at Company expense, shall also cause to be prepared and timely filed, with appropriate federal and state regulatory and administrative bodies, amendments to, or restatements of, the Articles and all reports required to be filed by the Company with those entities under the Act or other then current applicable laws, rules, and regulations. If a Manager required by the Act to execute or file any document fails, after demand, to do so within a reasonable period of time or refuses to do so, any other Manager or Member may prepare, execute and file that document with the California Secretary

of State.

11.6 Bank Accounts. The General Manager shall maintain the funds of the Company in one or more separate bank accounts in the United States or the European Union in the name of the Company and in any other jurisdiction where the applicable laws of such jurisdiction require the Company to maintain such an account and shall not permit the funds of the Company to be commingled in any fashion with the funds of any other Person.

11.7 Accounting Decisions and Reliance on Others. All decisions as to accounting matters, except as otherwise specifically set forth herein, shall be made by the Management Committee. A Manager may rely upon the advice of the Company's accountants as to whether such decisions are in accordance with accounting methods followed for federal income tax purposes.

11.8 Tax Matters for the Company Handled by Managers and Tax Matters Member. The Management Committee shall from time to time cause the Company to make such tax elections as it deems to be in the best interests of the Company; provided, however, that the Management Committee shall not (i) file any tax return or (ii) make any tax election or take any position with respect to any examination audit or proceeding by a taxing authority that could have an adverse impact on PEGI or the Company without PEGI's prior written consent. Any failure by the Management Committee to approve unanimously any matter described in Section 5.1.2(l) will be resolved in accordance with the procedures specified in Article 16; provided, however, that the sole arbitrator described in Section 16.4 shall appoint one or more impartial experts to testify on the disputed matters and shall base his or her decision on such expert testimony, taking into account the interests of both parties. The Tax Matters Member (the equivalent to the Tax Matters Partner as defined in Code Section 6231) shall represent the Company (at the Company's expense) in connection with all examinations of the Company's affairs by tax authorities, including resulting judicial and administrative proceedings, and shall expend the Company's funds for professional services and costs associated therewith. The Tax Matters Member shall oversee the

Company's tax affairs in the overall best interests of the Company. If for any reason the Tax Matters Member can no longer serve in that capacity or ceases to be a Member or Manager, as the case may be, Members holding a Majority Interest may designate another to be Tax Matters Member.

ARTICLE XII
DISSOLUTION AND WINDING UP

12.1 Term. The term (the "Term") of the Company shall commence on the date the Articles are filed with the Secretary of State of California and terminate on the earlier to occur of the termination of the Company as provided in the Articles or the earlier dissolution of the Company pursuant to the terms of this Article 12.

12.2 Dissolution Events. The Company may be dissolved prior to the termination date set forth in the Articles upon the happening of any of the following events (each, a "Dissolution Event"):

12.2.1 Either Lifford or PEGI may elect to dissolve the Company if controlling ownership of the other Member changes (other than a change to an Affiliate of such Member); provided, however, that the parties acknowledge that Claxson and PEI are publicly held and that no change in their ownership will constitute a change of control of Lifford or PEGI, as the case may be, as long as Lifford or PEGI remain a controlled subsidiary of Claxson or PEI, as the case may be. Any such dissolution will be effective as of the later of (i) the last day of the Fiscal Year in which such dissolution event occurs or (ii) the date six (6) months after such dissolution event occurs.

12.2.2 Any Member may without prejudice to any other remedies it may have elect to dissolve the Company by notice in writing to the other Members on or after the occurrence of any of the following:

(a) the commission of one or more material breaches of this

Agreement by the Company or another Member which are not capable of remedy;

(b) the commission of a material breach of this Agreement by the Company or another Member which is capable of remedy (a "Remediable Breach") which shall not have been remedied within a period of thirty (30) days after the party in breach has been given notice in writing specifying that Remediable Breach and requiring it to be remedied; provided, however, that such thirty (30) day period shall be extended for such additional period, not to exceed one-hundred-twenty (120) days, as shall be reasonably necessary if that Remediable Breach is incapable of remedy within that thirty (30) day period and during that additional period the party in breach shall diligently endeavor to remedy that Remediable Breach, but only if such extension would not reasonably be expected to have a material adverse effect on the party giving notice of such breach. However, in respect of the breach of any obligation to make payment hereunder, the cure period shall not be extended as provided in the foregoing proviso.

(c) the bankruptcy, insolvency, general assignment for the benefit of creditors or similar event or the appointment of a trustee, receiver or similar person for any Member holding a Majority Interest or of the Company;

(d) the uncured material breach of one or more of the Program Supply Agreement or the Distribution Agreement by another Member or their Affiliates or the Company, unless in the event of a breach by the Company, the party seeking dissolution hereunder caused such breach; or

(e) the institution by such Member of a legal proceeding against another Member to enforce against the other Member either (i) a final arbitral award or (ii) a final judgment, in each case arising out of or relating to this Agreement, the Program Supply Agreement or the Distribution Agreement.

12.2.3 Any failure by the Company to make payments due to PEGI under the Program Supply Agreement shall be deemed to constitute a material breach hereunder by Claxson and Lifford. Each of Claxson and Lifford hereby unconditionally and irrevocably guarantees, as primary obligor and not merely as a surety, and as a guaranty of payment when due and not of collectibility, to PEGI and its successors and assigns the prompt payment and satisfaction in full of any amounts due and owing by the Company to PEGI and its successors and assigns pursuant to the Program Supply Agreement in an amount equal to the outstanding obligation multiplied by the Percentage Interest in the Company then owned by Lifford and its Affiliates (the "Claxson Guarantee Obligation"), and each of Claxson and Lifford hereby (a) further agrees that if the Company shall fail to pay, or otherwise satisfy, in full any of such amounts when they become due, whether at stated maturity, by acceleration, demand or otherwise, it shall promptly pay the same up to amount of the Claxson Guarantee Obligation, and (b) waives, for the benefit of PEGI and its successors and assigns, (i) any right to require PEGI to proceed against the Company or any guarantor, or to proceed against, exhaust or have resort to any security held from the Company or any other guarantor, or any balance of any deposit account or credit on the books of PEGI, (ii) any right to set-offs, recoupments and counterclaims; (iii) notices, demands, presentments, protests, notices of protest and notices of dishonor and notices of any action or inaction or default under this Agreement or the Program Supply Agreement; (iv) any right of subrogation, reimbursement or indemnification that it may have against the Company and any right of contribution it may have against any other guarantor and (v) to the fullest extent permitted by law, any defenses or benefits that may be derived from or afforded by law which limit the liability of or exonerate it or sureties, or which may conflict with the terms of this Section 12.2.3. The obligations of each of Claxson and Lifford pursuant to this Section 12.2.3 shall continue and remain in full force and effect or be reinstated, as the case may be, in the event that all or any part of any payment made by the Company to PEGI under the Program Supply Agreement is rescinded or recovered directly or indirectly from PEGI as a preference, fraudulent transfer or conveyance or otherwise. PEGI, Claxson and Lifford acknowledge that any payment obligation of Claxson or Lifford hereunder shall be limited to Lifford's (or its Affiliate's) Membership Percentage Interest at the time of such failure to make payment multiplied by the amount of the payment due and further, that the payment of such payments due shall constitute a cure of such breach. In the event that PEGI exercises the

PEGI Buy-Up Option, the provisions of this Section 12.2.3 shall terminate in their entirety.

12.2.4 PEI hereby unconditionally and irrevocably guarantees, as primary obligor and not merely as a surety, and as a guaranty of payment when due and not of collectibility, to the Company and its successors and assigns the prompt payment and satisfaction in full of any amounts due and owing by PEGI to the Company, its successors and assigns pursuant to the Program Supply Agreement, and the Distribution Agreement, and PEI hereby (a) further agrees that if PEGI shall fail to pay, or otherwise satisfy, in full any of such amounts when they become due, whether at stated maturity, by acceleration, demand or otherwise, it shall promptly pay, or otherwise satisfy, the same and (b) waives, for the benefit of the Company and its successors and assigns, (i) any right to require the Company to proceed against PEGI or any other guarantor, or to proceed against, exhaust or have resort to any security held from PEGI or any guarantor or any balance of any deposit account or credit on the books of the Company; (ii) any right to set-offs, recoupments and counterclaims; (iii) notices, demands, presentments, protests, notices of protest and notices of dishonor and notice of any action or inaction or default under the Program Supply Agreement or the Distribution Agreement; (iv) any right of subrogation, reimbursement or indemnification that it may have against PEGI and any right of contribution it may have against any other guarantor and (v) to the fullest extent permitted by law, any defenses or benefits that may be derived from

or afforded by law which limit the liability of or exonerate it or sureties, or which may conflict with the terms of this Section 12.2.4. The obligations of PEI pursuant to this Section 12.2.4 shall continue and remain in full force and effect or be reinstated, as the case may be, in the event that all or any part of any payment made by PEGI to the Company under the Distribution Agreement is rescinded or recovered directly or indirectly from the Company as a preference, fraudulent transfer or conveyance or otherwise, PEGI, Claxson and Lifford acknowledge that any payment obligation of PEI hereunder shall be limited to PEGI's (or its Affiliate's) Membership Percentage Interest at the time of such failure to make payment multiplied by the amount of the payment due and further, that the payment of such payments due shall constitute a cure of such breach. In the event that PEGI exercises the PEGI Buy-Up Option, the provisions of this Section 12.2.4 shall terminate in their entirety.

12.3 Effect of Dissolution. Upon dissolution of the Company, the Related Documents will automatically terminate and all rights and obligations of the respective parties thereunder will terminate, except for any provisions that expressly survive such termination or claims, etc. that have arisen prior to such termination. Upon dissolution of the Company, each Member shall have the right to compel the Company to be promptly wound-up and liquidated.

12.4 Dissolution. The Company shall be dissolved, its assets shall be disposed of, and its affairs wound up on the first to occur of the following:

(a) Upon the election of the applicable Member(s) following the happening of any Dissolution Event;

(b) Upon the entry of a decree of judicial dissolution pursuant to Section 17351 of the Corporations Code;

(c) The occurrence of a Withdrawal Dissolution Event and the failure of the Remaining Members to consent to continue the business of the Company within ninety (90) days after the occurrence of such event or the failure of the Company or the Remaining Members to purchase the Former Member's Interest as provided in Article 10; or

(d) The sale of all or substantially all of the assets of the Company.

12.5 Certificate of Dissolution. As soon as possible following the occurrence of any of the events specified in Section 12.4, the Managers appointed by Members whose breach or Withdrawal Dissolution Event have not caused the dissolution of the Company or, if none, the Members, shall execute a Certificate of Dissolution in such form as shall be prescribed by the California

Secretary of State and file the Certificate as required by the Act.

12.6 Winding Up. Upon dissolution, the Company shall continue solely for the purpose of winding up its affairs in an orderly manner, liquidating its assets, and satisfying the claims of its creditors. The Managers appointed by Members whose breach or Withdrawal Dissolution Event have not caused the dissolution of the Company or, if none, the Members, shall be responsible for overseeing the winding up and liquidation of Company, shall take full account of the liabilities of Company and assets, shall (subject to PEGI's right under Section 12.7) either cause its assets to be sold or distributed, and if sold as promptly as is consistent with obtaining the Fair Market Value thereof, shall cause the proceeds therefrom, to the extent sufficient therefor, to be applied and distributed as provided in Section 12.8. The Persons winding up the affairs of the Company shall give written notice of the commencement of winding up by mail to all known creditors and claimants whose addresses appear on the records of the Company. The Managers or Members winding up the affairs of the Company shall be entitled to reasonable compensation for such services.

12.7 Distributions in Kind. Any non-cash asset distributed to one or more Members shall first be valued at its Fair Market Value to determine the Net Income or Net Loss that would have resulted if such asset were sold for such value, such Net Income or Net Loss shall then be allocated pursuant to Article 4, and the Members' Capital Accounts shall be adjusted to reflect such allocations. The amount distributed and charged to the Capital Account of each Member receiving an interest in such distributed asset shall be the Fair Market Value of such interest (net of any liability secured by such asset that such Member assumes or takes subject to). The Fair Market Value of such asset shall be determined by the Managers or by the Members or if any Member objects by an independent appraiser in accordance with Exhibit C, with a single appraiser selected by the Manager or liquidating trustee and approved by the Members; provided, however, that the Fair Market Value of the physical embodiment of any intellectual property shall be determined based on its value to a third party (i.e., to a Person other than the owner of such intellectual property). Notwithstanding the foregoing, PEGI may elect in lieu of or in addition to any other form of distribution to have distributed to it in kind or destroyed any assets of the Company that are Playboy-branded, contain Playboy-identified content or are otherwise identified as a Playboy-related product.

12.8 Order of Payment of Liabilities Upon Dissolution.

12.8.1 Distributions to Members. After determining that all known debts and liabilities of the Company in the process of winding-up, including, but not limited to, debts and liabilities to Members that are creditors of the Company, have been paid or adequately provided for, the remaining assets shall be distributed to the Members in accordance with their positive Capital Account balances, after taking into account income and loss allocations for the Company's taxable year during which liquidation occurs. Such liquidating distributions shall be made by the end of the Company's taxable year in which the Company is liquidated, or, if later, within ninety (90) days after the date of such liquidation.

12.8.2 Payment of Debts. The payment of a debt or liability, whether the whereabouts of the creditor is known or unknown, has been adequately provided for if the payment has been provided for by either of the following means:

(a) Payment thereof has been assumed or guaranteed in good faith by one or more financially responsible persons or by the United States government or any agency thereof, and the provision, including the financial responsibility of the Person, was determined in good faith and with reasonable care by the Members or Managers to be adequate at the time of any distribution of the assets pursuant to this Section.

(b) The amount of the debt or liability has been deposited as provided in Section 2008 of the Corporations Code.

This Section 12.8.2 shall not prescribe the exclusive means of making adequate provision for debts and liabilities.

12.9 Certificate of Cancellation. The Managers or Members who filed the Certificate of Dissolution shall cause to be filed in the office of, and on a form prescribed by, the California Secretary of State, a certificate of cancellation of the Articles upon the completion of the winding up of the affairs of the Company.

12.10 No Action for Dissolution. Except as expressly permitted in this Agreement, a Member shall not take any voluntary action that directly causes a Dissolution Event. The Members acknowledge that irreparable damage would be done to the goodwill and reputation of the Company if any Member should bring an action in court to dissolve the Company under circumstances where dissolution is not

required by Section 12.4. This Agreement has been drawn carefully to provide fair treatment of all parties. Accordingly, except where the Managers have failed to liquidate the Company as required by this Article 12, each Member hereby waives and renounces its right to initiate legal action to seek the appointment of a receiver or trustee to liquidate the Company or to seek a decree of judicial dissolution of the Company on the ground that (a) it is not reasonably practicable to carry on the business of the Company in conformity with this Agreement, or (b) dissolution is reasonably necessary for the protection of the rights or interests of the complaining Member. Damages for breach of this Section 12.10 shall be monetary damages only (and not specific performance), and the damages may be offset against distributions by the Company to which such Member would otherwise be entitled.

ARTICLE XIII
INDEMNIFICATION AND INSURANCE

13.1 Indemnification of Agents. The Company shall and hereby agrees to indemnify any Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by reason of the fact that such Person is or was a Member, Manager, officer, employee or other agent of the Company or that, being or having been such a Member, Manager, officer, employee or agent, such Person is or was serving at the request of the Company as a manager, director, officer, employee or other agent of another limited liability company, corporation, partnership, joint venture, trust or other enterprise (all such persons being referred to hereinafter as an "Agent"), to the fullest extent permitted by applicable law in effect on the date hereof and to such greater extent as applicable law may hereafter from time to time permit. The Managers shall be authorized, on behalf of the Company, to enter into indemnity agreements from time to time with any Person entitled to be indemnified by the Company hereunder, upon such terms and conditions as the Managers deem appropriate in their business judgment.

13.2 Insurance. The Company shall have the power to purchase and maintain insurance on behalf of any Person who is or was an Agent of the Company against any liability asserted against such Person and incurred by such Person in any such capacity, or arising out of such Person's status as an Agent, whether or not the Company would have the power to indemnity such Person against such liability under the provisions of Section 13.1 or under applicable law.

ARTICLE XIV
NON-COMPETITION

14.1 Adult Oriented Television Business Non-Competition.

14.1.1 PEI and its Subsidiaries may not directly or indirectly, alone or as a partner, joint venturer, member, consultant, agent, independent contractor or stockholder of or lender to, any company or business, engage, compete or participate in the Adult-Oriented Television Business in the Territory (except as provided in Section 3.6), for a period coterminous with the Term and until two (2) years after the termination of this Agreement.

14.1.2 Claxson and its Subsidiaries may not directly or indirectly, alone or as a partner, joint venturer, member, consultant, agent, independent contractor or stockholder of, or lender to, any company or business, engage,

compete or participate in the Adult-Oriented Television Business in all other territories except for the Territory for a period coterminous with the Term and until two (2) years after the termination of this Agreement.

14.1.3 Claxson and PEI and their respective Subsidiaries may not own any interest in a Person engaged in the Adult-Oriented Television Business in the Territory, except and unless those

interests are contributed to the Company, and only with the written permission of the other Member, and such party shall not receive any consideration for such contribution.

14.1.4 If this Agreement, the Program Supply Agreement or any Related Document is terminated due to a breach by PEI, Claxson or any of their respective Subsidiaries, all non-competition restrictions on the breaching party will remain in force for an additional two (2) years, while the non-competition restrictions on the non-breaching party and its Subsidiaries will be terminated.

14.2 Playboy Lifestyle Business Non-Competition in the Territory.

14.2.1 Neither PEI or Claxson nor any of their respective Subsidiaries may directly or indirectly, alone or as a partner, joint venturer, member, consultant, agent, independent contractor or stockholder of or lender to, any company or business, engage, compete or participate in the Lifestyle Media Business in the Territory for a period coterminous with the Term and until two (2) years after the termination of this Agreement.

14.2.2 Claxson and PEI and their respective Subsidiaries may not own any interest in a Person engaged in the Lifestyle Media Business in the Territory, except and unless those interests are contributed to the Company or the Playboy Lifestyle Companies, and only with the written permission of the other Member, and such party shall not receive any consideration for such contribution.

14.2.3 If this Agreement or the Program Supply Agreement or any Related Document is terminated due to a breach by PEI, Claxson or any of their respective Subsidiaries, all non-competition restrictions on the breaching party will remain in force for an additional two (2) years, while the non-competition restrictions on the non-breaching party and its Subsidiaries will be terminated.

14.3 US Playboy Lifestyle Business Non-Competition in the US Lifestyle Territory.

14.3.1 Neither PEI or Claxson nor any of their respective Subsidiaries may for a period coterminous with the US Option Period: (i) directly or indirectly, alone or as a partner, joint venturer, member, consultant, agent, independent contractor or stockholder of or lender to, any company or business, engage, compete or participate in the Lifestyle Linear Television Business in the US Lifestyle Territory, or (ii) own any interest in a Person engaged in the Lifestyle Linear Television Business in the US Lifestyle Territory, except and unless those interests are contributed to the Company or the Playboy Lifestyle Companies, and only with the written permission of the other Member, and such party shall not receive any consideration for such contribution. If there is a US Option Confirmation, this non competition obligation will survive during the Term of this Agreement; provided however, that if (i) there is a PEI Second Rejection or (ii) the Playboy Lifestyle Channel USA is not launched in the US Lifestyle Territory within the time frame as mutually determined by the parties pursuant to Section 2.8.1, this noncompetition obligation will terminate.

14.3.2 If Claxson fails or refuses to make a timely Claxson Offer, Section 14.3.1 shall no longer be applicable, and Claxson and its Subsidiaries may not for the one (1) year period immediately following the expiration of the 90-day period to complete a Claxson Offer: (i) directly or indirectly, alone or as a partner, joint venturer, member, consultant, agent, independent contractor or stockholder of, or lender to, any company or business, engage, compete or participate in the Lifestyle Linear Television Business in the US Lifestyle Territory or (ii) own any interest in a Person engaged in the Lifestyle Linear

Television Business in the US Lifestyle Territory, except and unless those interests are contributed to the Company or the Playboy Lifestyle Companies, and only with the written permission of the other Member, and such party shall not receive any consideration for such contribution. If Claxson fails or refuses to meet and confer with PEI during the 30-day period after a PEI Reply other than a US Option

Confirmation, Section 14.3.1 shall no longer be applicable, and Claxson and its Subsidiaries may not for the one (1) year period immediately following the expiration of such 30-day period: (i) directly or indirectly, alone or as a partner, joint venturer, member, consultant, agent, independent contractor or stockholder of, or lender to, any company or business, engage, compete or participate in the Lifestyle Linear Television Business in the US Lifestyle Territory or (ii) own any interest in a Person engaged in the Lifestyle Linear Television Business in the US Lifestyle Territory, except and unless those interests are contributed to the Company or the Playboy Lifestyle Companies, and only with the written permission of the other Member, and such party shall not receive any consideration for such contribution. If Claxson fails or refuses to participate during the Mediation Period, Section 14.3.1 shall no longer be applicable, and Claxson and its Subsidiaries may not for the one (1) year period immediately following the expiration of the 180-day Mediation Period: (i) directly or indirectly, alone or as a partner, joint venturer, member, consultant, agent, independent contractor or stockholder of, or lender to, any company or business, engage, compete or participate in the Lifestyle Linear Television Business in the US Lifestyle Territory or (ii) own any interest in a Person engaged in the Lifestyle Linear Television Business in the US Lifestyle Territory, except and unless those interests are contributed to the Company or the Playboy Lifestyle Companies, and only with the written permission of the other Member, and such party shall not receive any consideration for such contribution.

14.3.3 If there is a PEI Rejection or PEI Second Rejection, Section 14.3.1 shall no longer be applicable, and for the two (2) year period immediately following a PEI Rejection or the one (1) year period immediately following a PEI Second Rejection, PEI and its Subsidiaries may not: (i) directly or indirectly, alone or as a partner, joint venturer, member, consultant, agent, independent contractor or stockholder of, or lender to, any company or business, engage, compete or participate in the Lifestyle Linear Television Business in the US Lifestyle Territory or (ii) own any interest in a Person engaged in the Lifestyle Linear Television Business in the US Lifestyle Territory, except and unless those interests are contributed to the Company or the Playboy Lifestyle Companies, and only with the written permission of the other Member, and such party shall not receive any consideration for such contribution.

14.3.4 If this Agreement or the Program Supply Agreement or any Related Document is terminated due to a breach by PEI, Claxson or any of their respective Subsidiaries, all non-competition restrictions on the breaching party in this Section 14.3 will remain in force for an additional two (2) years, while the non-competition restrictions on the non-breaching party and its Subsidiaries will be terminated

Notwithstanding anything to the contrary in the foregoing, PEI expressly acknowledges and agrees that neither the ownership or operation by Claxson or any of its Subsidiaries of any of Claxson's or any of its Subsidiaries' existing television channels shall be deemed to be a breach of this Section 14.3. Notwithstanding anything to the contrary in the foregoing, Claxson expressly acknowledges and agrees that neither the ownership or operation by PEI or any of its Subsidiaries of any of PEI's or any of its Subsidiaries' existing television channels shall be deemed to be a breach of this Section 14.3.

14.4 Separate Covenants. The agreements contained in Sections 14.1, 14.2 and 14.3 shall be construed as a series of separate and distinct covenants, one for each (a) activity of PEI and its Subsidiaries and Claxson and its Subsidiaries, as the case may be, (b) capacity in which each of PEI and its Subsidiaries and Claxson and its Subsidiaries, as the case may be, are prohibited from competing and (c) territory in which PEI and its Subsidiaries and Claxson and its Subsidiaries, as the case may be, are carrying on or prohibited from carrying on such activity.

14.5 Intent; Severability. Each of PEI, PEGI and Claxson intends that Sections 14.1, 14.2 and 14.3 satisfy the terms of, and be enforceable in accordance with California Business and Professions Code Section 16602.5, which authorizes any member who sells its interest in a limited liability company to enter into an agreement with the buyer of such interest to refrain from carrying on a similar business

within the counties or cities in which a limited liability company carries on a like business therein. Each of PEI, on behalf of itself and its Subsidiaries (including, without limitation, PEGI), and Claxson, on behalf of itself and its Subsidiaries, recognizes that the territorial and time restrictions set forth herein are reasonable, not burdensome and are properly required by law for the adequate protection of the Company, PEI and its Subsidiaries and Claxson and its Subsidiaries. If such territorial or time restrictions or any other provision contained herein shall be deemed to be illegal, unenforceable or unreasonable by a court of competent jurisdiction, each of PEI and its Subsidiaries and Claxson and its Subsidiaries agrees and submits to the reduction of such territorial or time restriction or other provision to such an area or period as such court shall deem reasonable.

14.6 Injunctive Relief. Each of PEI, PEGI and Claxson acknowledges that (a) the covenants and the restrictions contained in Sections 14.1, 14.2 and 14.3 are a material factor to such party's execution of this Agreement and are necessary and required for the protection of the Company, PEI and its Subsidiaries and Claxson and its Subsidiaries, (b) such covenants relate to matters that are of a special, unique and extraordinary character that gives each of such covenants a special, unique and extraordinary value, and (c) a breach of any of such covenants will result in irreparable harm and damages to the Company, PEI and its Subsidiaries or Claxson and its Subsidiaries, as the case may be, in an amount difficult to ascertain and that cannot be adequately compensated by a monetary award. Accordingly, in addition to any of the relief to which the Company, PEI and its Subsidiaries or Claxson and its Subsidiaries, as the case may be, may be entitled at law or in equity, the Company, PEI and its Subsidiaries and Claxson and its Subsidiaries, as the case may be, shall be entitled to temporary and/or permanent injunctive relief from any breach or threatened breach of the provisions of Sections 14.1, 14.2 and 14.3 without proof of actual damages that have been or may be caused to such Persons by such breach or threatened breach.

ARTICLE XV
MEMBER REPRESENTATIONS AND WARRANTIES

15.1 Representations and Warranties by Each Member. Each Member hereby represents and warrants to, and agrees with, the other Members, and the Company, as follows:

15.1.1 Experience. By reason of such Member's business or financial experience, such Member is capable of evaluating the risks and merits of an investment in the Membership Interest and of protecting such Member's own interests in connection with this investment.

15.1.2 No Advertising. Such Member has not seen, received, been presented with, or been solicited by any leaflet, public promotional meeting, newspaper or magazine article or advertisement, radio or television advertisement, or any other form of advertising or general solicitation with respect to the sale of the Membership Interest.

15.1.3 Investment Intent. Such Member is acquiring the Membership Interest for investment purposes for such Member's own account only and not with a view to or for sale in connection with any distribution of all or any part of the Membership Interest. No other Person will have any direct or indirect beneficial interest in or right to the Membership Interest.

15.1.4 Purpose of Entity. Such Member was not organized for the specific purpose of acquiring the Membership Interest.

15.1.5 Economic Risk. Such Member is financially able to bear the

economic risk of an investment in the Membership Interest, including the total loss thereof.

15.1.6 No Registration of Membership Interest. Such Member acknowledges that the Membership Interest has not been registered under the Securities Act of 1933 (as amended, the "Securities Act"), or qualified under the California Corporate Securities Law of 1968, as amended, or any other applicable blue sky laws in reliance, in part, on such Member's representations, warranties, and agreements herein.

15.1.7 Membership Interest in Restricted Security. Such Member understands that the Membership Interest is a "restricted security" under the Securities Act in that the Membership Interest will be acquired from the Company in a transaction not involving a public offering, and that the Membership Interest may be resold without registration under the Securities Act only in certain limited circumstances and that otherwise the Membership Interest must be held indefinitely. In this connection, such Member understands the resale limitations imposed by the Securities Act and is familiar with SEC Rule 144, as presently in effect, and the conditions which must be met in order for such SEC Rule 144 to be available for resale of "restricted securities".

15.1.8 No Obligation to Register. Such Member represents, warrants, and agrees that the Company is under no obligation to register or qualify the Membership Interest under the Securities Act or under any state securities law, or to assist such Member in complying with any exemption from registration and qualification.

15.1.9 No Disposition in Violation of Law. Without limiting the representations set forth above, and without limiting the other provisions of this Agreement relating to the transfer of Membership Interests, such Member will not make any disposition of all or any part of the Membership Interest which will result in the violation by such Member or by the Company of the Securities Act, the California Corporate Securities Law of 1968, or any other applicable securities laws. Without limiting the foregoing, such Member agrees not to make any disposition of all or any part of the Membership Interest unless and until:

(a) There is then in effect a registration statement under the Securities Act covering such proposed disposition and such disposition is made in accordance with such registration statement and any applicable requirements of state securities laws; or

(b) (i) Such Member has notified the Company of the proposed disposition and has furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and (ii) such Member has furnished the Company with a written opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of any securities under the Securities Act or the consent of or a permit from appropriate authorities under any applicable state securities law; and

(c) In the case of any disposition of all or any part of the Membership Interest pursuant to SEC Rule 144, in addition to the requirements set forth above, such Member shall promptly forward to the Company a copy of any Form 144 filed with the SEC with respect to such disposition and a letter from the executing broker satisfactory to the Company evidencing compliance with SEC Rule 144. If SEC Rule 144 is amended or if the SEC's interpretations thereof in effect at the time of any such disposition have changed from its present interpretations thereof, such Member shall provide the Company with such additional documents as the General Manager may reasonably require.

15.1.10 Investment Risk. Such Member acknowledges that the Membership Interest is a speculative investment which involves a substantial degree of risk of loss by such Member of its entire investment in the Company, that such Member understands and takes full cognizance of the risk factors related to the purchase of the Membership Interest.

15.1.11 Restrictions on Transferability. Such Member acknowledges that there are substantial restrictions on the transferability of the Membership Interest pursuant to this Agreement, that there is no public market for the Membership Interest and none is expected to develop, and that, accordingly, it may not be possible for such Member to liquidate such Member's investment in the Company.

15.1.12 Information Reviewed. Such Member has received and reviewed all information such Member considers necessary or appropriate for deciding whether to purchase the Membership Interest.

15.1.13 No Representations By Company. No Person has at any time represented, guaranteed or warranted to such Member that such Member may freely transfer the Membership Interest, that a percentage of profit and/or amount or type of consideration will be realized as a result of an investment in the Membership Interest, that past performance or experience on the part of the Managers or any other Person in any way indicates the predictable results of the ownership of the Membership Interest or of the overall Company business, that any cash distributions from Company operations or otherwise will be made to the Members by any specific date or will be made at all, or that any specific tax benefits will accrue as a result of an investment in the Company.

15.1.14 Consultation with Attorney. Such Member has been advised to consult with such Member's own attorney regarding all legal matters concerning an investment in the Company and the tax consequences of participating in the Company, and has done so, to the extent such Member considers necessary.

15.1.15 Tax Consequences. Such Member acknowledges that the tax consequences to such Member of investing in the Company will depend on such Member's particular circumstances, and such Member will look solely to, and rely upon, such Member's own advisers with respect to the tax consequences of this investment.

15.1.16 No Assurance of Tax Benefits. Such Member acknowledges that there can be no assurance that the Code or the Treasury Regulations will not be amended or interpreted in the future in such a manner so as to deprive the Company and the Members of some or all of the tax benefits they might now receive, nor that some of the deductions claimed by the Company or the allocations of items of income, gain, loss, deduction, or credit among the Members may not be challenged by the Internal Revenue Service.

15.2 Indemnity. Each Member shall indemnify and hold harmless the Company, each and every Manager, each and every other Member, and any officers, directors, shareholders, managers, members, employees, partners, agents, attorneys, accountants, registered representatives, and control persons of any such entity who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (a "Claim"), by reason of or arising from any misrepresentation or misstatement of facts or omission to represent or state facts made by such Member including, but not limited to, the information and representations in this Agreement, against losses, liabilities, and expenses of the Company, each and every Manager, each and every other Member, and any officers, directors, shareholders, managers, members, employees, partners, attorneys, accountants, agents, registered representatives, and control persons of any such Person (including attorneys' fees, judgments, fines, and amounts paid in settlement, payable as incurred) incurred by such Person in connection with such action, suit, proceeding, or the like.

15.3 Procedure. If a claim by a third party is made against an indemnified party, the indemnified party will promptly notify the indemnifying party of such claim. Failure to so notify the

indemnifying party will not relieve the indemnifying party of any liability which the indemnifying party might have, except to the extent that such failure materially prejudices the indemnifying party's legal rights. The indemnifying party will have the obligation after receipt of such notice to undertake, conduct and control such claim through counsel of its own choosing and at its

expense. If, within thirty (30) days of such notice, the indemnifying party has not undertaken, conducted nor controlled such claim through counsel, the indemnified party shall have the right to undertake, conduct and control such claim through counsel of its own choosing and the indemnifying party shall be responsible for paying all such reasonable, documented expenses at the expense of the indemnifying party.

ARTICLE XVI
DISPUTE RESOLUTION

16.1 Alternate Dispute Resolution. Except as set forth in Section 16.10, any dispute arising out of or relating to this Agreement shall be resolved in accordance with the procedures specified in this Article 16, which shall be the sole and exclusive procedures for the resolution of any such disputes; provided, however, that this Article shall not apply to any dispute concerning the validity, ownership or control of the trademarks licensed by PEI to the Company pursuant to the Program Supply Agreement or the copyrights to any programming supplied by PEGI pursuant to the Program Supply Agreement, and instead any such dispute shall be litigated in a court of law. The Company and the Members intend that these provisions shall be valid, binding, enforceable and irrevocable and shall survive any termination of this Agreement or any of the other Related Documents.

16.2 Notification and Negotiation. If the Company or any Member wishes to assert a dispute with the Company or any other Member arising out of or relating to this Agreement, such Person shall promptly notify the Company and/or such other Member in writing of such dispute and shall attempt in good faith to resolve any dispute arising out of or relating to this Agreement promptly by negotiation between executives who have authority to settle the controversy. Within five (5) business days of the receipt by a party of a notice of the existence of a Dispute ("Notice"), the receiving party shall submit a written response to the other party ("Response"). Both the Notice and the Response shall include (i) a statement of each party's position with regard to the Dispute and a summary of arguments supporting that position; and (ii) the name and title of the senior executive who will represent that party in attempting to resolve the Dispute pursuant to this Section. Within five (5) business days of receipt of the Response, the designated executives shall meet and attempt to resolve the Dispute. All reasonable requests for information made by one party to the other will be honored. All negotiations pursuant to this clause shall be confidential and shall be treated as compromise and settlement negotiations, and no oral or documentary representations made by the parties during such negotiations shall be admissible for any purpose in any subsequent proceedings. If any Dispute is not resolved for any reason within twenty (20) days of receipt of Notice (or within such longer period as to which the parties have agreed in writing), then, on the request of any party the Dispute shall be submitted to arbitration in accordance with Sections 16.3 to 16.9 herein.

16.3 Arbitration Rules. Any Dispute not timely resolved in accordance with Section 16.2 shall be finally and exclusively settled by arbitration in accordance with the International Arbitration Rules of the American Arbitration Association ("AAA") then in effect (the "Rules"), except as modified herein. The arbitration shall be held in Los Angeles, California. The arbitration proceedings shall be conducted, and the award shall be rendered, in the English language.

16.4 Selection of Arbitrators. If the Dispute (including claims and counterclaims) is for less than $5 million, there shall be one arbitrator. The parties shall have fifteen (15) days from the receipt by the respondent of the demand for arbitration to agree on an arbitrator. If the parties fail to timely agree, on the request of any party such arbitrator shall be appointed by the AAA in accordance with the Rules

and the procedures set forth herein. If the Dispute (including claims and counterclaims) is for more than $5 million, there shall be three neutral and impartial arbitrators of whom the claimant and the respondent shall each appoint one, within fifteen (15) days of the receipt by respondent of a copy of the demand for arbitration. The two arbitrators so appointed shall select a third arbitrator to serve as presiding arbitrator, such selection to be made within

twenty (20) days of the selection of the second arbitrator. If any arbitrator is not appointed within the time limits set forth herein, such arbitrator(s) shall be appointed by the AAA in accordance with the Rules and the procedures set forth herein. There shall be no restriction on the nationality of any arbitrator. Any arbitrator appointed by the AAA shall be either a retired judge with experience in international commercial cases or a practicing attorney with at least 15 years experience with large commercial cases and experience as an international arbitrator. The AAA shall send simultaneously to each party an identical list of at least nine arbitrator candidates, and each party shall be permitted to strike two names from the list, rank the remaining arbitrators in order of preference and return the list to the AAA within ten (10) days of the transmittal date. If a party does not return the list within the time specified, all persons named therein shall be considered acceptable. From among the persons who remain on both lists and in accordance with the designated order of mutual preference, the AAA shall invite the acceptance of an arbitrator to serve.

16.5 Arbitration Procedures. The hearing on the merits shall be held as expeditiously as possible, if practicable no later than four (4) months after the appointment of a single arbitrator or five (5) months after the appointment of the third arbitrator, as applicable. The hearing shall, if practicable, last no longer than ten (10) days, which shall be consecutive, if possible. The award, which shall be in writing and shall briefly and concisely state the findings of fact and conclusions of law on which it is based, shall be rendered, if practicable, within twenty (20) days of the close of the hearing. In rendering an award, the arbitrator(s) shall be required to follow the law of the State of California. The arbitrator(s) are not empowered to award damages in excess of compensatory damages and each party hereby irrevocably waives any right to recover such damages with respect to any dispute resolved by arbitration. The arbitrator(s) shall have the authority to award the costs of the arbitration (including attorneys' fees and expenses) to the prevailing party. The award shall be final and binding upon the parties and shall be the sole and exclusive remedy between the parties regarding any claims, counterclaims, issues or accounting presented to the arbitral tribunal. Judgment upon any award may be entered in any court having jurisdiction thereof. Any costs or fees (including attorneys' fees and expenses) incident to enforcing the award shall be charged against the party resisting such enforcement.

16.6 Effect of Arbitration. By agreeing to arbitration, the parties do not intend to deprive any court of its jurisdiction to issue a pre-arbitral injunction, pre-arbitral attachment or other order in aid of arbitration proceedings and the enforcement of any award. Without prejudice to such provisional remedies as may be available under the jurisdiction of a national court, the arbitral tribunal shall have full authority to grant provisional remedies or modify or vacate any temporary or preliminary relief issued by a court, and to award damages for the failure of any party to respect the arbitral tribunal's orders to that effect.

16.7 Statute of Limitations. The statute of limitations of the State of California applicable to the commencement of a lawsuit shall apply to the commencement of an arbitration hereunder, except that no defenses shall be available based upon the passage of time during any negotiation or mediation called for by the preceding paragraphs of this Article 16.

16.8 Service of Process. The Company and each Member agrees that service by registered or certified mail, return receipt requested, delivered to such party at the address provided in Section 17.10 (Notices) will be deemed in every respect effective service of process upon such Person for all purposes of these provisions relating to mediation and arbitration. The Company and each Member irrevocably submits to the jurisdiction of the courts of the State of California and to any federal court located within

such state for the purpose of any action or judgment with respect to this Agreement, regardless of where any alleged breach or other action, omission, fact or occurrence giving rise thereto occurred. The Company and each Member hereby irrevocably waives any claim that any action or proceeding brought in California has been brought in any inconvenient forum.

16.9 Additional Arbitration Provisions. The Company and each Member shall

take all actions necessary for awards and other judgments resulting from the provisions set forth above to be recognized and enforceable in the respective jurisdictions of organization of the Company, the Members and the other parties to the Related Documents and, to the extent necessary, in other jurisdictions in the Territory.

16.10 Availability of Equitable Relief. Notwithstanding the foregoing provisions of this Article 16, the Company and the Members acknowledge that a material breach of this Agreement, the Program Supply Agreement or the Distribution Agreement by a party thereto may result in irreparable harm to the Company or a Member for which there is no adequate remedy at law. Accordingly, if the Company or any Member reasonably believes that the Company or another Member, as the case may be, (i) has materially breached this Agreement, the Program Supply Agreement or the Distribution Agreement and (ii) said breach will create irreparable harm to such Person for which there is not adequate remedy at law, the allegedly harmed party shall be entitled to preliminary, temporary or permanent equitable relief in any Federal or State Court of competent jurisdiction located in the State of California.

ARTICLE XVII
MISCELLANEOUS

17.1 Additional Documents and Acts. Each Member agrees to execute and deliver such additional documents and instruments and to perform such additional acts as may be necessary or appropriate to effectuate, carry out and perform all of the terms, provisions, and conditions of this Agreement and the transactions contemplated hereby.

17.2 Time is of the Essence. All dates and times in this Agreement are of the essence.

17.3 Remedies Cumulative. The remedies under this Agreement are cumulative and shall not exclude any other remedies to which any Person may be lawfully entitled.

17.4 Currency; Payments.

17.4.1 All amounts due from one Member to another Member, from the Company to one or more Members or from one or more Members to the Company pursuant to this Agreement and the other Related Documents shall be paid in U.S. Dollars. If any portion of such payment is calculated on the basis of revenues received in other currencies, such revenues shall be calculated using the exchange rate published in the Wall Street Journal or as quoted by the Central Bank of any country in the Territory, as of the business day immediately preceding the date on which the payment initially is due. Such exchange rate shall also apply to any portion of a payment which is permitted to be deferred, regardless of whether such deferred payment is represented by a promissory note or other instrument.

17.4.2 All payments owing pursuant to this Agreement and the other Related Documents will be made by wire transfer of immediately available funds, net of any withholding required by applicable law. Each Member and the Company will from time to time designate one or more accounts into which such payments will be made and may designate one or more Affiliates to receive such payments.

17.4.3 Unless otherwise indicated, any payment hereunder or under the other Related Documents not made when due will bear interest from the date due to and including the date of payment in full at a rate equal to the Reference Rate as in effect on the date payment was due.

17.4.4 Each Member agrees for the benefit of the other Members that if any payment owing by it under this Agreement is precluded or limited by a restriction imposed by the jurisdiction of organization or operation of such Member or the jurisdiction where such Member's funds are deposited, then an Affiliate of such Member not subject to such restriction shall make the required payment.

17.5 Governing Law. This Agreement has been negotiated and entered into in

the State of California and all questions with respect to this Agreement and the relationships of the parties hereunder will be governed by the internal laws of the State of California, regardless of the choice of law principles of California or any other jurisdiction.

17.6 Authority. Each Member represents that (i) it has full power and authority to enter into and perform this Agreement, (ii) this Agreement is the valid and binding obligation of such Member, enforceable against it in accordance with its terms, and (iii) the performance by such Member of its obligations under this Agreement does not violate any law, rule or regulation binding on such Member or such Member's charter documents.

17.7 Assignment; No Third Party Beneficiary. Neither the Company nor any Member shall assign its rights or delegate its obligations hereunder without written consent of all of the Members except to an Affiliate of the Company or such Member; provided that no such assignment shall relieve the assignor of its obligations. The provisions of this Agreement are for the benefit only of the Company and the Members, and no third party may seek to enforce or benefit from these provisions except that the Persons indemnified by the Company pursuant to Section 13.1 shall be third party beneficiaries of this Agreement with respect to such Section only and shall have independent standing to enforce or benefit from such Section. References to a party by name herein shall also be deemed to be references to such party's permitted successors and assigns.

17.8 Agreement Negotiated. The Members are sophisticated and have been represented by lawyers throughout the negotiation and execution of this Agreement who have carefully negotiated the provisions hereof. As a consequence, the parties do not believe the presumption of California Civil Code Section 1654 and similar laws or rules relating to the interpretation of contracts against the drafter of any particular clause should be applied in this case and therefore waive its effects.

17.9 Waivers; Remedies Cumulative, Amendments, etc.

17.9.1 No failure or delay by the Company or any Member in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof nor shall any single or partial exercise by any of them of any right, power or privilege preclude any further exercise thereof or the exercise of any other right, power or privilege.

17.9.2 The rights and remedies herein provided are cumulative and not exclusive of any rights and remedies provided by law.

17.9.3 No provision of this Agreement may be amended, modified, waived, discharged or terminated, other than by the express written agreement of all of the Members nor may any breach of any provision of this Agreement be waived or discharged except with the express written consent of the party(ies) not in breach.

17.10 Notices. All notices, requests, demands and other communications required to be given under this Agreement shall be in writing and shall conclusively be deemed to have been duly given to each Member (a) when hand delivered, (b) the next business day if sent by a generally recognized overnight courier service that provides written acknowledgement by the addressee of receipt, or (c) when received, if sent by facsimile (with appropriate answer back) or other generally accepted means of electronic transmission addressed as follows:

If to PEGI to:

Playboy Entertainment Group, Inc.
Attention: President
2706 Media Center Drive
Los Angeles, CA 90065
United States of America
Fax Number: (323) 276-4500

with a copy to:

Playboy Enterprises, Inc.
Attention: General Counsel
680 North Lake Shore Drive
Chicago, IL 60611
United States of America
Fax Number: (312) 266-2042

with a copy to:

Playboy Entertainment Group, Inc.
Attention: Business and Legal Affairs
2706 Media Center Drive
Los Angeles, CA 90065
United States of America
Fax Number: (323) 276-4502

if to Lifford to:

Lifford International Co. Ltd.
c/o Claxson Interactive Group, Inc.
Attention: General Counsel
1550 Biscayne Boulevard
Ground Floor
Miami, FL 33132
Fax Number: (305) 894-4803

with a copy to:

Paul Berkowitz, Esq.
Greenberg Traurig, P.A.
1221 Brickell Avenue
Miami, Florida 33131
Fax Number: (305) 961-5685

if to the Company to:

Playboy TV - Latin America, LLC
c/o Claxson Interactive Group Inc.
Attention: General Counsel
1550 Biscayne Boulevard
Ground Floor
Miami, FL 33132
Fax Number: (305) 894-4803

with copies to PEGI and Claxson

or to such other address, or facsimile transmission number as the relevant addressee may hereafter by notice hereunder substitute.

17.11 Public Announcements. Unless otherwise unanimously agreed by the Management Committee or as required by law or by the stock exchange on which any Member's stock, or the stock of any direct or indirect parent of a Member, is traded, no public announcement will be made by any of the Company, any Member, any Manager, the General Manager or any other officer of the Company or any of their respective Affiliates with respect to the subject matter of this Agreement.

17.12 Survival. Notwithstanding the termination of this Agreement, the dissolution of the Company, or a Member's ceasing to be a Member under this Agreement, the following sections of this Agreement, as set forth as of the date hereof or as hereafter amended by agreement in writing signed by both PEGI and Lifford, shall survive indefinitely and be enforceable by PEGI or Lifford: Section 12.7, Section 13.1, Article 14, Article 16 and this Section 17.12.

17.13 Confidentiality. Unless otherwise unanimously agreed by the Management Committee or as required by law or by the stock exchange on which any Member's stock, or the stock of any direct or indirect parent of a Member, is

traded, no public announcement will be made by any of the Company, any Member, any Manager, the General Manager or any other officer of the Company or any of their respective Affiliates with respect to the subject matter of this Agreement.

17.13.1 General Confidentiality Requirements. Each Member shall and shall cause its Affiliates to, maintain the confidentiality of all information of a confidential or proprietary nature, which it may have or acquire regarding customers, business, finances, assets or affairs of the Company or the other Members or its Affiliates, except for any information, which is (a) generally available to the public or becomes generally available to the public other than through disclosure in violation of this Agreement, (b) required to be disclosed by applicable law or to enforce the provisions of this Agreement and the Related Documents, or (c) disclosed to its representatives (which term shall be deemed to include their banks, private investors, independent accountants and legal counsel); provided, such Member causes such representatives to comply with the confidentiality requirements of this Agreement.

17.13.2 Exceptions to the General Confidentiality Requirements.

(a) Notwithstanding anything stated to the contrary in Section 17.12.1 above, to the extent any Member invites a third party to participate as an equity or non-equity investor or other provider of finance (a "Third Party") in or to such Member or its respective Affiliates, the Members agree that such Member may provide to such Third Party and its representatives (which term shall be deemed to include their banks, private investors, independent accountants and legal counsel), subject to the execution of an appropriate confidentiality agreement, copies of (i) this Agreement, (ii) the Related

Documents, (iii) any other agreement by and between any of the parties that relate to the Company and transactions contemplated by this Agreement and the Related Documents, and (iv) any other financial or other information that would be reasonable in the circumstances for a potential investor to require. Notwithstanding the foregoing, no such information will be provided until a confidentiality agreement to the benefit of the Members, in a form and substance reasonably acceptable to the Members, has been signed by the Third Party.

(b) Notwithstanding anything stated to the contrary in Section 17.13.1 above, Claxson, PEI and the Members may provide to any institutional investors and analysts and their representatives (which term shall be deemed to include their independent accountants and legal counsel), subject to the execution of an appropriate confidentiality agreement, such information concerning the Company as is conventional to assist (i) such institutional investors in deciding whether to invest or (ii) such analysts to prepare their reports; provided, however, that no information may be disclosed to any entity pursuant to this Section 17.13.2(b) without the prior written consent of the Management Committee, with such consent only being withheld upon reasonable determination by the Management Committee that the disclosure of such information would reasonably be expected to cause harm, including with respect to its competitive position, to the Company.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have caused their duly authorized officers to execute this Agreement.

PLAYBOY ENTERTAINMENT GROUP, INC.

By: Reid Nathan

Name:Reid Nathan
Title:V.P. Business and Legal Affairs

LIFFORD INTERNATIONAL CO. LTD.

By: Amaya Arizstoy

Name:Amaya Arizstoy
Title:

Solely in connection with Article 14, Sections 2.8, 2.9, 2.10, 9.8 and 12.2.4 and Exhibit G of this Agreement, agreed to and accepted by:

PLAYBOY ENTERPRISES, INC.

By: Alejandro Inglesias

Name:Alejandro Inglesias
Title:

Solely in connection with Article 14, Sections 2.8, 2.9, 2.10, 9.9, 9.10 and 12.2.3 and Exhibit G, agreed to and accepted by:

CLAXSON INTERACTIVE GROUP INC.

By: Roberto Vivo

Name:Roberto Vivo
Title:

EXHIBIT A

CAPITAL CONTRIBUTION / CAPITAL ACCOUNT
AND ADDRESSES OF MEMBERS

AS OF APRIL 1, 2002

Playboy TV - Latin America, LLC

<TABLE>
<CAPTION>

Member's Name	Member's Address	Member's Capital Account	Member's Capital Contribution	Percentage Interest
<S>	<C>	<C>	<C>	<C>
Playboy Entertainment Group, Inc.	See Section 17.10	($ 381,000)	$ 5,692,000	19%
Lifford International Co. Ltd.	See Section 17.10	($1,637,000)	$24,260,000	81%

</TABLE>

Playboy TV Holdings, LLC

<TABLE>
<CAPTION>

Member's Name	Member's Address	Member's Capital Account	Member's Capital Contribution	Percentage Interest
<S>	<C>	<C>	<C>	<C>
Playboy Entertainment Group, Inc.	See Section 17.10	$ 74,470	$ --	19%
Zagasse Corp, N.V.	See Section 17.10	$334,530	$ --	81%

</TABLE>

EXHIBIT B

TAX ALLOCATIONS

ARTICLE 1
ALLOCATION OF NET INCOME, NET LOSSES
AND OTHER ITEMS AMONG THE MEMBERS

1.1 Capital Accounts.

(a) A separate capital account shall be maintained for each Member (a "Capital Account"). Such Member's Capital Account shall from time to time be (i) increased by (A) the amount of money and the Gross Asset Value of any property contributed by the Member to the Company (net of liabilities secured by the property or to which the property is subject), and (B) the Net Income and any other items of income and gain specially allocated to the Member under Paragraph 1.3, and (ii) decreased by (A) the amount of money and the Gross Asset Value of any property distributed to the Member by the Company (net of liabilities secured by the property or to which the property is subject), and (B) the Net Losses and any other items of deduction and loss specially allocated to the Member under Paragraph 1.3.

(b) For purposes of this Paragraph 1.1, an assumption of a Member's unsecured liability by the Company shall be treated as a distribution of money to that Member. An assumption of the Company's unsecured liability by a Member shall be treated as a cash contribution to the Company by that Member.

(c) In the event that assets of the Company other than money are distributed to a Member in liquidation of the Company, or in the event that assets of the Company other than money are distributed to a Member in kind, in order to reflect unrealized gain or loss, Capital Accounts for the Members shall be adjusted for the hypothetical "book" gain or loss that would have been realized by the Company if the distributed assets had been sold for their Gross Asset Values in a cash sale. In the event of the liquidation of a Member's interest in the Company, in order to reflect unrealized gain or loss, Capital Accounts for the Members shall be adjusted for the hypothetical "book" gain or loss that would have been realized by the Company if all Company assets had been sold for their Gross Asset Values in a cash sale.

1.2 Allocation of Net Income and Net Losses. After giving effect to the special allocations set forth in Paragraph 1.3 below, Net Income and Net Losses of the Company for each Fiscal Year shall be allocated to the Members in accordance with their respective Percentage Interests.

1.3 Special Allocations. The following special allocations shall be made in the following order:

(a) Minimum Gain Chargeback. Subject to the exceptions set forth in Treasury Regulation Section 1.704-2(f), if there is a net decrease in Company Minimum Gain during a Company Fiscal Year, each Member shall be specially allocated items of income and gain for Capital Account purposes for such year (and, if necessary, for subsequent years) in an amount equal to such Member's share of the net decrease in Company Minimum Gain during such year (which share of such net decrease shall be determined under Treasury Regulation Section 1.704-2(g)(2)). It is intended that this Paragraph 1.3(a) shall constitute a "minimum gain chargeback" as provided by Treasury Regulation Section 1.704-2(f).

(b) Member Nonrecourse Debt Minimum Gain Chargeback. Subject to the exceptions contained in Treasury Regulation Section 1.704-2(i)(4), if there is a net decrease in Member Nonrecourse

Debt Minimum Gain during a Company Fiscal Year, any Member with a share of such Member Nonrecourse Debt Minimum Gain (determined in accordance with Treasury Regulation Section 1.704-2(i)(5)) as of the beginning of such year shall be

specially allocated items of income and gain for Capital Account purposes for such year (and, if necessary, for subsequent years) in an amount equal to such Member's share of the net decrease in Member Nonrecourse Debt Minimum Gain (which share of such net decrease shall be determined under Treasury Regulation Sections 1.704-2(i)(4) and 1.704-2(g)(2)). It is intended that this Paragraph 1.3(b) shall constitute a "partner nonrecourse debt minimum gain chargeback" as provided by Treasury Regulation Section 1.704-2(i)(4).

(c) Nonrecourse Deductions. Any Nonrecourse Deductions shall be allocated to the Members in accordance with their Percentage Interests.

(d) Member Nonrecourse Deductions. Any Member Nonrecourse Deductions shall be allocated to the Member that takes the Economic Risk of Loss for the Member Nonrecourse Debt to which such deductions relate as provided in Treasury Regulation Section 1.704-2(i)(1).

(e) Qualified Income Offset. In the event any Member unexpectedly receives any adjustments, allocations, or distributions described in Treasury Regulation Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), or 1.704-1(b)(2)(ii)(d)(6), items of Company income and gain for Capital Account purposes for such Fiscal Year shall be specially allocated to the Member in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulations, the Adjusted Capital Account Deficit of the Member as quickly as possible, provided that an allocation pursuant to this Paragraph 1.3(e) shall be made if and only to the extent that the Member would have an Adjusted Capital Account Deficit after all other allocations provided for in this Article 1 have been tentatively made as if this Paragraph 1.3(e) were not in the Agreement.

(f) Section 754 Adjustment. To the extent any adjustment to the adjusted tax basis of any Company asset pursuant to Code Section 734(b) or Code Section 743(b) is required, pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specially allocated to the Members in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such section of the Treasury Regulations.

(g) No Excess Deficit. To the extent that any Member has or would have, as a result of an allocation of loss (or an item thereof), an Adjusted Capital Account Deficit, such amount of loss (or an item thereof) shall be allocated to the other Members in accordance with this Paragraph 1.3, but in a manner which will not produce an Adjusted Capital Account Deficit as to any such Member.

(h) Curative Allocations. The allocations set forth in this Paragraph 1.3 shall be taken into account for purposes of equitably adjusting subsequent allocations of Net Income and Net Losses, and items of income, gain, loss and deduction among the Members so that, to the extent possible, the net amount of such allocations of Net Income and Net Losses and other items to each Member shall be equal to the net amount that would have been allocated to each such Member if such allocations had not occurred.

(i) It is the intent of the allocation provisions of this Exhibit B that the distributions to the Members pursuant to Article 12 will be equal to the positive Capital Account balances of the Members (as determined after taking into account all Capital Account adjustments for the year prior to any liquidating distributions). If such Capital Account Balances would otherwise not satisfy the intent described in the preceding sentence, then the Manager shall reallocate items of gross income or deduction

for the year of such liquidating distributions (and, if necessary, for prior taxable years of the Company for which amended tax returns can be and are filed) such that, to the extent possible, the positive Capital Account balances of the Members (as determined after taking into account all Capital Account adjustments for the year of liquidation) will be equal to the distributions to be received

by the Members pursuant to Article 12.

1.4 Allocation of Certain Tax Items.

(a) Except as otherwise provided in this Paragraph 1.4, all items of income, gain, loss or deduction for federal, state and local income tax purposes shall be allocated in the same manner as the corresponding "book" items are allocated under Paragraph 1.2 (as a component of Net Income or Net Losses), or 1.3.

(b) In accordance with Code Section 704(c) and the Treasury Regulations thereunder, income, gain, loss and deduction with respect to any property contributed to the capital of the Company shall, solely for tax purposes, be allocated among the Members so as to take account of any variation between the adjusted basis of such property to the Company for federal income tax purposes and the initial Gross Asset Value thereof (computed in accordance with subparagraph (i) of the definition of the term Gross Asset Value herein).

(c) In the event the Gross Asset Value of any Company asset is adjusted pursuant to subparagraph (ii) or (iv) of the definition of the term Gross Asset Value, subsequent allocations of income, gain, loss and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes and its Gross Asset Value in the same manner as under Code Section 704(c) and the Treasury Regulations thereunder.

(d) In the event the Company has in effect an election under Section 754 of the Code, allocations of income, gain, loss or deduction to affected Members for federal, state and local tax purposes shall take into account the effect of such election pursuant to applicable provisions of the Code.

(e) Any elections or other decisions relating to such allocations shall be made by the Manager in any manner that reasonably reflects the purpose and intention of this Agreement. Allocations pursuant to this Paragraph 1.4 are solely for federal, state and local tax purposes and shall comprise the information furnished to such Members in their Schedule K-1s each year. Except to the extent allocations under this Paragraph 1.4 are reflected in the allocations of the corresponding "book" items pursuant to Paragraph 1.2 (as a component of Net Income or Net Losses), or 1.3, allocations under this Paragraph 1.4 shall not affect, or in any way be taken into account in computing, any Member's Capital Account or share of Net Income, Net Losses, other items or distributions pursuant to any provision of this Agreement.

(f) To the extent possible, any tax credits shall be allocated in accordance with each Member's Percentage Interest.

1.5 Allocation Between Assignor and Assignee. The portion of the income, gain, losses, credits, and deductions of the Company for any Fiscal Year of the Company during which a Membership Interest is assigned by a Member (or by an assignee or successor in interest to a Member), that is allocable with respect to such Membership Interest shall be apportioned between the assignor and the assignee of the Membership Interest on whatever reasonable, consistently applied basis selected by the Manager and permitted by the applicable Treasury Regulations under Section 706 of the Code.

ARTICLE 2
DEFINITIONS

As used in this Exhibit B, the following terms shall have the following meaning:

"Adjusted Capital Account Deficit" means, with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of the relevant Fiscal Year, after giving effect to the following adjustments: (i) credit to such Capital Account any amounts which such Member is treated for purposes of the Treasury Regulations as being obligated to restore to the Company pursuant to Treasury Regulations Section 1.704-1(b)(2)(ii)(c) or is deemed to be obligated to restore pursuant to the penultimate sentences of

Treasury Regulation Sections 1.704-2(g)(1) and 1.704-2(i)(5); and (ii) debit to such Capital Account the items described in Treasury Regulation Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), and 1.704-1(b)(2)(ii)(d)(6). The foregoing definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Treasury Regulation Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

"Company Minimum Gain" with respect to any year means the "partnership minimum gain" computed in accordance with the principles of Section 1.704-2(d)(1) of the Treasury Regulations.

"Depreciation" means, for each Fiscal Year or other period, an amount equal to the depreciation, amortization, or other cost recovery deduction allowable for federal income tax purposes with respect to an asset for such year or other period, except that if the Gross Asset Value of any asset differs from its adjusted basis for federal income tax purposes at the beginning of such year or other period, Depreciation shall be an amount which bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation, amortization, or other cost recovery deduction for such year or other period bears to such beginning adjusted tax basis, provided, however, that if the federal income tax depreciation, amortization, or other cost recovery deduction for such year is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Manager.

"Economic Risk of Loss" shall have the meaning provided by Sections 1.704-2(b)(4) and 1.752-2 of the Treasury Regulations.

"Gross Asset Value" means, with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

the initial Gross Asset Value of any asset contributed by a Member to the Company shall be the gross fair market value of such asset, as determined by the contributing Member and the Company; and

the Gross Asset Value of all Company assets shall be adjusted to equal their respective gross fair market values, as determined by the Manager, as of the following times: (a) the acquisition of an additional interest in the Company by any new or existing Member in exchange for more than a de minimis capital contribution; (b) the distribution by the Company to a Member of more than a de minimis amount of Company property as consideration for an interest in the Company, (provided, that in the case of either (a) or (b), if the Members reasonably determine that such adjustment is necessary or appropriate to reflect the relative Economic Interests of the Members in the Company within the meaning of Section 1.704-(b)(2)(iv)(g) of the Treasury Regulations); and (c) the liquidation of a Member's interest in the Company or the Company within the meaning of Section 1.704-1(b)(2)(ii)(g) of the Treasury Regulations;

the Gross Asset Value of any Company asset distributed to any Member shall be the gross fair market value of such asset on the date of distribution;

the Gross Asset Values of Company assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Section 734(b) or Section 743(b) of the Code, but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(m) and Paragraph 1.3(f) hereof, provided, however, that Gross Asset Values shall not be adjusted pursuant to this subparagraph (iv) to the extent that the Members determine that an adjustment pursuant to subparagraph (ii) of this definition is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this subparagraph (iv); and

if the Gross Asset Value of any asset has been determined or adjusted pursuant to subparagraphs (i), (ii) or (iv) hereof, such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing gains or losses from the disposition of such asset.

"Member Nonrecourse Debt" means liabilities of the Company treated

as "partner nonrecourse debt" under Section 1.704-2(b)(4) of the Treasury Regulations.

"Member Nonrecourse Debt Minimum Gain" means an amount of gain characterized as "partner nonrecourse debt minimum gain" under Treasury Regulation Section 1.704-2(i)(2) and 1.704-2(i)(3).

"Member Nonrecourse Deductions" in any year means the Company deductions that are characterized as "partner nonrecourse deductions" under Sections 1.704-2(i)(1) and 1.704-2(i)(2) of the Treasury Regulations

"Net Income" and "Net Losses" mean, for each Fiscal Year or other period, an amount equal to the Company's taxable income or loss, as applicable for such year or period, determined in accordance with Section 703(a) of the Code (for this purpose, all items of income, gain, loss and deduction required to be stated separately pursuant to Section 703(a)(1) of the Code shall be included in taxable income or loss), with the following adjustments: (i) any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Net Income or Net Losses pursuant to this paragraph shall be added to such taxable income or loss; (ii) any expenditures of the Company described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(i), and not otherwise taken into account in computing Net Income or Net Losses pursuant to this paragraph shall be subtracted from such taxable income or loss; (iii) in the event the Gross Asset Value of any Company asset is adjusted pursuant to subparagraph (ii), (iii) and (iv) of the definition thereof, the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Net Income or Net Losses; (iv) gain or loss resulting from the disposition of any Company asset with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Gross Asset Value of the asset disposed of, notwithstanding that the adjusted tax basis of such asset differs from its Gross Asset Value; (v) in lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year or other period, computed in accordance with the definition thereof, and (vi) notwithstanding any other provision of this paragraph, any items which are specially allocated pursuant to Paragraph 1.4 hereof shall not be taken into account in computing Net Income and Net Losses.

"Nonrecourse Deductions" in any year means the Company deductions that are characterized as "nonrecourse deductions" under Sections 1.704-2(b)(1) and 1.704-2(c) of the Treasury Regulations.

"Nonrecourse Liabilities" means liabilities of the Company treated as "nonrecourse liabilities" under Section 1.704-2(b)(3) and 1.752-1(a)(2) of the Treasury Regulations.

"Treasury Regulations" means the income tax regulations (including temporary and proposed) promulgated under the Code.

Other Definitions. All other capitalized terms used in this Exhibit B shall have the same meaning as in the text of the Agreement.

EXHIBIT C

CALCULATION OF FAIR MARKET VALUE

As used in the Agreement, the term "Fair Market Value" shall mean the price at which a willing seller would sell and a willing buyer would buy the asset for which the determination of value is being made, having full knowledge of the facts, in an arm's length transaction without time constraints, and without being under any compulsion to buy or sell. The determination of the Fair

Market Value of an asset shall, without duplication of deduction, be reduced by the amount of any liens, claims, encumbrances or liabilities relating to such asset. The Fair Market Value of a fractional interest in an asset shall be equal to the appropriate pro rata portion of the Fair Market Value for the entire asset, without any further reduction on account of the fractional ownership.

As soon as practicable after the receipt of any notice or the occurrence of any event requiring the determination of the Fair Market Value of the Company or other asset, the Members shall confer and use their reasonable best efforts to determine the same. If the Members agree upon the determination of the Fair Market Value of the Company or other asset, such determination shall be final and binding upon the parties for all purposes. If any Member shall give notice to the other Member(s) requesting determination of such amount or value by appraisal, or the parties have been unable to agree on the Fair Market Value, then the Members shall consult for the purpose of appointing a mutually-acceptable qualified independent expert. If the Members are unable to agree on an expert within a three-day period, each Member shall select its own expert within a 10 day period, which shall provide its own determination within thirty (30) days after its appointment. In the event that the two experts' determination are not identical or differ by ten percent (10%) or less then, the Fair Market Value shall be the average of those two determinations and the Fair Market Value as so determined shall be final and binding upon the Members for all purposes. In the event that the two experts' determination differ by more than ten percent (10%) and the Members cannot then agree on the Fair Market Value, then the experts shall choose a third expert within a three day period, which shall also provide with its own determination. Such third independent expert shall report its determination with thirty (30) days after its appointment. The Fair Market Value shall be the average of the two determinations, which are closest in their determinations of Fair Market Value (i.e., the outlier will be disregarded). In the event that the third expert's determination falls exactly halfway between the other two experts' determination, the third expert's determination shall be the Fair Market Value. The Fair Market Value as so determined shall be final and binding upon the Members for all purposes. Any expert selected pursuant to this provision shall not be affiliated with any Member (and in the case of Lifford, to any member of the Cisneros Group or any of its Affiliates) nor shall it have provided other investment banking services to such Member (and in the case of Lifford, to any member of the Cisneros Group or any of its Affiliates) during the preceding 12 months and shall be an investment banking firm of national standing in the United States or other qualified firm of comparable standing with prior experience in appraising assets comparable to the asset(s) at issue. If any Member fails to appoint an independent expert as required under this provision, the Member shall forfeit its rights to appoint an independent expert, and the determination of Fair Market Value by (or on behalf of) the other Member shall be final and binding for all purposes hereunder. If the Members agree on an expert, then the Company shall pay the fees and costs of the appraisal; otherwise, each Member shall pay the fees and costs of the expert it selects and the fees and costs of the third expert shall be borne by the Member whose expert provided the disregarded determination, or if there is no disregarded determination, then the costs of the third expert shall be borne by the Members equally.

EXHIBIT D

[Intentionally Omitted]

EXHIBIT E

RESTRICTED TRANSFEREES

Gold Group International Ltd.
Northern and Shell Plc
Paul Raymond Organisation Ltd. (Club; Mayfair)
Private Media Group Inc.

Pout TV
Sapphire
Sport Newspapers Ltd.
Zone Vision Enterprises Limited

Dennis Publishing, Inc. (Maxim)
General Media International, Inc. (Penthouse)
LFP, Inc. (Hustler)
New Frontier Media, Inc.
Vivid Entertainment Group
Vivid Video, Inc.
Vivid Video International, Inc.
VCA Pictures
Wicked Pictures

EXHIBIT F

[Intentionally Omitted]

EXHIBIT G

REGISTRATION RIGHTS

All terms used herein not otherwise defined shall have the meaning ascribed to them in the Operating Agreement.

In the event that PEGI elects to pay all or part of the PEGI Buy-up Option and Additional Buy-Up Option with shares of PEI Class B common stock (the "Issued Stock"), PEI agrees to grant Lifford the following registration rights in connection with the Issued Stock:

1. Resale Registration. Promptly following the exercise of the PEGI Buy-Up Option and Additional Buy-Up Option, if Issued Stock is to be used as consideration, PEI will prepare and file, a shelf registration statement on Form S-3, or any successor or other appropriate form (the "Registration Statement") under the Securities Act of 1933, as amended (the "Securities Act"), covering the Issued Stock and will use commercially reasonable efforts to cause the Registration Statement to be declared effective as soon as reasonably practicable. Once the Registration Statement has become effective, PEI will use commercially reasonable efforts to maintain the effectiveness of such Registration Statement for a period of time terminating on the first to occur of (a) the date that is nine (9) months after the date the Registration Statement is declared effective and (b) the date on which Lifford has sold or otherwise disposed of all of the Issued Stock, in each case as such period may be extended pursuant to Sections 2 and 3.

2. Blackout Periods. Notwithstanding anything to the contrary contained herein, PEI will be entitled to postpone and/or suspend for a period of time, not to exceed one hundred twenty (120) days (a "Blackout Period"), the use of any Registration Statement pursuant to Section 1, if PEI reasonably determines that the offering of any Issued Stock by Lifford would impede, delay or interfere with any financing, offer or sale of securities, acquisition, corporate reorganization or other material transaction involving PEI or any of its affiliates, or require disclosure of material information as to which disclosure at that time would not be in the best interest of PEI and its stockholders; provided, however, that the Blackout Period will earlier terminate upon public disclosure by PEI of such material information or completion of such a transaction. Upon notice by PEI to Lifford of such determination, Lifford agrees to (i) keep the fact of any such notice strictly confidential, (ii) promptly halt any offer, sale, trading or transfer by Lifford of any Issued Stock for the duration of the Blackout Period set forth in such notice (or until earlier terminated by PEI) and (iii) promptly halt any use, publication,

dissemination or distribution of any registration statement, each prospectus included therein, and any amendment or supplement thereto for the duration of the Blackout Period set forth in such notice (or until earlier terminated by PEI). In the event PEI gives such notice, PEI shall extend the effectiveness of the Registration Statement pursuant to Section 1 for a period of time equal to the length of the Blackout Period. PEI may not impose a Blackout Period during the sixty (60) day period immediately following the date the Registration Statement is declared effective.

3. Suspension of Dispositions. Lifford agrees that upon receipt of any notice (a "Suspension Notice") from PEI of the happening of any event of the kind which, in the opinion of PEI, requires the amendment or supplement of any prospectus, Lifford will forthwith discontinue disposition of Issued Stock until Lifford's receipt of the copies of the supplemented or amended prospectus or until it is advised in writing by PEI that the use of the prospectus may be resumed, and has received copies of any additional or supplemental filings which are incorporated by reference in the prospectus (the period from the receipt of any Suspension Notice to the date of receipt by Lifford of copies of any additional or supplemental filings and written notice from PEI

that the use of the prospectus may be resumed being referred to as a "Suspension Period"), and, if so directed by PEI, Lifford will deliver to PEI all copies of the prospectus covering such Issued Stock, current at the time of receipt of the Suspension Notice. PEI will use commercially reasonable efforts to prepare and cause to become effective any such amendment or supplement as promptly as practicable. In the event PEI delivers a Suspension Notice to Lifford, PEI shall extend the effectiveness of the Registration Statement pursuant to Section 1 for a period of time equal to the Suspension Period.

4. Information by Lifford. Lifford shall furnish to PEI such information regarding Lifford and the distribution proposed by Lifford as PEI may reasonably request in writing and as shall be reasonably required in connection with any registration, qualification, or compliance referred to in Section 1.

5. Conduct of Sales by Lifford. Claxson and Lifford hereby covenant and agree that, during the period commencing upon the receipt by Lifford of notice from PEGI of its intent to exercise the PEGI Buy-Up Option or Additional Buy-Up Option and to pay some or all of the purchase price in PEI Stock and terminating upon the effectiveness of the Registration Statement, Claxson, Lifford and their Subsidiaries and Affiliates (collectively, the "Lifford Parties") shall not, directly or indirectly, whether or not then prohibited by law or regulation, sell, offer to sell, solicit offers to buy, or dispose of (collectively, a "Disposition") any shares of PEI Stock, nor will any Lifford Party engage in any hedging transaction which would result in a Disposition of PEI Stock by such Lifford Party; including, without limitation, effecting any short sale (whether or not such short sale is against the box) of PEI Stock or maintaining any short position in shares of PEI Stock. The Lifford Parties hereby further agree (i) that all sales of Issued Stock will be conducted in a commercially reasonable manner, and (ii) to use all commercially reasonable efforts in their selling activities, whether prior to or after the effectiveness of the Registration Statement, not to adversely affect the trading value of PEI Stock.

6. Legends; Securities Laws Compliance. Lifford acknowledges that any Issued Stock will bear any and all appropriate state and federal securities law legends. Lifford agrees that it will comply with all state and federal securities laws relating to the sale and distribution of Issued Stock, including delivering the prospectus provided by PEI for resales pursuant to the Registration Statement. In addition, Lifford agrees not to take any action that would prevent the distribution of Issued Stock included in the Registration Statement to be made in accordance with the plan of distribution set forth in the Registration Statement. Lifford agrees to notify PEI promptly in writing upon the sale by Lifford of any Issued Stock covered by the Registration Statement.

EXHIBIT H

RELATED DOCUMENTS

"Related Documents" means the following agreements as amended from time to time in accordance with their terms:

1. Third Amended and Restated Operating Agreement for Playboy TV - Latin America, LLC, a California limited liability company ("PTVLA"), dated November 10, 2006 by and between Playboy Entertainment Group, Inc., a Delaware corporation ("PEGI"), and Lifford International Co. Ltd. (BVI), a British Virgin Islands corporation ("Lifford").

2. Amended and Restated Playboy TV - Latin America Program Supply and Trademark License Agreement, dated November 10, 2006, by and between PEGI and PTVLA.

3. Second Amended and Restated Distribution Agreement, dated the date hereof, by and between PEGI, PTVLA U.S., LLC, a Delaware limited liability company ("PTV US") and PTVLA.

4. Transfer Agreement, dated as of December 23, 2002, by and among Playboy Enterprises, Inc., a Delaware corporation ("PEI"), PEGI, Playboy Enterprises International, Inc., a Delaware corporation ("PEII"), Claxson Interactive Group Inc., a British Virgin Islands corporation ("Claxson"), Carlyle Investments LLC, a Delaware limited liability company ("Carlyle") (in its own right and as a successor in interest to Victoria Springs Investments Ltd., a British Virgin Islands corporation ("VSI")), Carlton Investments LLC, a Delaware limited liability company ("Carlton") (in its own right and as a successor in interest to VSI), Lifford, and Playboy TV International, LLC, a Delaware limited liability company ("PTVI").

5. Master Termination and Successor Agreement, dated as of December 23, 2002, by and among PEI, PEGI, Playboy.com, Inc., a Delaware corporation ("Playboy.com"), PTVI, Lifford, Carlyle, Carlton, and Claxson, in its own right and as successor in interest to Morehaven Investments, Inc., a British Virgin Islands corporation.

6. Notice, dated as of December 23, 2002, given by Lifford to Playboy.com.

7. Letter Agreement, dated December 23, 2002, by and among PEI, PEGI, Claxson and PTVLA.

8. Venus Contribution Agreement, dated as of December 23, 2002, by and among Claxson, Lifford, PTVLA and PEGI.

9. Amended and Restated Management Services Agreement, dated the date hereof, by and between Claxson USA II , Inc., a Florida corporation ("Claxson USA"), and PTVLA.

10. Amended and Restated Sales Services Agreement, dated as of the date hereof and effective as of December 1, 2004, by and between Imagen and PTVLA.

11. Program Origination Services Agreement, dated the date hereof, by and between Imagen and PTVLA.

12. Termination and Release Agreement, dated as of the date hereof and effective as of June 1, 2005, by and between Claxson Playout, Inc., a Florida Corporation, formerly know as The Kitchen, Inc. and PTVLA.

13. First Amended and Restated Web Site Revenue Share Agreement, dated the date hereof, by and among Playboy.com, Claxson and PTVLA.

14. Contribution Agreement, dated as of December 22, 2002 and effective as of March 31, 2002, by and among PEGI, AdulTVision Communications, Inc., a Delaware corporation, Carlyle and Carlton.

15. Amended and Restated Affiliation Agreement, dated the date hereof, by and between PTVLA and Playboy Television B.V., a Netherlands limited liability company ("PTV BV").

16. Amended and Restated Affiliation Agreement, dated the date hereof, by and between PTVLA and PTV US.

17. Affiliate Agreement Termination Agreement, dated as of December 23, 2002, by and between PTVI and Claxson.

18. Master Termination and Release Agreement, dated the date hereof, by and among Imagen, Contribution S.A., an Argentine corporation ("Venus Argentina") and Venus TV, Inc., a British Virgin Islands corporation ("Venus International").

19. Termination and Release Agreement, dated the date hereof, by and between Claxson USA and Venus International.

20. Master Termination, Consent and Release Agreement, dated the date hereof and effective as of December 1, 2004, by and between Troy, Imagen, PTVLA and Venus International.

21. Amended and Restated Sales Services Agreement, dated as of the date hereof and effective as of December 1, 2004, by and between Imagen and Venus Argentina.

22. Sales Services Agreement, dated as of the date hereof and effective as of December 1, 2004, by and between Imagen and Venus International.

23. Senior Secured Credit Promissory Note, dated the date hereof, issued by Playboy Lifestyle Holding.

24. Pledge and Security Agreement, dated the date hereof, by and among Playboy Lifestyle Holding, PTVLA and Lifford.

25. Sub-Licensing Agreement, dated the date hereof, by and between Playboy Lifestyle Holding and PTVLA.

26. Operating Agreement of Playboy Lifestyle Holding, LLC, dated as of October 10, 2006, by and between PTVLA and Playboy Lifestyle Holding.

27. Wireless Distribution Agreement, dated September 1, 2005, by and between Playboy.com and PTVLA.

28. Satellite Transponder Segment Agreement, dated the date hereof, by and between Claxson USA and PTVLA.

29. License Agreement dated July 30, 2003 between El Sitio Management, S.A. and Playboy.com.

30. Amended and Restated Amendment and Assignment Agreement, dated as of the date hereof and effective as of September 22, 2004, by and among Imagen, El Sitio, Inc., a British Virgin Islands corporation, Claxson and Playboy.com.

Exhibit 10.7d

CONFIDENTIAL

PLAYBOY TV - LATIN AMERICA

AMENDED AND RESTATED PROGRAM SUPPLY AND TRADEMARK LICENSE AGREEMENT

Between

PLAYBOY ENTERTAINMENT GROUP, INC.

as Licensor

and

PLAYBOY TV - LATIN AMERICA, LLC

as Company

November 10, 2006

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SCHEDULES

THIS AMENDED AND RESTATED PROGRAM SUPPLY AND TRADEMARK LICENSE AGREEMENT (this "Agreement") is entered into on November 10, 2006, between Playboy Entertainment Group, Inc., a Delaware corporation ("PEGI"), and Playboy TV-Latin America, LLC, a California limited liability company (including its subsidiaries, collectively the "Company").

RECITALS

WHEREAS, the Company is the owner and operator of the Company Service (as defined below);

WHEREAS, Licensor (as defined below) is the owner of certain rights in and to certain television programs, movies and other content as described herein;

WHEREAS, the Company licenses from Licensor on the terms and conditions set forth in this Agreement certain television programs, movies and other content for use on the Company Service and the Licensor Trademarks (as defined below).

WHEREAS, the parties entered into that certain Program Supply and Trademark License Agreement as of December 31, 2002 and effective as of April 1, 2002 as amended by that First Amendment to Program Supply and Trademark License Agreement for Playboy-TV-Latin America, LLC as of June 17, 2004 and effective as of January 1, 2004 (as so amended, the "Original Agreement").

WHEREAS, the parties desire to amend the Original Agreement in order to, among other things, (i) extend the term of the Original Agreement for an additional ten (10) years and (ii) provide a license to the Company including its subsidiaries, the Playboy Lifestyle Companies (as defined below) for the use of Licensor Trademarks and Licensed Programming in connection with the Playboy Lifestyle Business (as defined below), each as more fully set forth in this Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt, adequacy

and legal sufficiency of which are hereby acknowledged, the parties hereby amend and restate the Original Agreement in its entirety as follows:

1. DEFINITIONS.

In this Agreement (including the Recitals hereto) the following terms will have the following meanings unless otherwise stated:

"AAA" has the meaning set forth in Section 12.3.

"Acquired Movie" means a program acquired by Licensor (or any of its Affiliates) from a third party that is at least 60 minutes in length and represents an edited or unedited version of an adult film (i.e., a film which contains actual sex acts).

"Adult-Oriented" means, with respect to a Channel or program, that such Channel or program features content that is comparable to or more explicit than the content that is exhibited

on the Channels in the Territory as of the date of this Agreement; it being understood that content that would be rated no more restrictively than "R" by the Motion Picture Association of America as such rating standards are currently in effect is not "Adult-Oriented" content.

"Affiliate" means any Person, directly or indirectly through one or more intermediaries, controlling, controlled by, or under common control with the specified Person. For purposes of the foregoing, "control" (and "controlled" and "controlling," respectively), as used in the immediately preceding sentence, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the specified Person (whether by the holding of shares or other equity interests, the possession of voting or contract rights or otherwise). Notwithstanding the foregoing, the Company will not be deemed an Affiliate of Licensor.

"After Tax Basis" means a basis such that any payment (the "Original Payment") received or deemed to have been received by a Person (the "Recipient") will be supplemented by a further payment to the Recipient so that the sum of the two payments will equal the Original Payment, after taking into account (x) all taxes that would result from the receipt or accrual of such payments, if legally required, and (y) any reduction in taxes that would result from the deduction of the expense indemnified against, if legally permissible. In the event that the expense indemnified against is used to reduce taxes by way of amortization or depreciation, payments made on an After Tax Basis will be refunded in each taxable year of the recipient in which such expense is deductible in an amount equal to the sum of (i) the tax savings attributable to such deduction plus (ii) any reduction in taxes that would result from the deduction of any amounts described in clause (i) as increased hereby. All payments hereunder will be calculated on the assumptions that the recipient was subject to tax at the highest marginal rates of tax applicable to such class of

taxpayer and that it could benefit from the deduction of any expense at such rate of tax. In the event that a taxing authority will treat any indemnification payment as not includible in gross income or disallow any deduction taken into account hereunder, the indemnification will be recomputed and further payments or refunds made.

"Agreement" has the meaning set forth in the introductory paragraph.

"Alta Loma Program" has the meaning set forth in Section 2.1(g).

"Amended Distribution Agreement" means the Amended and Restated Distribution Agreement, dated the date hereof, between PEGI and the Company.

"Basic Cable" has the meaning currently or hereafter commonly understood in the television industry, but will also include for all purposes of this Agreement any broadcast or other transmission (whether by satellite or otherwise) to television sets or other television devices, now or hereafter known, of a program service (other than any free television terrestrial broadcast station) (a) that is included as part of a package of program services for which members of the public pay a periodic fee for the right to receive such package of program services, and (b) for which program service a separate fee is not generally charged for the right to receive the particular service in question.

"Blocked Funds" has the meaning set forth in Section 7.4.

"Branded" means a television service or Program where Licensor's or any Licensor Affiliate's name or trademarks currently existing or hereafter created by Licensor or its Affiliates are used in connection, or closely associated, with such television service or Program, or any related advertising.

"Branded Channels" means the PTVLA Channels, the Playboy Lifestyle Channel and the Spice Channels.

"Branded Company Originated Marks" has the meaning set forth in Section 3.7.

"Branded Format Programming" has the meaning set forth in Section 2.1(f).

"Caribbean Basin" means the following territories: Anguilla, Antigua and Barbuda, Aruba, Barbados, Bermuda, the British Virgin Islands, the Cayman Islands, Cuba, Dominica, Dominican Republic, Grenada, Haiti, Jamaica, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, and the Turks and Caicos Islands.

"Channel" has the meaning set forth in the Company Operating Agreement.

"Company" has the meaning set forth in the introductory paragraph.

"Company Format Programming" has the meaning set forth in Section 2.3(c).

"Company Guaranteed Minimum License Fee" has the meaning set forth in Section 7.

"Company Indemnified Parties" has the meaning set forth in Section 8.2(a).

"Company Operating Agreement" means the Third Amended and Restated Operating Agreement, dated the date hereof, between PEGI and Lifford relating to the formation and governance of the Company, as amended from time to time.

"Company Produced Programming" has the meaning set forth in Section 2.3(a).

"Company Produced Programming Budget" has the meaning set forth in Section 6.2.1 of the Company Operating Agreement.

"Company Service" means Playboy TV-Latin America, the television service which includes the PTVLA Channels, the Spice Channels, the Venus Channel, the Playboy Lifestyle Programming Services, the G-Channel and any other television program or channel operated by the Company or any of its subsidiaries from time to time in accordance with this Agreement and the Company Operating Agreement and any other permitted activity contemplated herein or therein.

"CPI" means the Consumer Price Index for all Urban Consumers as released by the Bureau of Labor Statistics, U.S. Department of Labor. If the Bureau of Labor Statistics, U.S. Department of Labor (i) substantially revises the methodology (in contrast to benchmark adjustments or other corrections of previously published data), (ii) discontinues publication of any of the data referred to above or (iii) temporarily discontinues publication of any of the data

referred to above, the parties shall select a substitute for the revised or discontinued data, in order to provide substitute data to lead to the same adjustment result, insofar as possible, as would have been achieved by continuing the use of the original data as it may have fluctuated had it not been revised or discontinued.

"Customer Service and Shipping Department" means Licensor's department, formerly known as the traffic department, that processes all requests made to Licensor and its Affiliates for duplication and shipment of Delivery Materials and marketing materials.

"Delivery Materials" means the materials set forth on Schedule 6.1.

"DirectTV Latin America, LLC" means the satellite DTH pay TV service, and its successors and assignees.

"Dispute" has the meaning set forth in Section 12.2.

"Existing Library" means any program or movie to which Licensor (or its Affiliates) owns or has obtained the rights to in the Media in the Territory as of March 31, 2002 each of which is set forth on Schedule 2.1(a) hereto.

"Fiscal Year" has the meaning set forth in the Company Operating Agreement.

"Force Majeure" has the meaning set forth in Section 13.1.

"Format Rights" has the meaning set forth in Section 2.1(f).

"G-Channel" has the meaning set forth in the Company Operating Agreement.

"Home Video Rights" has the meaning set forth in Section 4.2.

"Hot Brands" means those trademarks listed under "Hot Trademark" on Schedule 3.1 attached hereto.

"IP - Validity Dispute" has the meaning set forth in Section 12.1.

"License Fees" has the meaning set forth in Section 7.

"Licensed Programming" means collectively, the Existing Library, the New Programs, the Acquired Movies, Playboy Branded Format Programming, the Alta Loma Programs (subject to Section 2.1(g)), Wallpaper and any other Programs which may be made available to the Company hereunder.

"Licensor" means PEGI and any of its Affiliates that hold any of the rights licensed hereunder or which may provide services hereunder, or such successor or assignee as may be permitted herein.

"Licensor Additional Marks" has the meaning set forth in Section 3.8.

"Licensor Indemnified Parties" has the meaning set forth in Section 8.2(b).

"Licensor Trademarks" means the trademarks and the registrations or pending registrations therefor, as listed under such heading in Schedule 3.1 hereto, owned by Licensor or to which Licensor has all necessary rights to grant the license as set forth herein, and the Licensor Additional Marks.

"Lifestyle Oriented" means, with respect to content, Programs or

advertising supported Channels, such content, Program, or advertising supported Channel, that is primarily focused on themes associated with the attitudes and values of a group of persons or social classification, including without limitation, habits of consumption, dress, recreation and way of living; it being understood that Lifestyle Oriented content does not include "Adult-Oriented" content.

"Lifford" means Lifford International Co. Ltd., an International Business Company incorporated under the laws of the British Virgin Islands, a party to the Company Operating Agreement and a member of the Company.

"Localized Licensed Programming" has the meaning set forth in Section 2.2(e).

"Losses" has the meaning set forth in Section 8.2(a).

"Management Committee" has the meaning set forth in the Company Operating Agreement.

"Media" means all forms of linear and nonlinear television exhibition, transmission and distribution whether now existing or developed in the future and whether on a subscription, pay-per-view, video-on-demand or free basis, including but not limited to the following: (i) conventional VHF or UHF television broadcast, (ii) Basic Cable and pay cable, (iii) "over the air pay" subscription television (STV), (iv) direct broadcasting by satellite (DBS), (v) master antenna television systems (MATV), (vi) multipoint distribution services (MDS), (vii) multichannel multipoint distribution services (MMDS), (viii) satellite master antenna television systems (SMATV), (ix) microwave transmission and (x) IP television encrypted to a set top box. Solely with respect to the Playboy Lifestyle Business (other than the Playboy Lifestyle Channel), Media shall include the Playboy Lifestyle Media as defined below. Notwithstanding the foregoing, except as provided herein, in the Program Supply Agreement or any Related Documents, Media shall exclude Streaming.

"Member" has the meaning set forth in the Company Operating Agreement.

"Net Revenue" shall have the meaning set forth in Section 7.

"New Programs" means television programs or movies that are similar in content, style, mix and budget to the Existing Library, that are not included in the Existing Library which are acquired or produced by Licensor after March 31, 2002. Compilations of Programs previously provided to the Company shall be considered New Programs if such compilations are prepared in a manner consistent with Licensor's activities in 2001 and the number of such compilations provided hereunder shall be consistent with the number produced in 2001. In the event Licensor obtains the rights in the Media in the Territory to a television program or movie for which Licensor previously had other rights in such program or movie, such program or movie shall not be considered a New Program hereunder without the prior consent of the Company.

"Newco" means a soon to be formed Argentine limited liability company and wholly owned subsidiary of Playboy Lifestyle Holding.

"Notice" has the meaning set forth in Section 12.2.

"Original Payment" has the meaning set forth in this Section 1.

"Original Agreement" has the meaning set forth in the recitals.

"PEGI" has the meaning set forth in the introductory paragraph.

"Permitted Sublicensee" has the meaning set forth in Section 3.3.

"Person" means an individual, general partnership, limited partnership, limited liability company, corporation, trust, estate, real estate investment trust, association or any other entity.

"Playboy Brands" means those trademarks listed under the heading "Playboy Marks" on Schedule 3.1 attached hereto.

"Playboy Competition" has the meaning set forth in Section 3.9(b).

"Playboy Lifestyle Business" has the meaning set forth in the Company Operating Agreement.

"Playboy Lifestyle Channel" means the television program service containing Playboy Lifestyle Programming Services to be launched by the Playboy Lifestyle Companies in the Territory and which may be named "Playboy Lifestyle Channel" or any other name including names using Licensor Trademarks permitted hereunder and approved by the Management Committee.

"Playboy Lifestyle Channel USA" means an advertising supported, 24 hours a day, 7 days a week linear television programming service (which may also be distributed nonexclusively on a pay per view or video on demand basis offered as a premium on demand or subscription on demand solely to subscribers of the 24 hours a day, 7 days a week linear television programming service) containing Playboy Lifestyle Programming Services in the US Lifestyle Territory, to be launched by the Playboy Lifestyle Companies subject to Section 3.1(a) which may be named "Playboy Lifestyle Channel" or any other name including names using Licensor Trademarks permitted hereunder and approved by the Management Committee. For clarity, the Playboy Lifestyle Channel USA shall not include delivery via wireless devices, internet or mobile television or any other means of non linear television transmission now in existence or hereafter created.

"Playboy Lifestyle Companies" means collectively Playboy Lifestyle Holding and Newco.

"Playboy Lifestyle Holding" means Playboy Lifestyle Holding, LLC, a wholly owned subsidiary of the Company that is a Delaware limited liability company.

"Playboy Lifestyle Media" has the meaning set forth in the Company Operating Agreement.

"Playboy Lifestyle Net Revenue" has the meaning set forth in Section 7.

"Playboy Lifestyle Net Revenue Fee" has the meaning set forth in Section 7.

"Playboy Lifestyle Programming Service" has the meaning set forth in the Company Operating Agreement.

"Playboy TV en Espanol" means those Spanish language networks operated by PEGI and its Affiliates based on the Playboy Brands, excluding the Playboy Lifestyle Programming Service.

"Playboy TV" means those television networks operated by PEGI and its Affiliates based on the Playboy Brands, excluding the Playboy Lifestyle Programming Service.

"Portuguese Africa Distribution Territory" means, with respect to distribution in any and all Media, (a) the Republic of Angola; (b) Republic of Mozambique; (c) the Democratic Republic of Sao Tome and Principe; (d) Cap Verde; (e) Guinea-Bissau; and (f) the territories, possessions and commonwealths of each of the foregoing, if any.

"Program" or "Programming" has the meaning set forth in the Company Operating Agreement.

"Proposed Activity" has the meaning set forth in Section 3.5.

"PTVLA Channels" means those Branded Channels, other than the Playboy Lifestyle Programming Service, included as part of the Company Service that are based on Playboy TV.

"PTVLA Portugal Feed" means the PTVLA Channel as originally telecast by the Company in Portugal.

"Recipient" has the meaning set forth in this Section 1.

"Remediable Breach" has the meaning set forth in Section 9.3(b).

"Response" has the meaning set forth in Section 12.2.

"Rules" has the meaning set forth in Section 12.3.

"Spice Brands" means those trademarks listed under the heading "Spice Marks" on Schedule 3.1 attached hereto.

"Spice Channels" means those Branded Channels included as part of the Company Service that are based on the Spice Network.

"Spice-Hot Feed" has the meaning set forth in Section 2.1(i).

"Spice Network" means collectively, Spice Digital Networks, Club Jenna, Spice:xcess, fresh! and shorteez, and successor networks, if any, as PEGI may include from time-to-time, as programmed by PEGI.

"Streaming" means the delivery of audio and/or visual programming whether in real time or by program download (including, but not limited to, RealVideo, any format that operates on the Windows Media Player or any other streaming or direct download audio and/or visual software) through the data delivery protocol known as TCP/Internet Protocol or any successor or replacement protocol to any recipient for purposes of viewing.

"Sublicense" has the meaning set forth in Section 2.2(d).

"TCP" has the meaning set forth in Section 3.1(a).

"Term" has the meaning set forth in Section 9.1.

"Termination Date" has the meaning set forth in Section 10.2.

"Territory" shall have the meaning set forth in the Company Operating Agreement.

"Trade Materials" means trade presentations, business cards, invoices, stationery and other similar printed matter reflecting names under which the Company conducts business.

"Unbranded" means a television service, Program or a block of Programs where Licensor's or any Licensor Affiliate's name or trademarks are not used in connection or closely associated with such television service, Program or block of Programs or any related advertising other than in customary production, logo credits or end sequences of such Program, for use solely in the credit block in advertising for such Program, where applicable. Unbranded Programs include Branded Programs which have been edited to remove all Licensor Trademarks pursuant to Section 2.4(c).

"Unbranded Channels" means any channel which may be operated by the Company where Licensor or any Licensor Affiliate's name or trademarks are not used in close connection or closely associated with such channel.

"US Lifestyle Territory" has the meaning set forth in the Company Operating Agreement.

"Venus Channel" means the television program service known as "Venus" and any other television program service, channel or network operated by Venus TV, Inc. and Contribution S.A.

"Wallpaper" has the meaning set forth in Section 2.1(d).

2. GRANT OF PROGRAM LICENSE.

2.1. Grant. Upon and subject to the terms and conditions set forth in this Agreement and to Licensor's retained rights pursuant to Section 2.5, Licensor hereby grants to the Company and the Company hereby accepts an exclusive license during the Term (or until

Licensor loses its rights in or to any Licensed Programming) to distribute, exhibit and display the Licensed Programming on the Company Service subject to the terms herein. Notwithstanding anything to the contrary in this Agreement, without the express written permission of Licensor, the Company shall not be entitled to use the Licensed Programming in connection with the Playboy Lifestyle Business except for Licensed Programming that is suitable for the Playboy Lifestyle Channel containing Lifestyle Oriented content subject to Licensor's ability to grant such rights.

(a) Existing Library. Licensor represents and warrants that the Existing Library consists of all Programs for which Licensor (and/or its Affiliates) owns rights in the Media in the Territory as of March 31, 2002, including (but not limited to) Playboy, Spice and Hot Branded Programs and adult films licensed by Licensor and its Affiliates and any other programming or content, including Wallpaper, and the Acquired Movies as set forth on Schedule 2.1(a) attached hereto.

(b) New Programs. Each Fiscal Year Licensor and/or its Affiliates will produce or acquire the rights in the Media in the Territory to New Programs. The parties acknowledge that the content, style, mix and budget of the 180 program hours of New Programs provided to the Company pursuant to Section 2.1(e) shall meet the category mix specifications detailed in Schedule 2.1(b) (Programming Delivery Based on 2001 Categories).

(c) Acquired Movies. Whenever Licensor and/or its Affiliates acquire the rights to an Acquired Movie for exploitation in the United States, it will also acquire the rights for such Acquired Movie in the Media in the Territory, unless such rights are unavailable or are not available on commercially reasonable terms. If the rights to such Acquired Movie are not available in the Media for the Territory, or are available in only a portion of

the Territory, on commercially reasonable terms, Licensor will so notify the Company, and the Company will determine whether it wishes to acquire the rights in the Territory for such Acquired Movie. If the Company wishes to acquire such rights, Licensor will acquire such rights for the Company on terms to be agreed to by the Company. The Company shall reimburse Licensor for any material incremental costs associated with such acquisition.

(d) "Wall-to-Wall" Material. Licensor will provide the Company with copies of, or access to, all bumpers, promos, interstitials and other raw materials produced by Licensor and/or its Affiliates for use in its television business (collectively, the "Wallpaper"). The Company may exhibit Wallpaper in the form provided or may modify, edit or utilize them to create appropriate Wallpaper for the Company Service, subject to the terms and conditions of the trademark license set forth in Section 3 and all applicable laws and regulations within the Territory.

(e) Program Hour Requirement. Licensor shall make available hereunder: (i) at least one hundred eighty (180) program hours of Adult Oriented New Programs for the Company Service; and (ii) in addition to any Acquired Movies included in New Programs set forth on Schedule 2.1(b), two hundred twelve (212) Adult Oriented Acquired Movies for the Company Service; provided, however, that the Company acknowledges that Licensor shall not be required to provide the Company with any more than one hundred eighty (180) program hours of New Programs, and, in addition to any Acquired Movies included in New Programs, two

hundred twelve (212) Acquired Movies, for each Fiscal Year during the Term. The parties acknowledge that if differently rated versions of the same Program or movie are provided to the Company hereunder, such different versions shall be counted as one movie or Program. Notwithstanding the foregoing, the Company acknowledges and agrees that, unless the Term is extended pursuant to Section 9.2 herein for the year 2022, Licensor shall provide the Company a pro rated amount of program hours for three calendar months of such year equal to forty five (45) program hours of New Programs and, in addition to any Acquired Movies included in New Programs, fifty three (53) Acquired Movies.

(f) Format Rights. Licensor hereby grants the Company the exclusive right, to create, produce, develop, commercialize, and distribute Programs, in the Spanish and/or Portuguese languages, in the Territory for use in the Media, which Programs are based upon any titles, formats (including, without limitation, the "Night Calls" format), concepts or other elements developed, owned or controlled by Licensor or its Affiliates, whether now existing or hereinafter acquired or created (collectively, the "Format Rights") subject to Licensor's prior written approval of any such production, which shall not be unreasonably withheld or delayed. Each Program or other production based on the Format Rights created by, or, on behalf of, the Company ("Branded Format Programming") shall be owned by Licensor in accordance with Section 2.5 and subject to Section 2.2 herein, provided, however, Licensor shall pay the Company

for any use of any Branded Format Programming pursuant to the terms of the Amended Distribution Agreement and Sections 2.4(b) and 2.6 herein.

(g) Alta Loma Programs. The parties acknowledge that Licensor and/or its Affiliates produce additional programs which: (i) are intended for adults and do not contain nudity; and (ii) do not carry any of the Licensor Trademarks set forth on Schedule 3.1 other than: (x) in customary production, presentation and logo credits in the title or end sequences of such program, or (y) for use solely in the credit block in advertising for such program. These programs are intended for "first run" on domestic television networks or channels other than Playboy TV or the Spice Network. Licensor produces and sells such programming under the Alta Loma banner. This programming may consist, from time to time, of movies, series, and/or specials. (Any such non-nude program, whether produced by Licensor or one of its Affiliates, and whether carrying the "Alta Loma" or any other brand, will be referred to as an "Alta Loma Program").

(h) Option to Acquire Rights. Licensor will offer the Company rights to any Alta Loma Program for a fee equal to twenty percent (20%) of the production budget for such program. If the Company chooses to pay such fee, Licensor shall make such Alta Loma Program available to the Company on the same terms as, and such program shall be considered, a Licensed Program hereunder, provided, however, that such program will not be counted as a part of the program hour requirement as described in Section 2.1(e). If the Company does not choose to obtain a license for a given Alta Loma Program: (i) the Company will have the right to act as Licensor's exclusive sales agent for that program throughout the Territory and will receive a twenty percent (20%) distribution fee on such sales, plus reimbursement of reasonable costs; provided, however, that in the event an Alta Loma Program is produced pursuant to an agreement which gives a third-party co-producer or commissioning network the right to distribute such program in a region or regions of the Territory (or otherwise restricts Licensor's right to grant the Company the right to act as sales agent for such program), Licensor will pay to

the Company twenty percent (20%) of the total revenue which Licensor (or its Affiliates) receives from the exploitation of such program in the Media in such region(s) of the Territory; and (ii) Licensor shall have the right to produce or co-produce not more than 15 hours per year of Alta Loma Programs. The Company acknowledges that the following criteria shall not count towards the 15 hours per year of Alta Loma Programs: (a) repeat showings of the same program; and (b) Alta Loma Programs for which the Company has agreed to pay twenty percent (20%) of the production budget. The Company shall use commercially reasonable efforts to distribute Alta Loma Programs in the Territory in regards to any Alta Loma Program for which it has sales and distribution rights.

(i) Spice-Hot Feed. Licensor shall provide the Company with one feed to Club Jenna, fresh!, Spice:xcess and shorteez (the "Spice-Hot Feed"). The costs associated with the Company's exploitation of the Spice-Hot Feed will

be borne by the Company; provided, however, that Licensor shall be responsible for the uplink and other Spice-Hot Feed signal availability-related costs.

2.2. Approved Uses of Licensed Programming. The Company may exploit the Licensed Programming as follows:

(a) Licensed Programming Use. Branded Programming shall only be displayed or transmitted on the PTVLA Channels, the Playboy Lifestyle Channel or on the Spice Channels in accordance with the respective Branding as appropriate as set forth on Schedule 3.1 attached hereto unless any such Branding is previously removed by the Company such that such Programming would be characterized as Unbranded hereunder pursuant to Section 2.4(c). In no event shall the Company display or transmit Branded Programming on the Venus Channel or any other Unbranded Channel without Licensor's prior written consent.

(b) Spillover. Licensor and the Company acknowledge and agree that the accidental or de minimis "spillover" into the Territory of transmissions to Licensor customers outside of the Territory will not be a breach of the grant of rights hereunder and that the accidental or de minimis "spillover" outside of the Territory of transmissions to Company customers inside the Territory will not be a breach of the grant of rights hereunder.

(c) Puerto Rico. Notwithstanding any territorial or other restrictions contained in this Agreement, the parties hereto acknowledge that the distribution of the Company Service in Puerto Rico in the Spanish language via DirectTV Latin America shall not be deemed to violate any such territorial restrictions.

(d) Sublicensing. The Company shall have the right to license the Licensed Programming and Branded Format Programming to third parties for exhibition and use in the Media in the Territory (each a "Sublicense") subject to the following terms: (i) the Company may grant a Sublicense for any Unbranded Licensed Programming at its sole discretion, and (ii) may grant a Sublicense for any Branded Programming and/or Branded Format Programming subject to Licensor's prior written approval which shall not be unreasonably withheld or delayed, provided, however, that, in any event, any such Licensed Programming must first be exhibited on the Company Service (i.e., "downstream windows").

(e) Sales Agents. The Company may, in its sole discretion and solely in accordance with this Section, utilize sales agents to handle permitted sub-licensing of Licensed Programming to third parties on an arms-length basis based on prevailing market rates (whether or not such third party is an Affiliate of the Company). Unless the Company receives Licensor's prior written consent to use a different procedure: (i) a sales agent may not enter into any outright sales or sales of unlimited runs; (ii) all agreements negotiated on the Company's behalf by any sales agent will be subject to the Company's prior approval, and all contracts will be entered into by the Company directly with

the purchaser, which must be an end-user (e.g., a broadcaster, direct-to-home or Private Network operator); (iii) any sales agent will be compensated on a commissions-only basis; and (iv) and any sales agency agreement must be terminable at will by the Company on not more than six (6) months written notice.

(f) Editing. Subject to and consistent with the terms of Section 3 (Trademark License and Quality Control) and Section 5 (Censorship; Withdrawal of Programs), the Company may, at its sole cost and expense, edit, dub or subtitle in Spanish and/or Portuguese, or otherwise alter Licensed Programming as necessary to comply with local language or custom or local broadcasting requirements ("Localized Licensed Programming"). Such altered Licensed Programming, including, without limitation, the rights to any edited, dubbed or subtitled tracks related thereto, shall be owned exclusively by Licensor subject to the terms of Section 2.5 herein, provided, however, Licensor shall pay the Company for any use of any such altered Licensed Programming pursuant to the terms of the Amended Distribution Agreement and Sections 2.4(b) and 2.6 herein.

(g) Exclusive Supplier. Except for Company Produced Programming and Company Format Programming, Licensor will be the exclusive supplier of Programs on the PTVLA Channels and Spice Channels regardless of whether such Programs are produced and owned by Licensor, or whether Licensor acquires such Programs for the Company.

(h) Streaming.

(i) During the Term, Licensor shall not, and shall direct Playboy.com not to, distribute in the Territory via Streaming to television any scheduled-based programming in blocks of six or more hours.

(ii) Except as otherwise provided by the Company Operating Agreement, in the event that the Company believes that it is necessary to the business of the Company to engage in any activity that constitutes Streaming, it shall contact PEGI in writing seeking permission. Except as otherwise required by the Company Operating Agreement, PEGI shall consider such request in good faith on a case by case basis, taking into account, among other things, (a) whether such activity competes with PEGI or Playboy.com; and (b) whether such activity is consistent with the activities of the Company. Except as otherwise required by the Company Operating Agreement, PEGI shall be under no obligation to approve a Streaming request that does not, in PEGI's reasonable discretion satisfy the foregoing criteria.

2.3. Company Produced Programming.

(a) Development. Each year during the Term, the Company shall produce Programs for exhibition on the Company Service and for sublicensing

("Company Produced Programming"). All such Company Produced Programming shall be subject to domestic and international law. All Company Produced Programming which is Branded shall be subject to the prior written approval of Licensor, which shall not be unreasonably withheld or delayed, and shall be produced consistent with Licensor's standards (including, but not limited to, the content restrictions set forth herein) and subject to domestic and international law including, without limitation, the Child Protection Restoration and Penalties Enhancement Act of 1990. The inclusion of any Company Produced Programming on the Company Service shall be in addition to and in no way diminish the one-hundred-eighty (180) program hours of New Programs and two-hundred-twelve (212) Acquired Movies required to be provided by Licensor pursuant to Section 2.1(e).

(b) Minimum Company Produced Programming Budget. Subject to Section 9.2 herein, the Company shall annually spend the Company Produced Programming Budget in accordance with the provisions of Article 6 of the Company Operating Agreement.

(c) Company Format Programming. The Company shall be the sole and exclusive owner of any and all Programs or other materials created by, or on behalf of, the Company that are exclusively based on titles, formats, or concepts wholly original to the Company but which are not based on titles, formats, concepts or other elements exclusively owned or controlled by Licensor under applicable law ("Company Format Programming"). Any Branded Company Format Programming, Branded Localized Licensed Programming and Branded Company Format Programming shall be subject to the content restrictions set forth herein and domestic and international law including, without limitation, the Child Protection Restoration and Penalties Enhancement Act of 1990. The Company acknowledges that the use of Company Format Programming is subject to the non-compete provisions set forth in Article 14 of the Company Operating Agreement.

(d) Scheduling of the Company Service. In reasonable consultation with Licensor, the Company shall determine, the timing, order, placement and other scheduling-related details of all Programs to be transmitted on the PTVLA Channels throughout the Territory.

2.4. Licensor Option to Purchase.

(a) Cost. At the expiration or earlier termination of this Agreement, for any reason, Licensor may, at its option, purchase from the Company the entire right, title and interest in and to all of the Branded Company Produced Programming, any Branded Company Format Programming, or the rights to any edited, dubbed or subtitled tracks created by the Company pursuant to Section 2.2(e) for an amount equal to twenty five percent (25%) of the aggregate cost of production of such Branded Company Produced Programming or any Branded Company Format Programming. If Licensor chooses to purchase any or all Branded Company Produced Programming or Branded Company Format Programming pursuant to this Section 2.4(a), the Company shall promptly provide Licensor with written documentation

evidencing the aggregate cost of such production. Whenever possible during the Term, for Branded Company Produced Programming and Branded Company Format Programming, the Company shall use commercially reasonable efforts to acquire all rights, licenses and clearances in perpetuity; provided, however, the Company shall not be responsible for future guild or union residual or similar obligations.

(b) Branded Format Programming and Localized Licensed Programs. In respect to any Branded Format Programming or any Localized Licensed Programming, at the expiration or earlier termination of the Agreement, for any reason, Licensor may, at its option, pay to the Company a fee equal to twenty-five percent (25%) of the aggregate cost of production of such Branded Format Programming or Localized Licensed Programming in consideration for any future use of such Branded Format Programming or Localized Licensed Programming by Licensor.

(c) Branding Removal. If Licensor chooses not to purchase any or all Branded Company Produced Programming, Branded Company Format Programming, Branded Format Programming or Localized Licensed Programming, the Company must remove all Licensor Trademarks and any look-and-feel contained therein which is reasonably associated with Licensor and/or the Licensor Trademarks prior to any further use or disposition of such Branded Programming not purchased by Licensor. The Company acknowledges and agrees that if any such Branded Programming is used or disposed of contrary to the provisions of this Section, such use shall constitute a breach of this Agreement and, in addition to any other remedies that may be available to Licensor, such Branded Programming shall, at no cost to Licensor, immediately and automatically become the sole and exclusive property of Licensor.

2.5. Licensor Ownership.

(a) Goodwill. Subject to Section 2.4, Licensor acknowledges and agrees that the Company is and will be the sole and exclusive owner of all right, title, and interest throughout the world, including without limitation all intellectual property and other proprietary rights in and to Company Produced Programming; provided, however, that, any and all goodwill associated with the Licensor Trademarks included as part of any Branded Company Produced Programming shall inure to the sole benefit of Licensor.

(b) Work For Hire. Subject to Section 2.4, any Branded Format Programming or any Localized Licensed Programming produced by the Company shall be a work made for hire specially ordered or commissioned by Licensor within the meaning of the United States Copyright Act, made for the sole benefit of Licensor and Licensor shall be the sole and exclusive owner thereof. In the event that any right, title or interest, except for any right, title or interest granted to the Company hereunder to any Branded Format Programming or Localized Branded Programming, or part thereof, may not, by operation of law, vest in

Licensor, then the Company hereby conveys, transfers and assigns to Licensor all right, title and interest, except for any right, title or interest granted to the Company hereunder throughout the world and without further consideration, in and to such Branded Format Programming or Localized Branded Programming retroactive to the date of creation. The assignment of the Branded Format Programming or Localized Branded Programming under this Section includes all rights of paternity, integrity, attribution and withdrawal and any other rights known as, or substantially

similar to, "moral rights." To the extent such moral rights may not be assigned under applicable law and to the extent such assignment is not allowed by the laws in the various countries moral rights exist, the Company hereby waives such moral rights and consents to any action that would violate such moral rights in the absence of such consent.

(c) All Other Rights Retained by Licensor; Covenant not to Challenge. All rights not expressly granted to the Company hereunder are reserved by Licensor for its own use and benefit. Without limiting the generality of the foregoing, the Company shall not challenge the validity of Licensor's ownership of the Licensed Programming or any intellectual property registration or application for registration thereof or contest the fact that the Company's rights under this Agreement are solely those of the Company, which rights shall terminate in accordance with the provisions of Section 9.

2.6. Use Rights. Licensor shall have the exclusive rights to Branded Company Produced Programming, Branded Format Programming and Branded Company Format Programming as set forth in the Amended Distribution Agreement. In the event that Licensor desires to use Branded Company Produced Programming, Branded Format Programming or Branded Company Format Programming other than on Playboy TV en Espanol, the parties shall negotiate in good faith reasonable financial terms for such distribution on a case-by-case basis. In the event that Licensor desires to use Branded Company Produced Programming, Branded Format Programming and Branded Company Format Programming produced for the Playboy Lifestyle Business in the US Lifestyle Territory and all applicable non-competition provisions set forth in Section 14.3 of the Company Operating Agreement have expired, the parties shall negotiate in good faith reasonable financial terms for such distribution on a case-by-case basis.

2.7. Services Provided by Licensor. In addition to any License Fees payable to Licensor pursuant to Section 7, the Company will be entitled to purchase from Licensor specific services, which request Licensor shall not unreasonably refuse, which Licensor routinely performs for itself (such as creative services, the creation of on-air promos, Customer Service and Shipping Department services as described in Section 6.1 hereof, and residual accounting) at Licensor's actual direct cost, without mark-up, but including all related staffing costs.

3. TRADEMARK LICENSE AND QUALITY CONTROL.

3.1. Grant of Exclusive License.

(a) Company Rights. Upon and subject to the terms and conditions set forth in this Agreement, Licensor hereby grants to the Company, and the Company hereby accepts, an exclusive license to use the Licensor Trademarks in the Territory in connection with: (i) the broadcast, transmission and distribution of the Company Service and the applicable Programs as part of the Company Service; (ii) the Company's sublicensing rights provided herein; (iii) the promotion and marketing of the Company Service in any and all media, now known or hereafter devised, and the applicable Programs as part of the Company Service, including through the use of Trade Materials, provided, however, that the Company shall not conduct any such promotion or marketing via Transmission Control Protocol ("TCP"), TCP/Internet Protocol, or similar or successor network or protocol, unless such promotion or marketing takes place on an Internet site that is controlled by Licensor or its Affiliates or that has

been approved in writing (and not withdrawn) by Licensor; and (iv) the Playboy Lifestyle Business. Notwithstanding the foregoing, the Company shall not have any right to use any of the Licensor Trademarks on or in connection with any Program that is not Licensed Programming except for Programs acquired from third parties for the Playboy Lifestyle Programming Services (provided that the use of such Licensor Trademarks in connection with such acquired Programs are subject to the written consent of PEGI, not to be unreasonably withheld or delayed) or as the name of the channel on which such Program is broadcast or as approved by Licensor in connection with any Company Produced Programming. Further, the Company shall not have the right to use the Licensor Trademarks on or in connection with any product, goods or services except the Company Service, the Programs and the Playboy Lifestyle Business (provided that the use of such Licensor Trademarks in connection with such product, goods or services are subject to the written consent of PEGI, not to be unreasonably withheld or delayed). Upon and subject to the terms and conditions set forth in this Agreement, Licensor hereby grants to the Company, and the Company hereby accepts, a limited, non-exclusive license to use the Licensor Trademarks in the Portuguese Africa Distribution Territory in connection with: (i) the broadcast, transmission and distribution of the PTVLA Portugal Feed, (ii) the Company's sublicensing rights provided herein; and (iii) the promotion and marketing of the PTVLA Portugal Feed, including through the use of Trade Materials, provided, however, that the Company shall not conduct any such promotion or marketing via TCP, TCP/Internet Protocol, or similar or successor network or protocol, unless such promotion or marketing takes place on an Internet site that is controlled by Licensor or its Affiliates or that has been approved in writing (and not withdrawn) by Licensor.

In the event the Playboy Lifestyle Channel USA is launched in the US Lifestyle Territory in accordance with the terms of the Company Operating Agreement, upon

and subject to the terms and conditions set forth in this Agreement and the Company Operating Agreement, Licensor hereby grants to the Company, and the Company hereby accepts, a non exclusive license to use the Licensor Trademarks in the US Lifestyle Territory in connection with: (i) the broadcast, transmission and distribution of the Playboy Lifestyle Channel USA; (ii) the Company's sublicensing rights in connection with the Playboy Lifestyle Programming Services; and (iii) the promotion and marketing of the Playboy Lifestyle Programming Services, including through the use of Trade Materials, provided, however, that the Company shall not conduct any such promotion or marketing via TCP, TCP/Internet Protocol, or similar or successor network or protocol, unless such promotion or marketing takes place on an Internet site that is controlled by Licensor or its Affiliates or that has been approved in writing (and not withdrawn) by Licensor.

(b) Prohibited Licensor Activity Relating to Media in the Territory. During the Term, Licensor shall not itself use or authorize any other person to use the Licensor Trademarks or any confusingly similar designation within the Territory in connection with Media in the Territory other than Internet promotion and marketing for the Company Service; provided, however, that the following shall not constitute a breach of this sub-paragraph 3.1(b): (i) use of the Licensor Trademarks or any confusingly similar designation in customary production, presentation and logo credits in advertising for and the title or end credits sequences of programs licensed to others in the Territory as permitted hereunder, and (ii) use of the Licensor Trademarks or any confusingly similar designation in connection with any Media, or any programs or other items of any description included in any Media, which is not intended for general reception in the Territory but is received in the Territory due to unintentional spillover,

so long as that Media was transmitted in a manner not intended for general reception in the Territory.

(c) Portuguese Africa Distribution Territory. Upon and subject to the terms and conditions set forth in this Agreement, the Company shall have the right to transmit, exhibit, broadcast, telecast, exploit, edit (solely in accordance with Section 2.2(e)), distribute, advertise, promote, publicize, and make available to system operators the PTVLA Portugal Feed for exploitation in the Portuguese Africa Distribution Territory during the Term. For clarification purposes only, the rights granted under this paragraph (c) are granted on a non-exclusive basis.

3.2. All Other Rights Retained by Licensor. All rights not expressly granted to the Company hereunder or expressly restricted hereunder are reserved to Licensor for its own use and benefit. Without limiting the generality of the foregoing, nothing in this Agreement shall prevent Licensor from doing any or all of the following: (a) subject to the restrictions set forth herein, using or granting one or more others the right or license to use the Licensor Trademarks

outside of the Media in any area of the world including the Territory; (b) using or granting one or more others the right or license to use the Licensor Trademarks on or in connection with Media in any area of the world other than the Territory; (c) using or granting one or more others the right or license to use the Licensor Trademarks on or in connection with any service (other than a service in the Media and the activities described in Section 2.2 and Section 2.1(g) (Alta Loma) of this Agreement) or goods in any or all areas of the world including the Territory; and (d) retaining and exercising the exclusive rights hereby reserved to Licensor to design, manufacture, advertise, promote, sell and distribute and license the design, manufacture, advertising, promotion, sale and distribution of any and all products and services in any or all areas of the world including the Territory other than Media in the Territory.

3.3. Restriction on Sub-Licensing. Licensor acknowledges that for the Company to conduct its business the Company will need to procure licenses of the Licensor Trademarks for use by systems operators and other distributors of the Programming for the purposes of distributing, marketing or advertising such Branded Channels or Branded Programming in the Territory (each, a "Permitted Sublicensee"). Licensor agrees that it will enter into trademark sublicense agreements with the Company and Permitted Sublicensees pursuant to the permitted grant of any Sublicense of Licensed Programming hereunder. The term of such sublicense agreements will be consistent with Licensor's customary practices for licenses of similar scope and will provide Licensor with rights of approval and control reasonably satisfactory to Licensor; provided that the license fee or other payment terms will be in the discretion of the Company. The Company will not otherwise sub-license any of the Trademarks without the prior written consent of Licensor.

3.4. Duration of License. The trademark license granted pursuant to this Section 3 shall continue in force until any termination of this Agreement in accordance with the provisions of Section 9.

3.5. Company's Right of First Negotiation. If Licensor (or any of its Affiliates) proposes to enter into a new license of the Trademarks in any region of the Territory for any use in broadcast media other than the Media and other than with respect to any edition of

the "Playboy" Magazine or an option or renewal of license granted prior to the commencement of the Agreement and which could reasonably be expected to compete with the Company Service or the Playboy Lifestyle Business (a "Proposed Activity"), it will grant the Company a first opportunity to negotiate for such a license. The parties will negotiate in good faith the terms of any such license, except that if Licensor (or its Affiliate) determines in good faith either that the Company cannot provide the required level of service with respect to the Proposed Activity or produce for Licensor (or its Affiliate) the revenues expected from such Proposed Activity, Licensor (or its Affiliate) may license the Trademarks for such Proposed Activity to a third party.

3.6. Restriction on Scope of Services. During the Term, the Company shall not be involved in providing any television program service or channel using the Licensor Trademarks which is intended for general reception, whether by use of decoder devices or otherwise, outside the Territory; provided, however, that, a television program service or channel using the Licensor Trademarks that is received outside the Territory due to unintentional spillover shall not constitute a breach of this Agreement so long as it was not transmitted in a manner intended for general reception outside the Territory.

3.7. Restrictions on Modifications of Trademarks. The Company shall not use, cause or authorize to be used any word, device, design, slogan or symbol confusingly similar to any or all of the Licensor Trademarks other than a Licensor Trademark. Without limiting the generality of the foregoing, during the Term, any or all of the following shall not be used by the Company on or in connection with the Company Service or the Programs without, in each case, Licensor's express prior written consent: (i) permutations of any or all of the Licensor Trademarks; (ii) secondary or combination marks including or derived from any of the Licensor Trademarks; (iii) new words, devices, designs, slogans or symbols derived from any of the Licensor Trademarks.

Notwithstanding the foregoing, Licensor shall not withhold consent for any mark that would otherwise violate this Section (collectively "Branded Company Originated Marks") unless it reasonably determines that such Branded Company Originated Mark or the Company's intended use thereof would be detrimental to the Licensor Trademarks or Licensor. Upon termination of this Agreement, the Company shall immediately cease all use of any Branded Company Originated Marks and Licensor and the Company shall negotiate in good faith terms for the sale of such Branded Company Originated Marks to Licensor.

3.8. License of Additional Trademarks. Licensor hereby agrees to include as Licensor Trademarks licensed hereunder with respect to the applicable Company Service and the Playboy Lifestyle Business (i) any trademarks or permutations, secondary, combination or derivative marks owned by Licensor and its Affiliates and used in connection with the broadcast, transmission, advertising or promotion of the Licensed Programming in the United States and worldwide outside the Territory provided that the same are, in Licensor's reasonable determination, at such time applicable to the Company Service, as the case may be, and are available for use by the Company pursuant hereto and are available for registration by Licensor in the Territory, and (ii) any other mark to which Licensor consents to include pursuant hereto (all of such marks the "Licensor Additional Marks"). The Company may not attempt to register or otherwise gain any other rights than as set forth herein in and to Licensor Additional Marks. If, in Licensor's reasonable discretion, based on the Company's use in the Territory of such

Licensor Additional Marks, Licensor elects to register any such Licensor

Additional Marks in the Territory, the Company shall reimburse Licensor for the costs of such registration and the maintenance thereof during the Term, if the Company elects to continue such use. The Company will at Licensor's written request, and at Licensor's cost, register and maintain any Branded Company Originated Mark that Licensor approves pursuant hereto, if the Company elects to continue such use.

3.9. Quality Control. All Programs and other material transmitted by the Company shall comply with the specifications set forth in this Section 3.9. Licensor acknowledges that the Venus Channel and any Unbranded Channel or Program is not subject to this Section 3.9.

(a) Program Restrictions. Although the Programs transmitted by the Company Service will depict nudity and will allow strong or explicit language, the Company is prohibited from transmitting and covenants that it will not knowingly permit, on the Branded Channels, the transmission or exhibition of scenes, Wallpaper, or other material depicting any of the following: (i) the glorification of violence or gratuitous violence; (ii) rape, nonconsensual intercourse or other nonconsensual sexual activity; (iii) bondage, incest, sadism or masochism, bestiality, extreme sexual explicitness or the graphic close-up of genitals; or (iv) child pornography, including, without limitation, instances where an actor is the legal age for consent but is portrayed as under the legal age for consent. In that regard, no actor will appear nude or engage in sexual conduct in any Program who is not at least the age of majority (e.g., eighteen (18) years of age in the United States) consistent with the laws and regulations of each jurisdiction within the Territory where such Program is transmitted. Notwithstanding the foregoing, (i) the standards applied by Licensor from time to time for Playboy TV in the United States shall be the controlling standards and any material transmitted on Playboy TV or the Spice Networks shall be deemed acceptable by Licensor for transmission on the Branded Channels and (ii) any materials provided, or approved by Licensor under this Agreement shall be deemed acceptable for transmission on the Branded Channels.

(b) Advertising and Home Shopping Restrictions. All advertising transmitted on the Branded Channels, exhibited through Wallpaper, and all direct marketing activities conducted on the Branded Channels shall comply with the specifications set forth in this Section 3.9(b) and all applicable laws and regulations in the Territory. The Company shall not transmit advertising or direct marketing programs or exhibit Wallpaper or other materials which advertise or promote any of the following: (i) firearms (or advertisements from any gun lobby organization) and other weapons, explosives or fireworks; (ii) massage parlors, sex clubs, sexually explicit audio-visual products (e.g., X-rated or similar "hard core" videos), sex toys, materials depicting graphic sexual conduct or depicting any matter subject to the restrictions set forth in Section 3.9(a) above; (iii) classified advertising, including, but not limited to, psychics or similar persons or services; (iv) religious organizations and cults; or (v) magazines which compete with any edition of the "Playboy" magazine or any other publication, product or service published, produced, financed, branded, identified with or distributed by any Person who is engaged in the publication or distribution of any magazine which, in Licensor's discretion, competes with any edition of the "Playboy" magazine (whether in the print,

television or Internet industry, or any other medium of delivery now known or hereinafter created) ("Playboy Competition"). Further, the Company shall not advertise or promote the Branded Channels or

otherwise use the Licensor Trademarks in any media in connection with any of the foregoing. Notwithstanding the foregoing, and Wallpaper, advertising or direct marketing programs provided by Licensor under this Agreement or otherwise expressly approved in writing by Licensor shall be deemed acceptable by Licensor for distribution and display on the Branded Channels.

(c) Inspection Rights. Except for any items or Programs prepared or provided by Licensor, the Company shall submit to Licensor for its inspection representative samples of all items and materials with respect to which a Licensor Trademark is utilized pursuant hereto (including, without limitation, any Programs, all advertising, and all promotional and marketing materials) for Licensor's prior written approval at least ten (10) days prior to their intended distribution. If Licensor does not reply to any such submission within ten (10) days, such submission will be deemed rejected.

3.10. Title and Protection of the Licensor Trademarks; Use of the Licensor Trademarks. The Company hereby acknowledges that except for the license expressly granted in this Agreement, the Company has not acquired and will not acquire any rights, title or interest in the Licensor Trademarks by reason of this Agreement and further acknowledges each of the following: the great value of the goodwill associated with the Licensor Trademarks; the worldwide recognition thereof; that the proprietary rights therein (including, without limitation, all rights that Licensor may have by virtue of international agreements that protect famous marks and common law rights) and the goodwill associated therewith are solely owned by and belong to Licensor; that the Licensor Trademarks and other related words, devices, designs and symbols are inherently distinctive or have secondary meaning firmly associated in the mind of the general public with Licensor, the respective subsidiaries and Affiliates and their activities; and that all additional goodwill associated with the Licensor Trademarks created through the use of such Licensor Trademarks by the Company shall inure to the sole benefit of Licensor. The Company agrees not to use the Licensor Trademarks in any manner which, directly or indirectly, would dilute, demean, ridicule or otherwise tarnish the image of the Licensor Trademarks or Licensor, or any of its Affiliates. During and after the Term, the Company shall not:

(a) attack or question the validity of, or assist any individual or entity in attacking or questioning, the title or any rights of or claims by any or all of Licensor, its subsidiaries and Affiliates and their respective licensees and sublicensees in and to the Licensor Trademarks or any other trademark, copyright or such other intellectual or intangible property associated or connected with Licensor, its respective Affiliates, their publications, published material and activities;

(b) directly or indirectly seek for itself or assist any third party to use or acquire any rights, proprietary or otherwise, in any patent, trademark, copyright or such other intellectual or intangible property associated or connected with Licensor, its Affiliates, their publications, published material or activities, without, in each case, the prior express written consent of Licensor;

(c) in any way seek to avoid the Company's duties or obligations under this Agreement because of the assertion or allegation by any individual or entity that any

or all of the Licensor Trademarks are invalid or by reason of any contest concerning the rights of or claimed by Licensor; or

(d) file or prosecute one or more trademark applications in connection with the Company's use or intended use of the Licensor Trademarks or any mark or designation of any kind that is confusingly similar to or dilutive of the Licensor Trademarks, unless expressly requested to do so in writing by Licensor.

3.11. Form. The Company shall use the Licensor Trademarks in the form stipulated by Licensor and shall include such trademark and copyright notices as Licensor may request in connection with the protection of Licensor's ownership of the Licensor Trademarks. The Company shall also observe all directions given by Licensor as to colors and size of the representations of the Licensor Trademarks and their manner and disposition in connection with the Programs.

3.12. Maintenance of Distinctive Quality of Licensor Trademarks. The use of the Licensor Trademarks by the Company shall at all times be in keeping with and seek to maintain their distinctiveness and reputation as determined by Licensor.

3.13. Advertising and Publicity. The Company hereby acknowledges that, as between the Company and Licensor, the Licensor Trademarks are the sole and exclusive property of Licensor. The Company, and any sublicensee of the Licensed Programming and solely in connection with the sublicensed Licensed Programming, shall have the right to develop and distribute in the Territory, and with respect to the PTVLA Portugal Feed, in the Portuguese Africa Distribution Territory, advertising, publicity and promotional materials relating to the Company Service and the Programs, including advertising telecasts of the Programs or any person appearing therein (unless Licensor has specifically notified the Company to the contrary); provided, however, that any such advertising, publicity and promotional materials (other than material obtained directly from Licensor) shall comply with applicable law and the following restrictions:

(a) all such materials shall comply with the restrictions set forth in this Section 3 and be subject to Licensor's approval rights pursuant thereto;

(b) all such materials shall clearly identify the Licensor Trademarks with a legible credit line with the wording "Playboy" (or the `Rabbit Head Design,' etc.) is the mark of and used with the permission of Playboy or its Affiliates, as the case may be, or such other words as Licensor may designate from time to time;

(c) in no event may any advertising, publicity or promotional material using the names of Licensor, the name of a Branded Program or the name of any person appearing in a Branded Program be used to constitute an endorsement, express or implied, of any party, sponsor, product or service; and

(d) in no event without Licensor's prior approval, in each instance, may any advertising, publicity or promotional material be in any language other than Spanish, Portuguese or English.

Other than as expressly set forth in this Agreement, the Company shall make no use of the Licensor Trademarks or any confusingly similar designation without the prior express written consent of Licensor in each instance. The Company shall also make no use whatsoever of any other trademark, trade name or service mark that is the property of Licensor or any of its Affiliates without the prior express written consent of Licensor in each instance. The Company similarly agrees that it will not authorize or purport to authorize any third party to make any such use and, if Licensor's consent thereto is obtained in accordance with this Section 3, it will expressly provide in any applicable third-party agreements that such third parties will only be entitled to use such names and marks on material supplied to them by the Company in accordance with the Company's rights hereunder.

3.14. Ownership of the Licensor Trademarks.

(a) Prosecution and Maintenance of Licensor Trademarks. Licensor shall pay all renewal fees and take such other actions as are commercially reasonable to prosecute the applications for and maintain the registrations of the Licensor Trademarks in the Territory during the Term.

(b) Cooperation of Company. The Company will on request give to Licensor or its authorized representative any information as to its use of the Licensor Trademarks which Licensor may require and will render during the Term any assistance reasonably required by Licensor in registering and maintaining the registrations of the Licensor Trademarks.

(c) Covenant of Company. The Company will not make any

representation or do any act to the effect that it has any right, title or interest in or to the ownership or use of any of the Licensor Trademarks except under the terms of this Agreement.

(d) Cooperation of Parties to Register Licensor Trademarks. Each party shall at its own expense, if required by the other, do all such acts and execute all such documents as may be necessary to confirm the license granted hereunder in respect of any of the Licensor Trademarks and to record the Company as a registered user of the registered Licensor Trademarks on the trademarks register in the Territory. The Company hereby agrees that any such entry with respect to any Company Service on any trademark register may be cancelled by Licensor on termination of this Agreement with respect to such Company Service, for whatever reason, and that it will assist Licensor insofar as may be necessary to achieve such cancellation including by executing any necessary documents.

3.15. Infringements.

(a) Notice. Each party shall as soon as it becomes aware thereof give the other written notice of (i) any use or proposed use by any other person, firm or company of a trade name, trademark or trade dress or mode of promotion or advertising which amounts or might amount either to infringement in the Territory of Licensor's rights in connection with the Licensor Trademarks or to passing off in the Territory, and (ii) any allegation or claim by any other person, firm or company that any of the Licensor Trademarks are invalid within the Territory or that use of any of the Licensor Trademarks infringes any rights of another party or

that any of the Licensor Trademarks are otherwise attacked or open to attack within the Territory.

(b) Control of Proceedings. Licensor shall have the sole right to control and conduct all proceedings relating to any claim or suit arising out of or relating to any of the matters described in this Section 3 and to decide what action (if any) to take in respect thereof. The Company expressly covenants no discussions by the Company whatsoever with any and all claimants and litigants, no compromise or settlement by the Company of any claim or suit and no negotiations by the Company with respect to any compromise or settlement shall be had, made or entered into without the prior written approval of Licensor.

(c) Procedures and Costs. Licensor shall bear the cost of all proceedings pursuant to this Section 3 and shall be entitled to retain any damages recovered pursuant to such proceeding. At Licensor's cost, the Company shall provide any assistance reasonably requested by Licensor, and the Company shall agree to being joined as a party in any such proceeding at the request of Licensor. The parties may mutually agree to jointly conduct and control any such

proceeding, in which case the costs and proceeds thereof shall be borne equally by the parties.

(d) Equitable Relief. The Company acknowledges that the Company's failure to cease using the Licensor Trademarks upon the expiration or termination of this Agreement, will result in irreparable harm to Licensor for which there is no adequate remedy at law. Accordingly, in such event, Licensor shall be entitled to preliminary or temporary equitable relief in any Federal or State court of competent jurisdiction located in the State of California without regard to the provisions of Section 12, without the necessity of posting bond unless otherwise required by applicable law by way of any or all of the temporary and permanent injunctions and such other relief as any court of competent jurisdiction may deem just and proper.

(e) Use of the Term "Licensor". As used in this Section 3, in each instance, "Licensor" shall mean Licensor or its licensees, as the case may be.

4. LICENSE TERM AND MEDIA HOLDBACKS.

4.1. License Term. In each instance, the term of the Company's rights in and to any Licensed Programming shall begin upon the availability of such Licensed Programming to the Company, and shall end on the sooner to occur of: (i) the term of Licensor's rights in and to such Licensed Programming; or (ii) the duration of the Term.

4.2. No Home Video Rights. The Company shall not have the right to distribute any Licensed Programming for non-public exhibition in a private residence by means of discs, cassettes or electronic analog or digital storage devices now existing or invented in the future ("Home Video Rights"). Home Video Rights shall not include any decoding, recording or storage devices (whether now existing or hereinafter devised) which allow viewers to view, record or store programs broadcast via the Media.

4.3. Other Home Video Rights. The Company acknowledges that, in certain cases, Licensor may be offered the rights in the Media in the Territory as part of Licensor's

acquisition of Home Video Rights. Licensor shall obtain these Media rights, in its discretion, provided that, in the event the fees for such Media rights are unreasonable, Licensor shall consult with the Company and obtain the Media rights for the Company at the Company's own cost. Nothing herein shall effect Licensor's rights to acquire separately the Home Video Rights.

5. CENSORSHIP; WITHDRAWAL OF PROGRAMS.

5.1. Censorship. The Company is willing to accept and pay for the

Existing Library and New Programs regardless of censorship regulations or the potential for same throughout the Territory or in any individual country or political subdivision within the Territory. The Company will elect, consistent with applicable law, either to: (i) edit out the Programming as supplied by Licensor, provided that the storyline of such edited Programming may not be altered, (ii) blackout the region(s) where the censorship problem occurs, or (iii) not use such Programming, provided, that any such effected New Programs nonetheless shall count towards the requirements set forth in Section 2.1(e). All costs of editing and/or blackout will be borne by the Company; provided, that the Company will make good faith efforts to obtain waivers of such restrictions or will permit Licensor to make such efforts on behalf of the Company. Without limiting the Company's rights under Section 2.2(e), the Company will only make such cuts or deletions as are necessary to conform to applicable censorship regulations.

5.2. Withdrawal of Programs.

(a) Notwithstanding any other term of this Agreement to the contrary, Licensor may, in its sole but reasonable discretion, withdraw any Program if Licensor determines that the transmission thereof would or might reasonably be expected to (i) infringe upon the rights of others; (ii) violate the law, court order, government regulation or other ruling of any governmental agency; or (iii) subject Licensor to any liability, other than due to a breach by Licensor of its covenants and representations in this Agreement.

(b) If Licensor elects to withdraw any Program as set forth in paragraph 5.2(a) above before any telecast, the Company will have the right, in its sole discretion, to require Licensor to deliver another program of comparable quality (which program will constitute a Program hereunder). If Licensor elects to withdraw any Program, any transportation, dubbing and assembly costs incurred and paid by the Company with respect to the withdrawn Program will be refunded by Licensor promptly upon the Company's presentation of reasonable evidence of such expenditures.

(c) If a withdrawn Program has been delivered, the Company will, at Licensor's request, either promptly erase such Program or return it to Licensor at Licensor's expense.

5.3. Advertising.

(a) In all advertising and publicity relating to any Branded Program or any transmission thereof, the Company will comply with the advertising and billing credit requirements furnished by Licensor. The Company will not make or permit to be made, in any advertising, publicity or otherwise, any statements which (i) constitute or may be understood to be an endorsement of any sponsor, product, article or service by Licensor or any of its Affiliates

or by any person or entity that appears in or otherwise renders any services or provides any materials for use in any Branded Program or (ii) indicate or may be understood to indicate the Licensor, any of its Affiliates, or any person that appears in or otherwise renders any services or provides any materials for use in any Program is connected or associated with any sponsor, product, article or service.

(b) The Company will not advertise or promote, in any manner, any Program withdrawn by Licensor.

(c) The Company will not authorize or permit any excerpt or clip from any Branded Program to be used for promotional purposes to be in excess of one (1) minute in length.

(d) The Company will not advertise or promote any Branded Program earlier than sixty (60) days prior to the first day of the month in which the Branded Program will first air.

6. DELIVERY AND RETURN.

6.1. Access and Delivery Items. The Company will have full and immediate access to all Delivery Materials set forth on Schedule 6.1, and other tangible manifestations of the rights licensed hereunder, solely as requested by the Company from Licensor's Customer Service and Shipping Department, or other designee as Licensor may from time-to-time designate. Licensor shall provide the Company, at no extra cost to the Company, with one original copy of each of the Delivery Materials and shall provide the same for all Programs, Acquired Movies, Wallpaper or any other content required to be made available to the Company hereunder from time-to-time during the Term.

6.2. Title to Delivery Materials. It is expressly agreed that title in and to any Delivery Material provided to the Company hereunder will remain in Licensor at all times and that title, including copyrights therein, will vest in Licensor upon the creation thereof, subject only to the possession and control thereof by the Company from the date of delivery through the end of the related license period solely for the purposes of exercising its rights hereunder. The Company will execute, acknowledge and deliver to Licensor any instruments of transfer, conveyance or assignment in or to any such Delivery Materials necessary or desirable to evidence or effectuate Licensor's ownership thereof and in the event that the Company fails or refuses to execute, acknowledge or deliver any such instrument or documents then Licensor will be deemed to be, and the Company hereby nominates, constitutes and appoints Licensor, its true and lawful attorney-in-fact irrevocably to execute and deliver all such instruments in the Company's name or otherwise, it being acknowledged that such power is a power coupled with an interest. The Company will not have the right to use any Delivery Materials except in the exercise of the rights granted to the Company hereunder and in accordance with all limitations on said rights as are contained in this Agreement.

7. PROGRAM AND TRADEMARK LICENSE FEES; OTHER FEES. The Company will pay to

Licensor each Fiscal Year license fees (the "License Fees") equal to a sum computed as (A) the greater of: (i) seventeen and one-half percent (17.5%) of the aggregate Net

Revenue of the Company; or (ii) the Company Guaranteed Minimum License Fee (as described below), plus (B) six percent (6%) of the aggregate Playboy Lifestyle Net Revenue (as described below)(the "Playboy Lifestyle Net Revenue Fee"). For purposes hereof, "Company Guaranteed Minimum License Fee" means: (x) for the year 2002, three million seven hundred thousand dollars ($3,700,000), of which the pro rated amount for nine calendar months of such year equals two million seven hundred and seventy-five thousand dollars ($2,775,000); (y) for the year 2003, four million dollars ($4,000,000); and (z) for each subsequent twelve (12) month period, the Company Guaranteed Minimum License Fee shall be adjusted each year by any change in the CPI. As used herein, the term "Net Revenue" means gross revenues earned and actually collected, less any applicable withholding taxes, excluding: (I) the PTVLA Channel Distribution Fee (as defined in the Amended Distribution Agreement); (II) amounts paid to the Company by Playboy.com pursuant to Section 5.1 of the First Amended and Restated Web Site Revenue Share Agreement dated the date hereof among the Company, Playboy.com, Inc., and Claxson Interactive Group Inc.; (III) any revenues from (A) advertising; (B) from the sublicense of any Unbranded Company Format Programming and Unbranded Company Produced Programming; and (C) revenues from the exploitation by the Company of any Alta Loma Program rights acquired by the Company as Licensed Programming pursuant to Section 2.1(g)(1), to the extent that such revenues can be separately identified; (IV) any revenues received by the Company pursuant to that certain Wireless Distribution Agreement dated September 1, 2005 between the Company and Playboy.com, Inc., as amended; (V) any Playboy Lifestyle Net Revenues; (VI) the PTVLA Portugal Feed Net Revenues; (VII) amounts paid to the Company from Licensor pursuant to Section 7.8 and (VIII) amount paid to the Company from Licensor pursuant to the Iberia Arrangements as set forth in Section 3.6 of the Company Operating Agreement. As used herein, the term "Playboy Lifestyle Net Revenue" means the gross annual revenues earned and actually collected for the Playboy Lifestyle Business, less any applicable withholding taxes. Notwithstanding the foregoing, in the event this Agreement is terminated or expires, any License Fees owed to Licensor hereunder shall be adjusted on a pro rata basis based on the date of such termination or expiration during such Fiscal Year.

7.1. Due and Payable. The License Fees shall be due and payable to Licensor as follows: (i) the Company Guaranteed Minimum License Fee shall be paid in equal monthly installments within thirty (30) days after the end of the respective month; (ii) any overages based on Net Revenue above the Company Guaranteed Minimum License Fee and the Playboy Lifestyle Net Revenue Fee shall be calculated at the end of each fiscal quarter and paid within thirty (30) days thereafter. Any necessary adjustments thereto shall be made within thirty (30) days after the Company receives audited financial statements.

7.2. Wire Transfers. Payments of License Fees will be made by wire transfer of immediately available funds, net of any withholding required by applicable law. Licensor will from time to time designate one or more accounts into which such payments will be made and may designate one or more Affiliates to receive such payments.

7.3. Late Payment. Any payment not made when due will bear interest from the date due to and including the date payment in full is made at a rate equal to the reference rate of the Bank of America for U.S. domestic customers as in effect on the date payment was due.

7.4. Restricted Funds. Monies actually received by the Company outside the U.S. in U.S. dollars or in a currency freely convertible to U.S. dollars and freely remittable to the U.S. shall be deemed to have been received by the Company as of the end of the applicable accounting period during which such monies were received, and, as applicable, converted into U.S. dollars at the actual exchange rate applicable to the Company. Monies actually received by the Company outside the U.S. in any currency and not freely remittable to the Company in the U.S. in U.S. dollars shall be considered "Blocked Funds", and shall not be included in Net Revenues. However, upon the Company's receipt of written notice from Licensor that the Licensor desires a settlement of its share of a particular item of Blocked Funds, the Company shall deposit the Licensor's share of such Blocked Funds (i.e., the License Fees) in a bank account in the applicable country, in the Licensor's name, subject to all applicable laws and regulations. Such deposit shall fully satisfy the Company's obligations to Licensor with respect to such Blocked Funds and Licensor's share thereof, and any taxes, expenses or other charges incurred in connection with the making of such deposit shall be deducted from Licensor's share of such Blocked Funds, or otherwise charged to or paid by Licensor in advance, if required to make such deposit.

7.5. Currency. The License Fees shall be paid quarterly in U.S. Dollars. To the extent the calculation of the License Fees are based on revenues received in other currencies, such revenues shall be calculated using the exchange rate published in the Wall Street Journal or, with respect to Mexico, Brazil, Argentina and Venezuela, as quoted by the Central Bank of such country, as of the last day of the month during which the payment is due. Where License Fees' payments are due by the Company in a country where, pursuant to the reasonable advice of legal counsel, it is unlawful to make License Fees' payments in that country in accordance with this Agreement, notice thereof in writing will be given by the Company to Licensor and said License Fees' payments shall be deposited in whatever currency is allowable, for the benefit or credit of Licensor, by wire transfer into an accredited bank in that country as shall be acceptable to Licensor.

7.6. Maintenance of Records and Audit Rights.

(a) The Company shall keep accurate books of account and records covering all transactions relating to or arising out of this Agreement. The Company shall permit Licensor and its nominees, employees, accountants, agents and representatives to (i) have full access to and inspect such books and records during normal business hours upon reasonable notice, and (ii) to conduct an examination of and to copy all such books and records. The Company shall maintain in good order and condition all such books and records for a period of either: (i) five years after the expiration of the Term or the earlier termination of this Agreement, or in the event of a dispute between the parties hereto, until such dispute is resolved, whichever date is later; or (ii) such period of time required under applicable laws and regulations, whichever period is longer. Receipt or acceptance by Licensor of any sums paid by the Company hereunder shall not preclude Licensor from questioning the correctness thereof at any time.

(b) If an inspection or examination referred to in paragraph (a) above discloses, or Licensor or the Company otherwise discover, an underpayment of License Fees, the amount of such underpayment shall be paid by the Company to Licensor not later than thirty (30)

days after determination thereof plus interest from the date the payment should have been made to and including the date of payment in full at a rate equal to the reference rate of the Bank of America for U.S. domestic customers as in effect on the date payment should have been made. If such underpayment of License Fees by the Company is in excess of ten percent (10%) of the aggregate License Fees earned during any quarterly period under inspection, the Company shall, in addition to paying Licensor the amount of such underpayment, reimburse Licensor for all reasonable costs and expenses of conducting such inspection or examination.

(c) If an inspection or examination referred to in paragraph (a) above discloses, or Licensor or the Company otherwise discovers, an overpayment of License Fees, the amount of such overpayment shall be credited against future payments of License Fees, unless the period for which the overpayment was made is the final period covered by this Agreement, in which case the amount of the overpayment shall be paid by Licensor to the Company within thirty (30) days after determination thereof.

(d) The Company shall provide Licensor with year-end audited financial statements within: (i) forty-five (45) days of the end of calendar year 2006; and (ii) thirty (30) days of the end of each calendar year during the Term thereafter.

7.7. Distribution Fee.

(a) The Company shall collect and receive all revenues derived from systems operators or any other authorized person on account of the

Company's exploitation of the PTVLA Portugal Feed in the Portuguese Africa Distribution Territory. In consideration for granting exploitation rights hereunder outside the Company's Territory, the Company will pay to PEGI a distribution fee equal to fifty percent (50%) of the Net Revenues received by the Company from the exploitation of the PTVLA Portugal Feed in the Portuguese Africa Distribution Territory, based on the simultaneous retransmission feed or a broadcast directed to the Portuguese Africa Distribution Territory (the "PTVLA Portugal Feed Distribution Fee"). For purposes of distribution fees under this Paragraph, the term "PTVLA Portugal Feed Net Revenue" means gross revenues earned and actually collected from systems operators or any other authorized person on account of the Company's exploitation of the PTVLA Portugal Feed in the Portuguese Africa Distribution Territory, less any applicable withholding taxes herein. It is understood that the PTVLA Portugal Net Feed Revenue shall be excluded from the Net Revenues as defined in Section 7 hereinabove.

(b) The PTVLA Portugal Feed Distribution Fee will be computed by the Company as of the last day of each calendar month, and will be paid to PEGI on a quarterly basis as of each March 31, June 30, September 30, and December 31, within 30 days after the end of each such respective quarter. The Company shall furnish PEGI with a statement showing the calculation of such PTVLA Channel Distribution Fee and setting forth all applicable Company-related taxes withheld, if any.

(c) Payments of the PTVLA Channel Distribution Fee will be made by wire transfer of immediately available funds, net of any withholding required by applicable law. PEGI will from time to time designate one or more accounts into which such payments will be made and may designate one or more Affiliates to receive such payments.

(d) Any payment not made when due will bear interest from the date due to and including the date payment in fill is made at a rate equal to the reference rate of the Bank of the America for domestic customers as in effect on the date payment was due.

(e) Subject to Section 7.4 the PTVLA Portugal Feed Distribution Fees shall be paid in U.S. dollars. To the extent the calculation is based on revenues received in other currencies, such revenues shall be calculated using the exchange rate published in the Wall Street Journal as of the business day immediately preceding the date on which the payment initially is due.

(f) Distribution Cost. The cost associated with the exploitation of the PTVLA Portugal Feed will be borne by the Company including all related costs set forth in the Company Operating Agreement or in this Agreement (including, but not limited to, uplink an other delivery-related costs).

7.8. Licensor Distribution In Belize. Notwithstanding any territorial, exclusivity or other restrictions contained in this Agreement, upon notice from Licensor and consent from the Company, such consent not to be unreasonably withheld or delayed, Licensor may sub-license and distribute Programs in the English language from the Licensed Programming to television system operators in the country of Belize. In the event Licensor sub-licenses and distributes such Programs to third parties in the country of Belize, Licensor shall pay the Company a distribution fee equal to fifty percent (50%) of the total revenues which Licensor receives from the exploitation of such Programs in the Media in such region of the Territory, less any applicable withholding taxes. It is understood that the distribution fee received by the Company pursuant to this Section 7.8 shall be excluded from Net Revenues as defined in Section 7.

8. INDEMNITIES.

8.1. Representations and Warranties.

(a) By Licensor. Licensor represents and warrants that, except as set forth in the Schedules hereto: (i) it is duly authorized to enter into the transactions contemplated by this Agreement; (ii) this Agreement is a valid and binding obligation of Licensor, enforceable against it in accordance with its terms; (iii) the performance of Licensor's obligations hereunder does not violate any agreement, law, rule, or regulation binding on Licensor or Licensor's charter documents; (iv) it has, and will continue to have during the Term, all rights in and to the Existing Library, New Programs, Wallpaper and any other content provided hereunder necessary to fulfill its obligations hereunder (except that with respect to the Existing Library, no such representation is made as to any program not listed on Schedule 6.1); (v) the Existing Library, New Programs, Wallpaper and any other content provided hereunder are not subject to licenses which conflict with the rights granted herein, and the use thereof by the Company as contemplated herein will not infringe upon the copyright, literary or dramatic right or right of privacy of any third party or constitute a libel or slander of any third party; and (vi) Licensor has disclosed all information having a material adverse effect on the rights granted hereunder, and that all such information is true and correct to the best of Licensor's knowledge and belief.

(b) By the Company. The Company represents and warrants that: (i) it is duly authorized to enter into the transactions contemplated by this Agreement; (ii) this Agreement is a valid and binding obligation of the Company, enforceable against it in accordance with its terms; (iii) the performance of the Company obligations hereunder does not violate any agreement, law, rule, or regulation binding on the Company or the Company charter documents; (iv) it will not use the Licensed Programming expect as authorized by this Agreement; (v) it has, and will continue to have during the Term, all rights in and to the Company Produced Programming and Company Format Programming and any other content

provided hereunder necessary to fulfill its obligations hereunder; (vi) the Company Produced Programming and Company Format Programming and any other content provided hereunder are not subject to licenses which conflict with the rights granted herein, and the use thereof by Licensor as contemplated herein will not infringe upon the copyright, literary or dramatic right or right of privacy of any third party or constitute a libel or slander of any third party; and (vii) the Company has disclosed all information having a material adverse effect on the rights granted hereunder, and that all such information is true and correct to the best of the Company's knowledge and belief.

8.2. Indemnification.

(a) By Licensor. Licensor will indemnify and hold harmless the Company and its members, managers, directors, officers, shareholders, employees, agents, representatives and Affiliates (collectively, the "Company Indemnified Parties"), on an After Tax Basis, from and against all claims, losses, damages (including loss of profits and consequential damages awarded to unrelated third parties, if any, but excluding loss of profits and consequential damages otherwise suffered by the Company Indemnified Parties), expenses, judgments, costs and liabilities (including reasonable attorneys' fees and costs) (collectively, "Losses") incurred by the Company Indemnified Parties arising from Licensor's breach of any obligation, representation or warranty contained in this Agreement or by reason of any claim, resulting in liability to the claimant or a settlement approved in writing by Licensor, which may be made alleging that any of the Licensed Programming or other materials furnished by Licensor for public exhibition as authorized hereunder infringe upon the copyright, literary or dramatic right or right of privacy of any claimant or constitutes a libel or slander of such person, except with respect to any material added by the Company (including as permitted hereunder) and except with respect to music which is specifically covered by Section 8.3 below. Licensor shall not be required to provide indemnification for any Losses solely and directly caused by the action or inaction of any Company Indemnified Party.

(b) By Company. The Company will indemnify and hold harmless Licensor and its directors, officers, shareholders, employees, agents, representatives and Affiliates (collectively, the "Licensor Indemnified Parties"), on an After Tax Basis, from and against all Losses incurred by the Licensor Indemnified Parties arising from (i) the breach or alleged breach of any provision of this Agreement by the Company; or (ii) any claim, resulting in liability to the claimant or a settlement approved in writing by the Company, which may be made alleging that any of the Company Produced Programming, Branded Format Programming, Company Format Programming or other materials furnished by the Company as authorized hereunder infringe upon the copyright, literary or dramatic right or right of privacy of any claimant or constitutes a libel or slander of such person, except with respect to any material

added by Licensor, but excluding any Losses for which the Company must indemnify

Licensor pursuant to Section 8.2(a) above and excluding claims arising out of Licensor's failure to secure clearances and/or make payments as provided in paragraph 2.4(a) above except for those clearances that are the responsibility of the Company subject to Section 2.4(a) above. Without limiting the foregoing, the Company shall specifically so indemnify Licensor and such other parties from and against all Losses made or assessed against Licensor arising from the transmission of any material that should have been edited for censorship or other than as contained in the Delivery Materials as delivered by Licensor, or from the temporary or permanent loss of any such material. The Company shall not be required to provide indemnification for any Losses solely and directly caused by the action or inaction of any Licensor Indemnified Party.

8.3. Musical Compositions. Licensor warrants and represents that to the best of its knowledge, information and belief, the performing rights in all musical compositions contained in the Licensed Programming are: (i) controlled by a performing rights society having jurisdiction, (ii) controlled by Licensor, or (iii) in the public domain. Licensor does not represent or warrant that the Company may exercise the performing rights to said musical compositions without the payment of a performing rights royalty. The Company will be solely responsible for the payment of such royalty and will hold Licensor free and harmless therefrom.

8.4. Procedure. If a claim by a third party is made against an indemnified party, the indemnified party will promptly notify the indemnifying party of such claim. Failure to so notify the indemnifying party will not relieve the indemnifying party of any liability which the indemnifying party might have, except to the extent that such failure materially prejudices the indemnifying party's legal rights. The indemnifying party will have the obligation after receipt of such notice to undertake, conduct and control such claim through counsel of its own choosing and its expense. If, within thirty (30) days of such notice, the indemnifying party has not undertaken, conducted nor controlled such claim through counsel, the indemnified party shall have the right to undertake, conduct and control such claim through counsel of its own choosing and at the expense of the indemnifying party, provided, that any such expenses shall be reasonable, actual, verifiable, out-of-pocket expenses.

9. TERMINATION.

9.1. Expiration of Term. The term of this Agreement shall continue from the original effective date of April 1, 2002 and terminate on March 31, 2022, unless sooner terminated pursuant to the other provisions of this Section (the "Term").

9.2. Renewal. No later than October 1, 2019, PEGI shall notify the Company in writing if it intends to renew or extend this Agreement. If PEGI so elects, PEGI and the Company shall negotiate in good faith for a period of six (6) months on the terms of such renewal or extension. If PEGI elects not to renew or extend this Agreement, the parties hereto agree and acknowledge that Section 2.2(g) (Exclusive Supplier) of this Agreement and Sections 6.2.1, 6.2.2 and 6.2.3 of the Company Operating Agreement shall terminate on January 1, 2020.

9.3. Early Termination on Breach. Either party may without prejudice to its other remedies terminate this Agreement immediately by notice in writing to the other on or after the occurrence of any of the following:

(a) the commission of one or more material breaches of this Agreement by the other party which are not capable of remedy; provided, however, that in case of a breach by the Company, such breach is not caused by Licensor as a Member of the Company; or

(b) the commission of a material breach of this Agreement by the other party which is capable of remedy (a "Remediable Breach") which shall not have been remedied within a period of thirty (30) days after the party in breach has been given notice in writing specifying that Remediable Breach and requiring it to be remedied; provided, however, that such thirty (30) day period shall be extended for such additional period, not to exceed one-hundred-twenty (120) days, as shall be reasonably necessary if that Remediable Breach is incapable of remedy within that thirty (30) day period and during that additional period the party in breach shall diligently endeavor to remedy that Remediable Breach, but only if such extension would not reasonably be expected to have a material adverse effect on the party giving notice of such breach. However, in respect of the breach of any obligation to make payment hereunder, the cure period shall not be extended as provided in the foregoing proviso. Notwithstanding the foregoing, Licensor may not terminate this Agreement in case of a breach by the Company if such breach is caused by Licensor as a Member of the Company; or

(c) the bankruptcy or insolvency of, a general assignment for the benefit of creditors or similar event by, or the appointment of a trustee, receiver or similar person for the other party;

(d) the other party being prevented by an event of Force Majeure from performing its obligations or the party exercising such right of termination being prevented by an event of Force Majeure from exercising its rights under this Agreement for a period of one-hundred-twenty (120) consecutive calendar days; and provided, further, that in case of a breach by the Company, such breach is not caused by Licensor as a Member of the Company.

9.4. Inadvertent Breach. The parties agree that any inadvertent breach relating to Licensor's obligations with respect to any individual Program shall constitute a Remediable Breach and shall not constitute grounds for termination hereof if Licensor provides comparable substitute Programming for the applicable Program.

9.5. Cross Default. The uncured material breach of the Company Operating Agreement by either party or their Affiliates shall cause this Agreement to terminate, unless such breach was caused by the party seeking termination hereunder.

9.6. Dissolution of Company. The dissolution of the Company shall cause this Agreement to terminate.

10. EFFECTS OF TERMINATION.

10.1. Survival of Obligations. The termination of this Agreement for whatever reason shall not effect Articles 8, 10, 12 and 13, and Sections 2.3(c), 2.4(c), 2.5, 3.10, 6.2 and 7.6 of this Agreement.

10.2. Termination of Rights. Upon the date on which any termination of this Agreement for whatever reason takes effect (the "Termination Date") all rights of the Company hereunder (other than any rights that the Company may have arising from the conduct of, or performance hereof by, Licensor) will immediately terminate and automatically revert to Licensor and the Company will cease to make any use of the Licensed Programs and other materials provided by Licensor hereunder, and shall promptly destroy or return the same to Licensor, in each case as directed by Licensor. Further, the Company shall immediately amend its charter documents so that its name no longer includes any reference to any trademark of Licensor or any confusingly similar designation or mark, if such a reference is included its name.

10.3. Further Assurances. Upon termination of this Agreement, the parties will perform all other acts which may be necessary or useful to render effective the termination of the Company's interests in the Licensed Programs, Licensor Trademarks and other materials furnished by Licensor hereunder and the Company will execute any assignment, conveyance, acknowledgment or other document that Licensor may reasonably request relinquishing such interests. Without limiting the foregoing, the Company hereby consents to any application which Licensor may make to limit or terminate the Company's status as a registered user of the Licensor Trademarks and irrevocably agrees not to contest, oppose or dispute such application.

11. EQUITABLE RELIEF.

Each of Licensor and the Company acknowledges that any material breach of this Agreement by such party, including, by way of example, the Company's failure to cease using any Programming supplied hereunder upon the expiration or termination of this Agreement, will result in irreparable harm to the other party for which there is no adequate remedy at law. Accordingly, in such event, Licensor or the Company, as the case may be, will be entitled to preliminary or temporary equitable relief in any Federal or State court of competent jurisdiction located in Los Angeles County, California and, except in the case of an IP-Validity Dispute, pending a final determination in accordance with Section 12, without the necessity of posting bond unless otherwise required by applicable law by way of any or all of the temporary and permanent injunctions and such other relief as any court of competent jurisdiction may deem just and

proper.

12. DISPUTE RESOLUTION.

12.1. IP-Validity Dispute. Notwithstanding the foregoing and the provisions of this Section 12, the parties hereto agree in the event any third-party brings a dispute concerning: (i) the validity, ownership, or control of the Licensor Trademarks or the Licensor Additional Marks, Branded Company Originated Marks or the copyrights or other intellectual property rights to any Licensed Programming or any Branded Programming (an "IP-Validity Dispute"); the parties, (a) shall seek to have such dispute litigated in a court of law and brought in the state

or federal courts in Los Angeles, California and (b) shall irrevocably submit to the exclusive jurisdiction of such courts, (x) shall waive any objection to choice of venue in any such action or proceeding in such courts, (y) shall waive any objection that any such court is an inconvenient forum or does not have jurisdiction over any party hereto, and (z) shall waive any right they may have to request a jury trial.

12.2. Dispute, Notice and Response. If any dispute or difference of any kind whatsoever shall arise between the parties in connection with, arising out of or relating to this Agreement (including any schedule or exhibit hereto), or the breach, termination or validity thereof (a "Dispute"), the parties shall attempt to settle such Dispute in the first instance by mutual discussions. Within ten (10) business days of the receipt by a party of a notice of the existence of a Dispute ("Notice"), the receiving party shall submit a written response to the other party ("Response"). Both the Notice and the Response shall include (i) a statement of each party's position with regard to the Dispute and a summary of arguments supporting that position; and (ii) the name and title of the senior executive who will represent that party in attempting to resolve the Dispute pursuant to this Section 12.2. Within five (5) business days of receipt of the Response, the designated executives shall meet and attempt to resolve the Dispute. All negotiations pursuant to this clause shall be confidential and shall be treated as compromise and settlement negotiations, and no oral or documentary representations made by the parties during such negotiations shall be admissible for any purpose in any subsequent proceedings. If any Dispute is not resolved for any reason within twenty (20) days of receipt of the Response (or within such longer period as to which the parties have agreed in writing), then, on the request of any party the Dispute shall be submitted to arbitration in accordance with Sections 12.2-12.5 herein.

12.3. Arbitration. Any Dispute not timely resolved in accordance with Section 12.2 shall be finally and exclusively settled by arbitration in accordance with the International Arbitration Rules of the American Arbitration Association ("AAA") then in effect (the "Rules"), except as modified herein. The arbitration shall be held in Los Angeles, California. The arbitration

proceedings shall be conducted, and the award shall be rendered, in the English language.

12.4. Number of Arbitrators. If the Dispute (including claims and counterclaims) is for less than $5 million, there shall be one arbitrator. The parties shall have fifteen (15) days from the receipt by the respondent of the demand for arbitration to agree on an arbitrator. If the parties fail to timely agree, on the request of any party such arbitrator shall be appointed by the AAA in accordance with the Rules and the procedures set forth herein. If the Dispute (including claims and counterclaims) is for more than $5 million, there shall be three neutral and impartial arbitrators of whom the claimant and the respondent shall each appoint one, within fifteen (15) days of the receipt by respondent of a copy of the demand for arbitration. The two arbitrators so appointed shall select a third arbitrator to serve as presiding arbitrator, such selection to be made within twenty (20) days of the selection of the second arbitrator. If any arbitrator is not appointed within the time limits set forth herein, such arbitrator(s) shall be appointed by the AAA in accordance with the Rules and the procedures set forth herein. There shall be no restriction on the nationality of any arbitrator. Any arbitrator appointed by the AAA shall be either a retired judge with experience in international commercial cases or a practicing attorney with at least 15 years experience with large commercial cases and experience as an

international arbitrator. The AAA shall send simultaneously to each party an identical list of at least nine arbitrator candidates, and each party shall be permitted to strike two names from the list, rank the remaining arbitrators in order of preference and return the list to the AAA within ten (10) days of the transmittal date. If a party does not return the list within the time specified, all persons named therein shall be considered acceptable. From among the persons who remain on both lists and in accordance with the designated order of mutual preference, the AAA shall invite the acceptance of an arbitrator to serve. There shall be no restrictions on the nationality of any arbitrator.

12.5. Hearing. The hearing on the merits shall be held as expeditiously as possible, if practicable no later than four months after the appointment of a single arbitrator or five months after the appointment of the third arbitrator, as applicable. The hearing shall, if practicable, last no longer than ten days, which shall be consecutive, if possible. The award, which shall be in writing and shall briefly and concisely state the findings of fact and conclusions of law on which it is based, shall be rendered, if practicable, within twenty (20) days of the close of the hearing. In rendering an award, the arbitrator(s) shall be required to follow the law of the State of New York. The arbitrator(s) are not empowered to award damages in excess of compensatory damages and each party hereby irrevocably waives any right to recover such damages with respect to any dispute resolved by arbitration. The arbitrator(s) shall have the authority to award the costs of the arbitration (including attorneys' fees and expenses) to the prevailing party. The award shall be final

and binding upon the parties and shall be the sole and exclusive remedy between the parties regarding any claims, counterclaims, issues or accounting presented to the arbitral tribunal. Judgment upon any award may be entered in any court having jurisdiction thereof. Any costs or fees (including attorney's fees and expenses) incident to enforcing the award shall be charged against the party resisting such enforcement.

12.6. Jurisdiction. By agreeing to arbitration, the parties do not intend to deprive any court of its jurisdiction to issue a pre-arbitral injunction, pre-arbitral attachment or other order in aid of arbitration proceedings and the enforcement of any award. Without prejudice to such provisional remedies as may be available under the jurisdiction of a national court, the arbitral tribunal shall have full authority to grant provisional remedies or modify or vacate any temporary or preliminary relief issued by a court, and to award damages for the failure of any party to respect the arbitral tribunal's orders to that effect.

12.7. Enforceability. The parties shall take all actions necessary for awards and other judgments resulting from the provisions set forth above to be recognized and enforceable in the respective jurisdictions of organization of the parties and, to the extent necessary, in other jurisdictions in the Territory.

13. MISCELLANEOUS.

13.1. Force Majeure. Subject to the right to terminate set forth in Section 9.3, neither party will be liable to the other for any failure or delay in delivery of Delivery Materials, or the inability to telecast any of the Programs, due to accident involving breakdown of any satellite or of transmission facilities or equipment, labor disputes, acts of God, failure of carriers, failure or delay of laboratories, of or any other cause beyond the control of such party (each, an event of "Force Majeure") and such performances will be excused to the extent that it is

prevented by reason of any of the foregoing conditions. Notwithstanding the foregoing, an event of Force Majeure will not include censorship restrictions or any restriction by any jurisdiction on a party's right to transfer funds.

13.2. Binding Effect; No Assignment. The provisions of this Agreement shall be binding on and ensure to the benefit of the successors of each party hereto; provided, however, that no party may not assign, transfer, pledge, hypothecate, charge or otherwise dispose of or subcontract any of its rights or obligations hereunder without the prior written consent of the other party. Notwithstanding the foregoing; (i) either party may assign its rights and obligations hereunder to an Affiliate of such party, but the original party will remain responsible and liable for such Affiliate's compliance with all of such original party's obligations hereunder, and, in the case of an assignment by

Licensor, such Affiliate must be the owner of the Licensor Trademarks; and (ii) in the event Lifford (or an Affiliate of Lifford which is then a member of the Company) elects to dissolve the Company due to a breach by PEGI (or an Affiliate of PEGI which is then a member of the Company) of the Company Operating Agreement, Lifford (or such Affiliate) may cause the Company's rights hereunder to be assigned to Lifford (or to an Affiliate of Lifford), provided that the Company's rights under the this Agreement are assigned to the same assignee. Nothing in this Agreement, expressed or implied, is intended to confer on any Person other than the parties hereto or their respective permitted successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

13.3. Invalidity. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provisions in any other jurisdictions.

13.4. Waivers, Remedies Cumulative, Amendments, etc.

(a) No failure or delay by either party hereto in exercising any right, power or privilege under this Agreement will operate as a waiver thereof nor will any single or partial exercise by either party hereto of any right, power or privilege preclude any further exercise thereof or the exercise of any other right, power or privilege.

(b) Except as otherwise provided in this Agreement, the rights and remedies herein provided are cumulative and not exclusive of any rights and remedies provided by law.

(c) No provision of this Agreement may be amended, modified, waived, discharged or terminated, other than by the express written agreement of the parties hereto nor may any breach of any provision of this Agreement be waived or discharged except with the express written consent of the party not in breach.

13.5. Notices.

(a) All notices, requests, demands and other communications required to be given under this Agreement will conclusively be deemed to have been duly given: (i) when hand delivered, (ii) the next business day if sent by a generally recognized overnight courier service that provides written acknowledgment by the addressee of receipt, or (iii) when received

(with appropriate answerback), if sent by facsimile transmission or other generally accepted means of electronic transmission addressed as follows:

If to Licensor to:	Playboy Entertainment Group, Inc. Attention: President 2706 Media Center Drive Los Angeles, CA 90065 United States of America Fax Number: (323) 276-4500
with a copy to:	Playboy Enterprises, Inc. Attention: General Counsel 680 North Lake Shore Drive Chicago, IL 60611 United States of America Fax Number: (312) 266-2042
with a copy to:	Business and Legal Affairs 2706 Media Center Drive Los Angeles, CA 90065 United States of America Fax Number: (323) 276-4502
If to the Company:	Playboy TV - Latin America, LLC c/o Claxson Interactive Group Inc. Attention: Chairman and Chief Executive Officer 1550 Biscayne Boulevard Ground Floor Miami, FL 33132 Fax Number: (305) 894-3606
with a copy to:	Claxson Interactive Group Inc. Attention: General Counsel 1550 Biscayne Boulevard Ground Floor Miami, FL 33132 Fax Number: (305) 894-4803
with a copy to:	Paul Berkowitz, Esq. Greenberg Traurig, P.A. 1221 Brickell Avenue Miami, Florida 33131 Fax Number: (305) 961-5685

or to such other address, or facsimile transmission number as the relevant addressee may hereafter by notice hereunder substitute.

(b) All notices will be deemed given when received at the address(es) as provided in paragraph (a) above.

13.6. Governing Law. ALL QUESTIONS WITH RESPECT TO THIS AGREEMENT AND THE RIGHTS AND LIABILITIES OF THE PARTIES WILL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, IRRESPECTIVE OF THE CHOICE OF LAWS PROVISIONS OF NEW YORK OR OF ANY OTHER JURISDICTION. The parties each hereby consent to the personal jurisdiction and venue in the state and federal courts sitting in the State of California.

13.7. Entire Agreement. This Agreement, together with its attachments, constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral and written, between the parties hereto with respect to the subject matter hereof.

13.8. Rules of Construction.

(a) Headings. The section headings in this Agreement are inserted only as a matter of convenience, and in no way define, limit, or extend or interpret the scope of this Agreement or of any particular section.

(b) Tense and Case. Throughout this Agreement, as the context may require, references to any word used in one tense or case will include all other appropriate tenses or cases.

(c) Agreement Negotiated. The parties hereto are sophisticated and have been represented by lawyers throughout the negotiation and execution of this Agreement who have carefully negotiated the provisions hereof.

13.9. Counterparts. This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

13.10. Relationship Between the Parties. This Agreement will not be construed to place the parties in the relationship of partners or joint venturers. The Company shall have no power to obligate or bind any or all of Licensor and its subsidiaries or Affiliates in any manner whatsoever except as expressly set forth in the Company Operating Agreement.

13.11. Time Is of the Essence. Time will be of the essence with respect to each and every obligation of the Company and Licensor hereunder.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the date first above written.

LICENSOR:

PLAYBOY ENTERTAINMENT GROUP, INC.

By: /s/ F. Reid Nathan

Name:F. Reid Nathan
Title: VPBusiness & Legal Affairs

COMPANY:

PLAYBOY TV-LATIN AMERICA, LLC

By: /s/ Alejandro Iglesias

Name: Alejandro Iglesias
Title:General Manager

Schedule 2.1(a)

Existing Library

Schedule 2.1(b)

2001 PTVLA New Programming Schedule

Schedule 3.1

Licensor Trademarks

Schedule 6.1

Delivery Materials

Exhibit 10.20

Exhibit A
Confidential Treatment

AMENDED AND RESTATED
AFFILIATION AND LICENSE AGREEMENT
FOR DTH SATELLITE EXHIBITION
OF PROGRAMMING

PLAYBOY TV, TWO ADULT MOVIE CHANNELS AND PLAYBOY TV EN ESPANOL

DIRECTV, INC.

and

PLAYBOY ENTERTAINMENT GROUP, INC. and
SPICE HOT ENTERTAINMENT, INC.

Confidential Treatment

AMENDED AND RESTATED
AFFILIATION AND LICENSE AGREEMENT
FOR DTH SATELLITE EXHIBITION
OF PROGRAMMING

AMENDED AND RESTATED AGREEMENT made as of September 16, 2006 (the "Effective Date"), by and between PLAYBOY ENTERTAINMENT GROUP, INC., and SPICE HOT ENTERTAINMENT, INC., each of which is a Delaware corporation having an office located at Media Center Drive., Los Angeles, California 90065 (collectively referred to herein as "Programmer"), and DIRECTV, INC., a California corporation, having an office located at 2230 East Imperial Hwy., El Segundo, California 90245 ("Affiliate").

WITNESSETH:

WHEREAS, Affiliate has established a direct-to-home ("DTH") satellite-based television system in North America;

WHEREAS, Affiliate desires to continue to distribute various television networks owned and operated by Programmer that feature adult films, related programming and interstitial material (the "Service," as defined in Section 1(b) below) in the United States as restricted by Section 17 herein (the "Territory");

WHEREAS, Affiliate and Programmer are parties to the Affiliation Agreement for DBS Satellite Exhibition of Cable Programming, dated as of May 17, 2002, as amended, (the "Current Playboy Agreement"); and

WHEREAS, this Agreement supersedes all prior understandings and agreements relating to the subject matter herein, including without limitation, the Current Playboy Agreement and any amendments or extensions thereto;

NOW, THEREFORE, FOR GOOD AND VALUABLE CONSIDERATION, THE RECEIPT AND ADEQUACY OF WHICH ARE HEREBY ACKNOWLEDGED, IT IS MUTUALLY AGREED AS FOLLOWS:

1. Grant of Rights.

(a) Distribution; Certain Definitions.

(i) Programmer hereby grants to Affiliate, and Affiliate hereby accepts, the non-exclusive right to distribute the Service in the Territory via the DTH Distribution System (as defined below) to DIRECTV Subscribers during the Term (as defined in Section 6(a) below), as follows: (i) with respect to the Playboy TV Service (as defined in Section 1(b) below), distribution shall include residential subscribers, hotels,

motels, private offices, multiple dwelling facilities and oil rigs (provided, however, that Affiliate shall not have the right to distribute the Service in any common areas to which the public has free access) on a subscription (a la carte or package) basis (the "Subscription Offerings") and on a pay-per-view, pay-per-block and pay-per-night basis (collectively, the "PPV Offerings"), in blocks of at least sixty (60) minutes each (or such period as the parties shall agree) for up to twenty four (24) hours; provided, however, that any partial exhibition of the Service which consists only of motion pictures must be no shorter than sixty (60) minutes (any block of time, a "PPV Program"); and (ii) with respect to each of Movie Channel 1, Movie Channel 2 and Playboy TV en Espanol Services (as each is defined in Section 1(b) below), distribution may include Subscription Offerings and PPV Offerings to residential subscribers, hotels, motels, private offices, multiple dwelling facilities and oil rigs (provided, however, that Affiliate shall not have the right to distribute the Service in any common areas to which the public has free access). Affiliate shall determine in its sole discretion whether to sell Subscription Offerings on an a la carte or package basis. Affiliate shall have the non-exclusive right to use the name of or logo for "Playboy TV," "Spice Wild" "The Hot Network," and "Playboy TV en Espanol" as such names or logos may be changed, altered and amended by Programmer, or the names, titles or logos of the Service or any of its programs, or the names, voices, photographs, music, likenesses or biographies of any individual participant or performer in, or contributor to, any program or any variations thereof, all of which are being licensed exclusively for use in connection with the distribution, promotion, marketing and sale of the Service as provided herein. Any further use shall require Affiliate's notification to Programmer and Programmer's written approval, not to be unreasonably withheld.

(ii) The term "DTH Distribution System" shall mean the distribution system for video and other programming services whereby the programming satellite signal or feed is received from Programmer's delivery source by a DIRECTV turnaround earth-station facility which compresses and processes the signal or feed and then uplinks it to a DTH communications satellite (a "DTH Satellite") for transmission to DIRECTV Subscribers. DTH Distribution System shall also include any other method of distribution that Affiliate currently and/or subsequently uses to deliver the Service feed(s) to DIRECTV Subscribers as part of Affiliate's provision of television services consisting of multi-channel linear programming (which may be combined with other services), including, without limitation, MMDS and territorial-based transmission infrastructures such as Internet protocol (excluding distribution via the Internet or the World Wide Web; provided that if at any time Programmer offers the right to distribute the Service via the Internet or World Wide Web to

any other distributor of the Service, Programmer will offer the same rights on the same terms and conditions to distribute the Service on the Internet or the World Wide Web to Affiliate)), fiber optic, twisted pairs and coaxial cable, provided that in connection with such delivery methods, Affiliate complies with the following: (i) the end users to whom Affiliate distributes the Service are DIRECTV Subscribers; (ii) the branding and packaging that is received by such DIRECTV Subscribers is substantially the same as the branding and packaging received by DIRECTV Subscribers that receive the Service via Affiliate's direct to home satellites. During the Term (as defined in Section 6(a)), the Service (as defined below) shall be distributed via a DTH Satellite at the orbital location which transmits to the greatest

number of DIRECTV Subscribers. "DIRECTV Subscribers" shall mean those customers (both residential and non-residential) authorized by Affiliate to receive a DIRECTV branded DTH service via the DTH Distribution System to a customer's Set-Top Box (as defined below), provided that nothing herein shall prohibit the transfer of Service programming by a DIRECTV Subscriber from such Subscriber's Set-Top Box to a portable viewing device. "Service Subscribers" shall mean DIRECTV Subscribers authorized by Affiliate to receive the Subscription Offerings and/or PPV Offerings. "Internet" shall mean the electronic communications network that connects computer networks and organizational computer facilities around the world. "World Wide Web" means the hypertext transfer protocol-based, distributed information system that facilitates sharing information and content via the Internet. A "Set-Top Box" means a device that connects to, or is integrated as part of, a television or other video output display device ("Display Device") and also connects to the source of Affiliate's audio/visual signal, the content of which then is displayed on the Display Device.

(iii) If Programmer grants or has granted to any other distributor of multi-channel (i.e., broadcast or cable television networks) video programming that distributes the Service in the Territory the right to receive and distribute any Service via a "New Distribution Method" (as defined below), then Programmer will promptly notify Affiliate thereof and make available to Affiliate the right to receive and distribute such Service(s) via such New Distribution Method to the extent that, and under the same terms and conditions such rights were made available to such other distributor directly in exchange for such rights; provided that if Affiliate cannot reasonably satisfy such terms and conditions, Programmer shall offer Affiliate comparable terms and conditions. The phrase "same terms and conditions" shall include the allocation of costs of distribution of the applicable Service(s) on the New Distribution Method between Programmer, the other distributor of the Service(s) and any required third party facilitator needed for the distribution of the Service(s). "New Distribution Method" shall mean, with respect to any other distributor of the Service in the Territory, any distribution method, device, distribution technology or format (for example, distribution to hand-held devices, distribution via the Internet, or distribution to computers in college dorm rooms) other than has been granted under this Agreement; provided that, in all events, the current distribution methods of cable television, telco (i.e., via traditional fiber lines), direct to home satellite, SMATV and multipoint distribution service shall not be considered a New Distribution Method.

(iv) Affiliate shall have the right, but not the obligation, exercisable in its absolute sole discretion, to distribute the programming service commonly known as "Playboy en Espanol" upon delivery to Programmer of not less than thirty (30) days prior written notice thereof. References throughout this Agreement to Playboy en Espanol shall be applicable only upon

Affiliate's launch, if any, of Playboy en Espanol via the DTH Distribution System.

(v) Affiliate shall be permitted to authorize satellite master antenna television system ("SMATV") operators (including telephone companies and similar service providers) that serve multiple dwelling unit buildings or complexes, commercial or business

establishments with multiple television viewing sites or master planned communities and the like to distribute the Service in the Territory via such SMATV systems directly to end users within such buildings or establishments for DTH reception only, provided, however, that: (i) such SMATV operator shall not have the right to distribute the Service in any common areas to which the public has free access and (ii) Affiliate shall be responsible for each such SMATV operator's compliance with all the terms and conditions of this Agreement including but not limited to, the service charge due for each individual purchase of the Service, whether on a PPV Offering or Subscription Offering basis.

(b) The Service. The "Service" shall, individually and collectively, mean and consist of the national feed (or, if Programmer uses multiple feeds for the Service for the purpose of serving multiple time zones, such other of such multiple feeds designated by Affiliate) of the three programming services described in clauses (i) through (iii) below, and Playboy TV en Espanol and the VOD Service at such time, if any, that Affiliate elects to launch Playboy TV en Espanol and/or the VOD Service. Each Service, except the VOD Service, shall be presented on a 24-hour per day, 7 days a week schedule, as described below and in the "Descriptions and Limitations of the Service," attached hereto as Exhibit A. The Service shall be delivered to Affiliate in its entirety, meaning that the programming (including, without limitation, all other information related thereto (e.g., data)) on the Service as received by any Service Subscriber at a given point in time shall be the same as the programming received by all other subscribers to the Service at such point in time (excluding insertions by individual video service providers to permit the customization of a feed with respect to promoting such video service provider not to exceed four minutes per hour; provided that the insertions do not change the content of a Program, and only preempt interstitial programming). In the event that Programmer grants individual service providers the right to insert customized insertions as provided hereinabove, Programmer shall notify Affiliate and Affiliate shall be granted the same such rights.

(i) Playboy TV. The programming service commonly known as "Playboy TV" is currently exhibited on channel 595 ("Playboy TV"). Playboy TV shall consist of entertainment programming for adult audiences as more fully described in the "Description and Limitation of the Services" Section attached hereto as Exhibit A. Affiliate shall refer to Playboy TV as "Playboy TV," or other name mutually agreed to by the parties, and may list Playboy TV on the program guide as "PBTV." Affiliate shall include a marketing description of Playboy TV in Affiliate's programming guide that is viewed by Subscribers that is mutually agreed upon by the parties.

(ii) Movie Channel 1. The service known as "Movie Channel 1" is currently exhibited on channel 597 ("Movie Channel 1"). Movie Channel 1 shall consist of entertainment programming for adult audiences as more fully described in the "Description and Limitation of the Services" Section attached hereto as Exhibit A. Affiliate shall refer to Movie Channel 1 as "The Hot Network," or other name approved by Affiliate (such approval not to be

unreasonably withheld or delayed, it being agreed that "Club Jenna" is an approved name), and may list Movie Channel 1 on the program guide as "HOT" or as otherwise agreed

to by the Parties. Affiliate shall include a marketing description of Movie Channel 1 in the programming guide that is viewed by Subscribers that is mutually agreed upon by the parties.

(iii) Movie Channel 2. The service known as "Movie Channel 2" is currently exhibited on channel 598 ("Movie Channel 2"). Movie Channel 2 shall consist of entertainment programming for adult audiences as more fully described in the "Description and Limitation of the Services" Section attached hereto as Exhibit A. Affiliate shall refer to Movie Channel 2 as "Spice Wild" or other name approved by Affiliate (such approval not to be unreasonably withheld or delayed, it being agreed that "Spice:Xcess" is an approved name), and may list Movie Channel 2 on the program guide as "WILD" or as otherwise agreed to by the Parties. Affiliate shall include a marketing description of Movie Channel 2 in the programming guide that is viewed by Subscribers that is mutually agreed upon by the parties.

(iv) [This section intentionally left blank.]

(vi) Playboy TV en Espanol. Playboy TV en Espanol shall consist of native and dubbed Spanish-language entertainment programming for adult audiences as more fully described in the "Description and Limitation of the Services" Section attached hereto as Exhibit A. Affiliate shall refer to the Service as "Playboy en Espanol," or other name mutually agreed to by the parties, and may list the channel on the program guide as "PBE" Affiliate shall include a marketing description of Playboy TV en Espanol in the programming guide that is mutually agreed upon by the parties

(vii) VOD Service. The collection of VOD Packages (as defined herein) offered to distributors of the Service for use in the distributors' Video-On-Demand service, wherein each Package is offered in its entirety to a subscriber's premises by means of the DTH Distribution System for use in an "On-Demand" environment where the subscriber can start and stop video programming at any time and the content is delivered to subscribers as part of the same service that the subscriber receives his or her linear television service (specifically excluding delivery via the Internet/World Wide Web.) A VOD Package is defined as those bundles of adult programs consisting of adult content offered to multi-channel video distributors of television in the Territory (for example any cable operator, satellite television provider, or other facilities-based provider such as Verizon, Bell South or AT&T, in connection with such other provider's multi-channel video distribution business, but not such other provider's cellular phone, World Wide Web, Internet or wireless businesses (an "MCVP")) for distribution on a VOD basis to subscribers with specific distribution requirements including requirements with respect to the user interface. Notwithstanding the terms of this paragraph, upon Affiliate's election and written request, Programmer agrees to provide customized VOD Packages for use by Affiliate in its VOD service offered to Subscribers to the extent that use of Programmer's VOD Packages as set forth above is commercially unreasonable given the technology deployed by Affiliate for so long as Affiliate's use of Programmer's VOD Packages remains commercially unreasonable.

(viii) [This section intentionally left blank.]

(ix) Programmer represents and warrants that (A) it reviews all programming contained in the Service for compliance with the restrictions and limitations set forth in Exhibit A, and (B) the Service shall reflect adult content subject to the restrictions and limitations set forth in Exhibit A, and shall not contain or depict any acts otherwise prohibited by Exhibit A.

(x) All right, title and interest in and to the entire contents of the Service, including, but not limited to, films and recordings thereof, title or titles, names, trademarks, concepts, stories, plots, incidents, ideas, formulas, formats, general content and any other literary, musical, artistic, or other creative material included therein shall, as between Programmer and Affiliate, remain vested in Programmer.

(xi) Each of the Playboy TV, Movie Channel 1, Movie Channel 2 and Playboy TV en Espanol (if applicable) shall be offered on a simultaneous basis and distributed by Affiliate to its Subscribers a minimum of 24 hours per day, seven days per week, on a separate and distinct channel.

(xii) At any time during the Term and in any portion of the Territory, Affiliate shall be permitted to offer other "branded" or "unbranded" adult programming competitive to the Service, it being acknowledged and agreed by the parties that Affiliate's offering of such other adult programming shall not constitute a breach of this Agreement.

(xiii) Programmer shall not propose or impose upon Affiliate, nor shall Affiliate be obligated to pay, any surcharge or other cost (other than the License Fees provided for in Section 2 hereof) for receipt and distribution of the Service.

(c) Other Distribution Rights and Obligations. In addition, the parties agree as follows:

(i) Subject to Programmer's obligations hereunder and Affiliate's rights under Section 17, Affiliate shall distribute the Service as transmitted by Programmer, in its entirety, in the order and at the time transmitted by Programmer without any intentional and willful editing, delays, alterations, interruptions, deletions or additions ("Alterations"), excepting: (A) Affiliate's commercial or other announcements, only if permitted under Section 3 hereof, (B) Affiliate's electronic guides (including without limitation, any mosaic or similar guides), (C) news bulletins and other public announcements as may be required by emergencies or applicable law; and (D) the use of digital video recorders at the DIRECTV Subscriber's premises for playback either on a television display or a mobile device ("DVRs"), videocassette recorders ("VCRs"), or other similar devices by DIRECTV Subscribers. Programmer acknowledges that the DTH System requires and applies digital compression and encryption processes prior to transmission and decryption and decompression processes upon reception and agrees that such processing does not constitute

an Alteration of the Service. Programmer shall fully encrypt the satellite signal of the Service utilizing encryption technology commonly used in the satellite distribution industry. Affiliate shall at all times provide Affiliate

with two operational receivers and decoders per Service as necessary to receive and decode the Service.

(ii) Subject to the terms and conditions of this Agreement, the terms and conditions upon which Affiliate distributes the Service to Service Subscribers, including, without limitation, the packaging of the Service and retail price charged, shall be determined by Affiliate in its sole discretion. Affiliate shall use reasonable efforts to provide Programmer with sixty (60) days' prior written notice of any retail price change.

(iii) Subject to the limitations contained in Section 17 below, and Exhibit B, as applicable, with respect to the PPV Offerings, Affiliate may offer a multiple channel offering, such that for a single payment a purchasing Subscriber is permitted to view Movie Channel 1 and Movie Channel 2 and/or Playboy TV together with other adult channels as determined by Affiliate (as restricted by Section 17 herein) (the "Cascade"), all for one fee (the "Cascade Fee").

Notwithstanding Affiliate's current intention, Affiliate shall not be obligated to offer the Service using the purchasing mechanism set forth in this Section 1(c)(iii).

(iv) Programmer shall make the Service available via satellite signal from a domestic communications satellite commonly used for the delivery of television programming which must be viewable with existing equipment from Affiliate's broadcast center in Los Angeles, California (the "Broadcast Center"). As of the Effective Date, the feeds of the Service are or will be available on Intelsat Americas 13 ("Programmer's U.S. Satellite"). Programmer may, from time to time, in its sole discretion, change the satellite being used for delivery of the Service to Affiliate; provided, however, that any satellite used by Programmer to transmit the Service shall be a domestic communications satellite commonly used for the delivery of television programming which must be viewable with existing equipment from the Broadcast Center without Affiliate incurring additional costs or requiring Affiliate to enter into any third-party arrangements (e.g., HITS) for receipt of the signals. In the event Programmer either (i) changes Programmer's U.S. Satellite to a satellite or other transmission medium not susceptible to viewing or utilization by Affiliate's then-existing earth station equipment without affecting the receipt of the signals of any other programming or other services then received (or committed to be received) by such Affiliate, (ii) changes the technology used by Programmer to encrypt the Service to a technology not compatible with Affiliate's then-existing descrambling equipment, or (iii) compresses, digitizes or otherwise modifies the signal of the Service in such a manner that it cannot be received or utilized by Affiliate, then Affiliate shall have the right to discontinue carriage of the Service, immediately; provided that this right of discontinuance and deletion shall not apply to Affiliate if Programmer agrees to: (I) provide Affiliate with the necessary additional equipment required to receive the Service from the new satellite; and (II) promptly reimburse Affiliate for the actual out of pocket cost to acquire

and install equipment necessary for Affiliate to descramble, receive and/or utilize the signal of the Service from such new satellite or other transmission medium, and/or the actual out of pocket cost to acquire and install equipment necessary for Affiliate to descramble, receive and/or utilize the signal of the Service. Programmer agrees to use commercially reasonable efforts to provide Affiliate with at least one hundred twenty (120) days' prior written notice of any satellite or technology change. Programmer, or its designee, shall maintain

appropriate back-up satellite protection arrangements in accordance with customary industry standards. Programmer and Affiliate shall use their respective commercially reasonable efforts to maintain for the Service a high quality of signal transmission in accordance with their respective technical standards and procedures.

(v) The parties hereby acknowledge and understand that the overall terms and conditions of this Agreement, including without limitation, Sections 2(e), 2(f), 6(c)(v) and 11 and Exhibits "B," "D" and "E" hereof, are expressly conditioned upon Affiliate's distribution of each of the Playboy TV, Movie Channel 1 and Movie Channel 2 Services to all residential DIRECTV Subscribers, excluding DIRECTV Subscribers restricted from receiving the applicable Services as set forth in Section 17 and sub-paragraph B of Exhibit "B" and/or those Subscribers who have elected not to have the option of purchasing adult programming and/or have been excluded from the purchase of transactional programming.

(d) Rights with Respect to Channel Capacity. Affiliate shall have the right, in its sole discretion and for Affiliate's sole benefit as between Programmer and Affiliate, to utilize the channel capacity used to transmit the Service during any hours which (i) the Service, or any significant portion thereof, is not being transmitted to Affiliate for any reason; or (ii) the transmission of the Service, or any significant portion thereof, has been suspended or terminated by Affiliate pursuant to Section 17. Programmer acknowledges that it has no ownership rights in, or right to use, any channel or any amount of capacity on any DTH Satellite.

2. Compensation; Most Favored Nation; Programming Account.

(a) Compensation. As full and complete compensation for Affiliate's right to distribute the Service, Affiliate shall pay to Programmer the applicable percentage of Gross Receipts (as defined below) for each month, as such percentage is calculated as set forth on Exhibit B.

(i) "Gross Receipts" are defined as the sum of all monies billed to Subscribers by Affiliate during any month (not including amounts owed by Affiliate due to taxes other than income or franchise taxes) for receiving any part of the Service; provided, however, that Gross Receipts shall in no event include (i) any charge specifically made for access to programming other than for the Service or any general access charge, hardware licensing charge or other charge made on a "blanket" basis (which shall mean that such charge will relate to access to all program services available from Affiliate by means of the

DTH Distribution System); or (ii) any charges made for ordering the Service via telephone as a PPV Offering, which charges are additional to the charges for ordering the Service without using the telephone. Affiliate shall have the right to offer Movie Channel 1, Movie Channel 2 and/or Playboy TV as part of the Cascade, as set forth above, in which case the Service's allocable share of revenues from such Cascade shall equal Programmer's pro rata share of the Cascade Fee based on the number of networks in the package. Other than as set forth above, Affiliate shall notify Programmer prior to packaging the Subscription Offerings with any other programming services. If, however, Affiliate packages the Subscription Offerings with other non-adult premium subscription programming services, then Affiliate shall determine the Service's allocable share of revenues from such package by application of the following formula:

S = (A/B) x P

where

S = the Service's allocable share of revenues from such package

A= the DIRECTV a la carte price then in effect for the Subscription Offering

B = the sum of the DIRECTV a la carte prices of all programming services included in such package (including, without limitation, the Service) then in effect

P = the price of such package

For the avoidance of doubt, an example of such calculation is as follows: Affiliate packages the Subscription Offerings with programming service X and programming service Y and each of the foregoing has an a la carte retail price of $15, $5 and $10, respectively. The retail price for the entire package is $36. Programmer's allocable share of the revenues from such package would be $18 (15/30 x 36).

(ii) To the extent that a Subscriber prepays any portion of monies solely in connection with Affiliate's distribution of the Service, then the amount prepaid shall be included in Gross Receipts for the month in which such payment was received; provided that, Affiliate's billing system has the capability to account for such prepayments. Affiliate shall deduct the amount of any Credit Transaction (as defined below in Section 2(a)(ii)), as such amount is reasonably determined by Affiliate, from the Gross Receipts of the month in which such Credit Transaction occurs.

(iii) "Credit Transaction" shall mean any refund (or other payment or credit) to a DIRECTV Subscriber in connection with (A) prepayments for the Service, (B) Programmer's inability to transmit the Service to Affiliate for distribution via the DTH Distribution System for any reason other than Affiliate's non-performance of an obligation

hereunder, (C) a Force Majeure Event or (D) credits (excluding Discounted Previews of the Service not authorized by Programmer) allowed by Affiliate in its commercially reasonable judgment consistent with Affiliate's policies and procedures applied consistently to Programmer and Affiliate's other sources of programming services.

(iv) Affiliate shall be responsible for the accounting for all Gross Receipts and shall account to Programmer with regard to the Gross Receipts for the Service on a monthly basis, not later than 45 days after the last day of the month in which the Gross Receipts are accrued by Affiliate. Affiliate shall provide a separate accounting for the Playboy TV, Movie Channel 1, Movie Channel 2 and Playboy TV en Espanol (if applicable) Services. Each such accounting shall include:

(A) the aggregate Gross Receipts for such month;

(B) the origin (categorized separately by residential

subscribers (which includes multiple dwelling facilities, private offices and oil rigs) and hotels/motels, if any) of all Gross Receipts for Subscription Offerings for such month;

(C) the number of residential DIRECTV Subscribers as of approximately the fifteenth calendar day of such calendar month;

(D) the applicable Programmer Share from Exhibit B;

(E) the dollar amount of Programmer's share of Gross Receipts for such month;

(F) the number of Service Subscribers as of approximately the 15th day of such calendar month; and

(G) for each PPV Offering, the number of Service Subscribers purchasing such PPV Offering on each calendar day of such month; and

(H) Hotel/Motel License Fee (as defined below in Section 2(c)).

(v) Programmer and Affiliate shall accord confidential treatment to any information contained in the aforementioned statement in accordance with Section 15. At Programmer's request and at reasonable times, upon reasonable advance written notice and during normal business hours at Affiliate's offices, Affiliate shall permit Programmer's representatives to review, one time per each year of the Term and one time during the year immediately after the termination or expiration of this Agreement, those books and records maintained according to Affiliate's standard accounting practices which are generally in

accordance with GAAP required to verify License Fees and reports made hereunder. Programmer shall audit each calendar year of the Term, if at all, within one (1) year following the end of such calendar year, with such review limited to those records for those months of the prior calendar year which have not been previously reviewed and those past months of the current calendar year for which records are available. Programmer shall report promptly (but no later than 30 days following completion) to Affiliate the results of such audit, including any deficiency in payment of License Fees that Programmer believes were revealed by such audit, and shall make any claim against Affiliate with respect to the results of such audit within one (1) year after reporting such results to Affiliate. From and after Programmer's audit of a particular period of the Term, such period shall be deemed closed by the parties and, except as may be demonstrated by such audit, Affiliate shall have no further liability in respect of License Fees for such period. Programmer may not commence a new audit until all prior audits have been closed and the results have been presented to Affiliate. Any such review shall be at Programmer's sole cost and expense; provided, however, if such review discloses an underpayment greater than ten percent (10%) of the actual amount due (which amount is not subject to a bona fide dispute by Affiliate), Affiliate shall reimburse Programmer for its reasonable out-of-pocket costs and expenses incurred to discover such underpayment. The information derived from and the process of such review shall be subject to the confidentiality provisions of Section 15. Notwithstanding anything herein to the contrary, any audit conducted pursuant to this Section

2(a)(v) shall be conducted by a reputable, industry recognized third party auditor or another firm approved in advance by Affiliate, which shall have first entered into a confidentiality agreement with Affiliate.

(b) License Fee. As full and complete compensation for the rights granted Affiliate hereunder, Affiliate shall pay to Programmer, on a monthly basis, the "License Fees," calculated pursuant to Programmer's Cable Rate Card in Exhibit B, subject to reduction and offset for any credits, discounts, and reimbursements set forth in Exhibit B, annexed hereto, and a five percent (5%) reduction in the amount to be paid to Programmer to take into consideration the approximated rate that DIRECTV Subscribers default on amounts owed for viewing of the Service. As used in this Section 2 and elsewhere in this Agreement (including Exhibit "B") when referring to the payment of License Fees or the provision of subscriber reports by Affiliate to Programmer, unless expressly modified by "calendar," the term "month" shall refer to Affiliate's accounting month, which is the approximately thirty (30) day period commencing on approximately the middle of each month and ending on approximately the middle of the next succeeding month. Affiliate acknowledges that it is being extended the License Fees herein in exchange for offering Playboy TV, Movie Channel 1 and Movie Channel 2 to all residential DIRECTV Subscribers, excluding DIRECTV Subscribers restricted from receiving the applicable Services as set forth in Section 17 and sub-paragraph B of Exhibit "B" and/or those Subscribers who have elected not to have the option of purchasing adult programming and/or have been excluded from the purchase of transactional programming.

(c) Hotel/Motel License Fee. The parties understand and agree that the terms of this Section 2(c), and not Section 2(a), shall govern the case of monies received from the distribution of the Service to hotels or motels. In no event shall Affiliate pay any

fees or other charges on any Gross Receipts pursuant to both this Section 2(c) and any other section of this Agreement. Affiliate shall pay to Programmer a license fee (the "Hotel/Motel License Fee") simultaneously with the accounting rendered to Programmer as set forth in Section 2(a)(iv). The Hotel/Motel License Fee shall be equal to the license fee set forth on Exhibit D attached to this Agreement.

(d) Late or Non-Payments. Any amounts not paid hereunder by the date payment is due, and which are not paid within ten Business Days after receipt of a notice from the obligee thereof stating that such amounts have not been paid and are overdue, shall, at Programmer's option, accrue interest at the rate of one percent (1%) per month or at the highest lawful rate, whichever shall be the lesser, from the date notice was given that such amounts were overdue until they are paid. "Business Day" shall mean a day that is not a Saturday, Sunday or day on which banks are generally closed for business in the State of California.

(e) Most Favored Nation.

(i) If at any time during the Term, Programmer allows (whether prospectively or by virtue of assuming any pre-existing agreements or otherwise) another person engaged in distribution of any of the Services within the Territory (including, without limitation, by means of the Internet, broadcast, cable, telco (i.e., via traditional fiber lines), satellite and/or satellite-based direct broadcast television distribution) (hereinafter, an "Other Distributor"), to distribute such Service(s) in exchange for Consideration (as defined below) which, when taken as a whole on a net effective basis per subscriber to such Service(s), is more favorable to such Other

Distributor than to Affiliate with respect to such Service(s) ("Favored Fees"), then Programmer shall promptly notify Affiliate in writing of such Favored Fees and Affiliate shall be immediately entitled, at its sole option, to incorporate into this Agreement the Favored Fees effective as of the first day following the date on which Programmer first allows such Other Distributor to distribute the Service(s) in exchange for the Favored Fees; provided that, in case of the assumption of any preexisting agreement by Programmer, Affiliate shall be entitled to incorporate into this Agreement the Favored Fees on a prospective basis only (i.e., from the date that Programmer assumed such agreement). If Affiliate chooses to incorporate such Favored Fees, however, it must do so in their entirety, including all corresponding terms and conditions related to the Service(s). If such corresponding terms and conditions are impossible or impractical for Affiliate to perform, the parties hereto will mutually negotiate in good faith to establish comparable terms and conditions. Nothing in the preceding sentences shall require Affiliate to incorporate the Favored Fees into this Agreement.

(ii) Notwithstanding anything herein to the contrary, "Other Distributor" shall not include Programmer's Affiliated Companies (as defined in Section 8(a) hereof) engaged in distribution of the Service (or any portion thereof) via the Internet; provided that, such Affiliated Companies are, as of the date hereof and throughout the Term continue to be, controlled by and at least 50% owned by Playboy Enterprises, Inc. (the parent company of Playboy Entertainment Group, Inc.) or a subsidiary thereof. The parties

acknowledge that, as of the date hereof, such Affiliated Companies consist of, but shall not be limited to, Playboy.com, Spicetv.com, ClubJenna.com and Adult.com, and Programmer represents and warrants that said companies are controlled by and at least 50% owned by Playboy Enterprises, Inc. or a subsidiary thereof. Programmer shall provide Affiliate with advance written notice in the event that any other Affiliated Company intends to commence distribution of the Service via the Internet during the Term.

(iii) Intentionally Omitted.

(iv) At Affiliate's election, Programmer shall permit Affiliate's representatives to review, during the Term (no more than once each calendar year) and for one (1) year and on a one-time basis only thereafter, such Programmer records as required for the sole purpose of verifying Programmer's compliance with the terms of this Section 2(e), at reasonable times, upon reasonable advance written notice and during normal business hours at Programmer's offices. Such review shall be at Affiliate's sole cost and expense; provided, however, if such review discloses an overpayment by Affiliate greater than ten percent (10%) of the actual amount due (which amount is not subject to a bona fide dispute by Programmer), Programmer shall reimburse Affiliate for its reasonable out-of-pocket costs and expenses incurred to discover such overpayment. The information derived from and the process of such review shall be subject to the confidentiality provisions of Section 15, and any third party auditor shall be required to acknowledge in writing its agreement to such confidentiality provisions. Notwithstanding anything herein to the contrary, any such audit shall be conducted by a "Big 5" public accounting firm or another firm approved in advance by Programmer which shall have first entered into a confidentiality agreement with Programmer (an "Independent Auditor"). If, as a result of an audit, the Independent Auditor determines that Programmer has fully complied with its obligations pursuant to this Section 2(e), then the Independent Auditor shall provide written notice to the parties stating only that Programmer has complied. If, as a result of the audit, the Independent

Auditor determines that Programmer may not be in compliance, then the Independent Auditor shall commence good faith discussions with Programmer related thereto. In the event that after such good faith discussions have continued for a period of thirty (30) days (or such extended period as may be mutually agreed to by the parties), the Independent Auditor continues to believe that Programmer may not have complied with such obligations, then, within thirty (30) days after such good faith discussions, Programmer shall have the option, in its sole discretion, to either (x) grant to Affiliate the Favored Fees disclosed by the audit, or (y) authorize the Independent Auditor to provide to Affiliate only that limited redacted information acquired during the course of the audit as is reasonably necessary for Affiliate to pursue its claim of non-compliance against Programmer (the "Programmer MFN Election"). Under no circumstances, other than the limited circumstance set forth in foregoing subsection (y), shall any information acquired during the course of the audit be disclosed to Affiliate by the Independent Auditor. In any event, Affiliate shall make any claim against Programmer with respect to the results of such audit within one (1) year after its receipt of the Programmer MFN Election. From and after Affiliate's audit of a particular period of the Term, such period shall be deemed closed by the parties and, except as may be

demonstrated by such audit, Programmer shall have no further liability in respect of Favored Fees for such period.

(v) For purposes of this Section 2(e), the parties agree and understand the following:

(A) "Consideration" deemed as Favored Fees (or a component part of a Favored Fee) includes license, royalty or service fee discounts, revenue shares of splits, volume discounts, penetration discounts or caps thereon, payment limits, payment deferrals, special marketing arrangements, launch support, revenue guarantees or any other terms and conditions which to either the Other Distributor or Programmer can be reasonably measured in dollars computed on a net effective amount per subscriber basis; provided, however, that local marketing campaigns (e.g., a Programmer sponsored event at a local venue) shall not be deemed as Favored Fees (or a component part of a Favored Fee); and provided further that Programmer will offer Affiliate the right to implement a substantially similar campaign for substantially the same cost to Programmer as mutually agreed to by the parties. If applicable, amounts actually paid to any required Third Party Facilitator needed for the distribution of the Service(s) will be taken into consideration in the calculation of Consideration paid to the relevant Other Distributor. Third Party Facilitator means a person that is providing goods or services to an Other Distributor in conjunction with the Other Distributor's distribution of one or more of the Services where the goods or services of the person are required by the Other Distributor in order to permit the distribution of the Services over the Other Distributor's distribution platform. As an example, should an Other Distributor offer a wireless service and utilize a Third Party Facilitator to provide technology for distribution of the service for a fee, then the Consideration paid to the Other Distributor shall be reduced by the Third Party Facilitator fee.

(B) Programmer represents and warrants that the Consideration provided by Affiliate to Programmer, when taken as a whole on a net effective basis per subscriber to the Service (i.e., each Service individually and the Services collectively), is no less favorable to Affiliate than to any Other Distributor as of the date hereof.

(vi) Programmer hereby grants to Affiliate, and Affiliate

hereby accepts from Programmer, the non-exclusive right to distribute the VOD Services that Programmer makes available for distribution on a Video On Demand basis (whereby a consumer selects the viewing of a program on an unscheduled real time basis (as opposed to selection of a viewing time by such consumer from a pre-determined schedule of viewing times) ("VOD")) at such time that Affiliate has the capability to distribute programming services via VOD to DIRECTV Subscribers. Nothing herein shall obligate Affiliate to distribute such programming via VOD. Any distribution of Service programming by Affiliate via VOD shall be subject to terms and conditions to be negotiated and mutually agreed to by the parties, provided that Programmer shall make VOD available to Affiliate on

terms and conditions that are no less favorable to Licensee than any Other Distributor of VOD, it being understood that if the agreement with such Other Distributor(s) contains terms and conditions that are not relevant to Affiliate or Affiliate is not reasonably capable of complying with such terms and conditions taking into consideration Affiliate's business, including, without limitation, Affiliate's technology and national platform, then the parties shall negotiate comparable obligations, terms and conditions in good faith. Affiliate will not distribute the VOD Services until the terms and conditions for distribution have been agreed to by the Parties.

(f) Titanium Subscribers. Notwithstanding any other provisions of this Agreement, Affiliate may offer the Service as part of Affiliate's planned premium programming package offering subscribers the right to receive all or substantially all of Affiliate's programming (including premium and pay-per-view programming) for a single monthly payment, which package is tentatively branded as the "Titanium Package" (the subscribers to which package shall be referred to as "Titanium Subscribers"), and Affiliate shall not be obligated to pay any fee to Programmer for the distribution of such package so long as the total number of Titanium Subscribers does not exceed five thousand (5,000). In the event that Affiliate obtains more than five thousand (5,000) Titanium Subscribers, Affiliate and Programmer will negotiate in good faith a reasonable monthly license fee to be paid to Programmer by Affiliate for those subscribers in excess of five thousand (5,000). Affiliate will provide Titanium Subscribers with the opportunity to opt out of receiving the Service at any time.

(g) Programming Account/Marketing Fund.

(i) The parties hereby acknowledge that pursuant to all predecessor agreements (including, without limitation, Sections 2(f) and 4(g) of the Current Playboy Agreement), and notwithstanding any previous accounting of the amounts in question, all amounts set aside by Affiliate for marketing and promotion of channels provided to Affiliate by Programmer are being maintained by Affiliate in a programming account containing the stipulated amount of One Million One Hundred Thousand Dollars $1,100,000 (the "Programming Account") and that the following shall constitute full satisfaction of the parties' respective obligations with respect to such Programming Account: Affiliate may spend the Programming Account funds on any marketing campaigns or initiatives related to the Services or Programmer as determined by Affiliate in its sole discretion after consultation with Programmer; provided, however, that the parties agree that if any Programming Account funds are not utilized by the end of the Term, then such amounts will be paid to Programmer.

(ii) Commencing as of November 16, 2006 and continuing throughout the Term of this Agreement, Programmer shall contribute $75,000 per

quarter to a specific special purpose marketing support account (the "Marketing Account"). Affiliate shall deduct such payments on a monthly basis in the amount of $25,000 from the License Fees due to Programmer under this Agreement. Affiliate may spend the Marketing Account funds on any marketing campaigns or initiatives related to the Services or Programmer as determined by Affiliate in its sole discretion after consultation with Programmer; provided

that Affiliate agrees to perform at least one marketing initiative per year of the Term, designed to drive DIRECTV Subscribers to the "Playboy TV" Service. In addition, in exchange for agreeing to the reduced Marketing Account above (as compared to the Current Playboy Agreement), Programmer agrees to host four (4) (two (2) per year of the Term) first class parties for Affiliate's employees, guests and/or clients at the Playboy Mansion in Los Angeles (evenings and/or weekends upon Affiliate's request as provided in the immediately following sentence) and two (2) (one (1) per year of the Term) first class parties for Affiliate's employees, guests and/or clients at the Palms Casino in Las Vegas, Nevada, each with full food and beverage (alcoholic and non-alcoholic) service, entertainment (as requested by Affiliate), hotel rooms (for Palms parties) and all related services (including, without limitation, convenient parking and/or shuttle service for all guests) to be supplied by Programmer at fair market rates charged to all other parties (with no mark-ups, administrative charges, etc.) at a total cost not to exceed $250,000 per party, which cost shall be funded from the Programming Account (until that account is exhausted, and thereafter out of the Marketing Account) and paid directly by Affiliate; provided that Programmer shall provide an invoice that will reflect the per person cost of each party and any costs that are not determined on a per person basis, such cost to be no greater than the fair market rate charged to all other parties for similar parties. Affiliate agrees (i) to provide Programmer with at least sixty (60) days advance written notice of any request for any party, (ii) that for the purpose of scheduling any party, the term weekend shall mean Friday, Saturday and Sunday, and (iii) with respect to the Playboy Mansion in Los Angeles, no more than one (1) party per year during the Term shall occur on a weekend. Notwithstanding the foregoing, Programmer agrees that it shall make reasonable good faith efforts to accommodate any party request made with less than sixty (60) days advance notice and/or any request to stage Affiliate's allocated number of parties other than as stated above (e.g., a request for three (3) Mansion parties during a given year or a request for two (2) weekend parties at the Mansion during a given year); provided that there are sufficient funds in the Programming Account and/or the Marketing Account to cover the cost of the proposed party; and provided further that Affiliate may, in its sole discretion, elect to pay the balance of any costs in the event that funds remaining in the Programming Account and/or the Marketing Account are insufficient to cover the total cost of any proposed party. In the event that Affiliate does not use any of the money contributed under this sub-section by the end of the Term of this Agreement, Affiliate will pay to Programmer the un-used portion of the funds.

(iii) Affiliate shall provide a quarterly accounting of amounts spent pursuant to the above Sections 2(g)(i) and (ii).

3. Commercial Announcements and Other Advertising.

(a) Commercial Announcements. Programmer hereby represents and warrants that it does not make available to any Other Distributor of any Service commercial announcements of any nature in the schedule of such Service(s). If at any time during the Term, Programmer provides to any Other Distributor the right

to make commercial announcements within any Service, then Programmer shall offer such right to Affiliate on terms and conditions no less favorable than those offered to such Other Distributor of the

Service(s). In any event, the rights with respect to commercial or promotional announcements provided by Programmer to Affiliate shall be no less favorable, in terms of the nature, use, scheduling, availability, length of the announcements and so forth (including, without limitation, the right to cover Programmer's commercial or promotional announcements), than those provided to any Other Distributor.

(b) Advertising. If Programmer offers any Other Distributor the opportunity to advertise, or includes any Other Distributor in any advertisement(s), whether or not in connection with the Service, in any publication, recording, service, visual work or audiovisual work, whether or not Programmer controls it, then Programmer shall provide Affiliate with the opportunity to elect to be included in such advertisement, if such advertisement is in connection with advertising the Service, or an opportunity to elect to be included in a similar advertisement, if such advertisement is not in connection with advertising the Service, on at least as favorable terms as such Other Distributor. Programmer shall not include Affiliate, or advertise Affiliate, by any means without Affiliate's prior written consent, which may be given or withheld by Affiliate in its sole discretion.

4. Marketing and Promotion of the Service.

(a) Affiliate shall market and promote the Service in a similar manner as Affiliate markets and promotes other similar premium programming services; provided, however, that Affiliate may market and promote any other such premium programming service differently and/or more frequently, if such service provider provides Affiliate with material consideration or compensation therefore. In connection therewith, Programmer shall provide Affiliate, upon Affiliate's request, with promotional and marketing advice. Affiliate shall make all marketing and promotion decisions in its sole discretion, but the parties understand and agree that Affiliate currently expects to use a range of promotional media (including, without limitation, print advertising and cross-channel promotional spots on the DTH Distribution System) to market and promote the Service. Affiliate shall publicize the schedule of the Service in the Territory in a manner similar to that which it employs, and based on the same factors, it considers, in publicizing the schedule of other similar premium programming services distributed via the DTH Distribution System, including, without limitation, the publication of the Service programming schedule in the television listings and program guides which Affiliate, as applicable, distributes.

(b) Subject to Sections 6 and 17, Affiliate shall not at any time during the Term (i) cease marketing or promoting the Service or (ii) withdraw distribution of the Service in any area of the Territory after the introduction thereof in such area; provided that, Affiliate may cease marketing and promoting the Service if Affiliate, in its absolute sole determination, reasonably believes that marketing or promoting the Service may be politically harmful to Affiliate or its Affiliated Companies or adversely affect the corporate image that Affiliate or its Affiliated Companies desires to maintain at such time, provided however, that should Affiliate cease marketing and/or promoting the Service for the aforementioned reason, Affiliate may not market and/or promote any other adult services comparable to the Service provided by Programmer

hereunder for so long as Affiliate ceases

marketing and/or promoting the Service.

(c) Affiliate may expend such amounts as it deems necessary or desirable, in its sole discretion, during any 12-month period (with each 12-month period starting on the Effective Date as defined in Section 6(a) or the anniversary thereof) (a "12-Month Period") for marketing, advertising and promoting of distribution of Playboy TV via the DTH Distribution System. Subject to the terms and conditions of this Agreement, Affiliate shall consult with programmer in good faith, but shall make any decisions relating to such marketing, advertising, promotion and expenditures in its sole discretion, including, without limitation, the selection of promotional media (such as print advertising, direct mail pieces, cross-channel promotional spots on the DTH Distribution System, etc.) and the scheduling of such marketing, advertising and promotional activities.

(d) [This section intentionally left blank.]

(e) From time to time, Programmer may offer Affiliate an opportunity to exhibit the Service discounted to DIRECTV Subscribers ("Discounted Previews"). Discounted Previews shall be made only with Programmer's prior written authorization and shall be offered to Affiliate on a frequency and basis no less favorable than those offered to any Other Distributor of the Service (or any portion thereof). The retail price for Discounted Previews shall be no less than ninety-nine cents ($.99) per programming block and shall be paid to Programmer in a similar manner as provided in Section 2.

(f) Program Guide. During the Term, Programmer shall provide the daily programming schedule for the Service to Tribune Media Service (or such other service designated by Affiliate) in order that Affiliate may access the program schedule for purposes of the on-screen program guide.

5. Representations. Warranties and Covenants.

(a) By Affiliate. Affiliate warrants, represents and covenants to Programmer that:

(i) to its best knowledge after diligent review and receipt of advice of legal counsel with experience in such matters, it is in compliance with and will comply with all material "Laws" (as defined below) with respect to its rights and obligations under this Agreement, including without limitation, all relevant provisions of the Cable Television Consumer Protection and Competition Act of 1992 which are applicable to Affiliate, the Communications Act of 1934, the Communications Decency Act of 1996 (as any or all may be amended and any successor, replacement or similar Laws or statutes), and any and all regulations issued pursuant to any of the foregoing. As used in this Agreement, "Laws" mean and include relevant federal, state, municipal or local statutes, laws, rules, regulations, ordinances, codes, directives and orders, including administrative rules or policies and court orders;

(ii) it has the power and authority to enter into this Agreement and to fully perform its obligations hereunder;

(iii) it shall distribute the Service in the Territory in accordance with and subject to the terms and conditions set forth in this Agreement;

(iv) it shall not, without Programmer's prior written approval, use the name of or logo for "Playboy TV," "Spice Wild," "The Hot Network," "The Hot Zone," "Fresh!," "Club Jenna', "Spice:Xcess" or "Playboy TV en Espanol," or the names, titles or logos of the Service (or any successors thereto) or any of its programs, or the names, voices, photographs, likenesses or biographies of any individual participant or performer in, or contributor to, any program or any variations thereof, for any purpose other than in material intended to advise Service Subscribers or potential Service Subscribers of the availability and scheduling of the Service or as a channel identifier. Affiliate shall not publish or disseminate any material that violates restrictions imposed by Programmer or Programmer's suppliers and disclosed upon reasonable advance written notice to Affiliate by Programmer. The restrictions set forth in this Section 5(a) (iv) shall apply only to the extent they are applied by Programmer uniformly with respect to all of its distributors of the Service, and shall not apply if Affiliate has received a valid written authorization from a third party for any of the uses described in this Section 5(a)(iv);

(v) it has obtained, and shall maintain in full force during the Term hereof, such federal, state and local authorizations as are material and necessary to operate the business it is conducting in connection with its rights and obligations under this Agreement;

(vi) it has no knowledge of any misrepresentation, breach of warranty or covenant made by Programmer hereunder;

(vii) the individual executing this Agreement on its behalf has the authority to do so.

(b) By Programmer. Programmer warrants, represents and covenants to Affiliate that:

(i) to its best knowledge after diligent review and receipt of advice of legal counsel with experience in such matters, it is in compliance with and will throughout the Term continue to comply with all material Laws applicable to, or with respect to, the Service and the provision of the Service to Affiliate, and Programmer's rights and obligations under this Agreement with respect to the Service and Programmer's obligations hereunder, including without limitation, FCC rules and regulations governing the Service, if any, all relevant provisions of the Cable Television Consumer Protection and Competition Act of 1992, and the Communications Act of 1934, the effective portions of the Communications Decency Act of 1996 (as any or all may be amended and any successor, replacement or

similar Laws) and any regulations promulgated under any applicable law or any of the foregoing;

(ii) it has the power and authority to enter into this Agreement and to fully perform its obligations hereunder;

(iii) it shall provide the Service for the Territory, at its sole cost and expense (together with any necessary equipment, including without limitation, backup or reserve equipment), in accordance with and subject to the terms and conditions set forth in this Agreement, including, without limitation, that it shall (A) arrange and pay for the transmission of the Service from Programmer's U.S. Satellite to the Broadcast Center, (B) encode and scramble the Service at its sole expense, (C) cause its uplink authorization center to authorize and enable Affiliate's descramblers to receive and descramble the Service, and (D) provide to Affiliate two (2) receivers and two (2) decoders per channel to receive and unscramble the Service at each of the two (2) Broadcast Center;

(iv) it shall promptly provide Affiliate with any and all promotional materials of the Service which it generally provides to any other distributor of the Service, at Programmer's sole cost and expense; and if Affiliate shall request additional such materials, then Programmer shall promptly provide such materials to Affiliate and Affiliate shall reimburse Programmer for the reasonable actual costs thereof;

(v) it has obtained, and shall maintain in full force during the Term hereof, such federal, state and local authorizations as are necessary to comply with Laws or which are material and necessary to operate the business it is conducting in connection with its rights and obligations under this Agreement;

(vi) it has obtained or will obtain at its sole expense all rights necessary for Affiliate to use and enjoy its rights in connection with its distribution of the Service, including, without limitation, obtaining all necessary trademarks, copyrights, licenses and any and all other proprietary, intellectual, property and other use rights necessary in connection with, or for Affiliate's distribution of the Service, and at all times during the Term "PLAYBOY TV," "SPICE WILD," "THE HOT NETWORK," "FRESH!," "CLUB JENNA", "SPICE:XCESS" or "PLAYBOY TV EN ESPANOL" or the names, titles or logos of the Service (or any successors thereto) or any of their programs, or the names, voices, photographs, music, likenesses or biographies of any individual participant or performer in, or contributor to, any program or any variations thereof) and to perform its obligations hereunder and grant the rights granted pursuant to Section 1;

(vii) there are no (and it covenants that it shall not enter into directly or indirectly, allow or otherwise permit any) affiliation, distribution or any other agreements, whether written or oral, granting to distributors and/or any other third party, person or entity any form or type of exclusive or other rights that would limit or restrict in any way Affiliate's rights to distribute the Service in the Territory;

(viii) it shall not, without Affiliate's prior written approval, use the name of or logo for "DIRECTV," or any variations thereof, for any purpose, without Affiliate's prior written consent;

(ix) there is no actual and, to Programmer's knowledge, there is no pending investigation (including, without limitation, a grand jury investigation) involving the Service (or any content included in the Service) or any pending proceeding against Programmer (or any of its principals or Affiliated Companies) for the violation of any federal, state or local law or

regulation, as applicable, concerning illegal, indecent or obscene material or the transmission thereof (the "Obscenity Laws");

(x) it will notify Affiliate as soon as reasonably practical, but in no event more than two Business Days, after receiving notification of, or becoming aware of, any pending investigation by any governmental authority, or any pending criminal proceeding against Programmer (or any of its principals or Affiliated Companies (as defined in Section 8(a)), which investigation or proceeding concerns distribution of the Service or programming in the Service, including without limitation, investigations any/or proceedings concerning potential violations of Obscenity Laws. For purposes of this Section 5(b)(x), Programmer shall be deemed to be aware of any such investigation or proceeding if any of the directors, officers, agents, representatives or employees of managerial functions of Programmer or an Affiliated Company has received any communication about or otherwise becomes aware of any such investigation or proceeding;

(xi) to the best of Programmer's knowledge after diligent review and advice of counsel with experience in such matters, the programming Service and all programming provided as part thereof that Programmer provides Affiliate hereunder complies with Obscenity Laws and is not violative of Obscenity Laws in any jurisdiction in the Territory;

(xii) it solely and exclusively possesses, and will at all times during the Term so possess, any and all rights necessary to grant Affiliate the right to distribute the Service and all programming provided as part thereof, as a whole or in parts, as Subscription Offering(s) and PPV Offering(s), as the case may be, in the Territory (it being understood and agreed that Programmer has granted and may grant similar rights to other third parties);

(xiii) nothing contained in the Service or in any other material supplied by Programmer to Affiliate violates, infringes, or conflicts with any rights of any person or entity (including, without limitation, copyright, trademark, music performance and all other proprietary and/or intellectual rights);

(xiv) there are no outstanding (or, to the best of Programmer's knowledge, threatened) judgments or pending claims, liens, charges, restrictions, or encumbrances on or related to the Service or any programming provided as part thereof that may materially interfere with the rights of Affiliate under this Agreement;

(xv) Programmer is the sole entity that has entered into and shall enter into agreements and obligations with other distributors with respect to the Service and to any and all programming provided as part of the Service;

(xvi) except to the extent expressly permitted hereunder, during the Term, the Service shall not include any direct sales, advertising or infomercials;

(xvii) the individual executing this Agreement on its behalf has the authority to do so;

(xviii) to its best knowledge after diligent review and receipt of advice of legal counsel with experience in such matters, it is in

compliance with and will throughout the Term continue to comply with 18 USC 2257 or 28 CFR 75 or any successor legislation or code. Programmer has prepared, maintained and executed, and at all times during the Term and for a period of seven (7) years thereafter shall, prepare, maintain and execute any documents or records, and provide Affiliate with copies of any documents or records which are required by Title 18, U.S.C. ss. 2257, as amended, and/or the associated regulations found at 28 C.F.R. 75.1 et. seq., as amended, and/or any successor statute or regulation ("Section 2257"). Programmer warrants and represents that it is in possession of such documents and records, and maintains them in accordance with Section 2257. Programmer agrees to appoint a "record custodian" as required under Section 2257, and will keep Affiliate apprised of the physical address where all required records are compiled and maintained pursuant to Section 2257, along with the name of the records custodian. Programmer will display a conspicuous disclosure statement on all depictions of `actual sexually explicit conduct' contained in the Services as required by Section 2257, which statement identifies the records custodian for the content and describes the physical location where the records relating to the content may be inspected as required under applicable law. If required by law, Programmer will be identified as a "primary producer" in any and all disclosure statements associated with the Services pursuant to Section 2257. Programmer further agrees to cooperate with Affiliate in connection with any inspections or government inquiries initiated pursuant to Section 2257. Affiliate shall have the right to inspect such documents and records at any time during regular business hours at Programmer's location for maintaining the records with five (5) business days' prior written notice from Affiliate.

6. Term; Effective Date; Termination.

(a) Term; Effective Date. Subject to certain rights of termination set forth in this Agreement; and notwithstanding the terms of the May 24, 2004, letter agreement executed by each of the parties, the initial term of the Agreement shall be for the period commencing on the Effective Date and ending on November 15, 2008 (the "Term").

(b) Termination for Breach or Bankruptcy. This Agreement may be terminated by either party (the "Affected Party"), in its discretion, at any time after any of the following occurrences with respect to the other party (the "Other Party"):

(i) the breach of any representation, warranty or covenant of the Other Party or failure by the Other Party, its successors or assigns to perform any material obligation hereunder which is not cured within thirty (30) days after receipt of written notice thereof from the Affected Party or as to which reasonable steps to cure have not been commenced within such period (or are not thereafter diligently pursued and completed within an additional thirty (30) days); or

(ii) the filing of a petition in bankruptcy or for reorganization by or against the Other Party under any bankruptcy act; the assignment by the Other Party for the benefit of its creditors, or the appointment of a receiver, trustee, liquidator or custodian for all or a substantial part of the Other Party's property, and the order of appointment is not vacated within thirty (30) days; or the assignment or encumbrance by the Other Party of this Agreement contrary to the terms hereof; or

(c) Termination by Affiliate. Affiliate may terminate this

Agreement:

(i) subject to Section 1(b)(viii), immediately upon prior written notice, if the Service, or any programming provided as part thereof (including, without limitation, advertising, if any), fails to comply in any material way with Exhibit A hereto and the definition of "Service" in Section 1(b) hereof, as reasonably determined by Affiliate, if Programmer is unable to cure such material failure within fifteen (15) days upon notice (specifying such failure) thereof ;

(ii) if Affiliate discontinues operation of the DTH System, immediately upon such discontinuance;

(iii) according to the provisions of Section 6(d) or Section 17 hereof;

(iv) immediately following written notice to Programmer of Programmer's failure to comply with any material Laws, if Programmer is unable to cure or eliminate the failure to comply with such material Laws in any material respect within fifteen (15) days upon notice (specifying such failure) thereof; or

(v) on ninety (90) days' prior written notice in the event Programmer, or all or substantially all of its stock or assets, is/are acquired (directly or indirectly) by a third party who is an "Industry Acquirer" (as defined below), whether by way of a purchase of assets, purchase of a majority of the outstanding stock of Programmer, merger, consolidation or otherwise, after which such acquiring party has the right or ability by virtue of such acquisition to control (directly or indirectly) Programmer and/or those assets (including without limitation, to direct the creation and operation of the Service) used in the performance of Programmer's obligations hereunder (each a "Change in Control"), unless Affiliate provides written consent, in its absolute sole discretion, to such Change in Control. If such a Change in Control is consummated without Affiliate's prior written consent, then Affiliate shall have the right, in its absolute sole discretion, to terminate this Agreement in its

entirety. As used herein, "Industry Acquirer" shall mean, whether directly or indirectly, a third party or an Affiliated Company (as defined in Section 8(a) hereof) of such third party: (x) engaged in the "adult" industry in any manner whatsoever (by way of example and not in limitation of the foregoing, Hustler, Penthouse, etc.); (y) directly engaged in the distribution of regularly scheduled programming networks or services (e.g., a collection of programs) via television (broadcast, cable or satellite); or (z) competitors of Affiliate engaged in multichannel television (i.e., satellite, cable or telco) distribution (e.g., Echostar, cable companies) or is a broadcast television station or owns broadcast television station(s); provided that, with respect to the businesses described in clauses (y) and (z) (a "Programmer/Distributor"), Affiliate's termination right shall not be exercisable unless the acquirer (or Affiliated Company) has an ownership interest in a Programmer/Distributor (directly or indirectly) that is equal to or greater than 30% of such Programmer/Distributor's outstanding stock or if the acquirer (or Affiliated Company) has the ability (directly or indirectly) to control (by reason of voting stock ownership, contract or otherwise) such Programmer/Distributor. Notwithstanding the foregoing, a Change in Control wherein the acquiring entity is a third party that is not an Industry Acquirer (or an Affiliated Company thereof), shall not require Affiliate's consent so long as such acquirer assumes

in writing all of Programmer's obligations and liabilities under this Agreement, such acquirer agrees in writing to maintain the quality of the Service consistent with the standards utilized by Programmer as in effect immediately prior to the effective date of such Change in Control, and such acquirer has a net worth which is at least equal to the greater of (x) Programmer's net worth immediately prior to the effective date of such Change in Control or (y) $50 million; and provided further, that a Change in Control resulting directly from the initial public offering of Programmer shall be excluded from the provisions of this Section 6(c)(v), so long as the controlling stockholder(s) of Programmer and substantially all of the members of management of the Programmer remain the same following the initial public offering and for the duration of the Term.

(d) Force Majeure. Notwithstanding any other provision in this Agreement, neither Programmer nor Affiliate shall have any liability to the other or any other person or entity with respect to any failure of Programmer or Affiliate, as the case may be, to transmit or distribute the Service or perform its obligations hereunder if such failure is due to any failure or degradation in performance of Programmer's U.S. Satellite or Affiliate's DTH Satellite(s) or transponders on any such satellites (as applicable) or of the DTH System (in which case, Affiliate shall be excused from its distribution obligations under this Agreement), or of any failure of scrambling/descrambling equipment or any other equipment owned or maintained by others (including, without limitation, Affiliate's automated billing and authorization systems), any failure at the origination and uplinking center used by Programmer or Affiliate, any labor dispute, fire, flood, riot, legal enactment, government regulation, Act of God, or any cause beyond the reasonable control of Programmer or Affiliate, as the case may be (a "Force Majeure"), and such non-performance shall be excused for the period of time such failure(s) causes such non-performance (and shall result in a per-day pro rata reduction in any Revenue Assurances for any failure or non-performance that affects at least ten percent (10%) of Affiliate's subscribers for a period of seven (7) days or longer)); provided, however, that if Affiliate determines in its sole

discretion that it is commercially or technically unfeasible to cure a Force Majeure with respect to the DTH System or one or more DTH Satellites and so notifies Programmer, then either party may terminate this Agreement effective upon written notice to the other party. The parties acknowledge and agree that although the Service may at any given time be uplinked to only one of several DTH Satellites, failure or degradation in any of such DTH Satellites may require Affiliate to reduce the number of programming services (in particular the number of PPV and/or adult services) available for allocation among all of the DTH Satellites, with such reduction including, without limitation, curtailment or termination of the distribution of the Service by Affiliate, at Affiliate's sole discretion. Accordingly, Programmer further acknowledges and agrees that the provisions set forth in the first sentence of this Section 6(d) shall apply and shall exculpate Affiliate and excuse the performance of Affiliate hereunder in the event of such a failure or degradation of any of the DTH Satellites or the transponders on any such satellite, regardless of whether the satellite to which the Service is uplinked at the time of such failure or degradation is itself the subject of such failure or degradation. In the event Affiliate determines in its sole discretion that it is unable to cure, or it is commercially impracticable to cure, such Force Majeure during the remaining Term of this Agreement, then Affiliate may terminate this Agreement immediately upon notice to Programmer.

(e) Survival. Termination of this Agreement pursuant to this Section 6 shall not relieve either party of any of its liabilities or obligations under

this Agreement, including without limitation those set forth below in Section 8, which shall have accrued on or prior to the date of such termination.

(f) License Fee Reduction. In addition to its remedies set forth in this Agreement, Affiliate may receive credit against the License Fees in the proportion that the hours of programming each day materially deviates from the programming required in Section 1(b), as determined by Affiliate in its sole discretion, bears to the total hours the Service is transmitted each day, such credit to be applied against the License Fees, but only for the applicable number of days such deviation occurs in any month. Affiliate shall notify Programmer in writing in advance of any such reduction it intends to make, and Programmer shall have fifteen (15) days from the date of such notice to cure such programming deviation prior to Affiliate effecting any such reductions if the deviation is not cured during the fifteen (15) day period.

(g) Rights to Limit Distribution. Programmer shall have the rights to limit distribution of Movie Channel 1 and Movie Channel 2 as set forth in Exhibit B hereof.

7. Separate Entities. No officer, employee, agent, servant or independent contractor of either party hereto or their respective subsidiaries or affiliates shall at any time be deemed to be an employee, servant or agent of the other party for any purpose whatsoever, and the parties shall use commercially reasonable efforts to prevent any such misrepresentation. Nothing in this Agreement shall be deemed to create any joint-venture, partnership or principal-agent relationship between Programmer and Affiliate, and neither

shall hold itself out in its advertising or in any other manner which would indicate any such relationship with the other.

8. Indemnification; Limitation of Liability.

(a) By Programmer. Programmer shall indemnify, defend and hold harmless each of Affiliate, its Affiliated Companies (as defined below) and the directors, officers, employees, and agents of Affiliate and its Affiliated Companies (collectively, the "Affiliate Indemnitees") from, against and with respect to any and all claims, criminal and civil liabilities, costs and expenses (including reasonable attorneys' and experts' fees) ("Claims") incurred to third parties (including without limitation, any Governmental Authorities) in connection with any claim against any of the Affiliate Indemnitees arising out of (i) Programmer's breach of its representations, warranties and covenants set forth in this Agreement, (ii) the Service or material or programming supplied by Programmer pursuant to this Agreement, (iii) the distribution or cablecast of any programming of the Service which violates or requires payment for use or performance of any copyright, right of privacy or literary, music performance or dramatic right, (iv) Programmer's advertising and marketing of the Service, (v) any acts or omissions by audio text suppliers (including, without limitation, the content of any of the audio text service) and all employees and contractors thereof, (vi) any other materials, including advertising or promotional copy, supplied or permitted by Programmer, and/or (vii) any claim for payment by a third party as a result of Affiliate's distribution of the Service. As used in this Agreement, "Affiliated Company(ies)" shall mean, with respect to any person or entity, any other person or entity directly or indirectly controlling, controlled by or under common control (i.e., the power to direct affairs by reason of ownership of voting stock, by contract or otherwise) with such person or entity and any member, director, officer or employee of such person or

entity.

(b) By Affiliate. Affiliate shall indemnify, defend and hold harmless each of Programmer, Programmer's Affiliated Companies and the directors, officers, employees and agents of Programmer and Programmer's Affiliated Companies (collectively, the "Programmer Indemnitees") from, against and with respect to any and all claims, liabilities, costs and expenses (including reasonable attorneys' and experts' fees) incurred to third parties arising out of (i) Affiliate's breach of its representations, warranties and covenants set forth in this Agreement, (ii) Affiliate's distribution of the Service by means of the DTH Distribution System (except with respect to claims relating to the content of the Service, including advertising or promotional copy supplied or permitted by Programmer), (iii) Affiliate's advertising and marketing of the Service and the DTH System, and (iii) any other materials used by Affiliate, including advertising or promotional copy, not supplied or permitted by Programmer.

(c) Procedure for Indemnification Claims. The respective indemnification obligations of each of the parties pursuant to Sections 8(a) and 8(b), above, shall be conditioned upon strict compliance with the following procedures for indemnification claims based upon or arising out of any claim, action or proceeding by any person not a party to this Agreement. If at any time a claim shall be made, or an action or proceeding shall be

commenced, against a party to this Agreement (the "Aggrieved Party") which could result in liability of the other party (the "Indemnifying Party") under its indemnification obligations under this Agreement, the Aggrieved Party shall give to the Indemnifying Party notice of that claim, action or proceeding within five (5) Business Days following receipt of service of any claim, action or proceeding by the Party (except that failure to give that notice shall not excuse the Indemnifying Party except to the extent that it is materially prejudiced by that failure). The notice shall state the basis for the claim, action or proceeding and the amounts claimed, (to the extent that amount is determined at the time when the notice is given) and shall permit the Indemnifying Party to assume the defense of any such claim, action or proceeding (including any action or proceeding resulting from any such claim) with counsel which is reasonably acceptable to the Aggrieved Party. Failure by the Indemnifying Party to notify the Aggrieved Party of its election to defend the claim, action or proceeding within a reasonable time, but in no event more than fifteen (15) days after the notice shall have been given to the Indemnifying Party, shall be deemed a waiver by the Indemnifying Party of its right to defend the claim, action or proceeding; provided, however, that the Indemnifying Party shall not be deemed to have waived the right to contest and defend against any claim of the Aggrieved Party for indemnification under this Agreement based upon or arising out of that claim, action or proceeding.

(i) Right of Set-Off. Notwithstanding the foregoing and without limiting Affiliate's other rights and remedies, pending the resolution of any claim in respect of which Affiliate is entitled to be indemnified, Affiliate may, in the event Programmer has not assumed the defense of all claims on behalf of Affiliate and any Affiliate Indemnitees as set forth above, and following written notice to Programmer, withhold License Fees which would otherwise be payable to Programmer under this Agreement in an amount consistent with Affiliate Indemnitees' anticipated reasonable and actual out of pocket legal fees and costs associated with Affiliate's receipt of service of any such claim. Without limiting Affiliate's other rights and remedies, Affiliate may

offset and retain from such withheld monies (i) the amount of legal fees and costs the Affiliate Indemnitees expend in connection with such claims during the pendency thereof, and (ii) the actual amount(s) to settle such claims and/or to pay any judgments in connection therewith (subject to the last sentence of this Section 8(c)(i)). Affiliate shall provide Programmer with a written accounting sufficiently detailed to allow Programmer to ascertain such expenditures. If no action or other proceeding for recovery on such a claim has been commenced within twelve (12) months after its assertion, Affiliate shall not in connection with that particular claim under this paragraph continue to withhold such monies (that were not so offset) and shall remit to Programmer all such withheld monies otherwise due Programmer unless Affiliate believes, in its reasonable judgment, that such a proceeding is likely to be instituted notwithstanding the passage of that time. Under no circumstances shall Programmer have the right to settle or dispose of any claim under this paragraph without Affiliate's prior written consent.

(d) NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT:

(1) IN NO EVENT SHALL ANY PARTY BE LIABLE FOR ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES, WHETHER FORESEEABLE OR NOT, OCCASIONED BY ANY FAILURE TO PERFORM OR THE BREACH OF ANY OBLIGATION UNDER THIS AGREEMENT FOR ANY CAUSE WHATSOEVER INCLUDING NEGLIGENCE. EACH OF THE PARTIES HAVE READ AND UNDERSTANDS AND EXPRESSLY WAIVES AND RELEASES ANY AND ALL RIGHTS AND BENEFITS WHICH THE RESPECTIVE PARTIES MAY HAVE HAD UNDER SECTION 1542 OF THE CIVIL CODE OF THE STATE OF CALIFORNIA (THE "CIVIL CODE"), AND ANY SIMILAR PRINCIPLES OF LAW OR EQUITY, TO THE FULL EXTENT THAT THEY MAY HAVE SUCH RIGHTS AND BENEFITS PERTAINING TO SUCH DAMAGES THE PARTIES ARE HEREBY WAIVING. SECTION 1542 OF THE CIVIL CODE PROVIDES AS FOLLOWS:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IS KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

(2) ANY AND ALL EXPRESS AND IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, WARRANTIES OF MERCHANTABILITY OR FITNESS FOR ANY PURPOSE OR USE, ARE EXPRESSLY EXCLUDED AND DISCLAIMED BY AFFILIATE.

(3) IN NO EVENT SHALL ANY PROJECTIONS, FORECASTS, ESTIMATIONS OF SALES AND/OR MARKET SHARE OR EXPECTED PROFITS, OR OTHER ESTIMATIONS OR PROJECTIONS BY AFFILIATE OR ANY OF ITS DIRECTORS, OFFICERS, EMPLOYEES, AGENTS OR AFFILIATES, REGARDING OR RELATED TO AFFILIATE'S DTH BUSINESS BE BINDING AS COMMITMENTS OR, IN ANY WAY, PROMISES BY AFFILIATE.

9. Notices. Except as set forth below, all notices hereunder shall be in writing and delivered by hand or sent by certified mail, return receipt requested, fax, an overnight delivery service to the receiving party at its address set forth above or as otherwise designated by written notice. Notice to Programmer shall be provided as follows:

If by mail, facsimile or overnight or personal delivery:	Playboy Entertainment Group, Inc. 2706 Media Center Drive. Los Angeles, California 90065 Attention: Senior Vice President, Business and Legal Affairs Fax: (323) 276-4502

2706 Media Center Drive.
Los Angeles, California 90065
Attention: Executive Vice President,
Sales and Affiliate Relations
Fax: (323) 276-4505

With a courtesy copy to: Playboy Enterprises, Inc.
680 N. Lake Shore Drive
Chicago, Illinois 60611
Attn: General Counsel
Fax: (312) 266-2042

Notice to Affiliate shall be provided as follows:

If by mail or facsimile:
DIRECTV, Inc.
P.O. Box 92424
Los Angeles, California 90009
Attention: Executive Vice President, Programming
Fax: (310) 535-5416
cc: General Counsel
Fax: (310) 964-4991
cc: Legal & Business Affairs
Fax: (310) 964-4880

If by overnight or personal delivery:
DIRECTV, Inc.
2230 East Imperial Highway
El Segundo, California 90245
Attention: Executive Vice President, Programming
cc: General Counsel
cc: Legal & Business Affairs

Notice given by mail shall be considered to have been given five (5) days after the date of mailing, postage prepaid certified or registered mail. Notice given by facsimile machine shall be considered to have been given on the date receipt thereof is electronically acknowledged. Notice given by an overnight delivery service shall be considered to have been given on the next business day.

10. Waiver. The failure of any party to insist upon strict performance of any provision of this Agreement shall not be construed as a waiver of any subsequent breach of the same or similar nature. Subject to Section 8(d) above, all rights and remedies reserved to either party shall be cumulative and shall not be in limitation of any other right or remedy which such party may have at law or in equity.

11. Binding Agreement; Assignment. This Agreement shall be binding upon the parties hereto and their respective successors and assigns, except that it may not be assigned

by transfer, by operation of law or otherwise, without the prior written consent of the non-transferring party, which shall not be unreasonably withheld; provided, however, that (i) Affiliate may assign its rights and obligations under this Agreement, in whole or in part (including without limitation, Affiliate's right to distribute the Service) (A) to a successor entity to Affiliate's DTH business; (B) to a third party as part of preparing to go or going public; or (C) to a third party, provided Affiliate remains primarily liable for the performance of such third party's obligations hereunder and (ii) Programmer may assign its rights and obligations under this Agreement, in whole or in part, (A) to a successor entity to Programmer's business; provided, however, that such assignment shall be subject to the limitations relating to Change in Control set forth in Section 6(c)(v) hereof); or (B) to a third party as part of preparing to go or going public, so long as the controlling stockholder(s) of Programmer and substantially all of the members of management of the Programmer remain the same following the initial public offering and for the duration of the Term.

12. Laws of California; Consent to California Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to contracts made and fully performed therein, except to the extent that the parties' respective rights and obligations are subject to mandatory local, State and Federal laws or regulations. All actions relating to this Agreement shall be brought, and the parties hereto consent to exclusive jurisdiction (in personam and in rem) and venue for all actions relating to this Agreement, in the courts located in Los Angeles County, California; provided, however, that any judgments or court orders obtained may be enforced in any other jurisdiction. Programmer represents that CT Corporation System is its authorized agent for service of process in Los Angeles, California.

13. Entire Agreement and Section Headings. This Agreement sets forth the entire agreement and understanding of the parties relating to the subject matter hereof, and supersedes all prior agreements, arrangements, or understandings relating to the subject matter hereof (whether written, oral or implied), including, without limitation, the Current Playboy Agreement and any amendments thereto. This Agreement shall not be modified other than in a writing, signed by each of the parties hereto. The section headings hereof are for the convenience of the parties only and shall not be given any legal effect or otherwise affect the interpretation of this Agreement.

14. Severability. The parties agree that each provision of this Agreement shall be construed as separable and divisible from every other provision and that the enforceability of any one provision shall not limit the enforceability, in whole or in part, of any other provision hereof. In the event that a court of competent jurisdiction determines that a restriction contained in this Agreement shall be unenforceable because of the extent of time or geography, such restriction shall be deemed amended to conform to such extent of time and/or geography as such court shall deem reasonable.

15. Confidentiality.

(a) Generally. The parties agree that they and their employees have maintained and will maintain, in confidence, the terms and provisions of this Agreement, as well as all data, summaries, reports, proprietary information, trade secrets and information of all kinds, whether oral or written, acquired or devised or developed in any manner from the other party's personnel or files or

any proprietary or subscriber information provided by one party to the other party (the "Confidential Information"), and that they have not and will not reveal the same to any persons not employed by the other party except: (i) (A) at the written direction of such party; (B) to the extent necessary to comply with the law or the valid order of a court of competent jurisdiction, in which event the disclosing party shall so notify the other party as promptly as practicable (and, if possible, prior to making any disclosure) and shall seek confidential treatment of such information, or in connection with any arbitration proceeding; (C) as part of its normal reporting or review procedure to its parent company, its financial advisors, auditors and its attorneys, and such parent company, financial advisors, auditors and attorneys agree to be bound by the provisions of this Section 15; (D) to independent contractors hired by either party in the ordinary course of business, bona fide potential investors, insurers and financing entities; provided, however, that such persons described above agree to be bound by the provisions of this Section 15; or (E) in order to enforce any of its rights pursuant to this Agreement; however, that such person described above agrees to be bound by the provisions of this Section 15; or (ii)(A) at the time of disclosure to the recipient the Confidential Information is in the public domain; or (B) after disclosure to the recipient the Confidential Information becomes part of the public domain by written publication through no fault of the recipient. During the Term, neither party shall issue an independent press release, or discuss with a member of the press, this Agreement or the transactions contemplated hereby without the prior written consent of the other party.

(b) Programmer's Further Obligations. Notwithstanding Section 15(a), Programmer specifically acknowledges and agrees that any lists of Affiliate's customers or users, and all information related to such customers and users, is confidential and proprietary information of Affiliate and cannot be disclosed by Programmer or used by Programmer for any purpose or use whatsoever, other than for its review at Affiliate's offices as part of Programmer's audit rights hereunder to determine if Programmer has been paid the License Fees due to it by Affiliate. Also notwithstanding Section 15(a), Programmer further acknowledges and agrees that under no circumstances will it in any way: disclose information (whether personally identifiable or not) to any third party regarding Affiliate's customers or users or engage in any direct mailing or telephone solicitation which Affiliate's customers or users do not previously and expressly approve (whether orally or in writing) or previously and expressly request (whether orally or in writing), or which Affiliate does not previously and expressly approve in writing in Affiliate's sole discretion.

16. Injunctive Relief. Notwithstanding anything in this Agreement to the contrary, Programmer and Affiliate each shall have the right to obtain injunctive relief, if necessary, in order to prevent the other party from willfully breaching its obligations under this Agreement.

17. Cessation of Program Distribution. If Affiliate in good faith reasonably believes that Affiliate's provision of any of the programming on the Service either violates any material Law or could be found by a court or administrative agency to violate any material Law (a "Law Violation" or "Potential Law Violation") or reasonably believes in good faith at any time that any of the programming on the Service is adversely affecting the corporate image that Affiliate desires to maintain at such time (an "Image Problem") then, notwithstanding anything to the contrary in this Agreement, (a) immediately following written notice to Programmer in the case of a Law Violation or Potential Law Violation, or (b) no sooner than thirty (30) days following

written notice to Programmer in the case of an Image Problem and only after consultation with Programmer and providing Programmer the opportunity to propose a plan to resolve the Image Problem (if Affiliate elects to terminate this Agreement as provided in this Section 17):; Affiliate may terminate this Agreement, or Affiliate may cease distributing the offending programming or the Service (in any portion of the Territory, or the entire Territory, as Affiliate shall determine in its sole discretion based on the genesis of the Law Violation; Potential Law Violation or Image Problem) until Affiliate determines in Affiliate's sole discretion that there will be no Image Problem because the Service programming at that subsequent time is consistent with the corporate image that Affiliate then desires to maintain or Affiliate reasonably determines that a Law Violation or Potential Law Violation will not again occur. If Affiliate, pursuant to this Section 17 and due to an Image Problem, desires to cease distributing the Service, Affiliate shall provide Programmer with notice thereof setting forth in reasonable detail the nature of Affiliate's concerns and provide Programmer with the opportunity to propose changes in the Service to address Affiliate's concerns. Consistent with the foregoing, the parties understand and acknowledge that (i) due to the explicit nature of the programming on the Channel 596 Service and the Channel 597 Service (i.e., more explicit than the "Hot Version"), as of the date hereof, Affiliate blacks out such channels in the following states: Alabama, Mississippi, Oklahoma, Utah, North Carolina, Tennessee, and in Hamilton County, Ohio, because such programming may constitute a Law Violation therein; and (ii) Affiliate expressly reserves the right at any time during the Term to further blackout any such programming constituting a Law Violation.

18. Survival of Representations and Warranties. All representations and warranties contained herein or made by the parties, and each of them, in connection herewith shall survive any independent investigation made by either party.

19. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original and all such counterparts together shall constitute but one and the same instrument. The parties also agree that this Agreement shall be binding

upon the faxing by each party of a signed signature page thereof to the other party. If such a faxing occurs, the parties agree that they will each also immediately post, by Federal Express, a fully executed original counterpart of the Agreement to the other party.

IN WITNESS WHEREOF, the undersigned parties have caused this Agreement to be executed by their duly authorized representatives as of the day and year first above written.

DIRECTV, INC.

By: Tony Berlin

Toby Berlin
Vice President, Programming Acquisitions

PLAYBOY ENTERTAINMENT GROUP, INC.

By: Robert Meyers

SPICE HOT ENTERTAINMENT, INC.

By: Robert Meyers

Confidential Treatment

EXHIBIT A

DESCRIPTIONS AND LIMITATIONS OF THE SERVICE

From and after the Effective Date and at all times during the Term, the Service (including Playboy TV En Espanol, if applicable) shall be provided by Programmer to Affiliate on a full-time turnaround basis (i.e., 24 hours per day, seven days a week)

The programming content of the Service shall comply with the following limitations and restrictions:

(i) With respect to the services making up the Service, the programming contained therein shall (subject to specific channel descriptions set forth in this Agreement):

(A) Consist of uninterrupted movies and shows of the adult genre (subject to the description and limitations set forth in Exhibit A), together with interstitials, public service announcements, behind the scenes spots and spots promoting upcoming programming on the Service; provided that any such spots, permitted commercial announcements and/or interstitial programming shall be first class broadcast quality for the adult television industry and shall not promote a competitive multi-channel video distribution service or denigrate direct satellite distribution. The Service shall not contain any advertising except that during the "breaks" between movies and/or shows (and with respect to the VOD Services, before and/or after the program), the Service may contain spots promoting Programmer's audiotext (i.e., "900" number) offerings (the "Audiotext Spots") as follows: (x) if the break is less than or equal to ten (10) minutes in length, Audiotext Spots not exceeding two (2) minutes in the aggregate during such break; and (y) if the break is greater than ten (10) minutes in length, Audiotext Spots not exceeding three (3) minutes in the aggregate during such break; provided that, in either case, Programmer shall not interrupt any movies or shows to air the Audiotext Spots. The quality of all interstitial, promos, station I.D.s, public service announcements, or other permitted insertions shall be of a production quality equal to, if not greater than, those airing on each of the Services as of the date of this Agreement. Notwithstanding the foregoing, Programmer shall have the right to include third party advertising on each of the Services up to a total of four minutes in each 90-minute block of programming; provided that, if Programmer elects to include such advertising, Affiliate shall have the right to cover two minutes of such four minute total (or a proportionate amount (i.e., half of the total inventory) if Programmer inserts less than four advertising minutes) via the insertion of its own commercial or other announcements (including, without limitation, promotions for any or all adult programming services distributed by DIRECTV). In the event Programmer elects to include advertising in a Service, Programmer shall properly "tone switch", using industry recognized equipment, via inaudible signals, all Avails to enable Affiliate to insert its commercial announcements.

Notwithstanding the foregoing, under no circumstances shall the Service be permitted to include, directly or indirectly, advertisements promoting any competitor of Affiliate (e.g., any satellite television provider; cable operator; telco provider such as Verizon, Bell South or AT&T in connection with such other provider's

multi-channel video distribution business; or any other distributor of video content, including via cellular phone, World Wide Web, Internet and/or wireless technology); provided that the content of the Service may contain references to Programmer's owned or operated websites, and other incidental references to where a viewer can receive additional information or content with respect to an individual appearing in the program or a topic covered in the program; and provided further than any such incidental reference shall not be provided in exchange for consideration.

(B) Only contain programming that is of a production quality at least comparable to, if not better than, the production quality of each applicable programming service contained in the Service as of August 15, 2006.

(C) Not include any violence, any activity that equates sexuality with violent behavior, any scenes of non-consenting sexual activity, incest, sadism, sadomasochism or forced bondage, as presented in the programming and promotional materials of the Service during the Term.

(D) Not include any scenes of bestiality, any scenes of sexual activity with children (including "play-acting"), or any acts depicting male homosexuality, unless approved by Affiliate in advance.

(E) Include differentiated programming among the various programming services making up the Service so that each programming service is a distinct and independent service and are not a monthly multiplex or timeshifted version of any other service.

(F) Shall adhere to the industry's standards and practices (the "Industry's Standards and Practices") for adult programming distributed via television services, and shall comply with the below described standards and practices (the "Standards and Practices") that shall control if they conflict with the Industry's Standards and Practices. Any act or portrayal that is prohibited to be presented on the Service as provided below or which the Industry's Standards and Practices prohibit to be presented in audiovisual material, is hereinafter referred to as a "Prohibited Act."

(ii) All programming services may:

(A) Include nudity and sexual situations as a matter of course; however, there shall be no depiction of any sexual acts prohibited by this Exhibit A.

(B) Include explicit and graphic language; provided however that the Service and promotional materials of the Service shall not include during the Term descriptive dialogue that is more sexist, racist, violent, threatening or patently offensive than such language that has been presented on the Service as of August 15, 2006.

(iii) The Movie Channel 1 and Movie Channel 2 Service shall individually and collectively be referred to as the "Movie Service(s)." The Movie Services shall comply with the following:

(A) Movies on the Movie Services shall be scheduled to start every 90 minutes, and on a staggered basis, with attention given to creating appealing double feature, three-hour blocks.

(B) The movies broadcast on the Movie Services shall generally range from 70 to 85 minutes in length.

(C) Programmer shall not simultaneously broadcast duplicate programming on the services consisting of the Movie Service at any time, nor shall it, without prior written approval from Affiliate, broadcast a movie on any Movie Service in a month in which the same movie has aired on another Movies Service or in the month prior to or subsequent to said month.

(iii) Subject to specific channel descriptions set forth in this Agreement, Programmer may determine the content of its programming services in its sole discretion, including the substitution or withdrawal of scheduled programs, and of commercial, promotional or other announcements, consistent with the terms and conditions of this Agreement.

(v) Programming Service Specific Restrictions.

(A) Playboy TV. Playboy TV shall be edited to the "Cable Version." Notwithstanding the foregoing, Playboy TV also may include the following content, but in no event shall such content be more explicit than the "Hot Cable Version": (a) one (1) Director's Cut movie per day, seven days per week. Programmer may premiere at least two (2) Director's Cut titles per week and each title shall be approximately ninety (90) minutes in length (provided that the premiere of the Director's Cut movies shall be repeated to accommodate the Pacific-time zone and that Director's Cut features shall be of a production quality and content, at least comparable to, if not better than, the Director's Cut movies that are currently provided by Playboy to Affiliate); and (b) three (3) original alternative Programmer produced and/or licensed television programs (each an "Original Program"); with no more than five (5) of these programs being scheduled in any twenty four (24) hour period. Programmer represents and warrants that the foregoing describes the amount of "Hot Cable Version" content included on Playboy TV as of the date hereof (i.e., two (2) Director's Cut title exhibitions and five (5) Original Program exhibitions during each twenty four (24) hour period). Programmer shall be required to obtain Affiliate's consent prior to including on Playboy TV any programming more explicit than the "Cable Version" other than as set forth in subclauses (a) and (b) above. Notwithstanding the foregoing, Programmer may include in Playboy TV regularly scheduled programming (i.e., excluding interstitials) edited in the Cable Version but which contains content (such as a brief segment, excerpt or clips) in the Hot Cable Version not to exceed 2 minutes in any half hour period of time. Programmer shall not air on Playboy TV more than sixty (60) minutes of Phone Sex Programming (as

defined below) within any contiguous six-hour scheduling period. "Phone Sex Programming" means any program intended to sexually arouse viewers through

one-on-one interaction between on-air talent and an individual viewer utilizing telecommunication technologies (e.g., telephone, web cam, wireless device, etc.) and masturbation by the on-air talent; provided that such Phone Sex Programming shall be no more explicit than the "Cable Version".

(B) Movie Channel 1. Movie Channel 1 shall be in the "Hotter Version," as set forth in the Programming Standards on Exhibit A. Movie Channel 1 showcases adult stars, AVN award winning or nominated features, and top-quality Adult movies. Movie Channel 1 includes a sufficient number of unique movies, premieres, and/or program events within any broadcast month such that, in Programmer's judgment, the programming maximizes Subscriber purchases of programming on the channel. Programmer may include alternative (non-movie) program events such as live and/or interactive programs that further enhance Movie Channel 1 for up to three (3) hours per day. Movie Channel 1 shall consist of a minimum of fifty (50) unique movies and/or program events within any broadcast month. No movie or program event shall be repeated on Movie Channel 1 for a period of three (3) months after its initial month run on Movie Channel 1. Programmer will use reasonable efforts to program Movie Channel 1 with movies or program events that offer the greatest appeal when conformed to the "Hotter Version" standard, differentiating them from the movies offered on Movie Channel 2. From time to time Programmer may schedule special program events (i.e. "themed stunts") to enhance Movie Channel 1 that forgo the above, provided prior approval is granted from Affiliate.

(C) Movie Channel 2. Movie Channel 2 shall be in the "Hotter Version," as set forth in the Programming Standards on Exhibit A. Movie Channel 2 showcases `caught on tape' themed content, MILFS, fetish lifestyle, ethnic, and `alt' programming. Programmer may include alternative (non-movie) program events such as live and/or interactive programs that further enhance Movie Channel 2 for up to three (3) hours per day. Movie Channel 2 shall consist of a minimum of fifty (50) unique movies and/or program events within any broadcast month. No movie or program event shall be repeated on Movie Channel 2 for a period of three (3) months after its initial month run on Movie Channel 2. Programmer will use reasonable efforts to program Movie Channel 2 with movies or program events that offer the greatest appeal when conformed to the "Hotter Version" standard, differentiating them from the movies offered on Movie Channel 1. From time to time Programmer may schedule special program events (i.e. "themed stunts") to enhance Movie Channel 2 that forgo the above, provided prior approval is granted from Affiliate.

(D) Playboy TV en Espanol Service. The Playboy TV en Espanol Service shall be a Spanish language (dubbed and/or subtitled) 24-hour programming service in the "Hot Version," as set forth in the Programming Schedule on Exhibit A. Its programming is configured in a daily eight (8) hour block with three (3) repeats or runs, consisting primarily of Playboy-branded adult movies, series, specials and a variety of programs. The programming service consists of approximately thirty (30) different movies, series and/or programs per month, of which 15 are premier movies. Premiers are exhibited 4 times during

the month as follows: the premier during Fridays, Saturdays and Sundays, and 3 repeats on weekdays". Affiliate acknowledges that Programmer does not program the Playboy TV en Espanol service. As such, Programmer shall give Affiliate prompt notice of any changes to the above description of which Programmer is informed, and in the event of a material deviation from the description above, Affiliate shall have the right to discontinue the Playboy TV en Espanol service with ten (10) days written notice, but such deviation shall not constitute a

material breach under the agreement entitling Affiliate to other remedies.

(E) The live and/or interactive programs described in sub-paragraphs B and C above will be hosted by live talent, with the programming switching between mini-shows and previews, and in no event shall include "phone sex" or similar call-in shows (excluding only the program currently known as "Night Calls"). The hostess might take us to the 'Peep Show' to watch some hot action, or to 'The Audition Room' for new talent guaranteed to please. Viewers can call in or interact online to vote, comment, or help decide which feed to switch to next. A description of each of these offerings is as follows:

TITLE	DESCRIPTION
Peep Show	Set in a sexy peep show booth with velvet lined walls & surveillance cameras. Singles or horny couples are all caught on tape and we'll always be watching through our live feed...even when they think we aren't.
The Audition Room	These auditions are down and dirty, and the viewer can vote or call in to rate the hottest and newest talent.
Movie Previews	Preview the nastiest and most anticipated movies, and watch your favorite clips in this quick hit format.
Behind The Scenes	Get a VIP pass onto the sets of Adult's biggest shoots. We go behind the scenes to watch what really goes on when the cameras are off, and we speak to the biggest sex stars.

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EXHIBIT A (continued)

PROGRAMMING STANDARDS

<TABLE>
<CAPTION>

	CABLE VERSION	HOT CABLE VERSION	HOTTER VERSION	VIDEO STORE VERSION
<S>	<C>	<C>	<C>	<C>
Condoms	*	*	*	*
Explicit language	*	*	*	*
Female masturbation/external	*	*	*	*
Girl/girl sex	*	*	*	*
Medium shot penis/flaccid	*	*	*	*
Medium shot vagina	*	*	*	*
Oral sex/cunnilingus	*	*	*	*

Wide shot penis/flaccid	*	*	*	*
Wide shot vagina	*	*	*	*
Close-up penis/erect		*	*	*
Close-up penis/flaccid		*	*	*
Close-up vagina		*	*	*
Female masturbation with penetration (fingers, objects)		*	*	*
Male masturbation (no ejaculation)		*	*	*
Medium shot penis/erect		*	*	*
Oral sex/fellatio		*	*	*
Vaginal penetration/objects		*	*	*
Vaginal penetration/penis		*	*	*
Vaginal penetration/tongue		*	*	*
Wide shot penis/erect		*	*	*
Ejaculation			*	*
Anal penetration/objects				*
Anal penetration /penis				*
Anal penetration/tongue				*

</TABLE>

An * indicates that the described activity appears in the particular version.

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EXHIBIT B

PROGRAMMER'S CABLE RATE CARD FOR NON-HOTEL/MOTEL DISTRIBUTION

	Affiliate's Share of Gross Receipts	Programmer's Share of Gross Receipts
Playboy TV	75%	25%
Movie Channel 1	91%	9%
Movie Channel 2	91%	9%

A. Cascade Payments: In each month that Affiliate offers a Cascade including the Services, or any combination of such Services, together with other third party adult programming services, Affiliate shall determine the corresponding License

Fee payable to Programmer by use of the following formula(s):

S = (A/B) x P x .09 where:

S = All License Fees payable to the Programmer in connection with the inclusion of the Movie Services, or either of them, in the Cascade

A= the total number of Programmer's Movie Services in the Cascade

B = the total number of all programming services offered in the Cascade

P = Cascade Gross Receipts

.09 = Programmer's share of allocable Gross Receipts for the Movie Service(s) (i.e., 9%)

and/or

S = (1/B) x P x .25 where:

S = All License Fees payable to the Programmer in connection with the inclusion of the Channel 595 Service (currently known as "Playboy TV") in the Cascade

1 = Playboy TV

B = the total number of all programming services offered in the Cascade

P = Cascade Gross Receipts

.25 = Programmer's share of allocable Gross Receipts for Playboy TV (i.e., 25%)

B. Launch Support. As an incentive to launch the new movie channels offered by Programmer at the editing levels described below, Programmer will ensure certain levels of revenue to Affiliate in connection with Movie Channel 1 and Movie Channel 2 as described

below (the "Launch Support"). The Launch Support mutually agreed between Programmer and Affiliate is based on historical revenues for other Programmer networks carried by Affiliate with a projection of reasonable growth. The amount of any Launch Support that may be payable by Programmer to Affiliate will not exceed the revenues paid by Affiliate to Programmer in any applicable year for the Movie Channel 1 and Movie Channel 2 in such year. All revenue earned by Programmer in connection with Movie Channel 1 and Movie Channel 2, as well as any amounts attributable to VOD supplied by Programmer, shall be applied against the Launch Support. As a condition of receiving the Launch Support for Movie Channel 1 and Movie Channel 2, Affiliate agrees to distribute the Service in the following manner (the "Launch Support Requirements"):

(i) Notwithstanding any other terms set forth in the Agreement, Programmer may program Movie Channel 1 and Movie Channel 2 to the hottest standards permitted for any service distributed over Affiliate's DTH Distribution System;

(ii) The Movie Services will be included in the Cascade (or any bundle of

adult PPV services offered by Affiliate) unless one of such Services is terminated by Affiliate pursuant to Affiliate's rights under this Exhibit B;

(iii) Affiliate will make Playboy TV, Movie Channel 1 and Movie Channel 2 available for purchase to all residential DIRECTV Subscribers receiving content from Affiliate's DTH Distribution System (except with respect to DIRECTV Subscribers who have elected not to have the option of purchasing adult programming and/or have been excluded from the purchase of transactional programming and those DIRECTV Subscribers residing in geographical areas where Affiliate systematically blacks out programming services in the "Hotter" or "Video Store" versions) unless one of such Movie Services is terminated by Affiliate pursuant to Affiliate's rights under this Exhibit B;

(iv) Affiliate may determine in its reasonable discretion the retail prices of the Services and/or the Cascade; provided, however, that any change in such retail prices shall be commercially reasonably designed to maximize Gross Receipts of the Services and/or the Cascade;

(v) All adult linear services will be offered on contiguous channels;

(vi) Affiliate will not engage in any sale of assets that would have the effect of materially reducing the number of DIRECTV Subscribers during the Term; and

(vii) The Service will be treated no less favorably in marketing, advertising and promotional activities than any other adult service offered to DIRECTV Subscribers by Affiliate; provided that Affiliate shall be deemed to have complied with this requirement if it implements substantially similar activities on behalf of the Service as on behalf of such other adult service(s).

1. First Year Launch Support. If Affiliate meets the Launch Support Requirements during the period from November 16, 2006 through November 15, 2007 (the "First Contract Year"), the Programmer shall provide Affiliate with the following Launch Support with

respect to the Movie Services during such First Contract Year: if, at the end of the First Contract Year, Affiliate's share of Gross Receipts for the Movie Services as well as any amounts attributable to VOD supplied by Programmer is below $5.069 per DIRECTV Subscriber (the number of such DIRECTV Subscribers for the purpose of Launch Support is deemed to be 14,197,000, which is the number of Subscribers reported to Programmer as of February 2006), then Programmer will pay Affiliate within sixty (60) days of the first anniversary of the Effective Date the amount necessary to bring the per DIRECTV Subscriber amount up to $5.069 for the First Contract Year (the "First Year Launch Support Payment"); provided that in no event shall the First Year Launch Support Payment be greater than the License Fees paid to Programmer for the First Contract Year by Affiliate for distribution of the Movie Services pursuant to Section 2(b) of the Agreement (the "First Year Launch Support"). Notwithstanding the foregoing, (i) in the event that during any portion of the First Contract Year Affiliate, in its sole discretion, makes available to DIRECTV Subscribers one less adult service (i.e., a linear programming service comprised of all or substantially

all adult content) in the "Cable Version", "Hot Cable Version", "Hotter Version" and/or "Video Store Version" Programming Standards (an "Adult Service") (i.e., one less Adult Service than the number of such services offered as of the Effective Date), the First Year Launch Support Payment for such periods shall be increased to $6.339 per DIRECTV Subscriber; (ii) in the event that during any portion of the First Contract Year Affiliate, in its sole discretion, makes available to DIRECTV Subscribers one additional Adult Service (beyond the number of such services offered as of the Effective Date), the First Year Launch Support Payment for such periods shall be reduced to $4.226 per DIRECTV Subscriber; and (iii) in the event that during any portion of the First Contract Year Affiliate, in its sole discretion, makes available to DIRECTV Subscribers two additional Adult Services (beyond the number of such services offered as of the Effective Date), the First Year Launch Support Payment for such periods shall be reduced to $3.526 per DIRECTV Subscriber (any such amount being an "Adjusted First Year Launch Support Payment"). Subject to the foregoing, if the First Year Launch Support Payment obligation and an Adjusted First Year Launch Support Payment obligation are in effect during separate periods of the First Contract Year, the yearly Launch Support shall be proportionately pro-rated for all periods during which each respective Launch Support level applies. For the avoidance of doubt, a change in conditions resulting in the application of an Adjusted First Year Launch Support Payment shall not be deemed a violation of the Launch Support Requirements. The parties acknowledge and agree that the total number of Adult Services offered by Affiliate as of the Effective date is six (6) (inclusive of Movie Channel 1, Movie Channel 2 and Playboy TV).

2. Second Year Launch Support. If Affiliate meets the Launch Support Requirements during the period from November 16, 2007 through the end of the Term (the "Second Contract Year") and the Agreement is not terminated by either party, the Programmer shall provide Affiliate with the following Launch Support with respect to the Movie Services for the second year of the Term: if, at the end of the second year of the Term, Affiliate's share of Gross Receipts for the Movie Services as well as any amounts attributable to VOD supplied by Programmer is below $5.63 per DIRECTV Subscriber (the number of such DIRECTV Subscribers for the purpose of established Launch Support is deemed to be 14,197,000, which is the number of Subscribers reported to Programmer as of

February 2006), then Programmer will pay Affiliate within sixty (60) days of the second anniversary of the Effective Date the amount necessary to bring the per DIRECTV Subscriber amount up to $5.63 for the second year of the Term (the "Second Year Launch Support Payment"); provided that in no event shall the Second Year Launch Support Payment be greater than the License Fees paid to Programmer for the second year of the Term by Affiliate for distribution of the Movie Services pursuant to Section 2(b) of the Agreement (the "Second Year Launch Support"). Notwithstanding the foregoing, (i) in the event that during any portion of the Second Contract Year Affiliate, in its sole discretion, makes available to DIRECTV Subscribers one less Adult Service (i.e., one less Adult Service than the number of such services offered as of the Effective Date), the Second Year Launch Support Payment for such periods shall be increased to $7.044 per DIRECTV Subscriber; (ii) in the event that during any portion of the Second Contract Year Affiliate, in its sole discretion, makes available to DIRECTV Subscribers one additional Adult Service (beyond the number of such services offered as of the Effective Date), the Second Year Launch Support Payment for such periods shall be reduced to $4.93 per DIRECTV Subscriber; and (iii) in the event that during any portion of the Second Contract Year Affiliate, in its sole discretion, makes available to DIRECTV Subscribers two additional Adult Services (beyond the number of such services offered as of the Effective Date), the

Second Year Launch Support Payment for such periods shall be reduced to $4.22 per DIRECTV Subscriber (any such amount being an "Adjusted Second Year Launch Support Payment"). Subject to the foregoing, if the Second Year Launch Support Payment obligation and an Adjusted Second Year Launch Support Payment obligation are in effect during separate periods of the Second Contract Year, the yearly Launch Support shall be proportionately pro-rated for all periods during which each respective Launch Support level applies. For the avoidance of doubt, a change in conditions resulting in the application of an Adjusted Second Year Launch Support Payment shall not be deemed a violation of the Launch Support Requirements.

Subject to the foregoing, in the event that the Launch Support Requirements are met for only a portion of the First or Second Contract Year, Programmer's respective Launch Support obligations for either such period shall apply on a pro rata basis to those portions of such years during which the Launch Support Requirements have been met.

The Launch Support Requirements are only applicable to the First Year Launch Support and the Second Year Launch Support, and a failure of Affiliate to meet such requirements shall only invalidate the revenue assurance for the year in which such failure takes place, and shall not otherwise be treated as a breach of the Agreement. In the event that Affiliate's actual share of Gross Receipts in connection with the Services for the First Contract Year is less than the First Year Launch Support amount by greater than $500,000, either party will have the right to terminate this Agreement with respect to the Movie Services upon thirty (30) days written notice to the other party. In addition, in the event that Affiliate's share of revenues from a la carte PPV Offerings of the Movie Services (or either of such Services) during any two month period of the Term after November 16, 2006 is ten percent (10%) less than the applicable Launch Support as prorated on an annual basis, either party shall have the right to terminate this Agreement with respect to the underperforming Movie Service (or, alternatively, both Movie Services if both are underperforming) upon prior notice (thirty (30)

days written notice to Programmer in the event that Affiliate elects to terminate and ninety (90) days written notice to Affiliate in the event that Programmer elects to terminate). In the event that either party elects to terminate pursuant to the above, Programmer agrees to continue providing the relevant Service until the end of the applicable notice period on the same rates, terms and conditions as set forth herein to permit Affiliate to transition to an alternative provider of programming. In the event that either party exercises the foregoing termination right with respect to one or both of the Movie Services, Affiliate shall nevertheless be entitled to the above described Launch Support for such Movie Service(s) and for the remaining Movie Service (if applicable) on a pro-rata basis.

EXHIBIT C

MONTHLY PROGRAM SCHEDULES FOR THE SERVICE

(see attached)

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EXHIBIT D

PROGRAMMER'S RATE CARD FOR HOTEL/MOTEL DISTRIBUTION

	Affiliate's Share of Gross Receipts	Programmer's Share of Gross Receipts
Playboy TV	75%	25%
Movie Channel 1	91%	9%
Movie Channel 2	91%	9%

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EXHIBIT E

PROGRAMMERS RATE CARD FOR PLAYBOY TV EN ESPANOL (IF APPLICABLE)

	Affiliate's Share of Gross Receipts	Programmer's Share of Gross Receipts
Playboy TV en Espanol Service	75%	25%

Exhibit 10.31H

RESOLUTIONS OF
THE BOARD OF DIRECTORS OF
PLAYBOY ENTERPRISES, INC.

November 29, 2006

WHEREAS, the Board of Directors of the Company (the "Board") has determined to amend the Second Amended and Restated Playboy Enterprises, Inc. 1995 Stock Incentive Plan, as amended (the "Employee Stock Plan"), the Amended and Restated 1997 Equity Plan for Non-Employee Directors of Playboy Enterprises, Inc., as amended (the "Director Stock Plan") and the Playboy Enterprises, Inc. Employee Stock Purchase Plan, as amended (the "ESPP") in order to (i) permit the grant of awards under the Employee Stock Plan for a period ending ten years from the date of stockholder approval of such amendment and to increase by 2,200,000 the number of shares of the Company's Class B common stock, par value $0.01 per share (the "Class B Common Stock"), that may be issued pursuant to awards granted under or funded through the Employee Stock Plan, (ii) permit the grant of awards under the Director Stock Plan for a period ending ten years from the date of stockholder approval of such amendment and to increase by 200,000 the number of shares of Class B Common Stock that may be issued pursuant to awards granted under or funded through the Director Stock Plan and (iii) increase by 90,000 the numbers of shares of Class B Common Stock that may be purchased under the ESPP. (The Employee Stock Plan, Director Stock Plan and ESPP are hereinafter collectively referred to as the "Stock Plans.")

WHEREAS, the Board has determined that is advisable and in the best interest of the Company to reserve an additional 10,000 shares of Class B Common Stock for issuance to employees pursuant to the Company's Service Award Program.

NOW, THEREFORE, IT IS HEREBY:

RESOLVED, that the form, terms and provisions of the amendment to the Employee Stock Plan attached hereto as Exhibit A (the "Employee Stock Plan Amendment") are hereby approved and adopted in all respects; and

IT IS FURTHER RESOLVED, that the form, terms and provisions of the amendment to the Director Stock Plan attached hereto as Exhibit B (the "Director Stock Plan Amendment") are hereby approved and adopted in all respects; and

IT IS FURTHER RESOLVED, that the form, terms and provisions of the amendment to the ESPP attached hereto as Exhibit C (the "Employee Stock Plan Amendment" and together with the Employee Stock Plan Amendment and the Director Stock Plan Amendment, the "Stock Plan Amendments") are hereby approved and adopted in all respects; and

IT IS FURTHER RESOLVED, that an additional 2,490,000 shares of Class

B Common Stock are hereby set aside and reserved for issuance pursuant to the awards granted under or funded through the Stock Plans, subject to adjustment as may be required in accordance

with the terms of the Stock Plans, and an additional 10,000 shares of Class B Common Stock are hereby reserved for issuance to employees pursuant to the Service Award Program; and

IT IS FURTHER RESOLVED, that upon the issuance and sale of shares of Class B Common Stock pursuant to and in accordance with awards granted under or funded through the Stock Plans or Service Award Program, such shares will be duly and validly issued, fully paid and non-assessable; and

IT IS FURTHER RESOLVED, that (i) the Stock Plans, as amended, be and hereby are, recommended to the stockholders of the Company, (ii) the Stock Plans, as amended, be submitted to such stockholders for the their approval and (iii) the approval sought pursuant to clause (ii) above be sought and obtained in a manner (including, at the discretion of the appropriate officers of the Company, by the written consent of the majority stockholder of the Company) which complies with the shareholder approval requirements of the New York Stock Exchange and Sections 162(m), 422 and 423 of the Internal Revenue Code of 1986, as amended; and

IT IS FURTHER RESOLVED, that the officers of the Company, and each of them, be authorized and directed to execute these resolutions and are authorized and directed to execute such other documents and to take all such further actions as they, or any of them, determines to be necessary, desirable or appropriate to accomplish the purpose of the foregoing resolutions; and

IT IS FURTHER RESOLVED, that any actions taken by any officer or director prior to the date of the foregoing resolutions adopted hereby that are within the authority conferred thereby are hereby ratified, confirmed and approved as the acts and deeds of the Company.

EXHIBIT A

Amendment to the
Second Amended and Restated Playboy Enterprises, Inc. 1995 Stock Incentive Plan

1. The Second Amended and Restated Playboy Enterprises, Inc. 1995 Stock Incentive Plan (the "Plan") is amended to increase by 2,200,000 the number of shares of the Company's Class B common stock, par value $0.01 per share (the "Class B Common Stock"), that may be issued pursuant to awards granted under or

funded through the Plan by deleting the existing last sentence of Section 2.1(a) thereof in its entirety and replacing such sentence with a new sentence that reads as follows:

> "The aggregate number of shares which may be issued upon exercise of such Options or rights or upon any such awards under the Plan shall not exceed 7,703,000 shares of Common Stock."

2. The Plan is amended to permit the grant of awards under the Plan for a period ending ten years from the date of stockholder approval of the Plan as amended by this amendment.

EXHIBIT B

Amendment to the
Amended and Restated 1997 Equity Plan for Non-Employee Directors of
Playboy Enterprises, Inc.

1. The Amended and Restated 1997 Equity Plan for Non-Employee Directors of Playboy Enterprises, Inc. (the "Plan") is amended to increase by 200,000 the number of shares of the Company's Class B common stock, par value $0.01 per share (the "Class B Common Stock"), that may be issued pursuant to awards granted under or funded through the Plan by deleting the first sentence of Section 3 thereof in its entirety and replacing such sentence with a new sentence that reads as follows:

> "Subject to adjustment as provided in Section 9 of this Plan, the number of shares of Common Stock issued or transferred, plus the number of shares of Common Stock covered by outstanding Awards and not forfeited under this Plan, shall not in the aggregate exceed 600,000 shares, which may be shares of original issuance or shares held in treasury or a combination thereof."

3. The Plan is amended to permit the grant of awards under the Plan for a period ending ten years from the date of stockholder approval of the Plan as amended by this amendment.

EXHIBIT C

Amendment to the
Playboy Enterprises, Inc. Employee Stock Purchase Plan

The Playboy Enterprises, Inc. Employee Stock Purchase Plan (the "Plan") is amended to increase by 90,000 the number of shares of the Company's Class B

common stock, par value $0.01 per share (the "Class B Common Stock"), that may be purchased under the Plan by deleting the second sentence of Section 5 thereof in its entirety and replacing such sentence with a new sentence that reads as follows:

> "Subject to the provisions of Section 6(h), the aggregate number of shares which may be purchased under the Plan shall not exceed 230,000 shares of Class B Common Stock."

Exhibit 21

PLAYBOY ENTERPRISES, INC.

The following are wholly-owned or partially-owned subsidiaries of the corporations preceding them that are less indented. Unless otherwise indicated, each corporation is a 100%-owned subsidiary of PLAYBOY ENTERPRISES, INC., or the last preceding less-indented corporation, as the case may be:

PLAYBOY ENTERPRISES, INC. (Delaware 4-30-98)

PEI HOLDINGS, INC. (Delaware 11-24-98)

SPICE ENTERTAINMENT, INC. (Delaware 5-13-92)
CPV PRODUCTIONS, INC. (Delaware 3-5-94)
CYBERSPICE, INC. (Delaware 4-19-94)
MH PICTURES, INC. (California 2-11-93)
PLANET SPICE, INC. (Delaware 12-22-00)
SEI 4 ApS (Denmark 10-1-98)
SPICE DIRECT, INC. (Delaware 10-26-92)
SPICE INTERNATIONAL, INC. (Delaware 7-31-92)
SPICE NETWORKS, INC. (New York 8-21-87)
SPICE PRODUCTIONS, INC. (Nevada 9-21-94)

PLAYBOY ENTERPRISES INTERNATIONAL, INC. (Delaware 5-27-64)
ALTA LOMA ENTERTAINMENT, INC. (Delaware 8-30-01)
ITASCA HOLDINGS, INC. (Illinois 7-30-87)
LAKE SHORE PRESS, INC. (Delaware 11-26-69)
Branches
Hong Kong

LIFESTYLE BRANDS, LTD. (Delaware 9-14-70)
PLANET PLAYBOY, INC. (Delaware 9-29-99) Name changed from Playboy International, Inc. and filed with Delaware on 1/10/00
Branches
Hong Kong
Japan

PLAYBOY CANADA, INC. (#3793761 Canada, Inc.) (Canada 8-3-00)
PLANET PLAYBOY BRAZIL LICENCIAMENTO DE NOMES DE DOMINIO LTDA. (Planet Playboy Brazil Domain Names Licensing Limited - Rio de Janeiro, Brazil September 14, 2002)

PLAYBOY CLUBS INTERNATIONAL, INC. (Delaware 1-15-60)
PLAYBOY CLUB OF HOLLYWOOD, INC. (Delaware 10-30-61)

PLAYBOY CLUB OF NEW YORK, INC. (New York 10-14-60)
PLAYBOY OF LYONS, INC. (Wisconsin 7-23-65)
PLAYBOY OF SUSSEX, INC. (Delaware 7-22-68)
PLAYBOY PREFERRED, INC. (Illinois 8-11-66)

PLAYBOY.COM, INC. (Delaware 11-25-98) Name changed from Playboy Online, Inc.

on 12/14/99
PLAYBOY.COM INTERNET GAMING, INC. (Delaware 12-19-00)
PLAYBOY.COM RACING, INC. (Delaware 2-27-01)
PLAYBOY.COM INTERNET GAMING (GIBRALTAR) LIMITED (Gibraltar 2/12/01)
SPICETV.COM, INC. (Delaware - 3/8/00 Name changed from Cyberspice.com, Inc. on 3/2/01)

PLAYBOY ENTERTAINMENT GROUP, INC. (Delaware 11-30-89)
ADULTVISION COMMUNICATIONS, INC. (Delaware 5-12-95)
ALTA LOMA DISTRIBUTION, INC. (Delaware 7-7-69)
AL ENTERTAINMENT, INC. (California 4-3-98) formerly known as Alta Loma Entertainment, Inc. - name change: 9/26/01)
ANDRITA STUDIOS, INC. (California 3-19-03)
CJI HOLDINGS, INC. (Delaware 1-27-06)
CLUB JENNA, INC. (Colorado 12-1-99)
DOLCE AMORE, INC. (Colorado 11-17-99)
EOD, INC. (Colorado 12-22-04)
Y-TEL WIRELESS, LLC (3) (Colorado 10-8-03)
ICS ENTERTAINMENT, INC. (Delaware 12-22-65) Name changed from After Dark Video, Inc. on 7-27-05
IMPULSE PRODUCTIONS, INC. (Delaware 1-9-84)
INDIGO ENTERTAINMENT, INC. (Illinois 11-5-76)
MYSTIQUE FILMS, INC. (California 6-16-95)
PLAYBOY TV INTERNATIONAL, LLC (PTVI) (1) (Delaware 6-15-99)
CANDLELIGHT MANAGEMENT LLC (Delaware 11-30-00)
1945/1947 CEDAR RIVER C.V. (Netherlands Limited Partnership) (2) PTVI LIMITED (Cayman Islands)
CHELSEA COURT HOLDINGS, LLC (Delaware 11-30-00)
CLARIDGE ORGANIZATION LLC (Delaware 11-30-00)
STICHTING 1945/1947 LA LAGUNA (Netherlands Trust)
PLAYBOY TV-GmbH GERMANY (Germany)
PLAYBOY TV INTERNATIONAL B.V. (Netherlands)
PLAYBOY TV UK LIMITED (UK)
PLAYBOY TV/UK BENELUX LTD. (United Kingdom)
STV INTERNATIONAL B.V. (Netherlands)
PRECIOUS FILMS, INC. (California 9-28-94)
SEI INC. ApS (Denmark 10-1-98)

WOMEN PRODUCTIONS, INC. (California 11-1-95)

PLAYBOY GAMING INTERNATIONAL, LTD. (Delaware 8-26-70)
PLAYBOY CRUISE GAMING, INC. (Delaware 6-24-98)
PLAYBOY GAMING UK, LTD. (Delaware 6-1-00)

PLAYBOY GAMING NEVADA, INC. (Nevada 8-12-98)
PLAYBOY JAPAN, INC. (Delaware 3-4-99)
Branches Subsidiaries
Japan
PLAYBOY MODELS, INC. (Illinois 8-8-56)
PLAYBOY PRODUCTS & SERVICES INTERNATIONAL, B.V. (Netherlands 12-5-52)

PLAYBOY PROPERTIES, INC. (Delaware 11-29-63)
PLAYBOY SHOWS, INC. (Delaware10-7-68)
SPECIAL EDITIONS, LTD. (Delaware 5-1-79)
SPICE HOT ENTERTAINMENT, INC. (Delaware 6-29-01)
SPICE PLATINUM ENTERTAINMENT, INC. (Delaware 6-29-01)
STEELTON, INC (Delaware 2-6-68)
TELECOM INTERNATIONAL, INC. (Florida 3-8-94)

*THE HUGH M. HEFNER FOUNDATION (an Illinois not-for-profit corporation 2-13-64)

(1) PTVI is 95% owned by Playboy Entertainment Group, Inc. and 5% owned by Adultvision Communications, Inc.

(2) 1945/1947 Cedar River is 99.998 % owned by Chelsea Court Holdings LLC, 0.001% owned by Candlelight Management LLC and 0.001% owned by Stichting 1945/1947 La Laguna.

(3) Y-Tel Wireless, LLC is 61.95% owned by Club Jenna, Inc. and 38.05% owned by CJI Holdings, Inc.

Exhibit 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 333-30185, Form S-8 POS (as amended) No. 333-74451, Form S-8 No. 333-105454, Form S-8 No. 333-139728 and Form S-3 No. 333-112682) of Playboy Enterprises, Inc. and in the related prospectuses of our report dated March 9, 2007, with respect to the consolidated financial statements and financial statement schedule of Playboy Enterprises, Inc., and our report dated March 9, 2007 with respect to Playboy Enterprises, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Playboy Enterprises, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2006.

/s/ Ernst & Young LLP

Chicago, Illinois

March 9, 2007

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Christie Hefner, Chairman of the Board, Chief Executive Officer and Director of Playboy Enterprises, Inc., or the registrant, certify that:

1. I have reviewed this Annual Report on Form 10-K of Playboy Enterprises, Inc. for the fiscal year ended December 31, 2006;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal

control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2007

/s/Christie Hefner

Name: Christie Hefner
Title: Chairman of the Board,
Chief Executive Officer and Director

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Linda G. Havard, Executive Vice President, Finance and Operations, and Chief Financial Officer of Playboy Enterprises, Inc., or the registrant, certify that:

1. I have reviewed this Annual Report on Form 10-K of Playboy Enterprises, Inc. for the fiscal year ended December 31, 2006;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal

control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2007

/s/Linda Havard

Name: Linda G. Havard
Title: Executive Vice President, Finance and Operations, and Chief Financial Officer

Exhibit 32

CERTIFICATION OF CEO AND CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Playboy Enterprises, Inc. (the "Company") for the year-ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Christie Hefner, as Chief Executive Officer of the Company, and Linda G. Havard, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that, to the best of her knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Christie Hefner

Name: Christie Hefner
Title: Chief Executive Officer
Date: March 16, 2007

/s/ Linda Havard

Name: Linda G. Havard
Title: Chief Financial Officer
Date: March 16, 2007

This certification accompanies the Report pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of ss.18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by ss. 906 has been provided to Playboy Enterprises, Inc. and will be retained by Playboy Enterprises, Inc. and furnished to the Securities and Exchange Commission or its

staff upon request.