FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

PLAYBOY ENTERPRISES INC
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)
[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ..... to .....
COMMISSION FILE NUMBER 1-6813

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

DELAWARE	36-4249478
(State or other jurisdiction of incorporation or organization)	(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 Pacific Exchange
Class B Common Stock, par value $0.01 per share	New York Stock Exchange Pacific Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

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 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. ___

The aggregate market value of Class A Common Stock, par value $0.01 per share, held by nonaffiliates (based upon the closing sale price on the New York Stock Exchange) on February 28, 1999 was $33,216,081. The aggregate market value of Class B Common Stock, par value $0.01 per share, held by nonaffiliates (based upon the closing sale price on the New York Stock Exchange) on February 28, 1999 was $210,690,624. These amounts do not reflect the effect of the acquisition of Spice Entertainment Companies, Inc. on March 15, 1999.

As of February 28, 1999, there were 4,748,954 shares of Class A Common Stock, par value $0.01 per share, and 15,878,188 shares of Class B Common Stock, par value $0.01 per share, outstanding. These amounts do not reflect an additional approximately 2,000,000 shares of Class B Common Stock issued in connection with the acquisition of Spice Entertainment Companies, Inc. on March 15, 1999.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Form 10-K Reference
Notice of Annual Meeting of Stockholders and Proxy Statement (to be filed) relating to the Annual Meeting of Stockholders to be held in May 1999	Part III, Items 10-13, to the extent described therein

PLAYBOY ENTERPRISES, INC.
1998 FORM 10-K ANNUAL REPORT

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PART I

Item 1. Business

The term "Company" means Playboy Enterprises, Inc., together with its subsidiaries and predecessors, unless the context otherwise requires. The Company was organized in 1953 to publish Playboy magazine. Since its inception, the Company has expanded its publishing operations and has engaged in entertainment businesses that are related to the content and style of Playboy magazine. Additionally, the Company licenses its trademarks for use on various consumer products, operates direct marketing and online businesses and is reentering the casino gaming business.

The Company's businesses are classified into six reportable segments: Publishing, Entertainment, Product Marketing, Catalog, Casino Gaming and Playboy Online. Beginning in fiscal year 1998, Playboy Online results, which were previously reported in the Publishing and Catalog Groups, are reported as a separate operating group. The net revenues, income (loss) before income taxes and cumulative effect of change in accounting principle, identifiable assets and depreciation and amortization of each reportable segment are set forth in Note R of Notes to Consolidated Financial Statements.

The Company's trademarks are vital to the success and future growth of all of the Company's businesses. The trademarks, which are renewable periodically and which can be renewed indefinitely, include Playboy, Playmate, Rabbit Head Design, Sarah Coventry, Critics' Choice Video, Collectors' Choice Music and AdulTVision.

On November 6, 1997, the Board of Directors of the Company (the "Board") approved a change in the Company's fiscal year end from June 30 to December 31, which better aligns the Company's businesses with its customers and partners who also operate and plan on a calendar-year basis. This change resulted in a six-month transition period from July 1, 1997 through December 31, 1997 (the "transition period"). The fiscal year ended December 31, 1998 represents the first full calendar year subsequent to this change.

PUBLISHING GROUP

The Company's Publishing Group operations include the publication of Playboy magazine, other domestic publishing businesses (including newsstand specials, calendars and books) and the licensing of international editions of Playboy magazine.

The revenues and operating income of the Publishing Group were as follows for the periods indicated in the following table (in millions):

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	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97*	Fiscal Year Ended 6/30/97*	Fiscal Year Ended 6/30/96*

REVENUES				
Playboy magazine.....	$ 108.3	$ 50.8	$ 104.9	$ 105.3
Other domestic publishing..	18.7	10.2	20.8	20.3
International publishing...	11.0	5.3	10.0	6.2
Total Revenues.....	$ 138.0	$ 66.3	$ 135.7	$ 131.8
OPERATING INCOME.....	$ 6.3	$ 3.9	$ 8.7	$ 9.0

</TABLE>

* Certain reclassifications have been made to conform to the current presentation.

PLAYBOY MAGAZINE

Founded by Hugh M. Hefner in 1953, Playboy magazine is the best-selling men's monthly magazine in the world. Worldwide monthly circulation, which includes international editions, is approximately 4.5 million copies. Approximately 3.2 million copies of the U.S. edition are sold monthly. International sales of the U.S. edition of Playboy magazine and 17 licensed international editions extend the magazine's reach to approximately 50 countries worldwide. According to Fall 1998 data published by Mediamark Research, Inc. ("MRI"), the U.S. edition of Playboy magazine is read by approximately one in every eight men in the United States aged 18 to 34.

Playboy magazine is a general-interest magazine for men and offers a balanced variety of features. It has gained a loyal customer base and a reputation for excellence by providing quality entertainment and informative articles on current issues and trends. Each issue of Playboy magazine includes an in-depth, candid interview with a well-known, thought-provoking personality. Over the magazine's 45-year history, exclusive interviews have included prominent public figures (e.g., Martin Luther King, Jr., Jimmy Carter, Fidel Castro, Mike Wallace, Rush Limbaugh and James Carville), business leaders (e.g., Bill Gates, David Geffen, Tommy Hilfiger and Ted Turner), entertainers (e.g., Steve Martin, Jerry Seinfeld, David Letterman, Jay Leno, Mel Gibson, Bruce Willis and John Travolta), authors (e.g., Salman Rushdie, Anne Rice, Ray Bradbury, Alex Haley and James Michener) and sports figures (e.g., Michael Jordan, Muhammad Ali and Brett Favre). The magazine also regularly publishes the works of leading journalists, authors and other prominent individuals. For example, Playboy magazine has published fiction by Scott Turow, Jay McInerney, John Updike and Margaret Atwood, articles by Michael Crichton, Bill Maher and William F. Buckley, and book adaptations by Tony Horwitz (Middle East correspondent for The Wall Street Journal) and Pulitzer Prize winning author William Kennedy. It has long been known for its graphic excellence and features and publishes the work of top artists and photographers. Playboy magazine also features lifestyle articles on consumer products, fashion, automobiles and consumer electronics and covers the worlds of sports and entertainment. It is also renowned for its pictorials of beautiful women and frequently features celebrities on its cover and in exclusive pictorials (among them Farrah Fawcett, Pamela Anderson, Elle Macpherson, Jenny McCarthy, Cindy Crawford, Sharon Stone, Madonna and Katarina Witt).

The net circulation revenues of the U.S. edition of Playboy magazine for fiscal year 1998, the transition period and fiscal years 1997 and 1996 were $75.4 million, $37.2 million, $74.8 million and $76.2 million, respectively. Net circulation revenues are gross revenues less provisions for newsstand returns and unpaid subscriptions, and commissions. Circulation revenue comparisons may be materially impacted with respect to any period which includes one or more issues of unusually high public interest.

According to the Audit Bureau of Circulations ("ABC"), an independent audit agency, Playboy magazine's circulation rate base (the total newsstand and subscription circulation guaranteed to advertisers) at December 31, 1998 was larger than each of Newsweek and Cosmopolitan, and also greater than the combined circulation rate bases of Rolling Stone, Esquire and GQ, which have substantial adult male audiences. Playboy magazine's rate base compares to that of other selected publications as noted in the following table:

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Selected U.S. Consumer Publications	Rate Base (1)	Ranking (2)
Reader's Digest.....	15.00	1
TV Guide.....	11.80	2
National Geographic.....	8.50	3
Time.....	4.00	10
People.....	3.25	11
PLAYBOY.....	3.15	12
Sports Illustrated.....	3.15	12

Newsweek	3.10	14
Cosmopolitan	2.30	18
Rolling Stone	1.25	46
Business Week	0.88	85
Esquire	0.65	109
GQ	0.65	109

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(1) Represents rate base at December 31, 1998 (in millions) as reported by ABC.

(2) Based on rate base at December 31, 1998 as reported by ABC.

Effective with the January 1996 issue, the Company reduced the rate base 7% from 3.40 million to 3.15 million in order to enable the Company to manage circulation more profitably, while maintaining the magazine's circulation leadership as the best-selling men's monthly magazine. Management anticipates a further reduction in the rate base to reflect the growing inefficiencies and costs of maintaining a high-quality, large circulation, single title publishing operation in an environment of decreasing results from sweepstakes marketing efforts and consolidation among magazine wholesalers and distributors.

Playboy magazine has historically generated over two-thirds of its revenues from subscription and newsstand circulation, with the remainder primarily from advertising. Subscription copies as a percentage of total copies sold were approximately 80% for fiscal year 1998. The Company believes that managing Playboy's circulation to be primarily subscription driven, like most major magazines, provides a stable and desirable circulation base, which is also attractive to advertisers. According to the MRI data previously mentioned, the median age of male Playboy readers is 32, with a median annual household income of approximately $43,000. The Company also derives meaningful income from the rental of Playboy magazine's subscriber list, which consists of the subscriber's name, address and other information maintained by the Company.

The price of a one-year subscription ranges from $14.98 to $29.88, depending on the source of the subscription and the length of time the subscription has been held. The Company continually tests a variety of subscription pricing strategies. The Company attracts new subscribers to the magazine through its own direct mail advertising campaigns, subscription agent campaigns and the Internet. The Company recognizes revenues from magazine subscriptions over the terms of the subscriptions.

Subscription copies of the magazine are delivered through the U.S. Postal Service as second class mail. The Company attempts to contain these costs through presorting and other methods. The Publishing Group will be adversely impacted by a general postal rate increase of approximately 4% effective January 1999.

Playboy magazine is one of the highest priced magazines in the United States. The basic U.S. newsstand cover price has been $4.95 ($5.95 for holiday issues) since fiscal year 1993. The Company increased the Canadian cover price to C$5.95 (C$6.95 for holiday issues) in fiscal year 1995. There were no newsstand price increases in fiscal year 1998 for copies sold in the United States or Canada, except for the October 1998 issue featuring Cindy Crawford. No newsstand price increases are currently planned for fiscal year 1999.

Distribution of the magazine to newsstands and other retail outlets is accomplished through Warner Publisher Services ("Warner"), a national distributor that maintains a network of approximately 200 wholesale distributors. Copies of the magazine are shipped in bulk to the wholesalers, which are responsible for local retail distribution. The Company receives a substantial cash advance from Warner at the time each issue goes on sale. The Company recognizes revenues from newsstand sales based on estimated copy sales at the time each issue goes on sale, and adjusts for actual sales upon settlement with Warner. These revenue adjustments are not material on an annual basis. Retailers return unsold copies to the wholesalers who count and then shred the returned magazines and report the returns via affidavit. The Company then settles with Warner based on the number of magazines actually sold. The number of issues sold on newsstands varies from month to month, depending in part on the cover, the pictorials and the editorial features.

Playboy magazine targets a wide range of advertisers. Advertising by category, as a percent of total ad pages, was as follows:

<TABLE>
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Advertising Category	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97	Fiscal Year Ended 6/30/97	Fiscal Year Ended 6/30/96
<S>	<C>	<C>	<C>	<C>
Tobacco	25%	23%	21%	24%

Retail/Direct Mail	23	21	23	25
Beer/Wine/Liquor	22	22	24	19
Home Electronics	6	9	4	1
Toiletries/Cosmetics	6	4	7	9
Jewelry/Optical/Photo	5	4	4	3
Drugs/Remedies	4	5	3	3
Entertainment	3	3	3	2
Automotives	2	3	4	8
Apparel/Footwear/Accessories	2	3	4	3
All Other	2	3	3	3
	100%	100%	100%	100%

</TABLE>

The Company continues to focus on securing new advertisers from underdeveloped categories. The Company has been utilizing a national trade campaign, Growing Up, I never thought I'd be in Playboy, which features top executives from top advertisers talking about the power and appeal of the magazine and the Playboy brand. The thrust of the campaign is to reinforce the mainstream, upscale nature of the publication and its readership to the advertising community, specifically targeting the fashion, fragrance and consumer electronics categories. The magazine includes approximately 550-600 advertising pages per year. The Company implemented 7% and 6% cost per thousand ("CPM") increases in advertising rates effective with the January 1999 and 1998 issues, respectively.

The Company publishes the U.S. edition of Playboy magazine in 15 advertising editions: one upper income zip-coded, eight regional, two state and four metro. All contain the same editorial material but provide targeting opportunities for advertisers. The net advertising revenues of the U.S. edition of Playboy magazine for fiscal year 1998, the transition period and fiscal years 1997 and 1996 were $30.8 million, $13.7 million, $28.4 million and $27.4 million, respectively. Net advertising revenues are gross revenues less advertising agency commissions, frequency and cash discounts and rebates. Levels of advertising revenues may be affected by, among other things, general economic activity and governmental regulation of advertising content.

The Playboy Jazz Festival provides advertisers sponsorship and advertising opportunities through the festival at the Hollywood Bowl, the published Jazz Festival program, free community concerts, and a national public radio broadcast. The Company has produced this music event on an annual basis in Los Angeles at the Hollywood Bowl since June 1979.

Playboy magazine and newsstand specials are printed at Quad/Graphics, Inc., located in Wisconsin, which then ships the product to subscribers and Warner. The actual print run varies each month and is determined with input from Warner. Paper is the principal raw material used in the production of Playboy magazine. The Company uses a variety of types of high-quality coated paper that is purchased from a number of suppliers. The market for paper has historically been cyclical, resulting in volatility in paper prices. The Publishing Group expects an approximate 8% decrease in paper prices effective with the May 1999 issue.

Members of the magazine publishing industry, including the Company, receive a significant portion of their advertising revenues from companies selling tobacco products. Significant legislative or regulatory limitations on the ability of those companies to advertise in magazines could materially adversely affect the Company's operating performance. The Company does not believe that it will be impacted by the Food and Drug Administration (the "FDA") regulation announced in August 1996 which prohibits the publication of tobacco advertisements containing drawings, colors or pictures. The regulation does not apply to a magazine which is demonstrated to be an "adult publication," which means a publication (a) whose readers younger than 18 years of age constitute no more than 15% of total readership and (b) is read by fewer than two million persons younger than 18 years of age, in each case, as measured by competent and reliable survey evidence. Based on information available to the Company on its readership, the Company believes that Playboy magazine qualifies as an "adult publication" and that the regulation is not applicable to the magazine. If, however, Playboy magazine were not deemed to be an "adult publication," compliance with the regulation could have a material adverse effect on the Company. On April 25, 1997, the Federal District Court for the Middle District of North Carolina ruled that the FDA has no authority under existing law to restrict the advertising and promotion of tobacco products and ordered the FDA not to implement any of the advertising and promotion restrictions contained in the regulation. The Government appealed this ruling. On August 14, 1998, a three-judge panel of the Fourth Circuit Court of Appeals (the "Fourth Circuit Court") invalidated the FDA's authority to issue regulations restricting tobacco advertising. The Government has appealed this decision to the Fourth Circuit Court.

From time to time, Playboy magazine, and certain of its distribution outlets and advertisers, have been the target of certain groups who seek to limit its availability because of its content. In its 45-year history, the Company has

never sold a product that has been judged to be obscene or illegal in any U.S. jurisdiction.

The National Defense Authorization Act of 1997 was signed into law in September 1996. One section of that legislation that began as the Military Honor and Decency Act (the "Military Act") bans the sale or rental of "sexually explicit material" on property under the jurisdiction of the Department of Defense. A federal district court found the Military Act to be unconstitutional and permanently enjoined its enforcement. The district court's decision also prohibited the Department of Defense from modifying its acquisition and stocking practices as a result of the Military Act. The government appealed the district court's decision, and the decision was stayed during this appeal. On

November 21, 1997, the United States Court of Appeals (the "Court of Appeals") vacated the district court's decision and ordered the district court to hold the Military Act constitutional. The Court of Appeals' decision was stayed pending appeal to the United States Supreme Court (the "Supreme Court"). On June 27, 1998, the Supreme Court, without comment, refused to hear the appeal, and the Court of Appeals' stay was lifted. On September 21, 1998, the Department of Defense issued a directive that the Military Act was not applicable to the Company's publications and that the sale of Playboy magazine, newsstand specials and most of the Company's videos would not be prohibited at commissaries, PX's and ship stores.

Magazine publishing companies face intense competition for both readers and advertising. Magazines primarily aimed at men are Playboy magazine's principal competitors. In addition, other types of media that carry advertising, such as newspapers, radio, television and Internet sites, compete for advertising revenues with Playboy magazine.

OTHER DOMESTIC PUBLISHING

The Publishing Group has also created media extensions, taking advantage of the magazine's reputation for quality and its libraries of art, photography and editorial text. These products include newsstand specials and calendars, which are primarily sold in newsstand outlets and use both original photographs and photographs from the Company's library. The group expects to publish 24 newsstand specials in fiscal year 1999. In fiscal year 1998, the transition period and fiscal years 1997 and 1996, the group published 23, 11, 22 and 21 newsstand specials, respectively. The last increase in the newsstand cover price (to $6.95) for newsstand specials was implemented in fiscal year 1996.

The Publishing Group also generates revenues from related businesses, including books. In conjunction with an unaffiliated third party, the Company released Inside the Playboy Mansion late in fiscal year 1998, featuring a private glimpse, in photographs and text, into the innersanctums of the legendary Playboy Mansions in both Chicago and Los Angeles. In conjunction with this same third party, the Company also published The Playmate Book: Five Decades of Centerfolds in fiscal year 1997, which featured photographs and capsule biographies of 514 Playmates.

INTERNATIONAL PUBLISHING

The Company licenses the right to publish 17 international editions of Playboy magazine in the following countries: Australia, Brazil, Croatia, the Czech Republic, France, Germany, Greece, Italy, Japan, Netherlands, Norway, Poland, Russia, Slovakia, Spain, Sweden and Taiwan. The Company's equity interest in the Polish edition was increased from 45% to a majority interest in March 1996 and its results are consolidated in the Company's financial statements accordingly. Combined average circulation of the international editions is approximately 1.3 million copies monthly.

Local publishing licensees tailor their international editions by mixing the work of their national writers and artists with editorial and pictorial material from the U.S. edition. The Company monitors 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 terms of the license agreements for Playboy magazine's international editions vary, but in general are for terms of three or 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 generally based on both circulation and advertising revenues. In fiscal year 1998, two editions, Brazil and Germany, accounted for approximately 55% of the total licensing revenues from international editions.

OTHER PUBLICATIONS

The Company owned a 20% interest and had an option to acquire the remaining 80% interest in duPont Publishing, Inc. ("duPont") at a price based on fair market value as of December 31, 1999. duPont is the publisher of three duPont Registry magazines: A Buyers Gallery of Fine Automobiles, A Buyers Gallery of Fine Homes and A Buyers Gallery of Fine Boats. On December 31, 1998, the Company

sold back to duPont the shares of duPont's common stock owned by the Company.

ENTERTAINMENT GROUP

The Company's Entertainment Group operations include the production and marketing of programming through domestic Playboy TV, other domestic pay television, international television and worldwide home video businesses as well as the worldwide distribution of programming through AdultVision and the production or co-production and distribution of feature films.

On March 15, 1999, the Company completed its acquisition of Spice Entertainment Companies, Inc. ("Spice"), a leading provider of adult television entertainment. For each share of Spice common stock, stockholders of Spice received $3.60 in cash and 0.1133 shares of the Company's Class B common stock. The total transaction value, including assumption of debt, was approximately $105 million. Spice stockholders also retained ownership of Directrix, Inc., a former subsidiary of Spice that owns Spice's digital operations center, an option to acquire Emerald Media, Inc. and certain rights to Spice's library of adult films.

The revenues and operating income of the Entertainment Group were as follows for the periods indicated in the following table (in millions):

<TABLE>
<CAPTION>

	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97	Fiscal Year Ended 6/30/97	Fiscal Year Ended 6/30/96
<S>	<C>	<C>	<C>	<C>
REVENUES				
Playboy TV				
Cable	$ 21.3	$ 9.6	$ 21.2	$ 21.2
Satellite direct-to-home	33.9	14.0	23.1	16.4
Off-network productions and other	2.0	1.3	3.0	1.7
Total Playboy TV	57.2	24.9	47.3	39.3
Domestic home video	11.1	3.3	8.5	9.4
International TV and home video	14.7	4.7	12.2	11.9
Total Playboy Businesses	83.0	32.9	68.0	60.6
AdultVision	5.8	2.3	4.5	1.9
Movies and other	2.2	2.1	2.2	2.3
Total Revenues	$ 91.0	$ 37.3	$ 74.7	$ 64.8
OPERATING INCOME				
Profit contribution before programming expense	$ 51.3	$ 19.2	$ 39.7	$ 30.5
Programming expense (a)	(25.1)	(11.2)	(21.4)	(21.3)
Total Operating Income	$ 26.2	$ 8.0	$ 18.3	$ 9.2

</TABLE>

(a) Includes amortization expense for all businesses listed above, including AdultVision and movies.

PROGRAMMING

The Entertainment Group develops, produces and distributes programming for domestic Playboy TV, other domestic pay television, domestic home video and international television and home video markets. Its productions have included feature films, magazine-format shows, dramatic series, documentaries, live events, anthologies of sexy short stories and celebrity and Playmate features. The Company's programming is designed to be adapted easily into a number of formats, enabling the Company to spread its relatively fixed programming costs over multiple product lines. It features stylized eroticism in a variety of entertaining formats for men and women, with an emphasis on programming for couples. The programming does not contain depictions of explicit sex or scenes that link sexuality with violence, and is consistent with the level of taste and quality established by Playboy magazine.

The Company's Playboy-branded programming is available in the United States and Canada through the domestic Playboy TV network, and internationally through Playboy TV networks and, on a tier or program-by-program basis, through foreign broadcasters. Domestic Playboy TV is offered on cable and through the satellite direct-to-home ("DTH") market on a pay-per-view and monthly subscription basis. There are currently international Playboy TV networks in the United Kingdom, Japan, Latin America and Iberia, as well as an AdultVision network in Latin America. The Company plans to launch a Playboy TV network in Germany and Scandinavia during fiscal

year 1999. The Company also distributes its programming on videocassettes, laserdiscs and digital video discs ("DVDs"), which are sold through retail outlets, the Company's Internet sites and direct mail, including two of the Company's catalogs.

In December 1998, the Company announced that it had entered into an agreement with an affiliate of the Cisneros Group of Companies ("Cisneros"), one of Latin America's most prominent conglomerates and broadcasters. The agreement is subject to due diligence and definitive agreements being executed. The agreement would create a joint venture that would facilitate a more rapid expansion of Playboy TV and Spice into international markets as well as provide substantial capital inflows to the Company for the international rights to the Company's existing library and brands and for the licensing of new programming. As part of the agreement, the joint venture would obtain the Company's interests in its existing international networks. In addition, the joint venture would have the right to create and distribute a Spanish-language network in the United States.

The Company invests in Playboy-style, original quality programming to support its expanding businesses. The Company invested $24.6 million, $14.4 million, $30.7 million and $25.5 million in entertainment programming in fiscal year 1998, the transition period and fiscal years 1997 and 1996, respectively. These amounts, which include expenditures for Playboy-branded programming, AdulTVision and feature films, resulted in the production of 136, 96, 166 and 120 hours of original programming in fiscal year 1998, the transition period and fiscal years 1997 and 1996, respectively. At December 31, 1998, the Company's library of primarily exclusive, Playboy-branded original programming totaled approximately 1,300 hours. In fiscal year 1999, the Company expects to invest approximately $37.0 million in Company-produced and licensed programming, which would result in the production of approximately 180 hours of original programming. These amounts could vary based on the timing of completion of productions.

The following tables list movies produced or co-produced by the Company and the series still in distribution, and certain information related to each:

MOVIES	NUMBER OF RELEASES
Playboy Films	
Fiscal year 1998	Two
Transition period	Two
Fiscal year 1997	Three
Fiscal year 1996	Four
The Eros Collection	
Fiscal year 1998	Eleven
Transition period	Two
Fiscal year 1997	Seventeen
Fiscal year 1996	Twelve

TITLE OF SERIES	GENRE
Beverly Hills Bordello	Anthology
Red Shoe Diaries	Anthology
Women: Stories of Passion	Anthology
Erotic Fantasies	Anthology
Playboy's Love & Sex Test	Game show
Playboy's Secret Confessions and Fantasies	Hosted series
Eden	Dramatic series
Inside Out	Anthology
Playboy Late Night	Magazine-format

The Company releases feature films in the $1 million to $2 million range under the Playboy Films label. These films are generally completed under co-production and distribution agreements with, among others, the Motion Picture Corporation of America ("MPCA"). These agreements are structured to jointly fund the cost of a production and to share in the revenue streams. The Company is responsible for distributing the film and shares the revenues, less associated costs, with the other party. In fiscal year 1997, the Company signed a co-production agreement with Zalman King Entertainment, Inc. ("Zalman King"). The agreement provided for the Company and Zalman King to co-produce feature films, three of which have been produced and released to date. In fiscal year 1998, the Company also released a film that it produced exclusively. In addition to MPCA and Zalman King, the Company has deals with two smaller production companies, Royal Oaks Entertainment, Inc. and MRG Entertainment, Inc. ("MRG"). All of the Playboy Films have also aired or will air on domestic Playboy TV.

The Company created and markets The Eros Collection, a line of small-budget, non-Playboy-branded movies. These movies are released worldwide through television and home video. In fiscal year 1997, seven of the films under the

Eros label were co-produced.

The Company and Orion Home Video ("Orion") signed an agreement in fiscal year 1996 to release a total of 18 Playboy Films and 24 Eros Collection films in the domestic home video market. In July 1997, Orion was purchased by a division of MGM/UA Home Entertainment ("MGM"). During the transition period, the Company reached a cash settlement with MGM, relieving MGM of contract obligations regarding distribution of the last nine Playboy Films in the original agreement. The Company is currently in the process of selecting a new domestic distributor for Playboy Films. In fiscal year 1998, the Company began distributing films under the Eros label domestically through Universal Music & Video Distribution, Inc. ("Uni"), its regular distributor of domestic home video product.

The Company's series air on domestic and international Playboy TV networks and are marketed to distributors internationally. Additionally, some episodes have been released as Playboy Home Video titles and/or have been licensed to other networks. In fiscal year 1996, the Company began production of Women: Stories of Passion ("Women"), a series of 30-minute erotic anthologies written, produced and directed by women. The Company has licensed 39 episodes of the Women series to Showtime Networks Inc. ("Showtime"). Broadcast initially by Showtime, the series is then distributed worldwide by the Company.

As part of the co-production agreement with Zalman King discussed above, the Company and Zalman King have also co-produced 18 new episodes of the popular cable television series Red Shoe Diaries, all of which have been completed and released. The production of these episodes was co-financed by the Company and Showtime. The agreement grants the Company international distribution rights to the new episodes of Red Shoe Diaries, plus 48 episodes previously aired on Showtime. During fiscal year 1998, the Company continued to distribute the Women and Red Shoe Diaries series, although no further episodes have been produced. The Company also has an agreement with MRG related to Beverly Hills Bordello, a new series of 30-minute erotic anthologies. The series consists of 27 episodes, of which the Company has only international distribution rights for the first 13 episodes. The last 14 episodes were licensed by the Company to Showtime in fiscal year 1998, are being distributed in the international TV market and will air on domestic Playboy TV.

Seeking to leverage the Company's production experience, the Company created Alta Loma Entertainment, Inc. in fiscal year 1998 to produce non-Playboy-branded programming for broadcast by other networks. The first series is currently in production and 13 episodes have been sold to HBO, with an option for additional episodes.

PLAYBOY TV

When the Company introduced its domestic pay cable network, Playboy TV, in 1982, it was available only through monthly subscriptions. In December 1989, the Company began to focus on the then-emerging pay-per-view market by promoting the pay-per-view option in addition to the monthly subscription option. Pay-per-view television enables a subscriber with an addressable set-top decoder or satellite receiver to purchase a block of programming, an individual movie or an event for a set fee. Pay-per-view also permits customers to purchase only as much of the Company's programming as they wish and only when they desire to watch the programming. Pay-per-view also permits customers to control the viewing of the programming within their households. In addition, the relatively low price of an evening of pay-per-view programming competes well with many other forms of

entertainment. Pay-per-view programming can be delivered through any number of delivery methods, including: (a) cable television; (b) DTH to households with large satellite dishes receiving a C-band low power analog or digital signal or with small dishes receiving a Ku-band medium or high power digital signal (such as those currently offered by DirecTV, PrimeStar and EchoStar); (c) wireless cable systems; and (d) new technologies such as cable modem and the Internet. In recent years, Playboy TV has added a significant number of viewers through the DTH market, which is the fastest-growing segment of the pay television business.

Cable

The Company expanded Playboy TV from a 10-hour per night schedule to 24-hour availability in May 1994. This change enabled the Company to increase revenues through maximum utilization of its transponder on Hughes Communications' Galaxy V satellite by offering more buying opportunities to the consumer. At December 31, 1998, Playboy TV was available to approximately 11.7 million cable addressable households, a 1% increase compared to December 31, 1997.

The following table illustrates certain information regarding cable households in general, and Playboy TV (in thousands):

<TABLE>
<CAPTION>

	Total Cable	Total Cable Addressable	Total Playboy TV Cable Addressable

	Households (a)	Households (a) (b)	Households (c)
<S>	<C>	<C>	<C>
June 30, 1996	62,850	26,400	11,300
June 30, 1997	64,000	29,350	11,200
December 31, 1997	64,500	30,700	11,600
December 31, 1998	65,900	33,200	11,700
Compound Annual Growth Rate (June 30, 1996 - December 31, 1998)	1.9%	9.6%	1.4%

</TABLE>

_____

(a) Source: Information reported by Paul Kagan Associates, Inc. ("Kagan") for December 31 of each respective year. June 30 numbers were estimated by the Company based on the December 31 information. Kagan projects approximately 1% and 6% average annual increases in total cable households and total cable addressable households, respectively, through calendar year 2001.

(b) Represents the approximate number of cable addressable households to which pay-per-view was available as of the end of the period.

(c) Represents the approximate number of cable addressable households to which Playboy TV was available as of the end of the period.

Most cable service in the United States is distributed through large multiple system operators ("MSOs"). At December 31, 1998, the Company had arrangements with 19 of the nation's 20 largest MSOs. These 19 MSOs, through affiliated cable systems ("Cable Affiliates"), controlled access to approximately 55.9 million, or 85%, of the 65.9 million total cable households. Once arrangements are made with an MSO, the Company is able to negotiate channel space for Playboy TV with the Cable Affiliates controlled by that MSO, and acceptance by Cable Affiliates provides the basis for expanding the Company's access to individual cable households. Four of these 19 MSOs served approximately 9.6 million, or 82%, of the approximately 11.7 million cable addressable households to which Playboy TV was available at December 31, 1998. Consistent with industry practice, the Company's agreements with Cable Affiliates are generally cancelable upon 60 or 90 days' notice by either party.

The performance of Playboy TV in individual cable systems varies based principally on the pay-per-view ordering technology and the quantity and quality of marketing done by the Cable Affiliates. Individual Cable Affiliates determine the retail price of the pay-per-view service and prices average approximately $5.70 for a block of Playboy TV programming. Individual Cable Affiliates also determine the retail price of the monthly subscription service, where prices average approximately $9.35, largely dependent on the number of premium services to which a household subscribes.

In February 1996, the Company filed suit challenging Section 505 of the Telecommunications Act of 1996 (the "Telecommunications Act"), which, among other things, regulates the cable transmission of adult

programming, such as the Company's domestic pay television programs. Enforcement of Section 505 of the Telecommunications Act ("Section 505") commenced May 18, 1997. The Company's full case on the merits was heard by the United States District Court in Wilmington, Delaware (the "Delaware District Court") in March 1998. In December 1998, the Delaware District Court unanimously declared Section 505 unconstitutional. Even though the defendants have appealed this judgment, the ruling gives cable systems the right to resume 24-hour broadcast of adult services so long as cable systems comply with, and consumers are made aware of, the "blocking on request" requirement of Section 504 of the Telecommunications Act ("Section 504"). Management believes that the effect of Section 505 on the Company's financial performance may continue until the case is finally decided. See Part I. Item 3. "Legal Proceedings."

Additionally, management believes that the growth in cable access for the Company's domestic pay television businesses has slowed in recent years due to the effects of cable reregulation by the Federal Communications Commission ("FCC"), including the "going-forward rules" which provide cable operators with incentives to add basic services. As cable operators have utilized available channel space to comply with "must-carry" provisions, mandated retransmission consent agreements and "leased access" provisions, competition for channel space has increased. Further, the delay of new technology, primarily digital set-top converters which would dramatically increase channel capacity, has contributed to the slowdown. The major reason for this delay has been the unexpected engineering problems and expenses associated with developing an affordable digital set-top converter. Management believes that growth will continue to be slow in the next two to three years as the cable television industry responds to the FCC's rules and subsequent modifications, and develops new technology. Cable operators have begun to introduce digital technology in order to upgrade their cable systems and to counteract competition from DTH operators. Digital cable

television has several advantages over analog cable television, including more channels, better audio and video quality and advanced set-top boxes that are addressable, provide a secure fully scrambled signal and have integrated program guides and advanced ordering technology. As digital technology, which is unaffected by the relevant sections of the Telecommunications Act, becomes more available, however, the Company believes that ultimately its pay television networks will be available to the majority of cable households on a 24-hour basis.

Additionally, from time to time, certain groups have sought to exclude the Company's programming from local pay television distribution because of the adult-oriented content of the programming. Management does not believe that any such attempts will materially affect the Company's access to cable systems, but the nature and impact of any such limitations in the future cannot be determined.

Growth in the pay-per-view market is expected to result in part from cable systems upgrades, utilizing fiber-optic, compression technologies or other bandwidth expansion methods that provide cable operators additional channel capacity. When implemented, compression technology, where employed, will dramatically increase channel capacity. Industry analysts expect a large percentage of this additional channel capacity to be dedicated to pay-per-view programming. The timing and extent of these developments and their impact on the Company cannot yet be determined.

Playboy TV's cable programming is delivered primarily through a communications satellite transponder. The Company's current transponder lease, effective January 1, 1993, contains protections typical in the industry against transponder failure, including access to spare transponders. Access to the transponder may be denied if: (a) the Company or the satellite owner is indicted or otherwise charged as a defendant in a criminal proceeding; (b) the FCC issues an order initiating a proceeding to revoke the satellite owner's authorization to operate the satellite; (c) the satellite owner is ordered by a court or governmental authority to deny the Company access to the transponder; or (d) it becomes illegal to operate, transmit, distribute or sell the Company's television services in the United States. The Company has the right, however, to challenge any such denial and believes that the transponder will continue to be available to it through the end of the expected life of the satellite (currently estimated to be 2004). The Company's current lease term expires October 30, 2001 and can be renewed for an additional three years. Material limitations on the Company's access to cable systems or satellite transponder capacity could materially adversely affect the Company's operating performance. There have been no instances in which the Company has been denied access to the transponder it leases.

Competition among providers of cable services for channel space and viewer spending is intense. The Company competes in this segment of its business primarily on the basis of its brand name and its original unique quality programming. Playboy TV's competition varies in the type and quality of programming offered and includes adult movie services that offer primarily third party programming. As the Company's agreements with cable operators have come up for renewal or renegotiation, the Company has experienced significant competition from these competitors with respect to the revenue split between the cable operator and the Company. The Company

believes that a majority of its current fee arrangements with its Cable Affiliates with respect to Playboy TV are generally more favorable to the Company as a service provider than fee arrangements offered by its adult movie service competitors, and less favorable to the Company as a service provider than fee arrangements offered by general interest movie service competitors, like HBO. While there can be no assurance that the Company will be able to maintain its current fee structures in the face of price competition, the Company believes that strong Playboy brand recognition, the quality of its programming and its resulting ability to appeal more effectively to a broader range of adult audiences are critical factors which will continue to differentiate Playboy TV from its competitors. In fiscal year 1996, in part as a response to such price competition, the Company launched a flanker network, AdulTVision, to provide a lower-cost product that, in combination with Playboy TV, can result in a more attractive overall fee arrangement for cable operators. With the acquisition of Spice (the "Spice Acquisition"), the Company expects that the overall package available to cable operators will improve, thereby strengthening the Company's performance in the cable industry.

DTH

In addition to cable, the Company provides Playboy TV via encrypted signal, on both a pay-per-view and monthly subscription basis, to home satellite dish viewers. The DTH market, which is not impacted by Section 505, is the fastest-growing segment of Playboy TV, with DTH revenues exceeding cable revenues beginning in fiscal year 1997. Playboy TV was available on a pay-per-view and/or monthly subscription basis to the following number of DTH households (in thousands):

<TABLE>
<CAPTION>

	Dec. 31, 1998	Dec. 31, 1997	June 30, 1997	June 30, 1996
<S>	<C>	<C>	<C>	<C>
DTH Households	9,800	6,800	6,300	4,900

</TABLE>

Playboy TV was one of the first networks to be launched on DirecTV, the first commercial digital broadcast satellite ("DBS") service. This service provides exceptional improvements in program delivery and consumer interface to households equipped with digital satellite system receiving units, consisting of an 18-inch satellite antenna, a digital receiver box and a remote control. Playboy TV was added to a second DBS service, PrimeStar, and is available on both DirecTV and PrimeStar 24 hours a day on a pay-per-view as well as a subscription basis. Playboy TV is now also available on EchoStar in the United States, and on ExpressVu and Star Choice in Canada, making it the only adult service to be available on all five DBS services in the United States and Canada. The significant growth in the DBS market has provided the Company with an expanded customer base via a digital transmission which has historically produced higher buy rates than analog cable markets.

DOMESTIC HOME VIDEO

The Company also distributes its original programming domestically via videocassettes, laserdiscs and DVDs that are sold in video and music stores and other retail outlets, the Company's Internet sites and through direct mail, including two of the Company's catalogs. Playboy Home Video is one of the largest-selling brands of non-theatrically released, special-interest videos in the United States. Playboy Home Video was named one of Billboard magazine's "Top Video Sales Labels" for calendar years 1998, 1997, 1996 and 1995. The format of Playboy Home Video is consistent with the style, quality and focus of Playboy magazine. The Company also releases home video titles under the Eros Collection label.

The Company plans to release 15 Playboy Home Video titles in fiscal year 1999. In fiscal year 1998, the Company released 16 new Playboy Home Video titles, 14 of which had entered the top 15 on Billboard magazine's weekly Top Video Sales Chart (the "Sales Chart") by the end of fiscal year 1998. During the transition period, the Company released eight new Playboy Home Video titles, all of which entered the top 20 on the Sales Chart during the transition period. Farrah Fawcett: All of Me was released in August 1997 and became the third Playboy title to reach the number one position on the Sales Chart where it remained for two weeks. The Company released 14 new Playboy Home Video titles in fiscal year 1997, all of which entered the top 20 on the Sales Chart during the fiscal year, with 11 of the 14 also reaching the top 10. In fiscal year 1996, the Company released 14 new Playboy Home Video titles, including The Best of Anna Nicole Smith which reached the number two spot on the Sales Chart. Eight of the 14 new titles entered the top five on the Sales Chart in fiscal year 1996. The Best of Jenny McCarthy was released in June 1996

and became the second Playboy title to reach the number one spot on the Sales Chart, a position it held for five weeks in the summer of 1996. Due to its outstanding performance throughout the year, this title held the number four position in Billboard magazine's 1996 Year in Video Chart.

In addition to retail sales, the Company also sells its videos through direct-marketing channels, including Playboy magazine, the Playboy catalog, the Critics' Choice Video catalog and the Company's Internet sites. The Company has also entered into various direct-marketing alliances for the sales of its continuity series, which entails selling a series of videos through direct mail efforts. Each month the customer receives a new video of a Playmate. In fiscal year 1997, the Company introduced a second continuity series featuring new products with Sony Music Direct. Through the Sony agreement, monthly centerfold videos are sold to existing and new customers. As of June 1997, Sony Music Direct also took over from Time Life Inc. the marketing and distribution of the first continuity series representing the core retail product line to new direct response customers.

The Company's Playboy Home Video products are distributed in the United States and Canada by Uni. With respect to new release titles, the Company is responsible for manufacturing the video product and for certain marketing and sales functions. The Company's home video titles are generally released once a month. Wholesalers and retailers order units of a title through Uni's sales force for sell through to the customer. Uni ships the orders, warehouses the inventory, invoices the wholesalers and retailers and collects monies due. Uni receives a distribution fee on sales of these new releases and remits a net amount to the Company. The Company and Uni have a different distribution agreement, which was extended in fiscal year 1998, related to backlist titles

(titles in release for longer than a year) that shifts manufacturing and marketing responsibilities to Uni. The Company receives annual guarantees for the backlist titles, and monies earned on these titles are offset against the guarantee.

The Company also distributes its video programming via laserdiscs and, beginning in fiscal year 1997, the new DVD format, through agreements with Image Entertainment, Inc.

INTERNATIONAL TV AND HOME VIDEO

Internationally, Playboy-branded programming is available in approximately 150 countries and territories, either on a tier or program-by-program basis or, in the United Kingdom, Japan, Iberia and approximately 45 Latin America countries and territories, through a local Playboy TV network in which the Company owns an equity interest and from which it receives fees for programming and the use of the Playboy brand name.

The Company markets its programming to foreign broadcasters and pay television services. As appropriate, the licensees typically customize, dub or subtitle the programming to meet the needs of individual markets. In countries that can support a Playboy programming tier, the Company has expanded its relationships with foreign broadcasters by entering into exclusive multi-year, multi-product output agreements with international pay television distributors. These agreements enable the Company to have an ongoing branded presence in international markets and generate higher and more consistent revenues than selling programs on a show-by-show basis.

In December 1998, the Company announced that it had entered into an agreement with an affiliate of Cisneros. The agreement is subject to due diligence and definitive agreements being executed. The agreement would create a joint venture that would facilitate a more rapid expansion of Playboy TV and Spice into international markets. As part of the agreement, the joint venture would obtain the Company's interests in its existing international networks. See "ENTERTAINMENT GROUP - Programming."

In March 1997, the Company announced that it would launch a Playboy TV network in South Korea through a partnership with Daewoo Corporation. The launch has been delayed, however, due to the poor economic conditions in that country.

A Playboy TV network and an international AdulTVision network were launched in Latin America in the fall of 1996. The venture is with an affiliate of Cisneros. The Company holds a 19% interest in the venture, with an option to acquire up to 49.9% of all equity interests. The Company also receives licensing fees for its programming and royalty payments for use of its brand name. The two Latin American networks are available on cable as well as Galaxy Latin America, a DTH service majority-owned by Hughes Electronics, which owns DirecTV in the United States. The

Company's partnership with Cisneros has been expanded to encompass a Playboy TV network in Iberia, which launched in fiscal year 1998, with plans for a Playboy TV network in Germany and Scandinavia to launch in fiscal year 1999.

Another international Playboy TV network, in which the Company owns less than a 20% interest, was launched in Japan during fiscal year 1996 in partnership with Tohokushinsha Film Corp. Under the terms of a long-term program supply agreement, the Company will provide 700 hours of programming over the first five years of the venture and receives a royalty for use of its brand name. During fiscal year 1997, the venture was granted a license to distribute to the DTH market in Japan.

The Company launched an international Playboy TV network in the United Kingdom in fiscal year 1995 in a joint-venture agreement with Flextech plc and British Sky Broadcasting Ltd. ("BSKyB"). The Company owns 19% of the network, with an option to acquire an additional 10% equity interest, and receives license fees for programming and the use of the Playboy brand name. In December 1998, the Company announced that Home Video Channel Ltd. ("HVC"), a wholly-owned subsidiary of Spice, is acquiring the other 81% interest in the network in the United Kingdom currently held by Flextech and BSKyB. This transaction is expected to close in fiscal year 1999. The venture plans to offer Playboy TV and an adult movie service in fiscal year 1999. The economies of scale that the Spice Acquisition offers, combined with the ability to market attractive options to consumers, should improve the Company's growth and profitability potential in the United Kingdom.

As the Company's international networks grow, the ventures intend to produce programming specifically targeted to the local markets in order to maximize the appeal of Playboy TV among the Company's new customers. For example, the U.S. popularity of Night Calls, the Company's live call-in talk show, prompted the creation of Night Calls U.K. in fiscal year 1997.

The Company also distributes, through separate distribution agreements, its

U.S. home video products to approximately 60 countries and territories in North and South America, Europe, Australia, Asia and Africa. These products are based on the videos produced for the U.S. market, with dubbing or subtitling into the local language where necessary.

ADULTVISION

In July 1995, the Company launched a second pay television network, AdultVision, as a flanker network to Playboy TV. AdultVision is principally offered on a pay-per-view basis and is sold primarily in combination with Playboy TV through cable operators and to the DTH market. At December 31, 1998, the network was available domestically to approximately 9.8 million cable addressable and DTH households, a 66% increase from December 31, 1997. As previously discussed, the Company launched the network internationally in Latin America in the fall of 1996. AdultVision will be merged with the Spice network subsequent to the Spice Acquisition.

AdultVision's programming is available domestically through a full-service distribution agreement with a third-party provider. Under the terms of this agreement, uplink, encoding, access to a transponder and other services are provided.

PRODUCT MARKETING GROUP

The Product Marketing Group licenses the Playboy name, Rabbit Head Design and other trademarks and artwork owned by the Company for the worldwide manufacture, sale and distribution of a variety of consumer products.

The revenues and operating income of the Product Marketing Group were as follows for the periods indicated in the following table (in millions):

<TABLE>
<CAPTION>

	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97	Fiscal Year Ended 6/30/97	Fiscal Year Ended 6/30/96
<S>	<C>	<C>	<C>	<C>
REVENUES.....	$ 7.1	$ 4.2	$ 8.0	$ 7.1
OPERATING INCOME..	$ 0.4	$ 1.6	$ 3.5	$ 3.7

</TABLE>

The Product Marketing Group works with licensees to develop, market and distribute high-quality, branded merchandise. The Company's licensed product lines include men's and women's clothing, accessories, watches, jewelry, fragrances, small leather goods, stationery, eyewear and home fashions. The Company plans to launch several new products in fiscal year 1999, including new apparel lines, Zippo lighters featuring the Playboy brand name and Rabbit Head Design and Special Editions, Ltd. ("SEL") prints, Franklin Mint pocket knives featuring archival magazine covers and a 45th Anniversary Playboy Club Bunny collectible figurine. Products are marketed globally, primarily through retail outlets, including department and specialty stores. One of the Company's apparel licensees operates over 450 Playboy stores and boutiques within department stores in China.

Playboy by Don Diego, the Company's first cigar line, is manufactured by Consolidated Cigar Corporation and was launched in fiscal year 1997. It has developed a loyal following as a premium cigar among smokers. The Company launched a second Playboy cigar line, the limited-edition LeRoy Neiman Selection, in fiscal year 1997. Neiman, whose artwork has been featured in Playboy magazine for more than 40 years, created an original work of art for the cigar box and his image appears on the cigar band. Continuing its alliance with Consolidated Cigar Corporation, a new product of tubed individual cigars was launched in fiscal year 1998. These cigars are distributed through wine and spirit channels to nightclubs, cocktail lounges, country clubs and restaurants, for on-site sale. On-site sales of individual cigars are viewed as a new growth area for the cigar industry.

The Company maintains control of the design and quality specifications of its licensed products to ensure that products are consistent with the quality of the Playboy image. To project a consistent image for Playboy-branded products throughout the world, a global advertising campaign and brand strategy was created to integrate all of the marketing efforts of the product licensees and to control the brand more effectively. The Company continues to make investments in brand marketing and product design to further promote a cohesive brand image.

In order to capitalize on its international name recognition, the Company continues to increase its international product marketing activities, targeting growth for its licensing business in South America and Europe as well as

supporting and expanding its significant presence throughout Asia. The Company plans to promote business in particular countries by capitalizing on the presence of other Playboy products, such as international editions of Playboy magazine and Playboy TV networks.

SEL primarily licenses art-related products based on the Company's extensive collection of artwork, many of which were commissioned as illustrations for Playboy magazine and for use in the Company's other businesses. These include posters, limited-edition prints, art watches, art ties and collectibles. Prominent artists represented have included Salvador Dali, Keith Haring, LeRoy Neiman, Patrick Nagel, Alberto Vargas, Ed Paschke, Andy Warhol, Bas Van Reek, Karl Wirsum and Roger Brown.

Additionally, the Company owns all of the trademarks and service marks of Sarah Coventry, Inc., which it licenses primarily domestically through such mass market distribution leaders as AAI.Fostergrant and M.Z. Berger & Company, Inc. Costume jewelry and watches are the principal product lines distributed by Sarah Coventry licensees.

In general, royalties are based on a fixed or variable percentage of the licensee's total net sales, in many cases against a guaranteed minimum. During fiscal year 1998, approximately 65% of the royalties earned from licensing the Company's trademarks were derived from licensees in Asia, 25% from the United States and 10% from Europe.

In order to protect the success and potential future growth of the Company's product marketing and other businesses, the Company actively defends its trademarks throughout the world and monitors the marketplace for counterfeit products. Consequently, it initiates legal proceedings from time to time to prevent unauthorized use of the trademarks. The Company uses a hologram on Playboy packaging as a mark of authenticity. While the trademarks differentiate the Company's products, the marketing of apparel, jewelry and cigars is an intensely competitive business that is extremely sensitive to economic conditions, shifts in consumer buying habits or fashion trends, as well as changes in the retail sales environment.

CATALOG GROUP

The Company's Catalog Group operations include the direct marketing of products through the Critics' Choice Video catalog, including The Big Book of Movies (the "Big Book"); the Collectors' Choice Music catalog; the Playboy catalog; and the Spice catalog.

The revenues and operating income of the Catalog Group were as follows for the periods indicated in the following table (in millions):

<TABLE>
<CAPTION>

	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97*	Fiscal Year Ended 6/30/97*	Fiscal Year Ended 6/30/96*
<S>	<C>	<C>	<C>	<C>
REVENUES.....	$ 74.4	$ 39.4	$ 75.4	$ 71.6
OPERATING INCOME..	$ 4.1	$ 1.9	$ 4.6	$ 5.2

</TABLE>

* Certain reclassifications have been made to conform to the current presentation.

The Critics' Choice Video catalog, one of the largest-circulation catalogs of classic, popular and hard-to-find movies, is published quarterly and features approximately 2,000 of the 22,000 in-stock movies from all of the major film studios. The catalog has expanded through alternative distribution methods such as package inserts, solo mailings and ads in specialty publications. In October 1997, Critics' Choice Video launched the first Big Book, a 324-page, perfect-bound oversize catalog featuring 10,000 videos, of which over 2,000 were offered at a 25% discount. Sales from this catalog exceeded expectations, which resulted in a second printing in early fiscal year 1998. In October 1998, the second Big Book, containing 372 pages, was released and is performing strongly. Planning is in progress for the Big Book for the year 2000, which will contain over 400 pages and has a projected circulation of one million. This edition is scheduled for release in September 1999.

The Collectors' Choice Music catalog currently contains more than 2,000 titles from a selection of over 8,000 titles available in stock. It carries titles from all music genres on CDs and cassettes and is a leading music catalog of imports and hard-to-find reissues. The Collectors' Choice Music catalog is published three times annually. In order to maximize profitability and better

serve its customers, the Company plans to continue to lower circulation of the catalog for fiscal year 1999 due to a reduction in prospecting, while increasing the size of the catalog from 100 pages to 124 pages.

The Company continues to release exclusive titles produced under the Critics' Choice Video and Collectors' Choice Music labels. As a result, in fiscal year 1998, approximately 20 and 55 new exclusive titles were released through the Critics' Choice Video and Collectors' Choice Music catalogs, respectively. Both catalogs plan to continue to expand their exclusive offerings in fiscal year 1999.

Playboy catalog products include Playboy-branded fashions, cigars and gifts, Playboy Home Video titles, Playboy collectibles, such as calendars, back issues of Playboy magazine and newsstand specials, and CD-ROM products. The Playboy catalog is published three times annually. Beginning in fiscal year 1999, the Playboy catalog will focus on offering more Playboy-branded and licensed product offerings that appeal to 18-34 year old customers. The catalog, with a new contemporary look, will be designed to showcase new upscale lines.

In July 1998, the Company tested the Spice catalog under license from Spice. Due to the success of the test, the catalog will be published three times annually, and currently features 88 pages. The Spice catalog offers over 1,700

videos in the late night category, sexy lingerie and sensuous life products. The late night video category includes videos of a sexual nature that appeal to adults 18 and over. The first mailing was approximately one million, with resulting sales meeting expectations. Significant financial and circulation growth of the Spice catalog is planned for fiscal year 1999.

Paper is the principal raw material used in publishing the Company's catalogs. The market for paper has historically been cyclical, resulting in volatility in paper prices. The Catalog Group will be adversely impacted by a postal rate increase of approximately 7% effective January 1999. In response to changes in paper and postage prices, the Company continues to evaluate different grades of paper and review circulation plans to operate the business most cost-effectively.

In the summer of 1997, the catalog operations moved to a larger facility to meet additional space requirements. This constituted the group's second expansion in five years. The leased facility features an automated inventory management system and houses the group's merchandising, marketing, circulation, customer service and order fulfillment divisions. The Company is initially occupying 106,000 square feet of space and has an option to lease an additional 23,000 square feet commencing in December 2002. In fiscal year 1999, the Company expects to provide order fulfillment services for others, in order to utilize excess capacity.

The catalog business is subject to competition from other catalogs and distributors and retail outlets selling similar merchandise, including Internet sites. In order to stem the natural decline in the print catalog business, the Company is focusing on expanding its e-commerce offerings in concert with Playboy Online. In fiscal year 1997, the Company purchased, from the trustee in bankruptcy, selected assets of the Time Warner Viewer's Edge videocassette catalog.

CASINO GAMING GROUP

The Company decided to reenter the casino gaming business to further leverage its brand image. The Company will obtain licensing fees, brand royalties and/or management fees for operating the gaming establishments, and will consider making minority investments.

The Company will receive annual licensing payments from The Playboy Casino at Hotel des Roses (the "Rhodes Casino") on the Greek island of Rhodes, which is scheduled to open in fiscal year 1999. The Company is exploring opportunities to develop additional venues in a range of locations with a strategy to form joint ventures with strong partners. Operating losses of $1.1 million and $0.6 million were reported for fiscal year 1998 and the transition period, respectively.

PLAYBOY ONLINE GROUP

Beginning with the quarter ended March 31, 1998, Playboy Online results, which were previously reported in the Publishing and Catalog Groups, are reported as a separate operating group. The group's results include advertising revenues from Playboy.com, the Company's free site on the Internet; subscription revenues to Playboy Cyber Club, the Company's pay site on the Internet; and e-commerce revenues, currently from online versions of the Critics' Choice Video, Collectors' Choice Music and Playboy catalogs.

The revenues and operating income (loss) of the Playboy Online Group were as follows for the periods indicated in the following table (in millions):

<TABLE>
<CAPTION>

	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97	Fiscal Year Ended 6/30/97	Fiscal Year Ended 6/30/96
<S>	<C>	<C>	<C>	<C>
REVENUES.....	$ 7.1	$ 2.3	$ 2.8	$ 1.2
OPERATING INCOME (LOSS)..	$ (6.5)	$ (0.9)	$ (0.1)	$ 0.2

</TABLE>

The Company was one of the first national magazines to launch a free site on the Internet in fiscal year 1995 at www.playboy.com. Playboy.com is one of the Internet's most visited destination sites, averaging over 1.8 million daily page impressions and over 57 million monthly page impressions served during December 1998, according to audited information from Audit Bureau of Verification Services, Inc. A "page impression" is recorded each time an Internet page is seen by a user, regardless of the number of files contained on the page. According to estimated information from Media Metrix, approximately 1.2 million unique visitors accessed Playboy.com in December 1998. "Unique visitors" represent the estimated number of different individuals within a designated demographic that access a site among the total number of projected individuals using the Internet during the month.

Taking full advantage of the technological capabilities of the medium, Playboy.com features over 3,000 pages containing popular editorial features from Playboy magazine, such as excerpts of Playboy Interviews, articles and Playboy Advisor columns, and select photos from Playmate pictorials. One of Playboy.com's many new content areas is Pop, which covers arts and entertainment, books, movies and music. Along with standing features and dispatches from correspondents, e-commerce opportunities are woven throughout Pop and the other content areas. Two of the most popular real-time events offered in fiscal year 1998 were online chats with supermodel Cindy Crawford and Olympic gold medal figure skater Katarina Witt, which coincided with the women's cover pictorials in Playboy magazine. The site, which also offers a Spanish translation, promotes Playboy TV's monthly programming schedule and sells Playboy magazine subscriptions. The Company plans to continue to increase the original content on Playboy.com, including through alliances.

The Company began generating revenues from the sale of advertising on Playboy.com in fiscal year 1996. Playboy.com's advertising base is distinct from that of Playboy magazine, as it is anchored by Internet-related advertisers from the technology, telecommunications and entertainment industries. The Company plans to more aggressively cross-promote the magazine and Playboy.com and package advertising opportunities on both. The Company continues to add new advertisers to the site. Advertising on Playboy.com is priced on a CPM basis determined by page impressions and is primarily sold by the Company. In fiscal year 1998, advertising revenues increased over 20% compared to the twelve months ended December 31, 1997. The Company expects to see continued growth in advertising revenues in fiscal year 1999.

The group has a significant e-commerce business from online versions of the Playboy, Critics' Choice Video and Collectors' Choice Music catalogs. In April 1996, an online version of the Playboy catalog, called the Playboy Store, was launched and can be accessed at www.playboystore.com. The Playboy Store offers the same products as the print version of the Playboy catalog, but features a wider selection of items. The Playboy Store was redesigned in fiscal year 1998 to make it more visually appealing and to provide the customer with easier access to different departments within the store, which features almost 1,000 items. Fiscal year 1999 plans include adding "Express Click" ordering, which will allow the customer to place an order with just one click, and significantly expanding the branded product offering from the Company's licensees.

Based on the performance of the Playboy Store and consumer interest in purchasing music and videos online, CCMusic, an online version of the Collectors' Choice Music catalog, was launched in the summer of 1997 at www.ccmusic.com. CCMusic offers titles in every musical genre, including exclusive releases and titles not found on any other Internet site. Encouraged by its success in fiscal year 1998, the Company invested in a database late in fiscal year 1998 that added over 200,000 selections to the CCMusic site, bringing the total to approximately 250,000. The site also underwent a complete redesign late in fiscal year 1998, adding new features on the home page such as highlighted new releases, imports, exclusives and artists.

CCVideo, an online version of the Critics' Choice Video catalog, was launched in the fall of 1997 at www.ccvideo.com. CCVideo offers a database of over 50,000 videos, with over 22,000 in stock for immediate shipment, including many not easily found in local retail outlets or other Internet sites. Improvements to the site for fiscal year 1999 include adding new content from publisher Video Hound, implementing "Express Click" ordering capability and other customer

service upgrades as well as installing customer profiling and preference software. CCVideo also operates the Sundance Channel Filmstore at www.sundancefilmstore.com in partnership with New Video and the Sundance Channel, which offers an array of independent films screened annually at the Sundance Film Festival.

An online version of the Spice catalog is scheduled to launch in fiscal year 1999 and will feature over 2,000 late night video products, lingerie and sensuous life products.

The Company has commission or bounty arrangements with third parties, including Amazon.com, K-Tel International, Inc. and Mindspring Enterprises, Inc. The Company is considering additional marketing alliances with other sites in order to increase its e-commerce revenues.

The Company launched a pay site on the Internet in July 1997 at www.cyber.playboy.com. with content that is distinct from, and significantly greater in scope than, that found on Playboy.com. Playboy Cyber Club, which is currently offered on a subscription basis for $60 per year, had over 28,000 subscribers as of December 31, 1998, an over 30% increase compared to December 31, 1997. Designed as an online Playboy fan club, Playboy Cyber Club allows members to peruse approximately 43,000 pages on the site. Major attractions include individual home pages for every Playboy Playmate; every Playboy Interview published in the magazine; Playboy Advisor columns; video clips of Playboy home videos and Playboy TV shows; the Playboy photo library, which includes never-before-published images from Playboy magazine's nine-million-image photo library; and the Playboy Sports Page, which includes real-time sports scores and sports-related features. Playboy Cyber Club also features eight chat rooms. In fiscal year 1998, Playboy Cyber Club held its second annual live webcast of the New Year's Eve bash at the Playboy Mansion, allowing members to attend an event inside the Playboy Mansion via their computer.

The free and pay sites combined will offer the Company multiple sources of revenue, including advertising, e-commerce and subscription revenues.

SEASONALITY

The Company's businesses are generally not seasonal in nature. Revenues and operating income for the quarters ending December 31, however, are typically impacted by higher newsstand cover prices of holiday issues. These higher prices, coupled with typically higher sales of subscriptions of Playboy magazine during those quarters, also results in an increase in accounts receivable.

PROMOTIONAL AND OTHER ACTIVITIES

The Company believes that its sales of products and services are enhanced by the public recognition of Playboy as a lifestyle. In order to establish public recognition, the Company, among other activities, acquired in 1971 a mansion in Holmby Hills, California (the "Mansion"), where the Company's founder, Hugh M. Hefner, lives. The Mansion is used for various corporate activities, including serving as a valuable location for video production and magazine photography, business meetings, enhancing the Company's image, charitable functions and a wide variety of promotional and marketing purposes. The Mansion generates substantial publicity and recognition which increase public awareness of the Company and its products and services. As indicated in Part III. Item 13. "Certain Relationships and Related Transactions," Mr. Hefner pays rent to the Company for that portion of the Mansion used exclusively for his and his family's residence as well as the value of meals and other benefits received by him, his family and personal guests. The Mansion is included in the Company's financial statements as of December 31, 1998 at a cost, including all improvements and after accumulated depreciation, of approximately $2,540,000. The operating expenses of the Mansion, including depreciation, taxes and security charges, net of rent received from Mr. Hefner, were approximately $4,285,000, $1,615,000, $3,635,000 and $3,615,000 for fiscal year 1998, the transition period and fiscal years 1997 and 1996, respectively.

Through the Playboy Foundation, the Company supports not-for-profit organizations and projects concerned with issues historically of importance to Playboy magazine and its readers, including anti-censorship efforts, civil rights, AIDS education, prevention and research, and reproductive freedom. The Playboy Foundation provides financial support to many organizations and also donates public service advertising space in Playboy magazine and in-kind printing and design services.

EMPLOYEES

At February 28, 1999, the Company employed 773 full-time employees compared to 713 at February 28, 1998. No employees are represented by collective bargaining agreements. The Company believes it maintains a satisfactory relationship with its employees.

Item 2. Properties

The Company leases office space at the following locations:

The Company was lessee under an initial 15-year lease effective September 1989 of approximately 100,000 square feet of corporate headquarters space located at 680 North Lake Shore Drive, Chicago, Illinois. In August 1996, the Company renegotiated this lease on more favorable terms, including a lower base rent which results in savings of approximately $2.0 million over the original term of the lease, combined with the Company obtaining certain expansion options in the building. Further, the lease term was extended three years to August 2007, with a renewal option for an additional five years. Subsequent to the renegotiation of the lease, average annual base rental expense is approximately $985,000. The Company was granted a rent abatement for the first two years of the initial lease; however, rent expense is being charged to operations on a straight-line basis over the extended term of the lease. Additionally, the lease requires the Company to pay its proportionate share of the building's real estate taxes and operating expenses. The majority of this space is used by all of the Company's operating groups, primarily Publishing, and for executive and administrative personnel. In July 1998, the Company exercised the previously mentioned expansion options in addition to two rights of first refusals, primarily to house its growing Playboy Online Group. The Company is leasing approximately 30,000 additional square feet of contiguous space in the building at an average annual base rental expense of approximately $430,000.

The Company's Publishing Group headquarters in New York City consist of approximately 50,000 square feet of space in the Crown Building, 730 Fifth Avenue, Manhattan. The Crown Building lease expires in August 2004, has an average annual base rental expense of approximately $1,380,000, and is subject to periodic increases to reflect rising real estate taxes and operating expenses. The Company was granted a rent abatement under this lease; however, rent expense is being charged to operations on a straight-line basis over the term of the lease. A limited amount of this space is utilized by the Entertainment, Product Marketing and Playboy Online Groups and executive and administrative personnel.

The Company's principal Entertainment Group offices are located at 9242 Beverly Boulevard, Beverly Hills, California. The Company holds a lease for approximately 40,000 square feet in the building through March 2002, with an average annual base rental expense of approximately $1,550,000, which is subject to annual increases calculated on a formula involving tax and operating expense increases. The Company was granted a partial rent abatement for the first two years of the lease; however, rent expense is being charged to operations on a straight-line basis over the term of the lease. A limited amount of this space is utilized by the Publishing Group and executive and administrative personnel.

As a result of the Spice Acquisition, the Company is now the tenant of Spice's previous office space under leases with terms expiring May 31, 2003 for space at 536 Broadway in Manhattan, New York City. The space currently has an annual base rental expense of approximately $175,000. Additionally, the terms of the leases require that the Company pay its pro rata share of real estate taxes and operating expenses. The leases are terminable after June 30, 1999 on a 30-day notice by the landlord.

The Company leases space for its operations facilities at the following locations:

Beginning June 1997, the Company entered into a 10 1/2 year lease, with a renewal option for an additional five years, for a warehouse facility in Itasca, Illinois. The purpose of this catalog operations facility is to provide order fulfillment and related activities, and also house a portion of the Company's data processing operations and serve as a storage facility for the entire Company. The Company currently utilizes 106,000 square feet of space in the facility and has an option to lease an additional 23,000 square feet commencing December 2002. The average annual base rental expense under the lease is approximately $780,000. Additionally, the terms of the lease require the Company to pay real estate taxes and operating expenses.

The Company's West Coast photography studio is located in Santa Monica, California, under terms of a 10-year lease, which commenced January 1994. The lease is for approximately 9,800 square feet of space, with an average annual base rental expense of approximately $180,000. The Company was granted a rent abatement under this lease; however, rent expense is being charged to operations on a straight-line basis over the term of the lease. Additionally, the lease requires the Company to pay its proportionate share of the building's real estate taxes and operating expenses.

Effective January 1999, the Company began leasing approximately 21,000 square feet of space at 5055 Wilshire Boulevard, Los Angeles, California, for purposes of general business and film editing. The lease, which expires February 28,

2002, has an average annual base rental expense of approximately $435,000.

In June 1995, the Company entered into a two-year lease effective July 1995 for a motion picture production facility located in Los Angeles, California to be used by its Entertainment Group. The lease has been extended through June 1999. The lease is for 11,600 square feet and currently has an annual base rental expense of approximately $110,000.

The Company owns a Holmby Hills, California mansion property comprised of 5 1/2 acres. See "PROMOTIONAL AND OTHER ACTIVITIES" under Part I. Item 1. "Business."

Item 3. Legal Proceedings

The Company is from time to time a defendant in suits for defamation and violation of rights of privacy, many of which allege substantial or unspecified damages, which are vigorously defended by the Company. The Company is currently engaged in other litigation, most of which is generally incidental to the normal conduct of its business. Management believes that its reserves are adequate and that no such action will have a material adverse impact on the Company's financial condition. There can be no assurance, however, that the Company's ultimate liability will not exceed its reserves. See Note M of Notes to Consolidated Financial Statements.

In February 1996, the Telecommunications Act was enacted. Certain provisions of the Telecommunications Act are directed exclusively at cable programming in general and adult cable programming in particular. In some cable systems, audio or momentary bits of video of premium or pay-per-view channels may accidentally become available to nonsubscribing cable customers. This is called "bleeding." The practical effect of Section 505 is to require many existing cable systems to employ additional blocking technology in every household in every cable system that offers adult programming to prevent any possibility of bleeding, or to restrict the period during which adult programming is transmitted from 10:00 p.m. to 6:00 a.m. Penalties for violation of the Telecommunications Act are significant and include fines and imprisonment.

On February 26, 1996, one of the Company's subsidiaries filed a civil suit in the Delaware District Court challenging Section 505 on constitutional grounds. The suit names as defendants The United States of America, The United States Department of Justice, Attorney General Janet Reno and the FCC. On March 7, 1996, the Company was granted a Temporary Restraining Order ("TRO") staying the implementation and enforcement of Section 505. In granting the TRO, the Delaware District Court found that the Company had demonstrated it was likely to succeed on the merits of its claim that Section 505 is unconstitutional. On November 8, 1996, eight months after the TRO was granted, a three-judge panel in the Delaware District Court denied the Company's request for preliminary injunction against enforcement of Section 505 and, in so denying, found that the Company was not likely to succeed on the merits of its claim. The Company appealed the Delaware District Court's decision to the Supreme Court and enforcement of Section 505 was stayed pending that appeal. On March 24, 1997, without opinion, the Supreme Court summarily affirmed the Delaware District Court's denial of the Company's request for a preliminary injunction. Enforcement of Section 505 commenced May 18, 1997. On July 22, 1997, the Company filed a motion for summary judgment on the ground that Section 505 is unconstitutionally vague based on a Supreme Court decision on June 26, 1997 that certain provisions of the Telecommunications Act regulating speech on the Internet were invalid for numerous reasons, including vagueness. On October 31, 1997, the Delaware District Court denied the motion on the grounds that further discovery in the case was necessary to assist it in resolving the issues posed in the motion.

The Company's full case on the merits was heard by the Delaware District Court in March 1998. On December 28, 1998, the Delaware District Court unanimously declared Section 505 unconstitutional. Even though the defendants have appealed this judgment, the ruling gives cable systems the right to resume 24-hour broadcast of adult services so long as cable systems comply with, and consumers are made aware of, the "blocking on request" requirement of Section 504. Management believes that the effect of Section 505 on the Company's financial performance may continue until the case is finally decided.

On December 18, 1995, BrandsElite International Corporation ("BrandsElite), an Ontario, Canada corporation, filed a complaint against the Company in the Circuit Court of Cook County, Illinois (the "Illinois Circuit Court"). In the complaint, BrandsElite, an international distributor of premium merchandise, including liquor, perfume, cosmetics and luxury gifts, principally to duty-free retailers, alleged that the Company breached a product license agreement, shortly after its execution by the Company in October 1995. The agreement provided for the appointment of BrandsElite as the exclusive, worldwide licensee of the Playboy trademark and tradename with respect to the sale of cognac and possibly some deluxe whiskeys. The Company had advised BrandsElite that it had determined not to proceed with the transaction and disputed strongly BrandsElite's allegation that as a result of the Company's breach, BrandsElite suffered millions of dollars of damages in future lost profits and diminished

value of its stock. BrandsElite also sought to recoup out-of-pocket expenses, fees and costs incurred in bringing the action. The license agreement provided for recovery by a party in any judgment entered in its favor of attorneys' fees and litigation expenses, together with such court costs and damages as are provided by law. On October 22, 1997, the Company filed a motion for partial summary judgment challenging BrandsElite's claims for future lost profits and stock market valuation damages. On March 4, 1998, the Illinois Circuit Court granted the portion of the Company's motion relating to stock market valuation damages but denied the portion of the motion relating to future lost profits. BrandsElite's expert reports on damages asserted future lost profits damages ranging from $3.5 million to $12.5 million. The case was dismissed with prejudice on October 16, 1998 in exchange for a $1.4 million settlement by the Company.

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

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal year 1998.

PART II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters

The stock price information, as reported in the New York Stock Exchange Composite Listing, is set forth in Note U of Notes to Consolidated Financial Statements. The registrant's securities are traded on the exchanges listed on the cover page of this Form 10-K Annual Report. As of February 28, 1999, there were 7,684 and 8,500 holders of Class A common stock and Class B common stock, respectively. These numbers do not reflect an additional approximately 1,200 holders of Class B common stock in connection with the Spice Acquisition on March 15, 1999. There were no cash dividends declared during fiscal year 1998, the transition period or fiscal year 1997. The Company's new $150.0 million credit agreement and former $40.0 million revolving credit agreement prohibit the payment of cash dividends.

Item 6. Selected Financial and Operating Data (1)

<TABLE>
<CAPTION>

(in thousands)	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97*	Fiscal Year Ended 6/30/97*	Fiscal Year Ended 6/30/96*
<S>	<C>	<C>	<C>	<C>
NET REVENUES				
Publishing				
Playboy magazine				
Subscription	$ 53,012	$ 25,808	$ 52,892	$ 51,836
Newsstand	22,424	11,345	21,972	24,408
Advertising	30,761	13,718	28,414	27,431
Other	2,126	(44)	1,651	1,653
Total Playboy magazine	108,323	50,827	104,929	105,328
Other domestic publishing	18,693	10,197	20,830	20,300
International publishing	10,981	5,305	9,951	6,172
Total Publishing	137,997	66,329	135,710	131,800
Entertainment				
Playboy TV				
Cable	21,314	9,560	21,165	21,149
Satellite direct-to-home	33,861	14,047	23,065	16,457
Off-network productions and other	2,058	1,331	3,052	1,672
Total Playboy TV	57,233	24,938	47,282	39,278
Domestic home video	11,106	3,247	8,515	9,370
International TV and home video	14,644	4,728	12,218	11,955
Total Playboy Businesses	82,983	32,913	68,015	60,603
AdultVision	5,802	2,305	4,487	1,907
Movies and other	2,264	2,138	2,214	2,316
Total Entertainment	91,049	37,356	74,716	64,826
Product Marketing	7,081	4,199	7,968	7,125
Catalog	74,393	39,340	75,391	71,634
Casino Gaming	-	-	-	-

Playboy Online	7,098	2,317	2,838	1,202
Total Net Revenues	$ 317,618	$ 149,541	$296,623	$ 276,587
OPERATING INCOME (LOSS)				
Publishing	$ 6,332	$ 3,898	$ 8,665	$ 9,041
Entertainment				
Before programming expense	51,274	19,144	39,609	30,467
Programming expense	(25,109)	(11,153)	(21,355)	(21,263)
Total Entertainment	26,165	7,991	18,254	9,204
Product Marketing	365	1,614	3,512	3,692
Catalog	4,100	1,835	4,630	5,231
Casino Gaming	(1,108)	(541)	-	-
Playboy Online	(6,528)	(943)	(113)	207
Corporate Administration and Promotion	(24,358)	(9,395)	(19,203)	(17,882)
Total Operating Income	$ 4,968	$ 4,459	$ 15,745	$ 9,493

</TABLE>

*Certain reclassifications have been made to conform to the current presentation.

Selected Financial and Operating Data (continued)

<TABLE>
<CAPTION>

(in thousands, except per share amounts, number of employees and ad pages)	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97	Fiscal Year Ended 6/30/97	Fiscal Year Ended 6/30/96	Fiscal Year Ended 6/30/95	Fiscal Year Ended 6/30/94
<S>	<C>	<C>	<C>	<C>	<C>	<C>
SELECTED FINANCIAL DATA						
Net revenues	$ 317,618	$ 149,541	$296,623	$276,587	$247,249	$218,987
Interest expense, net	(1,424)	(239)	(354)	(592)	(569)	(779)
Income (loss) from continuing operations before cumulative effect of change in accounting principle	4,320	2,142	21,394	4,252	629	(16,364)
Net income (loss)	4,320	1,065	21,394	4,252	629	(9,484)
Basic income (loss) per common share						
Income (loss) from continuing operations before cumulative effect of change in accounting principle	0.21	0.10	1.05	0.21	0.03	(0.83)
Net income (loss)	0.21	0.05	1.05	0.21	0.03	(0.48)
Diluted income (loss) per common share						
Income (loss) from continuing operations before cumulative effect of change in accounting principle	0.21	0.10	1.03	0.21	0.03	(0.83)
Net income (loss)	0.21	0.05	1.03	0.21	0.03	(0.48)
Cash dividends declared per common share	-	-	-	-	-	-
EBITDA (2)	37,588	17,584	41,651	35,470	27,624	7,852
Adjusted EBITDA (2)	12,987	3,225	10,904	9,921	6,311	(9,333)
Cash flows from operating activities	(15,044)	(3,853)	1,539	4,541	3,180	(4,368)
Cash flows from investing activities	(6,361)	(1,874)	(2,450)	(4,168)	(315)	(2,277)
Cash flows from financing activities	$ 20,799	$ 5,371	$ (224)	$ 594	$ (2,652)	$ 6,000
AT PERIOD END						
Total assets	$ 212,107	$ 185,947	$175,542	$150,869	$137,835	$131,921
Long-term financing obligations	$ -	$ -	$ -	$ 347	$ 687	$ 1,020
Shareholders' equity	$ 84,202	$ 78,683	$ 76,133	$ 52,283	$ 47,090	$ 46,311
Long-term financing obligations as a percentage of total capitalization	-%	-%	-%	0.7%	1.4%	2.2%
Number of common shares outstanding						
Class A voting	4,749	4,749	4,749	4,749	4,714	4,709
Class B nonvoting	15,868	15,775	15,636	15,437	15,276	15,255
Number of full-time employees	758	684	666	621	600	578
SELECTED OPERATING DATA						
Playboy magazine ad pages	601	273	558	569	595	595
Cash investments in Company-produced and						

licensed entertainment programming	$ 24,601	$ 14,359	$ 30,747	$ 25,549	$ 21,313	$ 17,185
Amortization of investments in Company-produced and licensed entertainment programming	$ 25,109	$ 11,153	$ 21,355	$ 21,263	$ 20,130	$ 18,174
Domestic Playboy TV (at period end)						
Cable addressable households	11,700	11,600	11,200	11,300	10,600	9,600
Satellite direct-to-home households	9,800	6,800	6,300	4,900	3,300	1,900
Percentage of total U.S. cable addressable households with access to Playboy TV (3)	35.2%	37.8%	38.2%	42.8%	45.2%	43.2%
AdultVision domestic cable addressable households (at period end) (4)	6,200	3,800	3,100	2,200	-	-

</TABLE>

For a more detailed description of the Company's 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" ("MD&A") and Part II. Item 8. "Financial Statements and Supplementary Data."

(1) Relevant financial data for the pro forma calendar year ended December 31, 1997 and the six months ended December 31, 1996 are presented under Part II. Item 7. "MD&A."

(2) EBITDA represents earnings before income taxes and cumulative effect of change in accounting principle plus interest expense, depreciation and amortization. Adjusted EBITDA represents EBITDA less cash investments in programming.

(3) Based on projections by Kagan.

(4) Network launched in fiscal year 1996.

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

On November 6, 1997, the Board approved a change in the Company's fiscal year end from June 30 to December 31, which better aligns the Company's businesses with its customers and partners who also operate and plan on a calendar-year basis. In order to provide the reader with a clearer understanding of the Company's results of operations, financial data for the pro forma calendar year ended December 31, 1997 and the six months ended December 31, 1996 are included below for comparative purposes.

<TABLE>
<CAPTION>

(in millions, except per share amounts)	Fiscal Year Ended 12/31/98	Pro Forma Calendar Year Ended 12/31/97	Six-Month Transition Period Ended 12/31/97*	Six Months Ended 12/31/96*
<S>	<C>	<C>	<C>	<C>
NET REVENUES				
Publishing				
Playboy magazine	$ 108.3	$ 104.0	$ 50.8	$ 51.7
Other domestic publishing	18.7	20.6	10.2	10.5
International publishing	11.0	10.0	5.3	5.2
Total Publishing	138.0	134.6	66.3	67.4
Entertainment				
Playboy TV				
Cable	21.3	20.4	9.6	10.4
Satellite direct-to-home	33.9	27.1	14.0	9.9
Off-network productions and other	2.0	2.4	1.3	2.0
Total Playboy TV	57.2	49.9	24.9	22.3
Domestic home video	11.1	7.9	3.3	3.9
International TV and home video	14.7	12.6	4.7	4.3
Total Playboy Businesses	83.0	70.4	32.9	30.5
AdultVision	5.8	4.4	2.3	2.4
Movies and other	2.2	3.4	2.1	1.0
Total Entertainment	91.0	78.2	37.3	33.9
Product Marketing	7.1	7.9	4.2	4.3
Catalog	74.4	75.6	39.4	39.1
Casino Gaming	-	-	-	-

Playboy Online	7.1	3.9	2.3	1.3
Total Net Revenues	$ 317.6	$ 300.2	$ 149.5	$ 146.0
NET INCOME				
Publishing	$ 6.3	$ 8.9	$ 3.9	$ 3.7
Entertainment				
Before Playboy Businesses programming expense	49.4	40.3	18.6	16.7
Playboy Businesses programming expense	(23.2)	(21.7)	(10.6)	(9.0)
Total Entertainment	26.2	18.6	8.0	7.7
Product Marketing	0.4	2.9	1.6	2.3
Catalog	4.1	3.6	1.9	2.8
Casino Gaming	(1.1)	(0.6)	(0.6)	-
Playboy Online	(6.5)	(1.2)	(0.9)	0.1
Corporate Administration and Promotion	(24.4)	(19.7)	(9.4)	(8.9)
Operating Income	5.0	12.5	4.5	7.7
Nonoperating income (expense)				
Investment income	0.1	0.1	-	-
Interest expense	(1.6)	(0.4)	(0.3)	(0.3)
Gain on sale of investment	4.3	-	-	-
Other, net	(0.8)	(0.5)	0.1	(0.1)
Total nonoperating income (expense)	2.0	(0.8)	(0.2)	(0.4)
Income before income taxes and cumulative effect of change in accounting principle	7.0	11.7	4.3	7.3
Income tax benefit (expense)	(2.7)	8.0	(2.1)	(3.4)
Income before cumulative effect of change in accounting principle	4.3	19.7	2.2	3.9
Cumulative effect of change in accounting principle (net of tax benefit)	-	(1.1)	(1.1)	-
Net Income	$ 4.3	$ 18.6	$ 1.1	$ 3.9

</TABLE>

<TABLE>
<CAPTION>

	Fiscal Year Ended 12/31/98	Pro Forma Calendar Year Ended 12/31/97	Six-Month Transition Period Ended 12/31/97*	Six Months Ended 12/31/96*
<S>	<C>	<C>	<C>	<C>
BASIC INCOME (LOSS) PER COMMON SHARE				
Income before cumulative effect of change in accounting principle	$ 0.21	$ 0.96	$ 0.10	$ 0.19
Cumulative effect of change in accounting principle (net of tax benefit)	-	(0.05)	(0.05)	-
Net Income	$ 0.21	$ 0.91	$ 0.05	$ 0.19
DILUTED INCOME (LOSS) PER COMMON SHARE				
Income before cumulative effect of change in accounting principle	$ 0.21	$ 0.94	$ 0.10	$ 0.19
Cumulative effect of change in accounting principle (net of tax benefit)	-	(0.05)	(0.05)	-
Net Income	$ 0.21	$ 0.89	$ 0.05	$ 0.19

</TABLE>

* Certain reclassifications have been made to conform to the current presentation.

Beginning in fiscal year 1998, Playboy Online results, which were previously reported in the Publishing and Catalog Groups, are reported as a separate operating group.

Several of the Company's businesses can experience variations in quarterly performance. As a result, the Company's performance in any quarterly period is

not necessarily reflective of full-year or longer-term trends. For example, Playboy magazine newsstand revenues vary from issue to issue, with revenues generally higher for holiday issues and any issues including editorial or pictorial features that generate unusual public interest. Advertising revenues also vary from quarter to quarter, depending on product introductions by advertising customers, changes in advertising buying patterns and economic conditions. In addition, Entertainment Group revenues vary with the timing of international sales.

RESULTS OF OPERATIONS

FISCAL YEAR ENDED DECEMBER 31, 1998 COMPARED TO PRO FORMA CALENDAR YEAR ENDED DECEMBER 31, 1997

The Company's revenues were $317.6 million for the fiscal year ended December 31, 1998, a 6% increase over revenues of $300.2 million for the calendar year ended December 31, 1997 primarily due to higher revenues from the Entertainment Group. Also contributing to the increase were higher Playboy magazine and Playboy Online Group revenues.

The Company reported operating income of $5.0 million for the fiscal year ended December 31, 1998 compared to $12.5 million for the calendar year ended December 31, 1997. This decrease reflected an increase in operating income for the Entertainment Group, which was more than offset by an increase in planned investments in the Playboy Online Group, higher Corporate Administration and Promotion expenses and lower operating income for the Publishing and Product Marketing Groups. The lower operating income for the Product Marketing Group was due in part to a settlement of litigation in the current year. The higher Corporate Administration and Promotion expenses were due in part to increased investments in systems technology, including Year 2000 expenses.

Net income for the fiscal year ended December 31, 1998 was $4.3 million, resulting in earnings per share ("EPS") of $0.21 (basic and diluted), compared to net income of $18.6 million, or basic EPS of $0.91 and diluted EPS of $0.89, for the calendar year ended December 31, 1997. Net income for fiscal year 1998 included a $4.3 million gain on the sale of the Company's 20% equity investment in duPont. Net income for calendar year 1997 included a federal income tax benefit of $13.5 million related to net operating loss and tax credit carryforwards and a charge of $1.1 million, primarily related to development costs of casino gaming ventures, that resulted from the Company's early adoption of Statement of Position 98-5, Reporting on the Costs of Start-Up Activities ("SOP 98-5"). Excluding the impact of the $13.5 million federal income tax benefit and the $1.1 million cumulative effect of change in accounting principle, net income for calendar year 1997 was $6.2 million, or basic and diluted EPS of $0.30.

PUBLISHING GROUP

Publishing Group revenues were $138.0 million for the fiscal year ended December 31, 1998, a 3% increase over revenues of $134.6 million for the calendar year ended December 31, 1997, primarily due to higher revenues from Playboy magazine.

Playboy magazine revenues increased $4.3 million, or 4%, for the fiscal year ended December 31, 1998 compared to the prior calendar year. Circulation revenues increased $1.9 million primarily due to a $1.4 million, or 7%, increase in newsstand revenues principally due to extraordinary sales of the October 1998 issue featuring Cindy Crawford and the December 1998 issue featuring Katarina Witt, both of which also carried a $5.95 cover price. In general, newsstand revenues have been, and are expected to continue to be, adversely affected by the consolidation taking place nationally in the single-copy magazine distribution system. Additionally, subscription revenues increased $0.5 million, or 1%. Advertising revenues increased $1.8 million, or 6%, primarily due to 6% more ad pages. Advertising sales for the fiscal year 1999 first quarter issues of the magazine are closed and the Company expects to report 11% more ad pages and 10% higher ad revenues compared to the quarter ended March 31, 1998.

Revenues from other domestic publishing businesses decreased $1.9 million, or 9%, for the fiscal year ended December 31, 1998 compared to the prior year primarily due to fewer newsstand specials copies sold.

International publishing revenues increased $1.0 million, or 10%, for the fiscal year ended December 31, 1998, compared to the prior year. The increase primarily reflected higher revenues from the Polish edition of Playboy magazine, in which the Company owns a majority interest.

For the fiscal year ended December 31, 1998, Publishing Group operating income declined $2.6 million, or 29%, primarily due to lower subscription profitability, the lower revenues from newsstand specials, higher average paper prices and expenses in the current year related to the search for the Playmate 2000. Partially offsetting were the higher Playboy magazine advertising and newsstand revenues combined with lower performance-related variable compensation

expense and the vacancy of the division president position in the current year. The Publishing Group expects an approximate 8% decrease in paper prices effective with the May 1999 issue.

ENTERTAINMENT GROUP

Fiscal year 1998 Entertainment Group revenues of $91.0 million increased $12.8 million, or 16%, compared to calendar year 1997. Operating income of $26.2 million increased $7.6 million, or 41%, compared to calendar year 1997 operating income of $18.6 million. Both of these increases were largely attributable to improved performance of Playboy TV.

The following discussion focuses on the profit contribution of each Playboy business before Playboy businesses programming expense ("profit contribution").

PLAYBOY TV

Revenues of $57.2 million from the Company's domestic pay television service, Playboy TV, were $7.3 million, or 15%, higher for the fiscal year ended December 31, 1998 compared to the calendar year ended December 31, 1997.

Cable revenues increased $0.9 million, or 5%, for the fiscal year ended December 31, 1998, primarily due to higher retail rates, partially offset by fewer monthly subscribers and some system drops, due in part to the implementation of Section 505 of the Telecommunications Act. At December 31, 1998, Playboy TV was available to approximately 11.7 million cable addressable households, a 1% increase compared to December 31, 1997.

In February 1996, the Company filed suit challenging Section 505, which, among other things, regulates the cable transmission of adult programming, such as the Company's domestic pay television programs. Enforcement of Section 505 commenced May 18, 1997. The Company's full case on the merits was heard by the Delaware District Court in March 1998. In December 1998, the Delaware District Court unanimously declared Section 505 unconstitutional. Even though the defendants have appealed this judgment, the ruling gives cable systems the right to resume 24-hour broadcast of adult services so long as cable systems comply with, and consumers are made aware of, the "blocking on request" requirement of Section 504. Management believes that the effect of Section 505 on the Company's financial performance may continue until the case is finally decided. See Part I. Item 3. "Legal Proceedings."

Additionally, management believes that the growth in cable access for the Company's domestic pay television businesses has slowed in recent years due to the effects of cable reregulation by the FCC, including the "going-forward rules" which provide cable operators with incentives to add basic services. As cable operators have utilized available channel space to comply with "must-carry" provisions, mandated retransmission consent agreements and "leased access" provisions, competition for channel space has increased. Further, the delay of new technology, primarily digital set-top converters which would dramatically increase channel capacity, has contributed to the slowdown. The major reason for this delay has been the unexpected engineering problems and expenses associated with developing an affordable digital set-top converter. Management believes that growth will continue to be slow in the next two to three years as the cable television industry responds to the FCC's rules and subsequent modifications, and develops new technology. Cable operators have begun to introduce digital technology in order to upgrade their cable systems and to counteract competition from DTH operators. Digital cable television has several advantages over analog cable television, including more channels, better audio and video quality and advanced set-top boxes that are addressable, provide a secure fully scrambled signal and have integrated program guides and advanced ordering technology. As digital technology, which is unaffected by the relevant sections of the Telecommunications Act, becomes more available, however, the Company believes that ultimately its pay television networks will be available to the majority of cable households on a 24-hour basis.

DTH revenues increased $6.8 million, or 25%, for the fiscal year ended December 31, 1998. This improvement was primarily due to significant increases in addressable universes for DirecTV and PrimeStar, combined with revenues in the current year as a result of fiscal year 1998 launches on EchoStar and two Canadian DTH services, ExpressVu and Star Choice. Unlike cable, DTH is unaffected by Section 505. Revenues from TVRO, or the big-dish market, continued to decline, as expected, due to the maturity of this platform. Playboy TV was available to approximately 9.8 million DTH households at December 31, 1998, an increase of 44% compared to December 31, 1997.

Revenues from off-network productions and other decreased $0.4 million, or 14%, for the fiscal year ended December 31, 1998, primarily due to higher revenues in the prior year from licensing episodes of the Company's series to Showtime.

Profit contribution for Playboy TV increased $6.4 million for the fiscal year ended December 31, 1998 compared to the prior calendar year, primarily due to

the net increase in revenues previously discussed combined with lower legal fees in the current year related to the Section 505 lawsuit and expenses in the prior year related to a pay-per-view special featuring Farrah Fawcett. Partially offsetting were higher marketing expenses in the current year and the effects in the prior year of favorable music licensing settlements and a large favorable adjustment to bad debt expense.

DOMESTIC HOME VIDEO

Domestic home video revenues and profit contribution increased $3.2 million and $3.0 million, respectively, for the fiscal year ended December 31, 1998 compared to the prior year. These increases were primarily due to sales of The Eros Collection of movies and higher revenues from the sale of DVDs in the current year.

INTERNATIONAL TV AND HOME VIDEO

For the fiscal year ended December 31, 1998, revenues and profit contribution from the international business increased $2.1 million and $1.6 million, respectively, primarily due to higher international network sales and contractual revenues, partially offset by lower international home video sales. Variances in quarterly performance are caused in part by revenues and profit contribution from tier sales being recognized depending upon the timing of program delivery, license periods and other factors.

PLAYBOY BUSINESSES PROGRAMMING EXPENSE

For the fiscal year ended December 31, 1998, programming amortization expense associated with the Entertainment Group's Playboy businesses discussed above increased $1.5 million compared to the prior year. The increase was primarily due to higher amortization related to regular programming on the domestic Playboy TV network.

ADULTVISION

AdulTVision revenues increased $1.4 million, or 31%, for the fiscal year ended December 31, 1998 compared to the prior year. This increase was primarily due to higher revenues from the domestic network principally as a result of a significant increase in the addressable universe. At December 31, 1998, the network was available domestically to approximately 9.8 million cable addressable and DTH households, a 66% increase from December 31, 1997. Operating income increased $0.7 million for the fiscal year ended December 31, 1998, primarily due to the increase in revenues, partially offset by higher distribution and contractual marketing costs. AdulTVision will be merged with the Spice network subsequent to the Spice Acquisition.

MOVIES AND OTHER

Revenues and operating income from movies and other businesses decreased $1.2 million and $1.6 million, respectively, for the fiscal year ended December 31, 1998, primarily due to a favorable settlement from a distributor of feature films in the prior year. The Entertainment Group's administrative expenses increased $1.1 million for the fiscal year ended December 31, 1998 compared to the prior year largely to support the growth in the Entertainment Group.

PRODUCT MARKETING GROUP

Product Marketing Group revenues of $7.1 million for the fiscal year ended December 31, 1998 decreased $0.8 million, or 10%, compared to the prior calendar year. The current year reflects lower international product licensing royalties, principally from Asia, largely attributable to unfavorable economic conditions. Higher revenues from SEL, as a result of a barter agreement related to the sale of prints and posters from the Company's art publishing inventory, partially offset the decline.

The Product Marketing Group reported operating income of $0.4 million for the fiscal year ended December 31, 1998, a decrease of $2.5 million, or 87%, compared to the prior calendar year due in part to a $1.4 million settlement of litigation related to BrandsElite. See Part I. Item 3. "Legal Proceedings." The lower Asian royalties previously discussed also unfavorably impacted the current year. The higher SEL revenues were mostly offset by higher associated costs.

CATALOG GROUP

For the fiscal year ended December 31, 1998, revenues of $74.4 million decreased $1.2 million, or 2%, compared to the prior calendar year due in part to the timing of sales cut-offs resulting in an additional week of sales recorded in the prior year for all of the catalogs. Sales volume for the Playboy catalog was also lower primarily as a result of a lower response rate to the fall catalog. Partially offsetting these decreases were revenues in the current year from the new Spice catalog, containing adult video tapes, which was tested in July 1998 under license from Spice.

Operating income of $4.1 million for the fiscal year ended December 31, 1998 increased $0.5 million, or 14%, compared to the prior calendar year as a result of lower expenses, primarily related to overall lower circulation of the catalogs, combined with expenses in the prior year related to the group's move to a new facility.

CASINO GAMING GROUP

On November 13, 1998, the Company entered into an agreement to sell its 12% equity interest in the Rhodes Casino, which is expected to result in a nonoperating gain of more than $1.0 million in fiscal year 1999. As part of the agreement, the Company negotiated a guarantee against its licensing agreement for the Rhodes Casino and will begin generating revenues when it opens in fiscal year 1999.

The Company is also continuing to explore additional casino gaming opportunities. For the fiscal year ended December 31, 1998, the Casino Gaming Group incurred an operating loss of $1.1 million compared to an operating loss of $0.6 million for the calendar year ended December 31, 1997. The current year reflected a full year of expenses whereas, in the prior year, expenses incurred during the first six months were capitalized and subsequently written off as "Cumulative effect of change in accounting principle" in accordance with SOP 98-5.

PLAYBOY ONLINE GROUP

The Playboy Online Group's results include advertising revenues from Playboy.com, subscription revenues to Playboy Cyber Club and e-commerce revenues.

For the fiscal year ended December 31, 1998, Playboy Online Group revenues of $7.1 million increased $3.2 million, or 83%, compared to the prior calendar year. This increase was across the board coming from higher e-commerce revenues from CCVideo and CCMusic, online versions of the Critics' Choice Video and Collectors' Choice Music catalogs, and higher subscription and advertising revenues.

For the fiscal year ended December 31, 1998, the Playboy Online Group reported an operating loss of $6.5 million compared to an operating loss of $1.2 million in the prior calendar year. The current year included higher planned investments related to the group's continued growth and development.

CORPORATE ADMINISTRATION AND PROMOTION

Corporate Administration and Promotion expense of $24.4 million for the fiscal year ended December 31, 1998 increased $4.7 million, or 24%, compared to the calendar year ended December 31, 1997. This increase was largely due to increased investments in systems technology, including Year 2000 expenses, combined with increased investment spending on corporate marketing and promotion and strategic consulting expenses in the current year.

SIX-MONTH TRANSITION PERIOD ENDED DECEMBER 31, 1997 COMPARED TO SIX MONTHS ENDED DECEMBER 31, 1996

The Company's revenues were $149.5 million for the transition period, a 2% increase over revenues of $146.0 million for the six months ended December 31, 1996. This increase was principally due to higher revenues from the Entertainment Group, primarily driven by an increase from Playboy TV.

The Company reported operating income of $4.5 million for the transition period compared to $7.7 million for the six months ended December 31, 1996. This decrease was primarily due to lower operating income for the Catalog and Product Marketing Groups combined with an increase in planned investments in the Playboy Online Group.

Net income for the transition period was $1.1 million, resulting in EPS of $0.05 (basic and diluted), compared to net income of $3.9 million, or basic and diluted EPS of $0.19, for the six months ended December 31, 1996. Net income for the transition period included the charge of $1.1 million that resulted from the Company's early adoption of SOP 98-5. Excluding the impact of this $1.1 million cumulative effect of change in accounting principle, net income for the transition period was $2.2 million, or basic and diluted EPS of $0.10.

PUBLISHING GROUP

Publishing Group revenues of $66.3 million for the transition period decreased $1.1 million, or 2%, compared to the six months ended December 31, 1996 primarily due to lower revenues from Playboy magazine.

Playboy magazine revenues decreased $0.9 million, or 2%, for the transition period compared to the prior year six-month period. Circulation revenues

decreased $1.4 million, or 4%, compared to the prior year six-month period, primarily due to lower newsstand revenues principally as the result of 9% fewer U.S. and Canadian newsstand copies sold in the transition period. Subscription revenues decreased slightly by 2%. Playboy magazine advertising revenues increased $0.5 million, or 4%, for the transition period, primarily due to 4% more ad pages.

Revenues from other domestic publishing businesses decreased $0.3 million, or 3%, for the transition period compared to the prior year period due to lower revenues from other businesses. Partially offsetting the decrease were higher revenues from newsstand specials, primarily due to the publication of an additional issue in the transition period combined with the mix of titles sold, offset in part by lower average copies sold per issue in the United States and Canada.

International publishing revenues increased $0.1 million, or 1%, for the transition period compared to the prior year six-month period.

Publishing Group operating income increased $0.2 million, or 6%, for the transition period compared to the prior year period. The increase was primarily due to lower manufacturing costs, principally due to lower average paper prices, combined with the higher Playboy magazine advertising revenues. Partially offsetting the above were the lower Playboy magazine newsstand revenues, higher editorial costs and expenses associated with the early termination of an executive contract.

ENTERTAINMENT GROUP

Entertainment Group revenues for the transition period of $37.3 million increased $3.4 million, or 10%, compared to the six months ended December 31, 1996, primarily due to higher revenues from Playboy TV. Operating income of $8.0 million increased $0.3 million, or 4%, from the prior year six-month period.

The following discussion focuses on the profit contribution of each Playboy business before Playboy businesses programming expense.

PLAYBOY TV

For the transition period, Playboy TV revenues of $24.9 million were $2.6 million, or 12%, higher compared to the six months ended December 31, 1996.

Cable revenues were $0.8 million, or 8%, lower compared to the prior year period, primarily due to the estimated negative effect of the enforcement of Section 505 combined with a decline in the average number of subscribing households due to some system drops, partially offset by higher retail rates. At December 31, 1997, Playboy TV was available to approximately 11.6 million cable addressable households, a 4% increase compared to both December 31, 1996 and June 30, 1997, respectively.

More than offsetting the cable decline were higher DTH revenues, which were $4.1 million, or 41%, higher for the transition period compared to the prior year period primarily due to significant increases in addressable universes for PrimeStar and DirecTV and, beginning in March 1997, the availability of monthly subscriptions through PrimeStar. As expected, revenues from TVRO continued to decline. Playboy TV was available to approximately 6.8 million DTH households at December 31, 1997, an increase of 21% and 8% compared to December 31, 1996 and June 30, 1997, respectively.

For the transition period, revenues from off-network productions and other decreased $0.7 million, or 33%, compared to the prior year period primarily due to licensing fewer episodes of Women to Showtime.

Profit contribution for Playboy TV increased $2.2 million for the transition period, primarily due to the net increase in revenues.

DOMESTIC HOME VIDEO

Domestic home video revenues for the transition period decreased $0.6 million, or 16%, compared to the prior year six-month period, primarily due to lower revenues related to the Company's direct-response continuity series combined with overall lower net sales of new releases, partially offset by significant sales in the transition period of Farrah Fawcett: All of Me. Profit contribution decreased $1.0 million, primarily due to the decrease in revenues combined with higher marketing and promotion costs.

INTERNATIONAL TV AND HOME VIDEO

For the transition period, revenues from the international business increased $0.4 million, or 9%, compared to the prior year six-month period. The higher revenues were due to international TV, primarily as the result of higher net revenues from Playboy TV networks and Germany, partially offset by lower revenues from Taiwan. International home video revenues were lower principally

due to revenues from South Korea in the prior year period. There were no revenues from South Korea in the transition period primarily due to the poor economic conditions in that country. Profit contribution remained stable as a decline in international home video, due to the lower revenues, was offset by higher profit contribution from international TV, which resulted from the higher revenues, partially offset by higher related costs. Variances in quarterly performance are caused in part by revenues and profit contribution from tier sales being recognized depending upon the timing of program delivery, license periods and other factors.

PLAYBOY BUSINESSES PROGRAMMING EXPENSE

Programming amortization expense associated with the Entertainment Group's Playboy businesses discussed above increased $1.6 million for the transition period compared to the prior year six-month period, primarily related to the higher revenues from international TV, higher production costs of live events on domestic Playboy TV and costs related to the home video featuring Farrah Fawcett. Partially offsetting the above was lower amortization related to the lower revenues from off-network productions.

ADULTVISION

AdulTVision revenues for the transition period decreased $0.1 million, or 3%, compared to the prior year six-month period, while operating income remained stable. At December 31, 1997, the network was available domestically to approximately 5.9 million cable addressable and DTH households, a 20% and 11% increase from December 31, 1996 and June 30, 1997, respectively.

MOVIES AND OTHER

Revenues and operating income from movies and other businesses increased $1.1 million and $1.2 million, respectively, for the transition period primarily due to a favorable settlement from a distributor of feature films. The Entertainment Group's administrative expenses for the transition period increased $0.6 million compared to the prior year six-month period, largely due to higher overall salary and related expenses, including net higher performance-related variable compensation expense.

PRODUCT MARKETING GROUP

Product Marketing Group revenues of $4.2 million for the transition period decreased $0.1 million, or 2%, compared to the six months ended December 31, 1996, largely due to favorable adjustments in the prior year period for international product licensing royalties. Partially offsetting these lower revenues were higher royalties in the transition period related to increased domestic and international distribution of the Company's line of cigars. Operating income decreased $0.7 million, or 28%, compared to the prior year period, primarily due to the net decrease in revenues combined with higher expenses principally due to bad debt related to licensees in certain Asian countries, legal and increased investments in brand marketing.

CATALOG GROUP

Catalog Group revenues of $39.4 million for the transition period increased $0.3 million, or 1%, compared to the six months ended December 31, 1996, due to higher revenues for the Collectors' Choice Music and Critics' Choice Video catalogs, partially offset by lower revenues from the Playboy catalog. For the transition period, all of the catalogs were favorably impacted by an extended sales cut-off as a result of changing the Company's fiscal year end from June 30 to December 31. Sales volume for the Collectors' Choice Music catalog was also slightly higher, primarily as a result of significantly higher circulation mostly offset by lower revenues from promotions. Critics' Choice Video was favorably impacted by sales in the transition period from the first Big Book available in October 1997, but they were more than offset by lower circulation and lower response rates from prospective customers of the catalog. Revenues from the Playboy catalog were also impacted by lower response rates from prospective customers. The Company believes lower response rates were due in part to the negative impact of the United Parcel Service strike in August 1997.

For the transition period, Catalog Group operating income decreased $0.9 million, or 36%, compared to the prior year six-month period. This decline was primarily due to lower operating income from the Critics' Choice Video and Collectors' Choice Music catalogs as the higher revenues were not sufficient to offset higher costs. Additionally, administrative expenses were higher for the group, principally due to higher salary and related expenses.

CASINO GAMING GROUP

As a result of the Company's early adoption of SOP 98-5, as previously discussed, expenses of $0.6 million were incurred during the transition period related to development costs for the Rhodes Casino and other potential casino gaming ventures.

PLAYBOY ONLINE GROUP

For the transition period, Playboy Online Group revenues of $2.3 million increased $1.0 million, or 81%, compared to the prior year six-month period. This increase was primarily due to subscription revenues generated from Playboy Cyber Club combined with higher e-commerce revenues.

For the transition period, the Playboy Online Group reported an operating loss of $0.9 million compared to operating income of $0.1 million in the prior year six-month period. The transition period included higher planned investments related to the group's continued growth and development.

CORPORATE ADMINISTRATION AND PROMOTION

Corporate administration and promotion expense of $9.4 million for the transition period increased $0.5 million, or 6%, compared to the six months ended December 31, 1996, partly due to filling the chief marketing officer position in October 1996 and higher investment spending on corporate marketing, combined with filling the chief financial officer position in May 1997.

FISCAL YEAR ENDED JUNE 30, 1997 COMPARED TO FISCAL YEAR ENDED JUNE 30, 1996

The Company's revenues were $296.6 million for the fiscal year ended June 30, 1997, a 7% increase over revenues of $276.6 million for the fiscal year ended June 30, 1996. This increase was due to higher revenues from all of the Company's Groups, largely the Entertainment Group, primarily driven by an increase in revenues from Playboy TV. Higher revenues from the international publishing business and the Catalog and Playboy Online Groups also contributed meaningfully to the increase in revenues.

The Company reported operating income of $15.7 million for the year ended June 30, 1997 compared to $9.5 million for the year ended June 30, 1996. This increase was due to significant growth in operating income of Playboy TV.

Net income for the fiscal year ended June 30, 1997 was $21.4 million, resulting in basic EPS of $1.05 and diluted EPS of $1.03. This compared to net income of $4.3 million, or basic and diluted EPS of $0.21, for the year ended June 30, 1996. Net income for fiscal year 1997 included a federal income tax benefit of $13.5 million related to net operating loss and tax credit carryforwards. Excluding the impact of the $13.5 million federal income tax benefit, net income for the year ended June 30, 1997 was $7.9 million, or basic EPS of $0.39 and diluted EPS of $0.38.

PUBLISHING GROUP

Fiscal year 1997 Publishing Group revenues of $135.7 million increased $3.9 million, or 3%, compared to fiscal year 1996, primarily due to higher revenues from international publishing.

Playboy magazine revenues for fiscal year 1997 were basically flat compared to fiscal year 1996. Circulation revenues decreased $1.4 million, or 2%, due to 10% lower newsstand revenues principally as the result of 13% more U.S. and Canadian newsstand copies sold in fiscal year 1996, when two exceptionally strong-selling issues featuring celebrities were published. Subscription revenues increased 2%, primarily due to an increase in the number of subscriptions served, partially offset by lower revenues from the rental of Playboy's subscriber list. Playboy magazine advertising revenues increased 4% compared to fiscal year 1996 due to higher average net revenue per page principally due to the mix of pages sold combined with rate increases effective with the January 1997 and 1996 issues, partially offset by 2% fewer ad pages in fiscal year 1997.

Revenues from other domestic publishing businesses increased $0.5 million, or 3%, for the year ended June 30, 1997 compared to the prior year due to higher revenues from other businesses.

International publishing revenues increased principally due to higher revenues in fiscal year 1997 related to the purchase of additional equity in March 1996 in VIPress Poland Sp. z o.o. ("VIPress"), publisher of the Polish edition of Playboy magazine, which resulted in its consolidation.

For the year ended June 30, 1997, Publishing Group operating income decreased $0.4 million, or 4%, compared to the prior year. The decrease was primarily due to the lower newsstand revenues and higher editorial costs related to the magazine. Partially offsetting the above were the higher Playboy magazine advertising revenues

combined with lower manufacturing costs, primarily due to lower average paper

prices which were partially offset by an increase in the magazine's average book size, and higher operating income related to the consolidation of VIPress.

ENTERTAINMENT GROUP

Fiscal year 1997 Entertainment Group revenues of $74.7 million increased $9.8 million, or 15%, compared to fiscal year 1996. Operating income of $18.2 million increased $9.0 million, almost double fiscal year 1996 operating income of $9.2 million. Both of these increases were primarily attributable to Playboy TV.

The following discussion focuses on the profit contribution of each Playboy business before Playboy businesses programming expense.

PLAYBOY TV

For the year ended June 30, 1997, revenues of $47.3 million from Playboy TV were $8.0 million, or 20%, higher compared to the prior year.

Cable revenues remained stable compared to fiscal year 1996 as a 9% increase in pay-per-view revenues was offset by a 19% decline in monthly subscription revenues, principally due to some system drops, which resulted in a decline in the average number of subscribing households. The increase in pay-per-view revenues was primarily due to higher average buy rates combined with larger favorable adjustments, as reported by cable systems, in fiscal year 1997. At June 30, 1997, Playboy TV was available to approximately 11.2 million cable addressable households, a 1% decrease compared to June 30, 1996.

DTH revenues were $6.7 million, or 40%, higher for the year ended June 30, 1997 compared to the prior year. The increase was primarily due to higher DirecTV and PrimeStar revenues, principally as a result of significant increases in their addressable universes, slightly offset by lower revenues, as expected, from TVRO. Playboy TV was available to approximately 6.3 million DTH households at June 30, 1997, an increase of 29% compared to June 30, 1996.

For the year ended June 30, 1997, revenues from off-network productions and other increased $1.3 million, or 83%, compared to the prior year, primarily due to licensing more episodes of Women to Showtime.

Profit contribution for Playboy TV increased $11.4 million compared to fiscal year 1996, primarily due to the significant increase in revenues combined with no royalty expense related to the Company's former distributor of its pay television service in fiscal year 1997. Royalty payments were discontinued on April 30, 1996, when the agreement terminated. Lower marketing costs and bad debt expense combined with favorable music licensing settlements in fiscal year 1997 also contributed to the increase in profit contribution.

DOMESTIC HOME VIDEO

Domestic home video revenues decreased $0.9 million, or 9%, for the year ended June 30, 1997 compared to the prior year largely due to lower revenues related to the Company's direct-response continuity series, the second of which was launched during fiscal year 1997, combined with lower net sales of new releases, due in part to extraordinary sales of The Best of Pamela Anderson in fiscal year 1996. Partially offsetting the above were higher net revenues from a three-year distribution agreement with Uni related to backlist titles. Fiscal year 1997 included revenues related to the third year of the guarantee, which were higher than net revenues in fiscal year 1996 related to the guarantees for the first two years. Profit contribution decreased $0.8 million for the year ended June 30, 1997 compared to the prior year, principally due to the net decrease in revenues combined with the timing of promotion costs.

INTERNATIONAL TV AND HOME VIDEO

For the year ended June 30, 1997, revenues and profit contribution from the international business increased $0.3 million and decreased $1.7 million, respectively, compared to the prior year. The decline in profit contribution was due to international home video, principally due to lower revenues resulting primarily from the need to slow down shipments in countries where the distribution pipeline was full. Higher international TV revenues in fiscal year 1997, largely from Playboy TV networks, were offset by higher costs. Variances in quarterly performance are caused in part by revenues and profit contribution from tier sales being recognized depending upon the timing of

program delivery, license periods and other factors. To allow greater flexibility, the Company modified how it programs its international networks effective with the fourth quarter of fiscal year 1996, the effect of which was not material. This modification results in the revenues from these networks now being recorded on a quarterly basis, which has the effect of smoothing out the fluctuations caused by recording a year's worth of programming sales in one quarter. Previously, the Company scheduled programming for a full year in the quarter during which the network was launched or an agreement was renewed, and recognized the full year of revenues in that quarter.

PLAYBOY BUSINESSES PROGRAMMING EXPENSE

For the year ended June 30, 1997, programming amortization expense associated with the Entertainment Group's Playboy businesses discussed above remained relatively stable compared to the prior year. Fiscal year 1997 included lower amortization related to the lower international home video revenues and regular programming on the domestic Playboy TV network. Offsetting these decreases were higher amortization related to an increase in the number of live events on domestic Playboy TV combined with costs related to the pay-per-view special event and home video featuring Farrah Fawcett.

ADULTVISION

AdultVision revenues increased $2.6 million, or 135%, for the year ended June 30, 1997 compared to the prior year, primarily due to revenues related to the September 1996 launch of a network in Latin America. Also contributing to the increase were higher revenues from the domestic network as a result of an increase in its addressable universe and higher buys. At June 30, 1997, the network was available domestically to approximately 5.3 million cable addressable and DTH households, an 18% increase from June 30, 1996.

For the year ended June 30, 1997, AdultVision was profitable, resulting in an increase in operating performance of $1.7 million. The increase was primarily due to the higher revenues, partially offset by higher distribution costs due to the launch in Latin America and an increase in domestic fees in fiscal year 1997 related to transferring to a different transponder.

MOVIES AND OTHER

For the year ended June 30, 1997, revenues and operating income from movies and other businesses both decreased $0.2 million compared to the prior year. The Entertainment Group's administrative expenses increased $1.3 million compared to fiscal year 1996 largely due to higher performance-related variable compensation expense and higher expense related to new business development in fiscal year 1997.

PRODUCT MARKETING GROUP

Product Marketing Group revenues of $8.0 million increased $0.9 million, or 12%, for the year ended June 30, 1997 compared to the prior year. The increase was primarily due to higher international product licensing royalties, principally from Asia, combined with royalties in fiscal year 1997 related to the Company's second line of cigars distributed domestically. Operating income of $3.5 million decreased $0.2 million, or 5%, for the year ended June 30, 1997 compared to the prior year due to higher expenses, principally reflecting increased investments in brand marketing, promotion and product design as well as severance, search fees associated with a new division executive and higher legal expenses.

CATALOG GROUP

Catalog Group revenues of $75.4 million increased $3.8 million, or 5%, for the year ended June 30, 1997 compared to the prior year, primarily as a result of higher sales volume from the Critics' Choice Video and Collectors' Choice Music catalogs, primarily attributable to increased circulation of the catalogs.

For the year ended June 30, 1997, Catalog Group operating income of $4.6 million decreased $0.6 million, or 11%, compared to the prior year, primarily as a result of lower-than-anticipated response rates from prospective customers. The increase in revenues plus lower paper prices generally were not sufficient to offset higher related costs, due in part to prospecting. Additionally, administrative expenses were higher for the group, primarily due to higher salary and related expenses combined with expenses in fiscal year 1997 related to the group's move to a new facility. At the end of fiscal year 1997, the catalog operation began moving from its former facility to a larger facility, under terms of a built-to-suit lease, to meet additional space requirements. The new facility is located in the same Chicago suburb.

PLAYBOY ONLINE GROUP

For the year ended June 30, 1997, Playboy Online Group revenues more than doubled to $2.8 million from $1.2 million in the prior year. This increase was primarily due to higher advertising revenues combined with higher e-commerce revenues from the Playboy Store, a version of the Playboy catalog that launched in the spring of 1996.

For the year ended June 30, 1997, the Playboy Online Group reported an operating loss of $0.1 million compared to operating income of $0.2 million in the prior year. The current year included planned investments largely related to developing Playboy Cyber Club.

CORPORATE ADMINISTRATION AND PROMOTION

Corporate Administration and Promotion expense of $19.2 million for the year ended June 30, 1997 increased $1.3 million, or 7%, compared to the prior year, largely due to investment spending on corporate marketing.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1998, the Company had $0.3 million in cash and cash equivalents and $29.8 million in short-term borrowings, compared to $0.9 million in cash and cash equivalents and $10.0 million in short-term borrowings at December 31, 1997. The Company expects to meet its short- and long-term cash requirements through a new credit agreement of up to $150.0 million as described in Note W of Notes to Consolidated Financial Statements.

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash used for operating activities was $15.0 million for the fiscal year ended December 31, 1998, primarily due to increases in receivables of $10.7 million and other noncurrent assets of $4.3 million. The increase in receivables was primarily attributable to international TV sales, international networks and off-network productions combined with the timing of cash receipts from the DTH market. Also contributing to the increase in receivables were higher revenues from the December 1998 issue of Playboy magazine featuring Katarina Witt. The increase in other noncurrent assets was primarily due to deferred costs related to the Spice Acquisition. The Company invested $24.6 million in Company-produced and licensed entertainment programming during fiscal year 1998.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash used for investing activities was $6.4 million for fiscal year 1998. Investments in international ventures of $5.2 million primarily related to additional funding for the Playboy TV network in the United Kingdom and the Playboy TV and AdulTVision networks in Latin America. On December 31, 1998, the Company sold back to duPont the shares of duPont's common stock owned by the Company. Sale proceeds were $5.0 million, which consisted of $0.5 million in cash and a $4.5 million promissory note, which was paid on January 4, 1999. Capital expenditures for fiscal year 1998 were $1.1 million. The Company also entered into leases of furniture and equipment totaling $5.3 million, largely attributable to growth in the Playboy Online Group.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash provided by financing activities was $20.8 million for fiscal year 1998, principally due to a $19.8 million increase in short-term borrowings under the Company's revolving line of credit.

INCOME TAXES

At June 30, 1997, the Company evaluated its net operating loss carryforwards ("NOLs") and other deferred tax assets and liabilities in relation to the Company's recent earnings history and its projected future earnings. As a result of this review, the Company reduced the valuation allowance balance by $13.5 million as a result of reevaluating the realizability of the deferred tax assets in future years. In fiscal year 1998, the Company realized $0.1 million of the net deferred tax asset recorded at December 31, 1997.

Based on current tax law, the Company will need to generate approximately $39.7 million of future taxable income prior to the expiration of the Company's NOLs for full realization of the $13.9 million net deferred tax asset recorded at December 31, 1998. At December 31, 1998, the Company had NOLs of $14.2 million for tax purposes, with $11.7 million expiring in 2009 and $2.5 million expiring in 2012.

Management believes that it is more likely than not that the required amount of such taxable income will be generated in years subsequent to December 31, 1998 and prior to the expiration of the Company's NOLs to realize the $13.9 million net deferred tax asset at December 31, 1998. Following is a summary of the bases for management's belief that a valuation allowance of $15.4 million at December 31, 1998 is adequate, and that it is more likely than not that the net deferred tax asset of $13.9 million will be realized:

- In establishing the net deferred tax asset, management reviewed the components of the Company's NOLs and determined that they primarily resulted from several nonrecurring events, which were not indicative of the Company's ability to generate future earnings.

- Several of the Company's operating groups continue to generate meaningful earnings, particularly the Entertainment Group, and the Company's substantial investments in the Entertainment and Playboy Online Groups are anticipated to lead to increased earnings in future years.

. The Company has opportunities to accelerate taxable income into the NOL carryforward period. Tax planning strategies would include the capitalization and amortization versus immediate deduction of circulation expenditures, the immediate inclusion versus deferred recognition of prepaid subscription income, the revision of depreciation and amortization methods for tax purposes and the sale-leaseback of certain property that would generate taxable income in future years.

OTHER

In January 1993, the Company received a General Notice from the United States Environmental Protection Agency (the "EPA") as a "potentially responsible party" ("PRP") in connection with a site identified as the Southern Lakes Trap & Skeet Club, located at the Resort-Hotel in Lake Geneva, Wisconsin (the "Resort"), formerly owned by a subsidiary of the Company. The Resort was sold by the Company's subsidiary to LG Americana-GKP Joint Venture in 1982. Two other entities were also identified as PRPs in the notice. The notice related to actions that may be ordered taken by the EPA to sample for and remove contamination in soils and sediments, purportedly caused by skeet shooting activities at the Resort property. On September 10, 1998, the Company entered into a consent decree settling this matter, which was entered by the United States District Court for the Eastern District of Wisconsin (the "Wisconsin District Court") on November 25, 1998. The Company had established adequate reserves to cover its $0.5 million share of the cost (based on an agreement with one of the other PRPs) of the agreed upon remediation, which was paid in December 1998.

On December 18, 1995, BrandsElite, an Ontario, Canada corporation, filed a complaint against the Company in the Illinois Circuit Court. In the complaint, BrandsElite, an international distributor of premium merchandise, including liquor, perfume, cosmetics and luxury gifts, principally to duty-free retailers, alleged that the Company breached a product license agreement, shortly after its execution by the Company in October 1995. The agreement provided for the appointment of BrandsElite as the exclusive, worldwide licensee of the Playboy trademark and tradename with respect to the sale of cognac and possibly some deluxe whiskeys. The Company had advised BrandsElite that it had determined not to proceed with the transaction and disputed strongly BrandsElite's allegation that as a result of the Company's breach, BrandsElite suffered millions of dollars of damages in future lost profits and diminished value of its stock. BrandsElite also sought to recoup out-of-pocket expenses, fees and costs incurred in bringing the action. The license agreement provided for recovery by a party in any judgment entered in its favor of attorneys' fees and litigation expenses, together with such court costs and damages as are provided by law. On October 22, 1997, the Company filed a motion for partial summary judgment challenging BrandsElite's claims for future lost profits and stock market valuation damages. On March 4, 1998, the Illinois Circuit Court granted the portion of the Company's motion relating to stock market valuation damages but denied the portion of the motion relating to future lost profits. BrandsElite's expert reports on damages asserted future lost profits damages ranging from $3.5 million to $12.5 million. The case was dismissed with prejudice on October 16, 1998 in exchange for a $1.4 million settlement by the Company.

The Company will adopt the provisions of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("Statement 133"), for financial statements issued for fiscal years beginning after June 15, 1999. Statement 133 provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. Management is evaluating the effect that adoption of Statement 133 will have on the Company's financial statements.

In response to the Year 2000 problem, the Company has identified and is implementing changes to its existing computerized business systems. The Company is addressing the issue through a combination of modifications to existing programs and conversions to Year 2000 compliant software. In addition, the Company has communicated with its vendors and other service providers to ensure that their products and business systems are or will be Year 2000 compliant. If modifications and conversions by the Company and those it conducts business with are not made in a timely manner, the Year 2000 problem could have a material adverse effect on the Company's business, financial condition and results of operations. All major systems of the Company have either been identified as Year 2000 compliant, or remediation has been completed to ensure Year 2000 compliance. These major systems include financial applications, and key operating systems for the Entertainment, Catalog and Playboy Online Groups. The Company is currently evaluating less critical systems, such as desktop applications, with plans for all systems to be in compliance by the third quarter of fiscal year 1999. The Company is also reviewing its non-information technology systems to determine the extent of any modifications and believes that there will be minimal changes necessary for compliance. Although the Company is still quantifying the impact, the current estimate of the total costs associated with the required modifications and conversions are expected to be slightly in excess of $1.0 million, of which approximately $0.7 million was expensed in fiscal year 1998. These costs are being expensed as incurred.

The Company believes its technology systems will be ready for the Year 2000 and, therefore, has not developed a comprehensive contingency plan. High-risk vendors, however, will be examined throughout the year with contingency plans developed on a case-by-case basis where needed. Additionally, the Company is aware that it may experience other isolated incidences of non-compliance and plans to allocate internal resources and retain dedicated consultants and vendor representatives to be ready to take action if necessary. Although the Company values its established relationships with key vendors and other service providers, if certain vendors are unable to perform on a timely basis due to their own Year 2000 issues, the Company believes that substitute products or services are available from other vendors. The Company also recognizes that it, like all other businesses, is at risk if other key suppliers in utilities, communications, transportation, banking and government are not ready for the Year 2000.

FORWARD-LOOKING STATEMENTS

This Form 10-K Annual Report contains "forward-looking statements," including statements in "MD&A," as to expectations, beliefs, plans, objectives and future financial performance, and assumptions underlying or concerning the foregoing. These forward-looking statements involve risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. The following are some of the important factors that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements: (a) government actions or initiatives, including (i) attempts to limit or otherwise regulate the sale of adult-oriented materials, including print, video and online materials or businesses such as casino gaming, (ii) regulation of the advertisement of tobacco products, or (iii) substantive changes in postal regulations or rates; (b) increases in paper prices; (c) changes in distribution technology and/or unforeseen delays in the implementation of that technology by the cable and satellite industries, which might affect the Company's plans and assumptions regarding carriage of its program services; (d) increased competition for advertisers from other publications and media or any significant decrease in spending by advertisers generally, or with respect to the adult male market; (e) increased competition for transponders and channel space, and any decline in the Company's access to, and acceptance by, cable and DTH systems; (f) effects of the consolidation taking place nationally in the single-copy magazine distribution system; (g) new competition in the cable television market; (h) uncertainty of market acceptance of the Internet as a medium for information, entertainment, e-commerce and advertising, an increasingly competitive environment for advertising sales, the impact of competition from other content and merchandise providers, as well as the Company's reliance on third parties for technology and distribution for its online business; and (i) potential adverse effects of unresolved Year 2000 problems, including those experienced by external key suppliers.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company uses derivatives for managing risk, not for trading purposes. The Company's primary financial market risks relate to foreign currency exchange rates. The Company utilizes foreign exchange forward contracts to hedge the risk that future licensing royalties owed to the Company, primarily from its Japanese and German licensees, may be adversely affected by changes in foreign currency exchange rates.

Based on the Company's sensitivity analysis at December 31, 1998, fluctuations in currency exchange rates in the near term would not have a material effect on the Company's consolidated operating results, financial position or cash flows. This sensitivity analysis measured the impact on earnings of a 10% devaluation of the U.S. dollar relative to the foreign currencies to which it had exposure. Management believes that its hedging activities have been effective in reducing its limited risks related to currency exchange rate fluctuations.

Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements of the registrant and report of independent accountants are set forth in this Form 10-K Annual Report as follows:

<TABLE>
<CAPTION>

The supplementary data regarding quarterly results of operations are set forth in Note U of Notes to Consolidated Financial Statements.

PLAYBOY ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97	Fiscal Year Ended 6/30/97	Fiscal Year Ended 6/30/96
NET REVENUES	$ 317,618	$ 149,541	$ 296,623	$ 276,587
Costs and expenses				
Cost of sales	(269,478)	(126,658)	(245,023)	(234,247)
Selling and administrative expenses	(43,172)	(18,424)	(35,855)	(32,847)
Total costs and expenses	(312,650)	(145,082)	(280,878)	(267,094)
Operating income	4,968	4,459	15,745	9,493
Nonoperating income (expense)				
Investment income	127	50	73	88
Interest expense	(1,551)	(289)	(427)	(680)
Gain on sale of investment	4,272	-	-	-
Other, net	(791)	70	(640)	(452)
Total nonoperating income (expense)	2,057	(169)	(994)	(1,044)
Income before income taxes and cumulative effect of change in accounting principle	7,025	4,290	14,751	8,449
Income tax benefit (expense)	(2,705)	(2,148)	6,643	(4,197)
Income before cumulative effect of change in accounting principle	4,320	2,142	21,394	4,252
Cumulative effect of change in accounting principle (net of tax benefit)	-	(1,077)	-	-
NET INCOME	4,320	1,065	21,394	4,252
Other comprehensive loss (net of tax benefit)				
Foreign currency translation adjustment	(4)	(37)	(37)	(11)
Unrealized loss on marketable securities	(21)	-	-	-
Total other comprehensive loss	(25)	(37)	(37)	(11)
COMPREHENSIVE INCOME	$ 4,295	$ 1,028	$ 21,357	$ 4,241
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	20,548	20,487	20,318	20,014
Diluted	21,036	20,818	20,694	20,261
BASIC EPS				
Income before cumulative effect of change in accounting principle	$ 0.21	$ 0.10	$ 1.05	$ 0.21
Cumulative effect of change in accounting principle (net of tax benefit)	-	(0.05)	-	-
Net income	$ 0.21	$ 0.05	$ 1.05	$ 0.21

DILUTED EPS				
Income before cumulative effect of change in accounting principle	$ 0.21	$ 0.10	$ 1.03	$ 0.21
Cumulative effect of change in accounting principle (net of tax benefit)	-	(0.05)	-	-
Net income	$ 0.21	$ 0.05	$ 1.03	$ 0.21

</TABLE>

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

PLAYBOY ENTERPRISES, INC.
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

(in thousands, except share data)	Dec. 31, 1998	Dec. 31, 1997
<S>	<C>	<C>
ASSETS		
Cash and cash equivalents	$ 341	$ 947
Marketable securities	505	-
Receivables, net of allowance for doubtful accounts of $6,349 and $4,467	49,879	33,324
Inventories	25,685	25,376
Programming costs	43,342	41,504
Deferred subscription acquisition costs	11,570	12,143
Other current assets	21,097	11,910
Total current assets	152,419	125,204
Property and equipment		
Land	292	292
Buildings and improvements	8,412	8,386
Furniture and equipment	22,068	21,030
Leasehold improvements	8,270	8,237
Total property and equipment	39,042	37,945
Accumulated depreciation	(29,885)	(27,892)
Property and equipment, net	9,157	10,053
Programming costs--noncurrent	5,983	8,329
Trademarks	17,294	14,978
Net deferred tax assets	6,525	13,688
Other noncurrent assets	20,729	13,695
Total assets	$212,107	$185,947
LIABILITIES		
Short-term borrowings	$ 29,750	$ 10,000
Accounts payable	30,834	32,258
Accrued salaries, wages and employee benefits	6,024	4,499
Reserves for losses on disposals of discontinued operations	68	610
Income taxes payable	819	627
Deferred revenues	41,647	43,216
Other liabilities and accrued expenses	9,851	7,706
Total current liabilities	118,993	98,916
Noncurrent liabilities	8,912	8,348
Total liabilities	127,905	107,264
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Common stock, $0.01 par value		
Class A voting--7,500,000 shares authorized; 5,042,381 issued	50	50
Class B nonvoting--30,000,000 shares authorized; 17,149,691 and 17,076,518 issued	171	171
Capital in excess of par value	44,860	43,539
Retained earnings	49,577	45,257
Foreign currency translation adjustment	(137)	(131)
Unearned compensation restricted stock	(3,716)	(3,511)
Unrealized loss on marketable securities	(32)	-

Less cost of 293,427 Class A common shares and 951,041 and 974,227 Class B common shares in treasury	(6,571)	(6,692)
Total shareholders' equity	84,202	78,683
Total liabilities and shareholders' equity	$212,107	$185,947

</TABLE>

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

PLAYBOY ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<TABLE>
<CAPTION>

(in thousands of dollars)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Other	Unearned Comp. Restricted Stock	Treasury Stock	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT JUNE 30, 1995	$ 50	$ 170	$41,233	$ 18,546	$ -	$(4,840)	$ (8,069)	$47,090
Net income	-	-	-	4,252	-	-	-	4,252
Exercise of 35,000 Class A and 159,750 Class B stock options	-	-	(81)	-	-	-	1,025	944
Issuance of 1,499 Class B shares as service awards	-	-	6	-	-	-	8	14
Issuance of 20,000 Class B shares as restricted stock awards	-	-	177	-	-	(177)	-	-
Forfeiture of 50,000 Class B shares related to restricted stock awards	-	-	(468)	-	-	468	-	-
Foreign currency translation adjustment	-	-	-	-	(17)	-	-	(17)
BALANCE AT JUNE 30, 1996	50	170	40,867	22,798	(17)	(4,549)	(7,036)	52,283
Net income	-	-	-	21,394	-	-	-	21,394
Exercise of 57,500 Class B stock options	-	-	264	-	-	-	170	434
Issuance of 1,147 Class B shares as service awards	-	-	9	-	-	-	6	15
Issuance of 68,750 Class B shares as restricted stock awards	-	-	940	-	-	(940)	-	-
Forfeiture of 28,125 Class B shares related to restricted stock awards	-	-	(263)	-	-	263	-	-
Issuance of 19,057 Class B shares under employee stock purchase plan	-	-	93	-	-	-	99	192
Vesting of 121,564 Class B restricted stock awards	-	-	-	-	-	1,137	-	1,137
Foreign currency translation adjustment	-	-	-	-	(57)	-	-	(57)
Income tax benefit related to stock plans	-	-	735	-	-	-	-	735
BALANCE AT JUNE 30, 1997	50	170	42,645	44,192	(74)	(4,089)	(6,761)	76,133
Net income	-	-	-	1,065	-	-	-	1,065
Exercise of 15,000 Class B stock options	-	-	93	-	-	-	27	120
Issuance of 337 Class B shares as service awards	-	-	4	-	-	-	2	6
Issuance of 37,500 Class B shares as restricted stock awards	-	1	526	-	-	(527)	-	-
Issuance of 7,777 Class B shares under employee stock purchase plan	-	-	61	-	-	-	40	101
Vesting of 115,939 Class B restricted stock awards	-	-	-	-	-	1,105	-	1,105
Foreign currency translation adjustment	-	-	-	-	(57)	-	-	(57)
Income tax benefit related to stock plans	-	-	210	-	-	-	-	210
BALANCE AT DECEMBER 31, 1997	50	171	43,539	45,257	(131)	(3,511)	(6,692)	78,683
Net income	-	-	-	4,320	-	-	-	4,320
Exercise of 76,250 Class B stock options	-	-	796	-	-	-	39	835
Issuance of 1,151 Class B shares as service awards	-	-	13	-	-	-	6	19
Issuance of 46,250 Class B shares as restricted stock awards	-	-	742	-	-	(742)	-	-
Forfeiture of 42,500 Class B shares related to restricted stock awards	-	-	(537)	-	-	537	-	-

Issuance of 14,534 Class B shares under employee stock purchase plan	-	-	138	-	-	-	76	214
Issuance of 673 Class B shares under the 1997 Directors' Plan	-	-	11	-	-	-	-	11
Foreign currency translation adjustment	-	-	-	-	(6)	-	-	(6)
Unrealized loss on marketable securities	-	-	-	-	(32)	-	-	(32)
Income tax benefit related to stock plans	-	-	158	-	-	-	-	158
BALANCE AT DECEMBER 31, 1998	$ 50	$ 171	$44,860	$ 49,577	$(169)	$(3,716)	$ (6,571)	$84,202

</TABLE>

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

PLAYBOY ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

(in thousands)	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97	Fiscal Year Ended 6/30/97	Fiscal Year Ended 6/30/96
<S>	<C>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 4,320	$ 1,065	$ 21,394	$ 4,252
Adjustments to reconcile net income to net cash provided by (used for) operating activities				
Depreciation of property and equipment	2,010	1,007	2,210	2,383
Amortization of intangible assets	1,893	845	1,893	1,783
Gain on sale of investment	(4,272)	-	-	-
Amortization of investments in entertainment programming	25,109	11,153	21,355	21,263
Investments in entertainment programming	(24,601)	(14,359)	(30,747)	(25,549)
Changes in current assets and liabilities				
Receivables	(10,674)	(998)	(3,286)	(4,574)
Inventories	(309)	(2,072)	195	(2,061)
Deferred subscription acquisition costs	573	(3,066)	492	(393)
Other current assets	(2,200)	367	(2,146)	(426)
Accounts payable	(1,434)	5,344	4,169	2,931
Accrued salaries, wages and employee benefits	1,525	(1,628)	1,428	2,853
Income taxes payable	208	(600)	284	27
Deferred revenues	(1,569)	943	(2,105)	1,468
Other liabilities and accrued expenses	2,145	(231)	(1,003)	224
Net change in current assets and liabilities	(11,735)	(1,941)	(1,972)	49
Increase in trademarks	(3,645)	(1,767)	(2,898)	(1,766)
(Increase) decrease in net deferred tax assets	35	457	(9,954)	2,399
Increase in other noncurrent assets	(4,344)	(466)	(519)	(487)
Increase (decrease) in noncurrent liabilities	548	(3)	106	258
Net cash used for discontinued operations	(542)	(18)	(79)	(59)
Other, net	180	174	750	15
Net cash provided by (used for) operating activities	(15,044)	(3,853)	1,539	4,541
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale of investment	500	-	-	-
Additions to property and equipment	(1,144)	(765)	(671)	(760)
Acquisitions and funding of equity interests in international ventures	(5,212)	(1,109)	(1,905)	(3,619)
Purchase of marketable securities	(537)	-	-	-
Other, net	32	-	126	211
Net cash used for investing activities	(6,361)	(1,874)	(2,450)	(4,168)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in short-term borrowings	19,750	5,500	(500)	-
Repayment of debt	-	(350)	(350)	(350)
Proceeds from exercise of stock options	835	120	434	944
Proceeds from sales under employee stock purchase plan	214	101	192	-
Net cash provided by (used for) financing activities	20,799	5,371	(224)	594
Net increase (decrease) in cash and cash equivalents	(606)	(356)	(1,135)	967
Cash and cash equivalents at beginning of period	947	1,303	2,438	1,471

Cash and cash equivalents at end of period	$ 341	$ 947	$ 1,303	$ 2,438

</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

PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. Intercompany accounts and transactions, which are immaterial, have been eliminated in consolidation.

CHANGE IN FISCAL YEAR: On November 6, 1997, the Board approved a change in the Company's fiscal year end from June 30 to December 31, which better aligns the Company's businesses with its customers and partners who also operate and plan on a calendar-year basis. The Company's financial statements and accompanying notes for the fiscal year ended December 31, 1998 represent the first full calendar year subsequent to this change.

REVENUE RECOGNITION: Revenues from the sale of magazine subscriptions are recognized over the terms of the subscriptions. Sales of magazines and newsstand specials (net of estimated returns), and revenues from the sale of advertisements, are recorded when each issue goes on sale. Domestic pay television revenues are recognized based on pay-per-view buys and monthly subscriber counts reported each month by the system operators. Domestic home video revenues are recognized based on unit sales reported for new releases each month by the Company's distributor and a distribution agreement for backlist titles. International television revenues are recognized either upon identification of programming scheduled for networks, delivery of programming to customers and/or upon the commencement of the license term. Revenues from the direct marketing of catalog products are recognized when the items are shipped.

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

MARKETABLE SECURITIES: Marketable securities are classified as available-for-sale securities as defined by Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities. These securities are stated at fair value and unrealized holding gains and losses are reflected as a net amount as a separate component of shareholders' equity.

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

PROPERTY AND EQUIPMENT: Property and equipment is stated at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated on a straight-line basis 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 depreciable property and equipment are recorded by removing the related cost and accumulated depreciation from the accounts. Gains or losses on sales and retirements of property and equipment are included in nonoperating income or expense.

DEFERRED SUBSCRIPTION ACQUISITION COSTS: Costs associated with the promotion of magazine subscriptions, which consist primarily of postage, costs to produce direct-mail solicitation materials and other costs to attract and renew subscribers, are deferred and amortized over the period during which the future benefits are expected to be received. This is consistent with the provisions of Statement of Position 93-7, Reporting on Advertising Costs. See Note J.

PROGRAMMING COSTS AND AMORTIZATION: Programming costs include original programming and film acquisition costs, which are capitalized and amortized. The portion of original programming costs assigned to the domestic pay television market is principally amortized on the straight-line method over three years. The portion of original programming costs assigned to each of the worldwide home video and international television markets are amortized using the individual-film-forecast-computation method. Film acquisition costs are assigned to domestic and international markets as appropriate, and are amortized principally on the straight-line method over the license term, generally three years, and the premiere schedule, respectively. Management believes that these methods provide a reasonable matching of expenses with total estimated revenues over the periods that revenues associated with films and programs are expected to be realized. Film and program amortization is adjusted periodically to reflect changes in the estimates of amounts of related future revenues. Film and program costs are stated at the lower of unamortized cost or estimated net realizable

value as determined on a specific identification basis. Based on management's estimate of future total gross revenues as of December 31, 1998, substantially all unamortized programming costs applicable to released programs are expected to be amortized during the next three years. See Note I.

INTANGIBLE ASSETS: Trademark acquisition costs are capitalized and amortized on the straight-line method over 40 years. Trademark and copyright defense, registration and/or renewal costs are capitalized and amortized on the straight-line method over 15 years. Other intangible assets are comprised substantially of goodwill, which is amortized generally over 40 years. Accumulated amortization of intangible assets was $14,546,000 and $12,800,000 at December 31, 1998 and 1997, respectively.

INCOME (LOSS) PER COMMON SHARE: During the transition period, the Company adopted the provisions of Statement of Financial Accounting Standards No. 128, Earnings per Share ("Statement 128"). Statement 128 simplifies the previous standards for computing EPS and requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures. See Note E.

FOREIGN EXCHANGE FORWARD CONTRACTS: The Company utilizes forward contracts to minimize the impact of currency movements on royalties received and certain payments denominated primarily in Japanese yen and German marks. The terms of these contracts are generally one year or less. Gains and losses related to these agreements are recorded in operating results as part of, and concurrent with, the transaction. As of December 31, 1998 and 1997, the Company had approximately $2,155,000 and $1,025,000, respectively, in outstanding contracts. At their respective balance sheet dates, the difference between these contracts' values and the fair market value of these instruments in the aggregate was not material.

MINORITY INTEREST: The Company owns a majority interest in VIPress, publisher of the Polish edition of Playboy magazine. The financial statements of VIPress are included in the Company's financial statements. The minority interest in the results of operations is included in nonoperating income or expense in the Consolidated Statements of Operations and the minority interest in the equity of VIPress is included in "Noncurrent liabilities" in the Consolidated Balance Sheets.

FOREIGN CURRENCY TRANSLATION: Assets and liabilities in foreign currencies are translated into U.S. dollars at the exchange rate existing at the balance sheet date. The net exchange differences resulting from these translations are recorded as a separate component of shareholders' equity. Revenues and expenses are translated at average rates for the period.

USE OF ESTIMATES: The preparation of financial statements in conformity with generally accepted accounting principles 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.

NEW ACCOUNTING PRONOUNCEMENTS: The Company will adopt the provisions of Statement 133, Accounting for Derivative Instruments and Hedging Activities, for financial statements issued for fiscal years beginning after June 15, 1999. Statement 133 provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. Management is evaluating the effect that adoption of Statement 133 will have on the Company's financial statements.

(B) GAIN ON SALE OF INVESTMENT

The Company owned a 20% interest and had an option to acquire the remaining 80% interest in duPont Publishing, Inc. at a price based on fair market value as of December 31, 1999.

On December 31, 1998, the Company sold back to duPont the shares of duPont's common stock owned by the Company. Sale proceeds were $5,000,000, which consisted of $500,000 of cash and a $4,500,000 promissory note bearing interest at the prime rate, which was paid on January 4, 1999. The Company realized a gain before and after income taxes of $4,272,000 on the sale. There was no income tax effect related to this gain due to the application of a capital loss carryforward.

(C) INCOME TAXES

The income tax provision (benefit) consisted of the following (in thousands):

<TABLE>

<CAPTION>

	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97	Fiscal Year Ended 6/30/97	Fiscal Year Ended 6/30/96
<S>	<C>	<C>	<C>	<C>
Current:				
Federal	$ 208	$ -	$ 354	$ 241
State	557	180	501	67
Foreign	1,747	747	1,721	1,490
Total current	2,512	927	2,576	1,798
Deferred:				
Federal	35	457	(9,954)	2,399
State	-	-	-	-
Foreign	-	-	-	-
Total deferred	35	457	(9,954)	2,399
Benefit of stock compensation recorded in capital in excess of par value	158	210	735	-
Benefit recorded as part of cumulative effect of change in accounting principle	-	554	-	-
Total income tax provision (benefit)	$ 2,705	$ 2,148	$ (6,643)	$ 4,197

</TABLE>

The income tax provision (benefit) differed from a provision computed at the U.S. statutory tax rate as follows (in thousands):

<TABLE>
<CAPTION>

	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97	Fiscal Year Ended 6/30/97	Fiscal Year Ended 6/30/96
<S>	<C>	<C>	<C>	<C>
Statutory rate tax provision	$ 2,459	$ 1,459	$ 5,163	$ 2,871
Increase (decrease) in taxes resulting from:				
Foreign withholding tax on licensing income	1,368	747	1,452	1,448
Foreign income tax in excess of statutory rates	127	-	-	-
State income taxes	557	180	501	67
Nondeductible expenses	399	180	342	129
Reduction in valuation allowance	(1,543)	-	(13,486)	-
Tax benefit of foreign taxes paid or accrued	(465)	(328)	(538)	(356)
Effect of rate increase	(225)	-	-	-
Other	28	(90)	(77)	38
Total income tax provision (benefit)	$ 2,705	$ 2,148	$ (6,643)	$ 4,197

</TABLE>

The U.S. statutory tax rate applicable to the Company for fiscal year 1998, the transition period and fiscal years 1997 and 1996 was 35%, 34%, 35% and 34%, respectively.

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.

At June 30, 1997, the Company evaluated its NOLs and other deferred tax assets and liabilities in relation to the Company's recent earnings history and its projected future earnings. As a result of this review, the Company reduced the valuation allowance balance by $13.5 million as a result of reevaluating the realizability of the deferred tax assets in future years.

The significant components of the Company's deferred tax assets and deferred tax liabilities as of December 31, 1997 and 1998 are presented below (in thousands):

<TABLE>
<CAPTION>

	Dec. 31, 1997	Net Change	Dec. 31, 1998
<S>	<C>	<C>	<C>
Deferred tax assets:			
Net operating loss carryforwards	$ 7,901	$(2,929)	$ 4,972
Capital loss carryforwards	10,512	(1,598)	8,914

Tax credit carryforwards	8,976	1,373	10,349
Other deductible temporary differences	11,244	1,779	13,023
Total deferred tax assets	38,633	(1,375)	37,258
Valuation allowance	(16,504)	1,066	(15,438)
Deferred tax assets	22,129	(309)	21,820
Deferred tax liabilities:			
Deferred subscription acquisition costs	(4,514)	244	(4,270)
Other taxable temporary differences	(3,646)	30	(3,616)
Deferred tax liabilities	(8,160)	274	(7,886)
Net deferred tax assets	$ 13,969	$ (35)	$ 13,934

</TABLE>

In the Consolidated Balance Sheet at December 31, 1997, $0.3 million of the $14.0 million net deferred tax asset is included in "Other current assets" and $13.7 million is segregated as "Net deferred tax assets." In the Consolidated Balance Sheet at December 31, 1998, $7.4 million of the $13.9 million net deferred tax asset is included in "Other current assets" and $6.5 million is segregated as "Net deferred tax assets."

In addition to the federal tax benefits in the table above, the Company has NOLs available in various states, none of which are reflected in the net deferred tax assets in the Consolidated Balance Sheets at December 31, 1997 and 1998.

Realization of the net deferred tax asset is dependent upon the Company's ability to generate taxable income in future years. The recognition of benefits in the financial statements is based upon projections by management of future operating income and the anticipated reversal of temporary differences that will result in taxable income. Projections of future earnings were based on adjusted historical earnings.

In order to fully realize the net deferred tax asset of $13.9 million at December 31, 1998, the Company will need to generate future taxable income of approximately $39.7 million prior to the expiration of the Company's NOLs. Management believes that it is more likely than not that the required amount of such taxable income will be realized. Management will periodically reconsider the assumptions utilized in the projection of future earnings and, if warranted, increase or decrease the amount of deferred tax assets through an adjustment to the valuation allowance.

At December 31, 1998, the Company had NOLs of $14.2 million with $11.7 million expiring in 2009 and $2.5 million expiring in 2012. The Company had capital loss carryforwards of $25.5 million expiring in 1999. In addition, foreign tax credit carryforwards of $7.9 million, investment tax credit carryforwards of $1.4 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 1999 through 2003 and the investment tax credit carryforwards expire in 1999 through 2001. The minimum tax credit carryforwards have no expiration.

(D) CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

A $1,077,000 charge, net of an income tax benefit of $554,000, was reported in the transition period as "Cumulative effect of change in accounting principle" as a result of the Company's change in accounting for certain start-up costs to conform to the accounting required by SOP 98-5, Reporting on the Costs of Start-Up Activities. This statement requires the expense recognition, as opposed to capitalization, of costs related to start-up activities. The expenses were primarily related to development costs of casino gaming ventures that had previously been capitalized prior to July 1, 1997, the date of the Company's early adoption. The impact of this change in accounting principle on operating income in the transition period resulted in expenses of $576,000.

Pro forma amounts, assuming SOP 98-5 was applied beginning in fiscal year 1996, follow with comparisons to actual results (in thousands, except per share amounts):

<TABLE>
<CAPTION>

	Six Months Ended 12/31/97	Fiscal Year Ended 6/30/97	Fiscal Year Ended 6/30/96
<S>	<C>	<C>	<C>
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE			

As reported	$ 2,142	$ 21,394	$ 4,252
Pro forma	2,142	20,857	4,179
NET INCOME			
As reported	1,065	21,394	4,252
Pro forma	2,142	20,857	4,179
INCOME PER COMMON SHARE BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE			
Basic, as reported	0.10	1.05	0.21
Basic, pro forma	0.10	1.03	0.21
Diluted, as reported	0.10	1.03	0.21
Diluted, pro forma	0.10	1.01	0.21
NET INCOME PER COMMON SHARE			
Basic, as reported	0.05	1.05	0.21
Basic, pro forma	0.10	1.03	0.21
Diluted, as reported	0.05	1.03	0.21
Diluted, pro forma	$ 0.10	$ 1.01	$ 0.21

</TABLE>

(E) INCOME (LOSS) 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 12/31/98	Six Months Ended 12/31/97	Fiscal Year Ended 6/30/97	Fiscal Year Ended 6/30/96
<S>	<C>	<C>	<C>	<C>
NUMERATOR:				
For basic and diluted EPS--income (loss) available to common shareholders:				
Income before cumulative effect of change in accounting principle	$ 4,320	$ 2,142	$ 21,394	$ 4,252
Cumulative effect of change in accounting principle (net of tax benefit)	-	(1,077)	-	-
Net income	$ 4,320	$ 1,065	$ 21,394	$ 4,252
DENOMINATOR:				
Denominator for basic EPS--weighted-average shares	20,548	20,487	20,318	20,014
Effect of dilutive potential common shares:				
Stock options	488	331	315	217
Nonvested restricted stock awards	-	-	61	30
Dilutive potential common shares	488	331	376	247
Denominator for diluted EPS--adjusted weighted-average shares	21,036	20,818	20,694	20,261
BASIC EPS				
Income before cumulative effect of change in accounting principle	$ 0.21	$ 0.10	$ 1.05	$ 0.21
Cumulative effect of change in accounting principle (net of tax benefit)	-	(0.05)	-	-
Net income	$ 0.21	$ 0.05	$ 1.05	$ 0.21
DILUTED EPS				
Income before cumulative effect of change in accounting principle	$ 0.21	$ 0.10	$ 1.03	$ 0.21
Cumulative effect of change in accounting principle (net of tax benefit)	-	(0.05)	-	-
Net income	$ 0.21	$ 0.05	$ 1.03	$ 0.21

</TABLE>

During the fiscal year ended December 31, 1998, approximately 340,000 weighted-average shares of Class B restricted stock awards outstanding were not included in the computation of diluted EPS as the operating income objectives applicable to these restricted awards were not met during that period. Additionally,

options to purchase approximately 115,000 weighted-average shares of Class B common stock were outstanding during fiscal year 1998 but were not included in the computation of diluted EPS as the options' exercise prices were greater than the average market price of the Class B common stock, the effect of which was antidilutive. For additional disclosure regarding the Company's stock plans, see Note N.

(F) COMPREHENSIVE INCOME

During fiscal year 1998, the Company adopted the provisions of Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income ("Statement 130"). Statement 130 requires that the Company disclose comprehensive income in addition to net income. Comprehensive income is a more inclusive financial reporting methodology that encompasses net income and all other non-shareholder changes in equity (other comprehensive income or loss).

The following sets forth the components of other comprehensive loss, and the related income tax benefit allocated to each item (in thousands):

<TABLE>
<CAPTION>

	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97	Fiscal Year Ended 6/30/97	Fiscal Year Ended 6/30/96
<S>	<C>	<C>	<C>	<C>
Foreign currency translation adjustment (1)	$ (4)	$ (37)	$ (37)	$ (11)
Unrealized loss on marketable securities (2)	$ (21)	$ -	$ -	$ -

</TABLE>

(1) Net of a related tax benefit of $2,000, $20,000, $20,000 and $6,000 for fiscal year 1998, the transition period and fiscal years 1997 and 1996, respectively.
(2) Net of a related tax benefit of $11,000 for fiscal year 1998.

(G) MARKETABLE SECURITIES

Marketable securities, purchased in connection with the Company's Deferred Compensation Plans, at December 31, 1998 consisted of the following (in thousands):

<TABLE>
<CAPTION>

	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
Equity Securities	$537	$ -	$ 32	$ 505

</TABLE>

(H) INVENTORIES

Inventories consisted of the following (in thousands):

<TABLE>
<CAPTION>

	Dec. 31, 1998	Dec. 31, 1997
<S>	<C>	<C>
Paper	$ 8,277	$ 7,573
Editorial and other prepublication costs	6,052	6,002
Merchandise finished goods	11,356	11,801
Total inventories	$ 25,685	$ 25,376

</TABLE>

(I) PROGRAMMING COSTS

Current programming costs consisted of the following (in thousands):

<TABLE>
<CAPTION>

	Dec. 31, 1998	Dec. 31, 1997
<S>	<C>	<C>

Released, less amortization	$ 34,573	$ 32,601
Completed, not yet released	8,769	8,903
Total current programming costs	$ 43,342	$ 41,504

</TABLE>

Noncurrent programming costs of $6.0 million and $8.3 million at December 31, 1998 and 1997, respectively, consisted of programs in the process of production.

(J) ADVERTISING COSTS

The Company expenses advertising costs as incurred, except for direct-response advertising. Direct-response advertising consists primarily of costs associated with the promotion of magazine subscriptions, principally the production of direct-mail solicitation materials and postage, and the distribution of catalogs for use in the Catalog Group. The capitalized direct-response advertising costs are amortized over the period during which the future benefits are expected to be received, principally six to 12 months.

At December 31, 1998 and 1997, advertising costs of $9.9 million and $9.1 million, respectively, were deferred and included in "Deferred subscription acquisition costs" and "Other current assets" in the Consolidated Balance Sheets. For fiscal year 1998, the transition period and fiscal years 1997 and 1996, the Company's advertising expense was $49.5 million, $23.9 million, $46.2 million and $44.3 million, respectively.

(K) FINANCING OBLIGATIONS

The final principal payment of long-term debt was paid in October 1997 in the amount of $350,000.

At December 31, 1997, the Company had a $35.0 million revolving credit agreement with two domestic banks, which expired in March 1999. In December 1998, the credit agreement was amended to increase the line to $40.0 million, while all other terms and conditions remained the same. The credit agreement provided for interest based on fixed spreads over specified index rates and for commitment fees based on a combination of the unused portion of the total line of credit and cash balances. The credit agreement, which covered short-term borrowings and the issuance of letters of credit, was collateralized by substantially all of the Company's assets and required the Company to maintain financial covenants pertaining to net worth, leverage and cash flow. Additionally, there were limitations on other indebtedness and investments, and cash dividends were prohibited. The carrying value of these borrowings approximated the fair market value of the debt. See Note W "Subsequent Events."

At December 31, 1998, short-term borrowings of $29.8 million and a letter of credit of $0.2 million were outstanding compared to short-term borrowings and a letter of credit outstanding at December 31, 1997 of $10.0 million and $0.4 million, respectively. The weighted average interest rates on the short-term borrowings outstanding at December 31, 1998 and 1997 were 7.16% and 8.04%, respectively.

(L) DISCONTINUED OPERATIONS

In the early 1980's, the Company discontinued its resort hotel operations, and the related liabilities have been segregated in the Consolidated Balance Sheets at December 31, 1998 and 1997 as "Reserves for losses on disposals of discontinued operations." In January 1993, the Company received a General Notice from the EPA as a PRP in connection with a site identified as the Southern Lakes Trap & Skeet Club, located at the Resort, formerly owned by a subsidiary of the Company. The Resort was sold by the Company's subsidiary to LG Americana-GKP Joint Venture in 1982. Two other entities were also identified as PRPs in the notice. The notice related to actions that may be ordered taken by the EPA to sample for and remove contamination in soils and sediments, purportedly caused by skeet shooting activities at the Resort property. On September 10, 1998, the Company entered into a consent decree settling this matter, which was entered by the Wisconsin District Court on November 25, 1998. The Company had established adequate reserves to cover its $0.5 million share of the cost (based on an agreement with one of the other PRPs) of the agreed upon remediation, which was paid in December 1998.

(M) CONTINGENCIES

Playboy TV's cable programming is delivered primarily through a communications satellite transponder. The Company's current transponder lease, effective January 1, 1993, contains protections typical in the industry against transponder failure, including access to spare transponders. Access to the transponder may be denied under certain narrowly defined circumstances relating to violations of law or threats to revoke the license of the satellite owner to operate the satellite based on programming content. The Company has the right, however, to challenge any such denial and believes that the transponder will

continue to be available to it through the end of the expected life of the satellite (currently estimated to be 2004). The Company's current lease term expires October 30, 2001 and can be renewed for an additional three years. Material limitations on the Company's access to cable systems or satellite transponder capacity could materially adversely affect the Company's operating performance. There have been no instances in which the Company has been denied access to the transponder it leases.

In February 1996, the Company filed suit challenging Section 505, which, among other things, regulates the cable transmission of adult programming, such as the Company's domestic pay television programs. Enforcement of Section 505 commenced May 18, 1997. The Company's full case on the merits was heard by the Delaware District Court in March 1998. In December 1998, the Delaware District Court unanimously declared Section 505 unconstitutional. Even though the defendants have appealed this judgment, the ruling gives cable systems the right to resume 24-hour broadcast of adult services so long as cable systems comply with, and consumers are made aware of, the "blocking on request" requirement of Section 504. Management believes that the effect of Section 505 on the Company's financial performance may continue until the case is finally decided.

(N) STOCK PLANS

The Company presently has three plans under which stock options or shares may be granted: the 1991 Non-Qualified Stock Option Plan for Non-Employee Directors (the "1991 Directors' Plan"), the Amended and Restated 1995 Stock Incentive Plan for key employees (the "1995 Stock Incentive Plan") and the 1997 Equity Plan for Non-Employee Directors of Playboy Enterprises, Inc., as Amended (the "1997 Directors' Plan"). Previously, stock options were also granted under the 1989 Stock Option Plan (the "1989 Option Plan"). There are no shares available for future grant under this plan.

The 1989 Option Plan authorized the grant of nonqualified stock options to key employees to purchase up to 342,500 shares of Class A common stock ("Class A stock") and 1,027,500 shares of Class B common stock ("Class B stock") at a price that was equal to the fair market value at date of grant. The remaining 103,000 Class B shares available for future grants under the 1989 Option Plan were transferred into the 1995 Stock Incentive Plan and the remaining 175,100 Class A shares that were not yet granted were canceled.

The 1991 Directors' Plan provides for the grant of nonqualified stock options to each nonemployee director to purchase shares of Class B stock at a price that is equal to the fair market value at date of grant. Options to purchase an aggregate of 80,000 shares of Class B stock may be granted under the 1991 Directors' Plan.

The 1995 Stock Incentive Plan provides for the grant of nonqualified and incentive stock options, shares of restricted stock and deferred stock and other performance-based equity awards. Non-Qualified Stock Option, Incentive Stock Option and Restricted Stock Agreements are presently outstanding under the 1995 Stock Incentive Plan. At December 31, 1998, a total of 1,803,000 shares of Class B stock were authorized under the 1995 Stock Incentive Plan, which includes the previously mentioned 103,000 shares that were transferred from the 1989 Option Plan. The Non-Qualified and Incentive Stock Option Agreements authorize the grant of options to key employees to purchase shares of Class B stock at a price that is not less than the fair market value at date of grant. The Restricted Stock Agreements provide for the issuance of Class B stock to key employees subject to certain restrictions that lapse upon the Company meeting specified operating income objectives pertaining to a fiscal year. Such operating income objectives are set at $7.5 million, $10.0 million, $15.0 million and $20.0 million, after related expenses. However, vesting requirements for certain restricted stock grants will lapse automatically for any remaining restricted stock, generally 10 years from the date awarded. The first two operating income objectives of $7.5 million and $10.0 million were met in fiscal years 1996 and 1997, respectively, and 121,564 and 115,939 shares of restricted stock vested in August 1996 and 1997, respectively. The remaining two operating income objectives of $15.0 million and $20.0 million have not been met as of December 31, 1998, and, as a result, no additional shares of restricted stock have vested and thus no related compensation expense has been recognized. Compensation expense recognized in fiscal years 1996 and 1997 in connection with the 1995 Stock Incentive Plan was $972,000 and $1,078,000, respectively.

In November 1996, the Board authorized the grant of nonqualified stock options to purchase a total of 20,000 shares of the Company's Class B stock to two nonemployee directors under no specific plan (the "Board Grant"). The resolution provided for the grant of these options at a price equal to the fair market value at date of grant.

The 1997 Directors' Plan authorizes the issuance of a total of 200,000 shares of Class B stock and (a) authorizes the grant of stock options, shares of restricted stock and stock awards to nonemployee directors of the Company, (b) provides for the receipt by such directors of all compensation (other than deferred compensation) paid to them for attendance at Board and committee

meetings in the form of shares of Class B stock, and (c) authorizes such directors to elect to receive up to 100% of their annual retainer in the form of shares of Class B stock. The exercise price of options granted to nonemployee directors under the 1997 Directors' Plan must equal or exceed the fair market value at date of grant. As of December 31, 1998, Class B stock had been granted as restricted stock awards and issued as payment to the members of the Board for attendance at Board and committee meetings under the 1997 Directors' Plan. The restricted stock awards are subject to certain restrictions that lapse upon the Company meeting specified operating income objectives pertaining to a fiscal year. Such operating income objectives are set at $15.0 million and $20.0 million, after related expenses, upon attainment of which the restrictions lapse as to 30% and 70% of the shares of restricted stock, respectively. However, vesting requirements for the restricted stock grants will lapse automatically for any remaining restricted stock, generally 10 years from the date awarded. As previously discussed, the operating income objectives of $15.0 million and $20.0 million have not been met as of December 31, 1998, and, as a result, no shares of restricted stock have vested and thus no related compensation expense has been recognized in connection with the 1997 Directors' Plan.

Stock options under all of the plans discussed above are generally for a term of 10 years and are generally exercisable in cumulative annual installments of 25% each year, beginning on the first anniversary of the date such options were initially granted. At December 31, 1998, options to purchase 115,000 shares of Class A stock and 637,750 shares of Class B stock were exercisable under the 1989 Option Plan, options to purchase 32,500 shares of Class B stock were exercisable under the 1991 Directors' Plan, options to purchase 353,750 shares of Class B stock were exercisable under the 1995 Stock Incentive Plan and options to purchase 10,000 shares of Class B stock were exercisable under the Board Grant. The Board has reserved treasury shares for issuance upon exercise of options under the 1989 Option Plan and the Board Grant. Shares issued upon exercise of options granted or shares awarded under the 1991 Directors' Plan, the 1995 Stock Incentive Plan and the 1997 Directors' Plan may be either treasury shares or newly issued shares. At December 31, 1998, a total of 516,702 shares of Class B stock were available for future grants under the 1991 Directors' Plan, the 1995 Stock Incentive Plan and the 1997 Directors' Plan combined. Stock option transactions are summarized as follows:

<TABLE>
<CAPTION>

Stock Options Outstanding

	Shares		Weighted Average Exercise Price	
	Class A	Class B	Class A	Class B
<S>	<C>	<C>	<C>	<C>
Outstanding at June 30, 1995	150,000	1,308,750	6.29	7.59
Granted	-	40,000	-	9.31
Exercised	(35,000)	(159,750)	4.88	4.84
Canceled	-	(42,500)	-	9.13
Outstanding at June 30, 1996	115,000	1,146,500	6.72	7.97
Granted	-	477,500	-	13.87
Exercised	-	(57,500)	-	7.55
Canceled	-	(51,250)	-	12.72
Outstanding at June 30, 1997	115,000	1,515,250	6.72	9.74
Granted	-	70,000	-	15.03
Exercised	-	(15,000)	-	7.96
Canceled	-	-	-	-
Outstanding at December 31, 1997	115,000	1,570,250	6.72	9.99
Granted	-	167,500	-	16.15
Exercised	-	(76,250)	-	10.96
Canceled	-	(140,000)	-	13.60
Outstanding at December 31, 1998	115,000	1,521,500	6.72	10.29

</TABLE>

The weighted average exercise prices for Class A and Class B exercisable options at June 30, 1996 were $6.72 and $7.36, respectively, and at June 30, 1997 were $6.72 and $7.59, respectively. The weighted average exercise prices for Class A and Class B exercisable options at December 31, 1997 were $6.72 and $8.00, respectively. The following table summarizes information regarding stock options at December 31, 1998:

<TABLE>
<CAPTION>

	Options Outstanding		Options Exercisable	

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Class A					
$6.69-$7.38	115,000	1.15	6.72	115,000	6.72
Class B					
$5.38-$9.38	960,165	3.50	7.82	877,373	7.67
$10.31-$13.31	116,335	5.56	11.36	56,627	10.95
$13.63-$17.69	445,000	8.40	15.33	100,000	14.79
Total Class B	1,521,500	5.09	10.29	1,034,000	8.54

The following table summarizes transactions related to restricted stock awards:

Restricted Stock Awards Outstanding

	Class B
Outstanding at June 30, 1995	516,250
Awarded	20,000
Vested	-
Canceled	(50,000)
Outstanding at June 30, 1996	486,250
Awarded	68,750
Vested	(121,564)
Canceled	(28,125)
Outstanding at June 30, 1997	405,311
Awarded	37,500
Vested	(115,939)
Canceled	-
Outstanding at December 31, 1997	326,872
Awarded	46,250
Vested	-
Canceled	(42,500)
Outstanding at December 31, 1998	330,622

Effective July 1, 1996, the Company established an Employee Stock Purchase Plan (the "Purchase Plan") to provide substantially all regular full- and part-time employees an opportunity to purchase shares of its Class B stock through payroll deductions up to the lower of 10% of base salary, or $25,000 of fair market value of Class B stock per calendar year (as required by the Internal Revenue Service). The funds are withheld and then used to acquire stock on the last trading day of each quarter, based on the closing price less a 15% discount. Under the Purchase Plan, shares issued upon purchase may be either treasury shares or newly issued shares. At December 31, 1998, an aggregate of 50,000 shares of Class B stock have been authorized under the Purchase Plan, of which a total of approximately 41,500 have been sold to employees.

Stock options are accounted for under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. Accordingly, no compensation expense has been recognized related to these options. Under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("Statement 123"), compensation expense is measured at the grant date based on the fair value of the award and is recognized over the vesting period. The Company has adopted the disclosure-only provisions of Statement 123. Had compensation expense for these options been determined consistent with Statement 123, the Company's net income and basic and diluted EPS would have been reduced to the following pro forma amounts (in thousands, except per share amounts):

	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97*	Fiscal Year Ended 6/30/97*	Fiscal Year Ended 6/30/96*
Net income				

As reported	$ 4,320	$ 1,065	$ 21,394	$ 4,252
Pro forma	3,194	658	21,008	4,227
BASIC EPS				
As reported	0.21	0.05	1.05	0.21
Pro forma	0.16	0.03	1.03	0.21
DILUTED EPS				
As reported	0.21	0.05	1.03	0.21
Pro forma	$ 0.15	$ 0.03	$ 1.02	$ 0.21

</TABLE>

* Certain reclassifications have been made to conform to the current presentation.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

<TABLE>
<CAPTION>

	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97	Fiscal Year Ended 6/30/97	Fiscal Year Ended 6/30/96
<S>	<C>	<C>	<C>	<C>
Risk-free interest rate	5.63%	6.14%	6.56%	5.98%
Expected stock price volatility	41.47%	40.07%	40.00%	40.00%
Expected dividend yield	-	-	-	-

</TABLE>

For fiscal years 1996 and 1997, the transition period and fiscal year 1998, an expected life of six years was used for all of the stock options except one as noted below, and the weighted average fair value of options granted was $4.55, $6.87, $7.35 and $7.91, respectively. For one incentive stock option granted in fiscal year 1997 with a shorter term, an expected life of five years was used, and the weighted average fair value of that option was $6.17. For fiscal years 1996 and 1997, the transition period and fiscal year 1998, the weighted average fair value of restricted stock awarded was $8.88, $13.67, $14.05 and $16.14, respectively.

The pro forma effect on net income for fiscal years 1996 and 1997, the transition period and fiscal year 1998 may not be representative of the pro forma effect on net income in future years as the Statement 123 method of accounting for pro forma compensation expense has not been applied to options granted prior to July 1, 1995.

(O) ACQUISITIONS

On March 29, 1996, the Company acquired an additional 45% interest in VIPress, publisher of the Polish edition of Playboy magazine, for approximately $315,000, including approximately $85,000 in acquisition costs. Subsequent to this purchase, the Company owned 90% of the capital stock of VIPress. The acquisition was accounted for under the purchase method and, accordingly, the results of VIPress since the date of acquisition have been included in the Company's Consolidated Statements of Operations. Prior to acquiring the additional 45% interest, the investment was accounted for under the equity method and, as such, the Company's proportionate share of net income or loss from VIPress prior to the acquisition was included in nonoperating income or expense. The acquisition resulted in goodwill of approximately $106,000 which is being amortized over five years. The Company's interest in VIPress may be reduced to a minimum of 80% by the end of fiscal year 2000 as a result of shares that may be sold for a nominal amount to two managing minority partners under an incentive plan that requires certain performance objectives to be met. At December 31, 1998, the Company's interest in VIPress was 84%. Pro forma results reflecting this acquisition, assuming it had been made at the beginning of fiscal year 1996, would not be materially different from the results reported.

(P) CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash paid for interest and income taxes was as follows (in thousands):

<TABLE>
<CAPTION>

	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97	Fiscal Year Ended 6/30/97	Fiscal Year Ended 6/30/96
<S>	<C>	<C>	<C>	<C>
Interest	$ 1,505	$ 268	$ 480	$ 610
Income taxes	$ 2,367	$ 1,545	$ 2,293	$ 1,851

</TABLE>

During the fiscal year ended December 31, 1998, the Company had noncash investing activities related to the sale of an investment. See Note B.

(Q) LEASE COMMITMENTS

The Company's principal lease commitments are for office space, a satellite transponder used in its domestic pay television operations, and furniture and equipment. The office leases provide for the Company's payment of its proportionate share of operating expenses and real estate taxes in addition to monthly base rent.

The Company's corporate headquarters located in Chicago were under terms of a 15-year lease, which commenced September 1, 1989. In August 1996, the Company renegotiated this lease on more favorable terms, including a lower base rent which results in savings of approximately $2.0 million over the original term of the lease, combined with the Company obtaining certain expansion options in the building. Further, the lease term was

extended three years to 2007, with a renewal option for an additional five years. The Company exercised its options to expand in July 1998 due to growth of the Playboy Online Group. The Entertainment Group's Los Angeles principal office is under terms of a 10-year lease, which commenced April 1, 1992. The Publishing Group's New York office is under a lease with a term of approximately 11 years, which commenced April 1, 1993. The Publishing Group's Los Angeles photography studio is under terms of a 10-year lease, which commenced January 1, 1994. The Catalog Group's suburban Chicago operations facility is under terms of a 10 1/2 year lease, which commenced June 1, 1997. These leases provide for base rent abatements; however, rent expense is being charged to operations on a straight-line basis over the terms of the leases.

The Company's lease for its current satellite transponder commenced January 1, 1993. This operating lease is for a term of approximately nine years and includes an end-of-lease purchase option.

The Company leases certain furniture and equipment for use in its operations. The leases are for terms of two to five years and generally include end-of-lease purchase options.

Rent expense for fiscal year 1998, the transition period and fiscal years 1997 and 1996 was $11,250,000, $5,232,000 $9,611,000 and $9,177,000, respectively. There was no contingent rent expense or sublease income in any of these periods.

The minimum commitments at December 31, 1998, under operating leases with noncancelable terms in excess of one year, were as follows (in thousands):

<TABLE>
<CAPTION>

Fiscal year ending December 31	Operating Leases
<S>	<C>
1999	$11,564
2000	11,131
2001	9,812
2002	5,125
2003	4,488
Later years	11,056
Total minimum lease payments	$53,176

</TABLE>

(R) SEGMENT INFORMATION

During fiscal year 1998, the Company adopted the provisions of Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ("Statement 131"). Statement 131, which is based on the management approach to segment reporting, includes requirements to report selected segment information quarterly, and annual entity-wide disclosures related to products and services, geographic areas and major customers. The adoption of Statement 131 did not affect results of operations or financial position of the Company, but did affect the disclosure of segment information.

The Company's six reportable segments are as follows: Publishing, Entertainment, Product Marketing, Catalog, Casino Gaming and Playboy Online. Publishing Group operations include the publication of Playboy magazine; other domestic publishing businesses, comprising newsstand specials, calendars and ancillary businesses; and the licensing of international editions of Playboy

magazine. Entertainment Group operations include the production and marketing of programming through domestic Playboy TV, other domestic pay television, international television and worldwide home video businesses as well as the worldwide distribution of programming through AdulTVision and the production or co-production and distribution of feature films. Product Marketing Group operations include licensing the manufacture, sale and distribution of consumer products carrying one or more of the Company's trademarks and the licensing of artwork owned by the Company. Catalog Group operations include the direct marketing of four catalogs: Critics' Choice Video, Collectors' Choice Music, Playboy and Spice. Casino Gaming Group operations include the development of casino gaming opportunities. Playboy Online Group operations include the development and operation of the Company's Internet sites, including Playboy.com, Playboy Cyber Club and e-commerce sites for the Company's catalogs.

These reportable segments are based on the nature of the products offered. The chief operating decision maker of the Company 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. The following table represents financial information by reportable segment:

<TABLE>
<CAPTION>

(in thousands)	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97*	Fiscal Year Ended 6/30/97*	Fiscal Year Ended 6/30/96*
<S>	<C>	<C>	<C>	<C>
NET REVENUES (1)				
Publishing	$ 137,997	$ 66,329	$135,710	$ 131,800
Entertainment	91,049	37,356	74,716	64,826
Product Marketing	7,081	4,199	7,968	7,125
Catalog	74,393	39,340	75,391	71,634
Casino Gaming	-	-	-	-
Playboy Online	7,098	2,317	2,838	1,202
Total	$ 317,618	$ 149,541	$296,623	$ 276,587
INCOME (LOSS) BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE				
Publishing	$ 6,332	$ 3,898	$ 8,665	$ 9,041
Entertainment	26,165	7,991	18,254	9,204
Product Marketing	365	1,614	3,512	3,692
Catalog	4,100	1,835	4,630	5,231
Casino Gaming	(1,108)	(541)	-	-
Playboy Online	(6,528)	(943)	(113)	207
Corporate Administration and Promotion	(24,358)	(9,395)	(19,203)	(17,882)
Investment income	127	50	73	88
Interest expense	(1,551)	(289)	(427)	(680)
Gain on sale of investment	4,272	-	-	-
Other, net	(791)	70	(640)	(452)
Total	$ 7,025	$ 4,290	$ 14,751	$ 8,449
IDENTIFIABLE ASSETS (2) (3)				
Publishing	$ 50,400	$ 46,579	$ 37,974	$ 41,353
Entertainment	85,783	71,353	72,251	57,947
Product Marketing	5,764	6,589	6,404	5,196
Catalog	17,871	18,931	15,338	12,542
Casino Gaming	4,416	1,863	2,936	2,499
Playboy Online	1,282	636	704	432
Corporate Administration and Promotion	46,591	39,996	39,935	30,900
Total	$ 212,107	$ 185,947	$175,542	$ 150,869
DEPRECIATION AND AMORTIZATION (2) (4)				
Publishing	$ 641	$ 325	$ 1,046	$ 967
Entertainment	25,531	11,356	22,027	21,836
Product Marketing	155	78	176	217
Catalog	464	237	651	639
Casino Gaming	-	-	-	-
Playboy Online	28	-	-	-
Corporate Administration and Promotion	2,193	1,009	2,573	2,682
Total	$ 29,012	$ 13,005	$ 26,473	$ 26,341

</TABLE>

* Certain reclassifications have been made to conform to the current presentation.

(1) Net revenues include revenues attributable to foreign countries of $45,231, $21,292, $42,956 and $35,932 in fiscal year 1998, the transition period and fiscal years 1997 and 1996, respectively. Revenues from individual foreign countries were not material. Revenues are attributed to countries based on the location of customers, except Product Marketing royalties where revenues are attributed based upon the location of licensees.
(2) Substantially all property and equipment and capital expenditures are reflected in Corporate Administration and Promotion; depreciation, however, is allocated to the reporting segments.
(3) Long-lived assets of the Company located in foreign countries were not material.
(4) Amounts include depreciation of property and equipment, amortization of intangible assets, expenses related to the 1995 Stock Incentive Plan and amortization of investments in entertainment programming.

(S) BENEFIT PLANS

The Company's 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. The Company's 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. Contributions for fiscal year 1998, the transition period and fiscal years 1997 and 1996 were approximately $420,000, $275,000, $1,035,000 and $620,000, respectively.

Eligibility for the 401(k) plan is either upon date of hire or after an employee has completed 12 months of service of at least 1,000 hours, depending on the employee's annual salary. The Company makes matching contributions to the 401(k) plan based on each participating employee's contributions and eligible compensation. In fiscal year 1998, the transition period and fiscal year 1997, the maximum matching contributions were 3 1/2%, and in fiscal year 1996 were 2 3/4%, of each employee's eligible compensation, subject to Internal Revenue Service limitations. For fiscal year 1999, the maximum matching contribution will continue to be 3 1/2% of such compensation. The Company's matching contributions for fiscal year 1998, the transition period and fiscal years 1997 and 1996 related to this plan were approximately $1,015,000, $455,000, $920,000 and $630,000, respectively.

The Company has two non-qualified Deferred Compensation Plans, which permit certain employees and nonemployee directors to annually elect to defer a portion of their compensation. The Deferred Compensation Plan for employees is available to approximately 80 of the Company's most highly compensated employees. The Board's Deferred Compensation Plan is available to nonemployee directors. Effective January 1, 1998, the Company amended both plans which, among other things, increased the maximum deferral percentages, added new investment alternatives, and added a Company match which applies to certain contributions made by employees. Employee participants can defer between 6% and 25% (in 1% increments) of salary, and up to 100% (in 10% increments) of payments due under executive incentive compensation plans or sales commissions. Directors receive annual retainers and meeting fees for their services. Directors may defer between 25% and 100% (in 25% increments) of their annual retainers, or they may be paid in cash, Class B stock, or in a combination thereof, at the director's option. Directors' meeting fees are paid in Class B stock, and can be deferred at the director's option. Amounts deferred under these plans are credited each quarter with (a) interest at a rate equal to the preceding quarter's average composite yield on corporate bonds as published by Moody's Investor's Service, Inc. or (b) earnings equal to the performance of selected mutual funds, depending on the participant's investment allocations. In addition, stock deferrals by the directors track the performance of the Company's Class B stock. A Company 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 deferred and earnings credited are 100% vested immediately and are general unsecured obligations of the Company. Such obligations totaled $2,580,000 and $1,722,000 at December 31, 1998 and 1997, respectively, and are included in "Noncurrent liabilities" in the Consolidated Balance Sheets.

(T) CABLE TELEVISION

Effective April 1, 1986, the Company assumed marketing and distribution responsibilities for The Playboy Channel and other North American Playboy pay television products (the "Service") from its former distributor, Rainbow Programming Services Company ("Rainbow"). The termination agreement provided for the assignment to the Company of all distribution contracts with cable system operators and others that carried the Service.

Under the termination agreement, Rainbow was to receive a monthly royalty of 5% of revenues received by the Company for the Service, subject to a minimum royalty based on number of subscribers, as long as the Service is in operation.

These royalty payments were discontinued April 30, 1996, when the agreement ended. The agreement provided for noncompetition in the North American distribution and production of an adult-oriented pay television service by Rainbow as long as royalty payments were being made.

(U) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for fiscal year 1998, the transition period and fiscal year 1997 (in thousands, except per share amounts):

<TABLE>
<CAPTION>

	Quarters Ended				Fiscal Year Ended
Fiscal Year Ended December 31, 1998	Mar. 31	June 30	Sept. 30	Dec. 31	12/31/98
<S>	<C>	<C>	<C>	<C>	<C>
Net revenues	$ 71,762	$ 77,820	$ 75,655	$ 92,381	$ 317,618
Gross profit	10,002	14,352	9,097	14,689	48,140
Operating income (loss)	1,244	3,991	(2,442)	2,175	4,968
Net income (loss)	60	2,079	(2,689)	4,870	4,320
Basic and diluted EPS	0.00	0.10	(0.13)	0.24	0.21
Common stock price					
Class A high	16 11/16	18 3/8	17	20 1/4	
Class A low	13 1/2	15 3/4	11 1/8	11	
Class B high	17 13/16	19 11/16	18 3/4	22 7/16	
Class B low	$ 14 5/8	$ 17	$12 3/16	$ 11 7/8	

<CAPTION>

	Quarters Ended		Six Months Ended
Six Months Ended December 31, 1997	Sept. 30	Dec. 31	12/31/97
<S>	<C>	<C>	<C>
Net revenues	$ 68,214	$ 81,327	$ 149,541
Gross profit	11,121	11,762	22,883
Operating income	2,328	2,131	4,459
Income before cumulative effect of change in accounting principle	1,095	1,047	2,142
Net income (loss)	1,095	(30)	1,065
Basic and diluted EPS			
Income before cumulative effect of change in accounting principle	0.05	0.05	0.10
Net income	0.05	0.00	0.05
Common stock price			
Class A high	13 7/8	15 1/8	
Class A low	10 3/8	12 3/16	
Class B high	15 3/8	16 11/16	
Class B low	$ 10 3/4	$ 13 1/2	

<CAPTION>

	Quarters Ended				Fiscal Year Ended
Fiscal Year Ended June 30, 1997	Sept. 30	Dec. 31	Mar. 31	June 30	6/30/97
<S>	<C>	<C>	<C>	<C>	<C>
Net revenues	$ 66,224	$ 79,779	$ 73,247	$ 77,373	$ 296,623
Gross profit	9,963	13,978	14,394	13,265	51,600
Operating income	2,429	5,265	4,667	3,384	15,745
Net income	1,037	2,825	2,510	15,022	21,394
Basic EPS	0.05	0.14	0.12	0.74	1.05
Diluted EPS	0.05	0.14	0.12	0.72	1.03
Common stock price					
Class A high	14 7/8	12 1/2	15 5/8	15	
Class A low	12 1/4	9 5/8	9 1/2	10 7/8	
Class B high	15 1/4	12 3/4	16 3/8	16	
Class B low	$ 12 1/8	$ 9 1/2	$ 9 3/8	$ 11 1/4	

</TABLE>

Net income for the quarter ended December 31, 1998 includes a gain on sale of investment of $4,272. See Note B.

The net loss for the quarter ended December 31, 1997 includes a charge of $1,077 reported as "Cumulative effect of change in accounting principle" as a result of the Company's early adoption of SOP 98-5. See Note D.

Net income for the quarter ended June 30, 1997 includes a federal income tax benefit of $13,486 related to net operating loss and tax credit carryforwards.

See Note C.

(V) RELATED PARTIES

The Company holds less than 20% interests in several investments in international ventures. During fiscal year 1998, the transition period and fiscal years 1997 and 1996, the Company sold approximately $7.0 million, $2.0 million, $3.0 million and $0.7 million, respectively, of entertainment programming to these ventures. As of December 31, 1998 and 1997, the Company had net receivables from these ventures of $5.0 million and $1.5 million, respectively.

(W) SUBSEQUENT EVENTS

On March 15, 1999, the Company completed its acquisition of Spice, a leading provider of adult television entertainment. For each share of Spice common stock, stockholders of Spice received $3.60 in cash and 0.1133 shares of the Company's Class B stock. The total transaction value, including assumption of debt, was approximately $105 million. Spice stockholders also retained ownership of Directrix, Inc., a former subsidiary of Spice that owns Spice's digital operations center, an option to acquire Emerald Media, Inc. and certain rights to Spice's library of adult films.

In connection with the Company's acquisition of Spice, the Company entered into a new credit agreement dated as of February 26, 1999 for borrowings of up to $150.0 million. The new agreement provided financing (a) to purchase all of the outstanding shares of Spice and to pay related acquisition costs, (b) to repay the existing debt of the Company and Spice, and (c) to fund future general working capital and investment needs.

The new agreement consists of three components: a $40.0 million revolving credit facility with a $10.0 million letter of credit sublimit; a $35.0 million tranche A term loan; and a $75.0 million tranche B term loan. The revolving credit facility and tranche A term loan mature on March 15, 2004. The tranche B term loan matures on March 15, 2006. Loans bear interest at a rate equal to specified index rates plus margins that fluctuate based on the Company's ratio of consolidated debt to consolidated adjusted EBITDA. The Company's obligations under the agreement are unconditionally guaranteed by each of the Company's existing and subsequently acquired domestic restricted subsidiaries (all domestic subsidiaries except Playboy Online, Inc.). The agreement and related guarantees are collateralized by substantially all of the Company's and domestic restricted subsidiaries' assets.

The agreement contains financial covenants requiring the Company to maintain certain leverage, cash flow, interest coverage and fixed charge coverage ratios. Other covenants include limitations on other indebtedness, investments, capital expenditures and dividends. The agreement also requires mandatory prepayments with net cash proceeds resulting from excess cash flow, asset sales and the issuance of certain debt obligations or equity securities, with certain exceptions as described in the agreement.

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Playboy Enterprises, Inc. and its subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for the fiscal year ended December 31, 1998, the six-month transition period ended December 31, 1997, and the two fiscal years ended June 30, 1997 and 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note D to the Consolidated Financial Statements, the Company changed its method of recognizing costs related to start-up activities in the six-month transition period ended December 31, 1997.

PricewaterhouseCoopers LLP

Chicago, Illinois
February 9, 1999, except for Note W which is dated March 15, 1999

REPORT OF MANAGEMENT

The consolidated financial statements and all related financial information in this Form 10-K Annual Report are the responsibility of the Company. The financial statements, which include amounts based on judgments, have been prepared in accordance with generally accepted accounting principles. Other financial information in this Form 10-K Annual Report is consistent with that in the financial statements.

The Company maintains a system of internal controls that it believes provides reasonable assurance that transactions are executed in accordance with management's authorization and are properly recorded, that assets are safeguarded and that accountability for assets is maintained. The system of internal controls is characterized by a control-oriented environment within the Company, which includes written policies and procedures, careful selection and training of personnel, and internal audits.

PricewaterhouseCoopers LLP, independent accountants, have audited and reported on the Company's consolidated financial statements. Their audits were performed in accordance with generally accepted auditing standards.

The Audit Committee of the Board of Directors, composed of three nonmanagement directors, meets periodically with PricewaterhouseCoopers LLP, management representatives and the Company's internal auditor to review internal accounting control and auditing and financial reporting matters. Both PricewaterhouseCoopers LLP and the internal auditor have unrestricted access to the Audit Committee and may meet with it without management representatives being present.

Christie A. Hefner
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

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

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

None

PART III

Information required by Items 10, 11, 12 and 13 is contained in the registrant's Notice of Annual Meeting of Stockholders and Proxy Statement (to be filed) relating to the Annual Meeting of Stockholders to be held in May 1999, which will be filed within 120 days after the close of the registrant's fiscal year ended December 31, 1998, and is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Certain Documents Filed as Part of the Form 10-K

Financial Statements of the registrant and report of independent accountants following are as set forth under Item 8 of this Form 10-K Annual Report:

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</TABLE>

(b) Reports on Form 8-K

During the quarter ended December 31, 1998, the Company filed a Form 8-K Current Report dated December 22, 1998 under Item 5 of the report. The purpose of this report was to announce that the Company had entered into an agreement to create Playboy TV International, LLC, a joint venture with Cisneros that will create television channels worldwide (outside of the United States and Canadian territories).

During the quarter ended December 31, 1998, the Company filed a Form 8-K Current Report dated December 23, 1998 under Item 5 of the report. The purpose of this report was to announce that the Company has no present plans for a public stock offering of its Internet business.

(c) Exhibits

2.1 Agreement and Plan of Merger, dated as of May 29, 1998, by and among Playboy Enterprises, Inc., New Playboy, Inc., Playboy Acquisition Corp., Spice Acquisition Corp. and Spice Entertainment Companies, Inc. (incorporated by reference to Exhibit 2.1 from the Company's Registration Statement No. 333-68139 on Form S-4 dated December 1, 1998 (the "December 1, 1998 Form S-4"))

2.2 Amendment, dated as of November 16, 1998, to the Agreement and Plan of Merger by and among Playboy Enterprises, Inc., New Playboy, Inc., Playboy Acquisition Corp., Spice Acquisition Corp. and Spice Entertainment Companies, Inc. (incorporated by reference to Exhibit 2.2 from the December 1, 1998 Form S-4)

2.3 Amendment, dated as of February 26, 1999, to the Agreement and Plan of Merger by and among Playboy Enterprises, Inc., New Playboy, Inc., Playboy Acquisition Corp., Spice Acquisition Corp. and Spice Entertainment Companies, Inc. (incorporated by reference to Exhibit 2.1 from the Current Report on Form 8-K dated March 9, 1999 (the "March 9, 1999 Form 8-K"))

3.1 Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 from the Current Report on Form 8-K dated March 15, 1999 (the "March 15, 1999 Form 8-K"))

3.2 Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, dated March 15, 1999 (incorporated by reference to Exhibit 3.2 from the March 15, 1999 Form 8-K)

3.3 Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, dated March 15, 1999 (incorporated by reference to Exhibit 3.3 from the March 15, 1999 Form 8-K)

3.4 Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.4 from the March 15, 1999 Form 8-K)

#10.1 Playboy Magazine Printing and Binding Agreement dated as of October 22, 1997 between Playboy Enterprises, Inc. and Quad/Graphics, Inc. (incorporated by reference to Exhibit 10.4 from the Company's transition period report on Form 10-K for the six months ended December 31, 1997 (the "Transition Period Form 10-K"))

10.2 Playboy Magazine Distribution Agreement dated as of May 27, 1997 between Playboy Enterprises, Inc. and Warner Publisher Services, Inc. (incorporated by reference to Exhibit 10.4 from the Company's annual report on Form 10-K for the year ended June 30, 1997 (the "1997 Form 10-K"))

10.3 Playboy Magazine Subscription Fulfillment Agreement

a July 1, 1987 agreement between Communication Data Services, Inc. and Playboy Enterprises, Inc. (incorporated by reference to Exhibit 10.12(a) from the Company's annual report on Form 10-K for the year ended June 30, 1992 (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 the Company's annual report on Form 10-K for the year ended June 30, 1993 (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 the Company's annual report on Form 10-K for the year ended June 30, 1991 (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 the Company's annual report on Form 10-K for the year ended June 30, 1996 (the "1996 Form 10-K"))

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

10.4 Transponder Lease Agreement dated as of December 31, 1992 between Playboy Entertainment Group, Inc. and General Electric Capital Corporation (incorporated by reference to Exhibit 10.3 from the Company's quarterly report on Form 10-Q for the quarter ended December 31, 1992 (the "December 31, 1992 Form 10-Q"))

10.5 Distribution License to Exploit Home Video Rights effective October 1, 1991 between Playboy Video Enterprises, Inc. and Uni Distribution Corp. (incorporated by reference to Exhibit 10.16 from the 1991 Form 10-K)

10.6 Distribution Agreement between Playboy Entertainment Group, Inc. and Universal Music & Video Distribution (formerly Uni Distribution Corp.) regarding licensing and sale of domestic home video product

a Agreement dated as of March 24, 1995 (incorporated by reference to Exhibit 10.8 from the Company's annual report on Form 10-K for the year ended June 30, 1995 (the "1995 Form 10-K"))

b Amendment to March 24, 1995 agreement dated February 28, 1997 (incorporated by reference to Exhibit 10.6 from the Company's quarterly report on Form 10-Q for the quarter ended March 31, 1997 (the "March 31, 1997 Form 10-Q"))

#c Agreement dated June 5, 1998 (incorporated by reference to Exhibit 10.1 from the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1998 (the "June 30, 1998 Form 10-Q"))

10.7 Agreements effective November 1, 1995 between Playboy Entertainment Group, Inc., Continental Shelf 16 Limited, Precis (1378) Limited and Playboy TV/Benelux Limited regarding the establishment of a Playboy TV pay television service in the United Kingdom (incorporated by reference to Exhibit 10.9 from the 1996 Form 10-K)

10.8 Agreements between Playboy Entertainment Group, Inc. and Tohokushinsha Film Corporation regarding the establishment of a Playboy TV pay television service in Japan

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10.9 Agreements between Playboy Entertainment Group, Inc. and Bloomfield Mercantile Inc. related to establishing international networks in Latin America, Spain and Portugal

#a Agreement outline as of March 29, 1996

#b Letter agreement dated January 13, 1997

(items (a) and (b) incorporated by reference to Exhibits 10.4(a) and (b), respectively, from the March 31, 1997 Form 10-Q)

10.10 Letter Agreement, in reference to the Letter Agreement dated January 13, 1997, between Playboy Entertainment Group, Inc. and Bloomfield Mercantile Inc. regarding Playboy Television programming in Scandinavia dated as of July 31, 1997 (incorporated by reference to Exhibit 10.4 from the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1997 (the "September 30, 1997 Form 10-Q"))

#10.11 Letter Agreement dated October 20, 1997 between Playboy Entertainment Group, Inc., Bloomfield Mercantile Inc. and White Oak Enterprises, Ltd. related to establishing international networks in Germany and Scandinavia (incorporated by reference to Exhibit 10.14 from the Transition Period Form 10-K)

#10.12 Memorandum of Agreement as of July 29, 1997 between Playboy Entertainment Group, Inc. and the Modern Times Group related to broadcasting a pay television service known as Playboy TV/Scandinavia (incorporated by reference to Exhibit 10.2 from the September 30, 1997 Form 10-Q)

#10.13 Memorandum of Understanding as of February 26, 1997 between Playboy Entertainment Group, Inc. and Daewoo Corporation related to establishing international networks in South Korea (incorporated by reference to Exhibit 10.5 from the March 31, 1997 Form 10-Q)

10.14 Deal Memorandum dated June 22, 1995 between Playboy Networks Worldwide and TVN regarding distribution and services related to the AdulTVision pay television service (incorporated by reference to Exhibit 10.11 from the 1996 Form 10-K)

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distribution of certain home video programs and product

a Agreement dated June 27, 1996 (incorporated by reference to Exhibit 10.12 from the 1996 Form 10-K)

b First Amendment to June 27, 1996 agreement dated July 29, 1996 (incorporated by reference to Exhibit 10.7 from the March 31, 1997 Form 10-Q)

#c Second Amendment to June 27, 1996 agreement dated December 31, 1997 (incorporated by reference to Exhibit 10.18(c) from the Transition Period Form 10-K)

10.16 Letter Agreement dated as of January 5, 1998 between Playboy Entertainment Group, Inc. and Metro-Goldwyn-Mayer Studios Inc. in reference to Metro-Goldwyn-Mayer Studios Inc. assuming full right, power and authority over certain distribution and production agreements on behalf of other parties (incorporated by reference to Exhibit 10.19 from the Transition Period Form 10-K)

10.17 Affiliation Agreement between Playboy Entertainment Group, Inc. and DirecTV, Inc. regarding the satellite distribution of Playboy TV

a Agreement dated November 15, 1993

b First Amendment to November 15, 1993 agreement dated as of April 19, 1994

c Second Amendment to November 15, 1993 agreement dated as of July 26, 1995

(items (a), (b) and (c) incorporated by reference to Exhibits 10.13(a), (b) and (c), respectively, from the 1996 Form 10-K)

#d Third Amendment to November 15, 1993 agreement dated August 26, 1997 (incorporated by reference to Exhibit 10.3 from the September 30, 1997 Form 10-Q)

#10.18 DBS License Agreement dated April 1, 1997 between Playboy Entertainment Group, Inc. and PrimeStar Partners, L.P. regarding the satellite distribution of Playboy TV or any other service mark that retains a Playboy Mark (incorporated by reference to Exhibit 10.1 from the Company's quarterly report on Form 10-Q for the quarter ended March 31, 1998 (the "March 31, 1998 Form 10-Q"))

10.19 Product License Agreements between Playboy Enterprises, Inc. and Chaifa Investment, Limited

a Agreement dated September 26, 1989 related to the Hong Kong territory

b Agreement dated March 4, 1991 related to the People's Republic of China territory

c Amendment dated July 21, 1992 related to the March 4, 1991 agreement

d Amendment dated August 17, 1993 related to the agreements dated September 26, 1989 and March 4, 1991

e Amendment dated January 23, 1996 related to the agreements dated September 26, 1989 and March 4, 1991

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f Amendment dated May 12, 1997 related to the agreements dated September 26, 1989 and March 4, 1991 (incorporated by reference to Exhibit 10.18(f) from the 1997 Form 10-K)

10.20 Warner Home Video/Critics' Choice Direct Marketing License Agreements

a Agreement dated February 22, 1994 regarding purchase of Turner product

b Agreement dated February 22, 1994 regarding purchase of non-Turner product

(items (a) and (b) incorporated by reference to Exhibits 10.10 and 10.11, respectively, from the 1995 Form 10-K)

c Agreement dated June 28, 1996 regarding purchase of Turner and non-Turner product (incorporated by reference to Exhibit 10.15(c) from the 1996 Form 10-K)

10.21 Credit Agreement

a Credit Agreement, dated as of February 26, 1999, among New Playboy, Inc., PEI Holdings, Inc., the Lenders named in this Credit Agreement, ING (U.S.) Capital LLC, as Syndication Agent, and Credit Suisse First Boston, as Administrative Agent, as Collateral Agent and as Issuing Bank

b Subsidiary Guarantee Agreement, dated as of March 15, 1999, among certain subsidiaries of Playboy Enterprises, Inc. and Credit Suisse First Boston, as Collateral Agent

c Indemnity, Subrogation and Contribution Agreement, dated as of March 15, 1999, among Playboy Enterprises, Inc., PEI Holdings, Inc., certain other subsidiaries of Playboy Enterprises, Inc., and Credit Suisse First Boston, as Collateral Agent

d Pledge Agreement, dated as of March 15, 1999, among Playboy Enterprises, Inc., PEI Holdings, Inc., certain other subsidiaries of Playboy Enterprises, Inc., and Credit Suisse First Boston, as Collateral Agent

e Security Agreement, dated as of March 15, 1999, among Playboy Enterprises, Inc., PEI Holdings, Inc., certain other subsidiaries of Playboy Enterprises, Inc., and Credit Suisse First Boston, as Collateral Agent

10.22 Revolving Line of Credit
a Credit Agreement dated as of February 10, 1995 by and among Playboy Enterprises, Inc., Harris Trust and Savings Bank and LaSalle National Bank
b First Amendment to February 10, 1995 Credit Agreement dated as of March 31, 1995
(items (a) and (b) incorporated by reference to Exhibits 10.12(a) and (b), respectively, from the 1995 Form 10-K)
c Second Amendment to February 10, 1995 Credit Agreement dated as of March 5, 1996 (incorporated by reference to Exhibit 10.17(c) from the 1996 Form 10-K)
d Third Amendment to February 10, 1995 Credit Agreement dated as of September 11, 1997 but effective as of July 8, 1997 (incorporated by reference to Exhibit 10.19(d) from the 1997 Form 10-K)
e Fourth Amendment to February 10, 1995 Credit Agreement dated as of November 5, 1998 but effective as of September 30, 1998 (incorporated by reference to Exhibit 10.1 from the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1998 (the "September 30, 1998 Form 10-Q"))
f Fifth Amendment to February 10, 1995 Credit Agreement dated as of December 31, 1998
g Sixth Amendment to February 10, 1995 Credit Agreement dated as of March 5, 1999

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 the March 31, 1998 Form 10-Q)

10.24 Los Angeles Offices Lease Documents
a Office lease dated as of July 25, 1991 between Playboy Enterprises, Inc. and Beverly Mercedes Place, Ltd. (incorporated by reference to Exhibit 10.6(c) from the 1991 Form 10-K)
b Amendment to July 25, 1991 lease dated June 26, 1996
c Amendment to July 25, 1991 lease dated September 12, 1996
(items (b) and (c) incorporated by reference to Exhibits 10.19(b) and (c), respectively, from the 1996 Form 10-K)
d Office lease dated January 6, 1999 between 5055 Wilshire Limited Partnership and Playboy Enterprises, Inc.

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 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 the December 31, 1992 Form 10-Q)
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)

10.26 New York Office Lease Agreement 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)

10.27 Itasca Warehouse Lease Documents
a Agreement dated as of September 6, 1996 between Centerpoint Properties Corporation and Playboy Enterprises, Inc. (incorporated by reference to Exhibit 10.23 from the 1996 Form 10-K)
b Amendment to September 6, 1996 lease dated June 1, 1997 (incorporated by reference to Exhibit 10.25(b) from the 1997 Form 10-K)

*10.28 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 the June 30, 1998 Form 10-Q)

*10.29 1989 Option Plan

a Playboy Enterprises, Inc. 1989 Stock Option Plan, as amended, For Key Employees (incorporated by reference to Exhibit 10.4(mm) from the 1991 Form 10-K)

b Playboy Enterprises, Inc. 1989 Stock Option Agreement

c Letter dated July 18, 1990 pursuant to the June 7, 1990 recapitalization regarding adjustment of options

(items (b) and (c) incorporated by reference to Exhibits 10.19(c) and (d), respectively, from the 1995 Form 10-K)

d Consent and Amendment regarding the 1989 Option Plan (incorporated by reference to Exhibit 10.4(aa) from the 1991 Form 10-K)

*10.30 1991 Directors' Plan

a Playboy Enterprises, Inc. 1991 Non-Qualified Stock Option Plan for Non-Employee Directors, as amended

b Playboy Enterprises, Inc. 1991 Non-Qualified Stock Option Agreement for Non-Employee Directors

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

*10.31 1995 Stock Incentive Plan

a Amended and Restated Playboy Enterprises, Inc. 1995 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 from the March 31, 1997 Form 10-Q)

b Form of Non-Qualified Stock Option Agreement for Non-Qualified 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 the Company's Registration Statement No. 33-58145 on Form S-8 dated March 20, 1995 (the "March 20, 1995 Form S-8"))

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)

*10.32 1997 Directors' Plan

a 1997 Equity Plan for Non-Employee Directors of Playboy Enterprises, Inc., as amended (incorporated by reference to Exhibit 10.3(a) from the Transition Period 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 the September 30, 1997 Form 10-Q)

*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 the Company's Registration Statement No. 333-30185 on Form S-8 dated November 13, 1996 (the "November 13, 1996 Form S-8"))

*10.34 Playboy Enterprises, Inc. Employee Stock Purchase Plan, as amended and restated (incorporated by reference to Exhibit 10.2 from the March 31, 1997 Form 10-Q)

*10.35 Selected Employment, Termination and Other Agreements

a Playboy Enterprises, Inc. Severance Agreement (incorporated by reference to Exhibit 10.4(vv) from the 1991 Form 10-K)

b Employment Agreement dated May 21, 1992 between Playboy Enterprises, Inc. and Anthony J. Lynn (incorporated by reference to Exhibit 10.4(bbb) from the 1992 Form 10-K)

c Amendment dated August 15, 1996 regarding the Employment Agreement dated May 21, 1992 between Playboy Enterprises, Inc. and Anthony J. Lynn (incorporated by reference to Exhibit 10.25(i) from the 1996 Form 10-K)

d Agreement dated October 16, 1996 amending the Employment Agreement dated May 21, 1992 between Playboy Enterprises, Inc. and Anthony J. Lynn

e Playboy Enterprises, Inc. Incentive Compensation Plan for Anthony J. Lynn

(items (d) and (e) incorporated by reference to Exhibits 10.3(a) and (b), respectively, from the March 31, 1997 Form 10-Q)

f Letter Agreement dated September 4, 1997 regarding Anthony J. Lynn's waiver of fiscal year ended June 30, 1998 base salary increase (incorporated by reference to Exhibit 10.27(s) from the 1997 Form 10-K)

g Memorandum dated October 11, 1996 regarding special compensation plan for Herb Laney

h Playboy Enterprises, Inc. Incentive Compensation Plan for Herbert M. Laney

i Letter Agreement dated April 18, 1997 regarding employment of Linda Havard

(items (g), (h) and (i) incorporated by reference to Exhibits 10.3(c), (d) and (f), respectively, from the March 31, 1997 Form 10-Q)

	j	Letter Agreement dated September 25, 1997 regarding employment of Helen Isaacson
	k	Letter Agreement dated September 26, 1997 regarding employment of Garry Saunders
	(items (j) and (k) incorporated by reference to Exhibits 10.5(a) and (b), respectively, from the September 30, 1997 Form 10-Q)	
	#l	Letter Agreements dated March 16, 1998 and July 20, 1998 regarding employment of Buford Smith (incorporated by reference to Exhibit 10.3(a) from the June 30, 1998 Form 10-Q)
21		Subsidiaries
23		Consent of Independent Public Accountants
27		Financial Data Schedule

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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 Securities and Exchange Commission (the "SEC")

(d) Financial Statement Schedules

See Item 14(a) above

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 22, 1999

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 A. Hefner — March 19, 1999

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

/s/ Richard S. Rosenzweig — March 22, 1999

Richard S. Rosenzweig
Executive Vice President and Director

/s/ Dennis S. Bookshester — March 22, 1999

Dennis S. Bookshester
Director

/s/ David I. Chemerow — March 22, 1999

David I. Chemerow
Director

/s/ Donald G. Drapkin — March 23, 1999

Donald G. Drapkin
Director

/s/ Sol Rosenthal — March 22, 1999

Sol Rosenthal
Director

/s/ Sir Brian Wolfson — March 23, 1999

Sir Brian Wolfson
Director

/s/ Linda Havard March 22, 1999

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

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 the Company's reasonable expenses incurred in furnishing these documents.

Exhibit Number	Description	Sequentially Numbered Page
2.1	Agreement and Plan of Merger, dated as of May 29, 1998, by and among Playboy Enterprises, Inc., New Playboy, Inc., Playboy Acquisition Corp., Spice Acquisition Corp. and Spice Entertainment Companies, Inc. (incorporated by reference to Exhibit 2.1 from the December 1, 1998 Form S-4)	
2.2	Amendment, dated as of November 16, 1998, to the Agreement and Plan of Merger by and among Playboy Enterprises, Inc., New Playboy, Inc., Playboy Acquisition Corp., Spice Acquisition Corp. and Spice Entertainment Companies, Inc. (incorporated by reference to Exhibit 2.2 from the December 1, 1998 Form S-4)	
2.3	Amendment, dated as of February 26, 1999, to the Agreement and Plan of Merger by and among Playboy Enterprises, Inc., New Playboy, Inc., Playboy Acquisition Corp., Spice Acquisition Corp. and Spice Entertainment Companies, Inc. (incorporated by reference to Exhibit 2.1 from the March 9, 1999 Form 8-K)	
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	b Subsidiary Guarantee Agreement, dated as of March 15, 1999, among certain subsidiaries of Playboy Enterprises, Inc. and Credit Suisse First Boston, as Collateral Agent	197-210
	c Indemnity, Subrogation and Contribution Agreement, dated as of March 15, 1999, among Playboy Enterprises, Inc., PEI Holdings, Inc., certain other subsidiaries of Playboy Enterprises, Inc., and Credit Suisse First Boston, as Collateral Agent	211-222
	d Pledge Agreement, dated as of March 15, 1999, among Playboy Enterprises, Inc., PEI Holdings, Inc., certain other subsidiaries of Playboy Enterprises, Inc., and Credit Suisse First Boston, as Collateral Agent	223-242
	e Security Agreement, dated as of March 15, 1999, among Playboy Enterprises, Inc., PEI Holdings, Inc., certain other subsidiaries of Playboy Enterprises, Inc., and Credit Suisse First Boston, as Collateral Agent	243-283
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	(items (a) and (b) incorporated by reference to Exhibits 10.12(a) and (b), respectively, from the 1995 Form 10-K)	

	c Second Amendment to February 10, 1995 Credit Agreement dated as of March 5, 1996 (incorporated by reference to Exhibit 10.17(c) from the 1996 Form 10-K)	
	d Third Amendment to February 10, 1995 Credit Agreement dated as of September 11, 1997 but effective as of July 8, 1997 (incorporated by reference to Exhibit 10.19(d) from the 1997 Form 10-K)	
	e Fourth Amendment to February 10, 1995 Credit Agrement dated as of November 5, 1998 but effective as of September 30, 1998 (incorporated by reference to Exhibit 10.1 from the September 30, 1998 Form 10-Q)	
	@f Fifth Amendment to February 10, 1995 Credit Agreement dated as of December 31, 1998	284-290
	@g Sixth Amendment to February 10, 1995 Credit Agreement dated as of March 5, 1999	291-294
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 the March 31, 1998 Form 10-Q)	
10.24	Los Angeles Offices Lease Documents	
	a Office lease dated as of July 25, 1991 between Playboy Enterprises, Inc. and Beverly Mercedes	

	Place, Ltd. (incorporated by reference to Exhibit 10.6(c) from the 1991 Form 10-K)	
	b Amendment to July 25, 1991 lease dated June 26, 1996	
	c Amendment to July 25, 1991 lease dated September 12, 1996	
	(items (b) and (c) incorporated by reference to Exhibits 10.19(b) and (c), respectively, from the 1996 Form 10-K)	
	@d Office lease dated January 6, 1999 between 5055 Wilshire Limited Partnership and Playboy Enterprises, Inc.	295-344
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 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 the December 31, 1992 Form 10-Q)	
	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)	
10.26	New York Office Lease Agreement 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)	

10.27	Itasca Warehouse Lease Documents	
	a Agreement dated as of September 6, 1996 between Centerpoint Properties Corporation and Playboy Enterprises, Inc. (incorporated by reference to Exhibit 10.23 from the 1996 Form 10-K)	
	b Amendment to September 6, 1996 lease dated June 1, 1997 (incorporated by reference to Exhibit 10.25(b) from the 1997 Form 10-K)	
*10.28	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 the June 30, 1998 Form 10-Q)	
*10.29	1989 Option Plan	
	a Playboy Enterprises, Inc. 1989 Stock Option Plan, as amended, For Key Employees (incorporated by reference to Exhibit 10.4(mm) from the 1991 Form 10-K)	
	b Playboy Enterprises, Inc. 1989 Stock Option Agreement	
	c Letter dated July 18, 1990 pursuant to the June 7, 1990 recapitalization regarding adjustment of options	
	(items (b) and (c) incorporated by reference to Exhibits 10.19(c) and (d), respectively, from the 1995 Form 10-K)	
	d Consent and Amendment regarding the 1989 Option Plan (incorporated by reference to Exhibit 10.4(aa) from the 1991 Form 10-K)	
*10.30	1991 Directors' Plan	
	a Playboy Enterprises, Inc. 1991 Non-Qualified Stock Option Plan for Non-Employee Directors, as amended	
	b Playboy Enterprises, Inc. 1991 Non-Qualified Stock Option Agreement for Non-Employee Directors	

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

*10.31 1995 Stock Incentive Plan
- a Amended and Restated Playboy Enterprises, Inc. 1995 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 from the March 31, 1997 Form 10-Q)
- b Form of Non-Qualified Stock Option Agreement for Non-Qualified 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 the March 20, 1995 Form S-8)
- 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)

*10.32 1997 Directors' Plan
- a 1997 Equity Plan for Non-Employee Directors of Playboy Enterprises, Inc., as amended (incorporated by reference to Exhibit 10.3(a) from the Transition Period 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 the September 30, 1997 Form 10-Q)

*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 the November 13, 1996 Form S-8)

*10.34 Playboy Enterprises, Inc. Employee Stock Purchase Plan, as amended and restated (incorporated by reference to Exhibit 10.2 from the March 31, 1997 Form 10-Q)

*10.35 Selected Employment, Termination and Other Agreements
- a Playboy Enterprises, Inc. Severance Agreement (incorporated by reference to Exhibit 10.4(vv) from the 1991 Form 10-K)
- b Employment Agreement dated May 21, 1992 between Playboy Enterprises, Inc. and Anthony J. Lynn (incorporated by reference to Exhibit 10.4(bbb) from the 1992 Form 10-K)
- c Amendment dated August 15, 1996 regarding the Employment Agreement dated May 21, 1992 between Playboy Enterprises, Inc. and Anthony J. Lynn (incorporated by reference to Exhibit 10.25(i) from the 1996 Form 10-K)
- d Agreement dated October 16, 1996 amending the Employment Agreement dated May 21, 1992 between Playboy Enterprises, Inc. and Anthony J. Lynn
- e Playboy Enterprises, Inc. Incentive Compensation Plan for Anthony J. Lynn

(items (d) and (e) incorporated by reference to Exhibits 10.3(a) and (b), respectively, from the March 31, 1997 Form 10-Q)
- f Letter Agreement dated September 4, 1997 regarding Anthony J. Lynn's waiver of fiscal year ended June 30, 1998 base salary increase (incorporated by reference to Exhibit 10.27(s) from the 1997 Form 10-K)
- g Memorandum dated October 11, 1996 regarding special compensation plan for Herb Laney
- h Playboy Enterprises, Inc. Incentive Compensation Plan for Herbert M. Laney
- i Letter Agreement dated April 18, 1997 regarding employment of Linda Havard

(items (g), (h) and (i) incorporated by reference to Exhibits 10.3(c), (d) and (f), respectively, from the March 31, 1997 Form 10-Q)
- j Letter Agreement dated September 25, 1997 regarding employment of Helen Isaacson

k Letter Agreement dated September 26, 1997 regarding employment of Garry Saunders
(items (j) and (k) incorporated by reference to Exhibits 10.5(a) and (b), respectively, from the September 30, 1997 Form 10-Q)
#l Letter Agreements dated March 16, 1998 and July 20, 1998 regarding employment of Buford Smith (incorporated by reference to Exhibit 10.3(a) from the June 30, 1998 Form 10-Q)

_____
* Indicates management compensation plan
\# Certain information omitted pursuant to a request for confidential treatment filed separately with and granted by the SEC
@ Filed herewith

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULES

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

Our report on the consolidated financial statements of Playboy Enterprises, Inc. and its Subsidiaries is included on page 62 of this Form 10-K Annual Report. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed in the index on page 64 of this Form 10-K Annual Report.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

PricewaterhouseCoopers LLP

Chicago, Illinois
February 9, 1999

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

<TABLE>
<CAPTION>

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
<S>	<C>	<C>	<C>	<C>	<C>
Allowance deducted in the balance sheet from the asset to which it applies:					
Fiscal Year Ended December 31,1998					
Allowance for doubtful accounts	$ 4,467	$ 2,371	$ 1,810(a)	$ 2,299(b)	$ 6,349
Allowance for returns	$27,187	$ -	$58,880(c)	$64,423(d)	$21,644

Deferred tax asset valuation allowance	$16,504	$ -	$ -	$ 1,066(e)	$15,438
Six-Month Transition Period Ended December 31, 1997:					
Allowance for doubtful accounts	$ 3,882	$ 1,053	$ 702(a)	$ 1,170(b)	$ 4,467
Allowance for returns	$22,747	$ -	$32,774(c)	$28,334(d)	$27,187
Deferred tax asset valuation allowance	$15,870	$ -	$ 634(e)	$ -	$16,504
Fiscal Year Ended June 30, 1997:					
Allowance for doubtful accounts	$ 3,009	$ 1,241	$ 1,522(a)	$ 1,890(b)	$ 3,882
Allowance for returns	$21,939	$ -	$64,197(c)	$63,389(d)	$22,747
Deferred tax asset valuation allowance	$27,971	$ -	$ 1,385(e)	$13,486(f)	$15,870
Fiscal Year Ended June 30, 1996:					
Allowance for doubtful accounts	$ 4,837	$ 504	$ 1,632(a)	$ 3,964(b)	$ 3,009
Allowance for returns	$20,952	$ -	$59,718(c)	$58,731(d)	$21,939
Deferred tax asset valuation allowance	$28,573	$ -	$ -	$ 602(e)	$27,971

</TABLE>

Notes:

(a) Represents primarily provisions for unpaid subscriptions charged to net revenues. Also included in fiscal year 1996 amount was $98 related to the consolidation of the VIPress balance at the acquisition date in March 1996.
(b) Represents uncollectible accounts less recoveries.
(c) Represents provisions charged to net revenues for estimated returns of Playboy magazine, other domestic publishing products and domestic home videos.
(d) Represents settlements on provisions previously recorded.
(e) Represents the unrealizable portion of the change in the gross deferred tax asset during the period.
(f) Represents a federal income tax benefit resulting from a change in the realizability of the gross deferred tax asset.

EXECUTION COPY

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CREDIT AGREEMENT

Dated as of February 26, 1999

among

NEW PLAYBOY, INC.,

PEI HOLDINGS, INC.,

THE LENDERS NAMED HEREIN,

ING (U.S.) CAPITAL LLC
("ING BARINGS"),
as Syndication Agent

and

CREDIT SUISSE FIRST BOSTON,
as Administrative Agent,
as Collateral Agent and
as Issuing Bank

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[CS&M #2163-494]

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Affirmative Covenants

CREDIT AGREEMENT dated as of February 26, 1999 (this "Agreement"), among NEW PLAYBOY, INC., a Delaware corporation to be renamed PLAYBOY ENTERPRISES, INC. immediately following the Playboy Merger referred to below (the "Company"); PEI HOLDINGS, INC., a Delaware corporation and wholly owned subsidiary of the Company ("PHI"); the Lenders (as defined in Article I); and CREDIT SUISSE FIRST BOSTON, a bank organized under the laws of Switzerland, acting through its New York

Branch ("CSFB"), as administrative agent (in such capacity, the "Administrative Agent"), as collateral agent (in such capacity, the "Collateral Agent") and as issuing bank (in such capacity, the "Issuing Bank").

The Company, a wholly owned subsidiary of Playboy Enterprises, Inc. ("Playboy"), intends to acquire (the "Spice Acquisition") all the issued and outstanding shares of capital stock of Spice Entertainment Companies, Inc. ("Spice") pursuant to a merger of Spice Acquisition Corp., a wholly owned subsidiary of the Company, into Spice, as provided in the Merger Agreement dated May 29, 1998, as amended as of November 16, 1998 (the "Merger Agreement"), among the Company, Playboy, Playboy Acquisition Corp., Spice Acquisition Corp. and Spice. The consideration payable in connection with the Spice Acquisition will consist of (a) approximately $64,900,000 in cash (including severance costs, net of option proceeds, payable in connection with the Spice Acquisition), (b) shares of Class B Common Stock of the Company and (c) the assumption by the Company of approximately $11,300,000 of Indebtedness of Spice (which will be refinanced as provided herein), all as described in the Merger Agreement. In addition, immediately prior to the Spice Acquisition, (a) holders of Spice common stock will receive shares of common stock of Directrix, Inc., a wholly owned subsidiary of Spice, and (b) assets related to the Spice Hot Network will be transferred to Califa Entertainment Group, Inc. (collectively, the "Spin-Off Transactions"). At or prior to the completion of the Spice Acquisition, Playboy Acquisition Corp., a wholly owned subsidiary of the Company, will be merged into Playboy, which will be renamed Playboy Enterprises International, Inc., in a transaction in which the former shareholders of Playboy will receive common stock of the Company and Playboy will become a wholly owned subsidiary of the Company, all as provided in the Merger Agreement (the "Playboy Merger"). Upon consummation of the Spice Acquisition and the Playboy Merger, the Company, which will be renamed Playboy Enterprises, Inc., will own 100% of the equity interests in both Playboy and Spice, and will, on the Transfer Date, transfer all such equity interests to PHI, which will succeed to and assume the rights and obligations of the Company as "Borrower" hereunder as provided in Section 10.17.

The Company and PHI have requested the Lenders to extend credit in the form of (a) Tranche A Term Loans on the Closing Date in an aggregate principal amount not in

excess of $35,000,000, (b) Tranche B Term Loans on the Closing Date in an aggregate principal amount not in excess of $75,000,000, (c) Revolving Loans at any time and from time to time prior to the Revolving Credit Maturity Date in an aggregate principal amount at any time outstanding not in excess of $40,000,000 minus the L/C Exposure at such time and (d) Letters of Credit in an aggregate stated amount at any time outstanding that will not result in the L/C Exposure exceeding $10,000,000. The proceeds of the Term Loans and of Revolving Loans made on the Closing Date (the amount of which shall not exceed $10,000,000) are to be used by the Borrower solely (i) to finance the Spice Acquisition, (ii) to refinance the Scheduled Playboy Indebtedness and the Scheduled Spice Indebtedness and (iii) to pay fees and expenses related to the Closing Date Transactions, the Spin-Off Transactions and the transactions ancillary to the Spice Acquisition. The proceeds of the remaining Revolving Loans are to be used by the Borrower and the Subsidiaries to provide working capital and for other general corporate purposes, including to finance investments in the amount of up to $12,000,000 in Playboy Online. The Letters of Credit are to be used to support obligations incurred by the Borrower and the Subsidiaries in the conduct of their businesses.

The Lenders are willing to extend such credit to the Borrower and the Issuing Bank is willing to issue Letters of Credit for the account of the Borrower on the terms and subject to the conditions set forth herein. Accordingly, the parties hereto agree as follows:

ARTICLE I
Definitions

SECTION 1.01. Defined Terms. As used in this Agreement, including in the preamble hereto, the following terms shall have the meanings specified below:

"ABR Loan" shall mean any ABR Term Loan or ABR Revolving Loan.

"ABR Revolving Loan" shall mean any Revolving Loan bearing interest at a rate determined by reference to the Alternate Base Rate in accordance with the provisions of Article II.

"ABR Term Loan" shall mean any Term Loan bearing interest at a rate determined by reference to the Alternate Base Rate in accordance with the provisions of Article II.

"Acquisition" shall mean the acquisition by the Borrower or any Subsidiary, including through a merger or consolidation or a purchase of capital stock, of any other person or any division or business unit of any other person or any assets (other than

inventory acquired in the ordinary course of business) that are substantial in relation to the Company and the Subsidiaries taken as a whole.

"Adjusted LIBO Rate" shall mean, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum equal to the product of (a) the LIBO Rate in effect for such Interest Period and (b) Statutory Reserves.

"Administrative Agent" shall have the meaning assigned to such term in the preamble to this Agreement.

"Administrative Questionnaire" shall mean an Administrative Questionnaire in the form of Exhibit A.

"Affiliate" shall mean, when used with respect to a specified person, another person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the person specified.

"Aggregate Revolving Credit Exposure" shall mean the aggregate amount of the Lenders' Revolving Credit Exposures.

"Alternate Base Rate" shall mean, for any day, a rate per annum equal to the greater of (a) the Prime Rate in effect on such day and (b) the sum of (i) the Federal Funds Effective Rate in effect on such day and (ii) 1/2 of 1%. If for any reason the Administrative Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, including the inability of the Administrative Agent to obtain sufficient quotations in accordance with the terms of the definition thereof, the Alternate Base Rate shall be determined without regard to clause (b) of the preceding sentence until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective on the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"Alternate Currency" shall mean at any time any currency (other than dollars) approved by the Administrative Agent that is freely tradeable and exchangeable into dollars in the London market and for which an Exchange Rate can be determined by reference to the applicable Bloomberg Key Cross Currency Rates Page.

"Applicable Percentage" shall mean, for any day, with respect to any Eurodollar Loan or ABR Loan that is part of a Revolving Credit Borrowing or a Tranche A Term Borrowing, as the case may be, the applicable percentage set forth below under the caption "Eurodollar Spread" or "ABR Spread", as the case may be, based upon the Consolidated Leverage Ratio as of the fiscal quarter end immediately preceding the Determination Date

occurring on or most recently prior to such day (provided, that if financial statements with respect to the fourth fiscal quarter in any year satisfying the requirements of paragraph (b) of Section 5.03 shall be delivered to the Administrative Agent within 60 days after the end of such fiscal quarter, then from the second Business Day following the date on which such financial statements are so delivered until the Determination Date following such fiscal quarter end the Applicable Percentage shall be based upon the Consolidated Leverage Ratio as of such fiscal quarter end, as determined on the basis of such financial statements):

<TABLE>
<CAPTION>

Consolidated Leverage Ratio	Eurodollar Spread	ABR Spread
<S>	<C>	<C>
Category 1 Greater than or equal to 5.00 to 1.00	3.25%	2.25%
Category 2 Less than 5.00 to 1.00 but greater than or equal to 4.00 to 1.00	3.00%	2.00%
Category 3 Less than 4.00 to 1.00 but greater than or equal to 3.00 to 1.00	2.75%	1.75%
Category 4 Less than 3.00 to 1.00	2.50%	1.50%

</TABLE>

provided that (a) until the Determination Date next following June 30, 1999, the Applicable Percentage shall be determined by reference to (i) prior to the date on which the Playboy International Transaction shall be completed, Category 1 and (ii) on and after the date on which the Playboy International Transaction shall be completed, Category 3, and (b) if the Borrower shall fail to deliver any financial statements and certificates required to have been delivered under Section 5.03(a) or (b), then (i) until such financial statements and certificates are delivered, the Applicable Percentage shall be determined by reference to the Category indicated by the financial statements most recently delivered, (ii) after such financial statements and certificates are delivered, the Applicable Percentage shall be redetermined by reference to the Category indicated by such financial statements and (iii) if, but only if, the redetermination referred to in the preceding clause (ii) results in an increase in the interest rates or fees in effect hereunder, such increase shall be retroactive to and including the second Business Day following the date by which such financial statements were required to have been delivered under Section 5.03(a) or (b) (and the Borrower shall promptly pay to the Administrative Agent, for distribution to the Lenders, the amount of such increase allocable to periods for which such interest or fees shall already have been paid).

"Arranger and Agent Fees" shall have the meaning assigned to such term in Section 2.05(b).

"Arranger" shall mean CSFB.

"Asset Sale" shall mean the sale, transfer, licensing or other disposition (directly, by way of merger or formation of a joint venture or otherwise, and including any casualty event or condemnation that results in the receipt of any insurance or condemnation proceeds) by the Company or any of the Restricted Subsidiaries (other than a sale, transfer, licensing or other disposition to the Company or any Restricted Subsidiary) of (a) any capital stock of any of the Subsidiaries or (b) any other assets, whether real or personal and whether tangible or intangible, of the Company or any of the Restricted Subsidiaries; provided that the following shall not be deemed to be "Asset Sales" for purposes of this Agreement: (i) any disposition of obsolete or worn out assets or Permitted Investments, (ii) sales of inventory in the ordinary course of business, (iii) consummation of Playboy's previously announced sale of its interest in its Greek casino, (iv) Ordinary Licensing Transactions, (v) any asset sale or series of related asset sales described in clause (b) above resulting in Net Cash Proceeds not in excess of $1,000,000 in the aggregate during any fiscal year and (vi) any sale of assets permitted under clause (c) of Section 6.05 if (w) the Borrower or the Company advises the Administrative Agent in writing not later than the Business Day following the completion of such sale that the Borrower intends to use (or cause a Restricted Subsidiary to use) the Net Cash Proceeds of such sale received by the Company or any of the Restricted Subsidiaries to purchase additional assets to be used in the business of the Borrower or the Restricted Subsidiaries, (x) either (A) the Net Cash Proceeds of such sale received by the Company or any of the Restricted Subsidiaries are promptly deposited in an escrow account with the Administrative Agent, pursuant to an escrow agreement reasonably satisfactory to the Borrower and the Administrative Agent, and held in such account pending any such purchase or the application of such Net Cash Proceeds pursuant to Section 2.13(b) or (B) the Net Cash Proceeds of such sale received by the Company or any of the Restricted Subsidiaries are promptly applied to prepay Revolving Credit Borrowings, in which case an amount of the Revolving Credit Commitments equal to the amount so prepaid will be held available and unused pending, and will be made available (subject to the conditions to borrowing set forth herein) to provide funds for, any such purchase or the application of such Net Cash Proceeds pursuant to Section 2.13(b), and (y) such Net Cash Proceeds are in fact used to purchase additional assets to be used in the business of the Borrower or the Restricted Subsidiaries within nine months after the date of closing of such sale (or the Borrower and the Restricted Subsidiaries shall within nine months after the date of closing of such sale enter into a contract to purchase additional assets to be used in the business of the Borrower or the Restricted Subsidiaries using such proceeds and shall close such purchase within 12 months after the date of closing of such sale), failing which any portion of such Net Cash Proceeds that have not been used to purchase additional assets to be used in the business of the Borrower or the Restricted Subsidiaries will immediately be deemed

for purposes of Section 2.13(b) to constitute Net Cash Proceeds of an Asset Sale and applied to prepay Term Loans as provided in such Section. Notwithstanding clause (vi) of the preceding definition, the aggregate amount of Net Cash Proceeds held in escrow or held available in the form of unused Revolving Credit Commitments at any time shall not exceed $10,000,000, and any Net Cash Proceeds in excess of such amount will immediately be deemed for purposes of Section 2.13(b) to constitute Net Cash Proceeds of an Asset Sale and applied to prepay Term Loans as provided in such Section.

"Assigned Rights and Obligations" shall mean all rights and obligations of the Company as the initial Borrower under this Agreement (including the right to borrow and obtain Letters of Credit hereunder and the obligation to repay Borrowings and reimburse L/C Disbursements). The Assigned Rights and Obligations

will include only those rights and obligations that under the terms of this Agreement are rights and obligations, respectively, of the "Borrower", and shall exclude rights and obligations of the "Company", all of which shall continue to be rights and obligations of the Company following the Assignment and Assumption.

"Assignment and Acceptance" shall mean an assignment and acceptance entered into by a Lender and an assignee, and accepted by the Administrative Agent, in the form of Exhibit B or such other form as shall be approved by the Administrative Agent.

"Assignment and Assumption" shall have the meaning assigned to such term in Section 10.17 of this Agreement.

"Board" shall mean the Board of Governors of the Federal Reserve System of the United States of America.

"Borrower" shall mean (a) initially, the Company, and (b) from and at all times after the effectiveness of the Assignment and Assumption, PHI.

"Borrowing" shall mean a group of Loans of a single Type made by the Lenders on a single date and as to which a single Interest Period is in effect.

"Borrowing Request" shall mean a request by the Borrower in accordance with the terms of Section 2.03 and substantially in the form of Exhibit C.

"Business Day" shall mean any day other than a Saturday, Sunday or day on which banks in New York, New York are authorized or required by law to close; provided, however, that when used in connection with a Eurodollar Loan or any Letter of Credit denominated in an Alternate Currency, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"Capital Expenditures" shall mean, for any period, additions to property, plant and equipment and other capital expenditures of the Company and the Restricted Subsidiaries that are (or would be) set forth in a consolidated statement of cash flows of the Company for such period prepared in accordance with GAAP.

"Capital Lease Obligations" of any person shall mean the obligations of such person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

A "Change in Control" shall be deemed to have occurred if (a) Hugh M. Hefner and Christie Hefner, their heirs or estates or trusts for the benefit of themselves or their heirs shall fail, taken together, to own, beneficially and of record, shares of capital stock of the Company representing a majority of the ordinary voting power of all the issued and outstanding capital stock of the Company; (b) a majority of the Board of Directors of the Company shall consist at any time of persons who were not either (i) Directors on the date hereof or (ii) nominated by a majority of the Board of Directors; (c) any change of control or similar event, however denominated, shall have occurred under any indenture or other agreement or instrument of the Company or any Restricted Subsidiary evidencing or governing Material Indebtedness; (d) at any time the Company shall not directly own, beneficially and of record, 100% of the issued and outstanding capital stock of PHI; or (e) at any time the Company or, after the Assignment and Assumption, PHI shall not directly own, beneficially and of record, 100% of the issued and outstanding capital stock of each of Playboy and

Spice.

"Closing Date" shall mean the date of the initial Credit Event.

"Closing Date Transactions" shall mean the Spin-Off Transactions, the Spice Acquisition, the Playboy Merger, the refinancing of the Scheduled Playboy Indebtedness and the Scheduled Spice Indebtedness, the Borrowings hereunder on the Closing Date and the creation of the Liens provided for in the Security Documents.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" shall mean all the "Collateral" as defined in any Security Document.

"Collateral Agent" shall have the meaning assigned to such term in the preamble to this Agreement.

"Collateral Requirement" shall mean, at any time, that (a) the Pledge Agreement (or a supplement referred to in Section 23 thereof) shall have been duly executed by the Company, PHI and each other Domestic Restricted Subsidiary existing at such time and owning any Equity Interests, Rights or Indebtedness of the Company, PHI or any other Subsidiary or other person (including Playboy International), shall have been delivered to the Collateral Agent and shall be in full force and effect, and all the outstanding Equity Interests and Rights of the Subsidiaries (after giving effect to the Spice Acquisition and the Playboy Merger and including PHI, Playboy and Spice) and such other persons (including Playboy International) owned by the Company and the Restricted Subsidiaries and all such Indebtedness shall have been duly and validly pledged thereunder (or, to the extent not evidenced by any instrument, under the Security Agreement) to the Collateral Agent for the ratable benefit of the Secured Parties and certificates or other instruments representing such Equity Interests and Rights or Indebtedness (to the extent such Indebtedness is evidenced by instruments), accompanied by stock powers or other instruments of transfer endorsed in blank, shall be in the actual possession of the Collateral Agent; provided that none of the Company, PHI or the Domestic Restricted Subsidiaries shall be required to pledge more than 65% of the voting Equity Interests (but shall be required to pledge 100% of the non-voting Equity Interests) of any Foreign Subsidiary; (b) the Security Agreement (or a supplement referred to in Section 7.15 thereof) shall have been duly executed by the Company, PHI, each other Domestic Restricted Subsidiary existing at such time, and shall have been delivered to the Collateral Agent and shall be in full force and effect, and each document (including each Uniform Commercial Code financing statement and each filing with respect to Intellectual Property owned by the Company, PHI or any other Domestic Restricted Subsidiary party to the Security Agreement) required by law or reasonably requested by the Administrative Agent to be filed, registered or recorded in order to create in favor of the Collateral Agent for the benefit of the Secured Parties a valid, legal and perfected first-priority security interest in and lien on the Collateral subject to the Security Agreement (subject to any Lien expressly permitted by Section 6.02) shall have been delivered to the Collateral Agent in form suitable for filing; (c) each person required under the terms of the Playboy International Agreements to consent to the assignment pursuant to the Security Agreement of the rights of the Company, PHI or any other Restricted Subsidiary thereunder in order for such assignment to be effective shall have executed and delivered a consent to such assignment reasonably satisfactory to the Collateral Agent; (d) the Indemnity, Subrogation and Contribution Agreement (or a supplement referred to in Section 12 thereof) shall have been executed by the Company and each other Loan Party, shall have been delivered to the Collateral Agent and shall be in full force and effect and (e)(i) each of the Mortgages, substantially in the form of Exhibit I-1 or I-2, as applicable, relating to each of the Mortgaged Properties shall have been duly

executed by the parties thereto and delivered to the Collateral Agent and shall be in full force and effect, (ii) each of such Mortgaged Properties shall not be subject to any Lien other than those expressly permitted under Section 6.02, (iii) each of such Mortgages shall have been delivered to the Collateral Agent in form suitable for filing and recordation in the recording office as specified on

Schedule 3.19(d) and (iv) the Collateral Agent shall have received such other documents, including a policy or policies of title insurance issued by a nationally recognized title insurance company, together with such endorsements, coinsurance and reinsurance as may be requested by the Collateral Agent, insuring the Mortgages as valid first liens on the Mortgaged Properties, free of Liens other than those expressly permitted under Section 6.02, together with such surveys, abstracts, appraisals and legal opinions required to be furnished pursuant to the terms of the Mortgages or as reasonably requested by the Collateral Agent.

"Commitments" shall mean, with respect to any Lender, such Lender's Revolving Credit Commitment and Term Loan Commitments.

"Commitment Fee" shall have the meaning assigned to such term in Section 2.05(a).

"Company" shall have the meaning assigned to such term in the preamble to this Agreement.

"Confidential Information Memorandum" shall mean the Confidential Information Memorandum of the Company dated January, 1999.

"Consolidated Adjusted EBITDA" shall mean, for any period, Consolidated EBITDA for such period minus cash investments in programming during such period.

"Consolidated EBITDA" shall mean, for any period, Consolidated Net Income for such period, plus, without duplication and to the extent deducted from revenues in determining Consolidated Net Income for such period, the sum of (a) the aggregate amount of Consolidated Interest Expense for such period, (b) the aggregate amount of income tax expense for such period, (c) all amounts attributable to depreciation and amortization (including programming amortization) for such period, (d) all extraordinary charges during such period, and (e) all other non-cash charges during such period, and minus, without duplication, the sum, to the extent included in Consolidated Net Income for such period, of (x) the Playboy International Rights Acquisition Fee for such period, (y) all extraordinary gains during such period and (z) all other non-cash gains during such period, all as determined on a consolidated basis with respect to the Company and its Restricted Subsidiaries in accordance with GAAP. Anything contained in this definition or elsewhere in this Agreement to the contrary notwithstanding, in calculating Consolidated EBITDA (i) for any four-fiscal-quarter period that includes the fiscal quarter ending June 30, 1999, Consolidated EBITDA for such quarter shall be increased by an amount up to $3,000,000 of restructuring costs incurred in connection with the Spice Acquisition to the extent such costs have actually been paid by the Company and the Restricted Subsidiaries, and (ii) for the four-fiscal-quarter period ending on June 30, 1999, September 30, 1999 and December 31, 1999, Consolidated EBITDA shall be deemed to equal Consolidated EBITDA for the period commencing on April 1, 1999, and ending on (x) June 30, 1999, multiplied by 4, (y)

September 30, 1999, multiplied by 2, and (z) December 31, 1999, multiplied by

4/3, respectively.

"Consolidated Fixed Charge Coverage Ratio" shall mean, for any period, the ratio of (a) the sum of (i) Consolidated Adjusted EBITDA for such period and (ii) any amounts received in cash during such period on account of the Playboy International Rights Acquisition Fee (other than amounts required to be applied to prepay Term Loans pursuant to Section 2.13(f)) to (b) the sum of (i) Consolidated Interest Expense for such period, (ii) the aggregate amount of taxes paid by the Company and the Restricted Subsidiaries in cash during such period, (iii) scheduled principal payments during such period in respect of any Indebtedness of the Company and the Restricted Subsidiaries, (iv) cash dividends on capital stock declared by the Company or any Loan Party during such period (excluding dividends paid to the Company, the Borrower or any of its Wholly Owned Restricted Subsidiaries), (v) the scheduled principal component of Capital Lease Obligations paid during such period by the Company and the Restricted Subsidiaries, (vi) the aggregate amount of investments in foreign networks (including the Playboy International Capital Contributions) made by the Company and the Restricted Subsidiaries during such period and (vii) Capital Expenditures (other than (A) expenditures of insurance or condemnation proceeds for the repair or replacement of assets that have been damaged, destroyed or taken by condemnation, (B) expenditures of the proceeds of sales of property, plant and equipment to acquire additional property, plant and equipment to be used for the same or similar purposes and (C) permitted Acquisitions) during such period (the items referred to in the foregoing clauses (i) through (vii) being collectively called "Consolidated Fixed Charges").

"Consolidated Interest Expense" shall mean, for any period, the interest expense, both expensed and capitalized (including the interest component in respect of Capital Lease Obligations but excluding the amortization of deferred financing fees), accrued or paid in cash by the Company and the Restricted Subsidiaries during such period net of interest income earned on cash balances during such period, determined on a consolidated basis in accordance with GAAP. For purposes of the foregoing, interest expense shall give effect to any net payments made or received by the Company and the Restricted Subsidiaries with respect to interest rate Hedging Agreements.

"Consolidated Interest Expense Coverage Ratio" shall mean, for any period, the ratio of (a) Consolidated Adjusted EBITDA for such period to (b) Consolidated Interest Expense for such period.

"Consolidated Leverage Ratio" shall mean, at any time, the ratio of (a) Consolidated Total Debt at such time to (b) Consolidated Adjusted EBITDA for the most recently ended period of four fiscal quarters, all as determined on a consolidated basis in accordance with GAAP. Solely for purposes of this definition, if, at any time the Consolidated Leverage Ratio is being determined, the Borrower or any Restricted Subsidiary shall have completed

an Acquisition or Disposition since the beginning of the relevant four fiscal quarter period, the Consolidated Leverage Ratio shall be determined on a pro forma basis as if such Acquisition or Disposition, any related incurrence or repayment of Indebtedness, had occurred at the beginning of such period.

"Consolidated Net Income" shall mean, for any period, net income or loss of the Company and the Restricted Subsidiaries for such period, as determined on a consolidated basis in accordance with GAAP, provided that there shall in any event be excluded (a) the income of any person (other than a Loan Party) in which any other person (other than the Company or any of the Restricted Subsidiaries or any director holding qualifying shares in compliance with applicable law) owns any equity interest, except to the extent of the amount of dividends or other distributions actually paid to the Company or any of the Subsidiaries by such person during such period and (b) the income (or loss) of

any person accrued prior to the date it becomes a Subsidiary or is merged into or consolidated with the Company or any Subsidiary or the date that person's assets are acquired by the Company or any Subsidiary.

"Consolidated Total Debt" shall mean, as of any date of determination, without duplication, the aggregate principal amount of Indebtedness of the Company and the Restricted Subsidiaries outstanding as of such date, determined on a consolidated basis in accordance with GAAP (other than Indebtedness of the type referred to in clauses (i) and (j) of the definition of the term "Indebtedness", except, in the case of clause (j), to the extent of any unreimbursed drawings thereunder).

"Control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a person, whether through the ownership of voting securities, by contract or otherwise, and the terms "Controlling" and "Controlled" shall have meanings correlative thereto.

"Credit Event" shall have the meaning assigned to such term in Section 4.01.

"CSFB" shall have the meaning assigned to such term in the preamble to this Agreement.

"Default" shall mean any event or condition which upon notice, lapse of time or both would constitute an Event of Default.

"Deferment" shall mean a fixed sum obligation (other than a Participation or a Residual) payable by the Company or any of the Restricted Subsidiaries in accordance with customary industry practice to a person who is not an Affiliate of the Company or any of the Restricted Subsidiaries in connection with such person's furnishing rights or personal services in connection with the development, acquisition, production, distribution or

exploitation of any item of Product or rights in Product, the payment of which is contingent upon (a) the receipt of revenues from the exploitation of such item of Product, and/or (b) the occurrence of certain conditions and/or (c) the passage of time; provided, however, that the term "Deferments" does not include supplemental market payments or sums included in the budgeted cost of production for the applicable item of Product.

"Determination Date" shall mean each day that is the second Business Day after a delivery of financial statements pursuant to Section 5.03(a) or (b).

"Disposition" shall mean the sale or transfer by the Company or any Restricted Subsidiary, including through a merger or consolidation or a sale of capital stock, of any subsidiary, division or business unit of the Company or such Restricted Subsidiary or any assets (other than inventory sold in the ordinary course of business) that are substantial in relation to the Company and its Restricted Subsidiaries taken as a whole.

"Dollar Equivalent" shall mean (a) as to any amount denominated in dollars, the amount thereof, and (b) as to any amount denominated in an Alternate Currency, the equivalent thereof in dollars determined by the Administrative Agent pursuant to Section 1.03 using the Exchange Rate with respect to such currency at the time in effect.

"dollars" or "$" shall mean lawful money of the United States of America.

"Domestic Restricted Subsidiary" shall mean a Domestic Subsidiary that is a Restricted Subsidiary.

"Domestic Subsidiary" shall mean a Subsidiary incorporated or organized under the laws of the United States of America, any State thereof or the District of Columbia.

"environment" shall mean ambient air, surface water and groundwater (including potable water, navigable water and wetlands), the land surface or subsurface strata, the workplace or as otherwise defined in any Environmental Law.

"Environmental Claim" shall mean any written accusation, allegation, notice of violation, claim, demand, order, directive, cost recovery action or other cause of action by, or on behalf of, any Governmental Authority or any person for damages, injunctive or equitable relief, personal injury (including sickness, disease or death), Remedial Action costs, tangible or intangible property damage, natural resource damages, nuisance, pollution, any adverse effect on the environment caused by any Hazardous Material, or for fines, penalties or restrictions, resulting from or based upon (a) the existence, or the continuation of the existence, of a Release (including sudden or non-sudden, accidental or non-accidental Releases), (b) exposure to any Hazardous Material, (c) the presence, use, handling,

transportation, storage, treatment or disposal of any Hazardous Material or (d) the violation or alleged violation of any Environmental Law or Environmental Permit.

"Environmental Law" shall mean any and all applicable present and future treaties, laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, Release or threatened Release of any Hazardous Material or to health and safety matters, including, but not limited to, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. ss.ss. 9601 et seq. (collectively "CERCLA"), the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and the Hazardous and Solid Waste Amendments of 1984, 42 U.S.C. ss.ss. 6901 et seq., the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, 33 U.S.C. ss.ss. 1251 et seq., the Clean Air Act of 1970, as amended 42 U.S.C. ss.ss. 7401 et seq., the Toxic Substances Control Act of 1976, 15 U.S.C. ss.ss. 2601 et seq., the Occupational Safety and Health Act of 1970, as amended, 29 U.S.C. ss.ss. 651 et seq., the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. ss.ss. 11001 et seq., the Safe Drinking Water Act of 1974, as amended, 42 U.S.C. ss.ss. 300(f) et seq., the Hazardous Materials Transportation Act, 49 U.S.C. ss.ss. 5101 et seq., and any similar or implementing state or local law, and all amendments or regulations promulgated under any of the foregoing.

"Environmental Permit" shall mean any permit, approval, authorization, certificate, license, variance, filing or permission required by or from any Governmental Authority pursuant to any Environmental Law.

"Equity Interests" shall mean (a) with respect to a corporation, shares of the capital stock of such corporation and (b) with respect to a partnership, limited liability company or other person, partnership, limited liability or other equity interests in such person.

"Equity Issuance" shall mean any issuance and sale by the Company or by any Subsidiary to a person other than the Company or any Subsidiary, of any Equity Interests of the Company or any Subsidiary or any Rights in respect thereof.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time.

"ERISA Affiliate" shall mean any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code, or solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA Event" shall mean (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder, with respect to a Plan; (b) the adoption of any amendment to a Plan that would require the provision of security pursuant to Section 401(a)(29) of the Code or Section 307 of ERISA; (c) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (d) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (e) the incurrence of any liability under Title IV of ERISA with respect to the termination of any Plan or the withdrawal or partial withdrawal of the Borrower or any of its ERISA Affiliates from any Plan or Multiemployer Plan; (f) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to the intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (g) the receipt by the Borrower or any ERISA Affiliate of any notice concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA; (h) the occurrence of a "prohibited transaction" with respect to which the Borrower or any of the Subsidiaries is a "disqualified person" (within the meaning of Section 4975 of the Code) or with respect to which the Borrower or any such Subsidiary could otherwise be liable; and (i) any other event or condition with respect to a Plan or Multiemployer Plan that could reasonably be expected to result in material liability of the Borrower.

"Eurodollar Borrowing" shall mean a Borrowing comprised of Eurodollar Loans.

"Eurodollar Loan" shall mean any Eurodollar Revolving Loan or Eurodollar Term Loan.

"Eurodollar Revolving Loan" shall mean any Revolving Loan bearing interest at a rate determined by reference to the Adjusted LIBO Rate in accordance with the provisions of Article II.

"Eurodollar Term Loan" shall mean any Term Loan bearing interest at a rate determined by reference to the Adjusted LIBO Rate in accordance with the provisions of Article II.

"Event of Default" shall have the meaning assigned to such term in Article VII.

"Excess Cash Flow" shall mean, for any fiscal year, the sum (without duplication) of:

(a) Consolidated Net Income, adjusted to exclude (i) any income, gains or losses attributable to any Asset Sale the proceeds of which are required to be applied

to prepay Loans under Section 2.13(b) and (ii) that portion of Consolidated Net Income attributable to the Playboy International Rights Acquisition Fee; plus

(b) amounts received in cash during such period on account of the Playboy International Rights Acquisition Fee (other than amounts required to be applied to prepay Term Loans pursuant to Section 2.13(f)); plus

(c) depreciation, amortization and other non-cash charges or losses deducted in determining Consolidated Net Income for such period; minus

(d) payments during such period on account of charges added to Excess Cash Flow for an earlier period pursuant to clause (c) above as "non-cash charges or losses" in such earlier period; plus

(e) the sum of (i) the amount, if any, by which Net Working Capital decreased during such period, plus (ii) the aggregate principal amount of Indebtedness (other than Capital Lease Obligations and Revolving Credit Borrowings) incurred by the Company and the Restricted Subsidiaries during such period to finance Capital Expenditures taken into account in computing the Consolidated Fixed Charge Coverage Ratio; minus

(f) the sum of (i) any non-cash gains included in determining such Consolidated Net Income (or loss) for such period, plus (ii) the amount, if any, by which Net Working Capital increased during such period; plus

(g) amounts received during such period on account of gains subtracted from Excess Cash Flow for an earlier period pursuant to clause (f)(i) above as "non-cash gains" in such earlier period; minus

(h) Capital Expenditures for such period, to the extent taken into account in computing the Consolidated Fixed Charge Coverage Ratio; minus

(i) the sum of (i) scheduled amortization payments and voluntary principal payments made in respect of the Term Loans during such period, (ii) amortization or other required payments of principal made during such period in respect of other Indebtedness of the Company and the Restricted Subsidiaries and (iii) mandatory prepayments of principal made during such period in respect of other Indebtedness of the Company and the Subsidiaries (other than prepayments that would not be required if the Company and the Subsidiaries made, or were required to make, prepayments in respect of Loans outstanding hereunder); minus

(j) cash investments by the Company and the Restricted Subsidiaries in foreign networks (including the Playboy International Capital Contributions); minus

(k) cash investments in programming during such period; plus

(l) the net proceeds of Indebtedness incurred by the Company and the Subsidiaries during such period to the extent such proceeds were applied to make payments or prepayments of Indebtedness referred to in clause (i) above.

"Exchange Rate" shall mean, on any day, with respect to any Alternate Currency, the rate at which such Alternate Currency may be exchanged into dollars as set forth at approximately 11:00 a.m., New York City time, on such date on the applicable Bloomberg Key Cross Currency Rates Page. In the event that such rate does not appear on any Bloomberg Key Cross Currency Rates Page, the Exchange Rate shall be determined by reference to such other publicly available service for displaying exchange rates selected by the Administrative Agent for such purpose, or, at the discretion of the Administrative Agent, such

Exchange Rate shall instead be the arithmetic average of the spot rates of exchange of the Administrative Agent in the market where its foreign currency exchange operations in respect of such Alternate Currency are then being conducted, at or about 10:00 a.m., local time, on such date for the purchase of dollars with such Alternate Currency for delivery two Business Days later; provided that, if at the time of any such determination, for any reason, no such spot rate is being quoted, the Administrative Agent may use any other reasonable method it deems appropriate to determine such rate, and such determination shall be presumed correct absent demonstrable error.

"Excluded Taxes" shall mean, with respect to the Administrative Agent, any Lender, the Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) its net income and any backup withholding taxes, in each case imposed by the United States of America or by any Governmental Authority as a result of a present or former connection between the recipient and the jurisdiction of the Governmental Authority imposing such tax or any political subdivision or taxing authority thereof or therein (other than any such connection arising solely from the recipient having received any payment under or taking any other action related to any Loan under this Agreement or any Loan Document), (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction described in clause (a) above and (c) in the case of a Non-U.S. Lender (other than an assignee pursuant to a request by the Borrower under Section 2.21(a)), any withholding tax that (i) is in effect and would apply to amounts payable to such Non-U.S. Lender at the time such Non-U.S. Lender becomes a party to this Agreement (or designates a new lending office), except to the extent that the prior lending office or the assignor, as applicable, of such Non-U.S. Lender was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the

Borrower with respect to any withholding tax pursuant to Section 2.20(a), or (ii) is attributable to such Non-U.S. Lender's failure to comply with Section 2.20(e).

"Federal Funds Effective Rate" shall mean, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for the day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Fee Payment Date" shall have the meaning assigned to such term in Section 2.05(a).

"Fees" shall mean the Commitment Fees, the Arranger and Agent Fees, the L/C Participation Fees and the Issuing Bank Fees.

"Financial Officer" of any entity shall mean the chief financial officer, principal accounting officer, treasurer or controller of such entity.

"Foreign Lender" shall mean any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"Foreign Subsidiary" shall mean any Subsidiary that is not a Domestic Subsidiary.

"GAAP" shall mean United States generally accepted accounting principles

applied on a consistent basis.

"Governmental Authority" shall mean any Federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body.

"Guarantee" of or by any person shall mean any obligation, contingent or otherwise, of such person guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such person, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Indebtedness, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness of the payment of such Indebtedness or (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness;

provided, however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business.

"Guarantee Requirement" shall mean, at any time, that the Subsidiary Guarantee Agreement (or a supplement referred to in Section 20 thereof) shall have been executed by each Restricted Subsidiary (other than any Foreign Subsidiary) existing from time to time, shall have been delivered to the Collateral Agent and shall be in full force and effect.

"Guarantors" shall mean the Company, PHI (at such times as they are guarantors of the Obligations under the terms of Article IX hereof) and the Subsidiary Guarantors.

"Hazardous Materials" shall mean all explosive or radioactive substances or wastes, hazardous or toxic substances or wastes, pollutants, solid, liquid or gaseous wastes, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls ("PCBs") or PCB-containing materials or equipment, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Hedging Agreement" shall mean any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

"Indebtedness" of any person shall mean, without duplication, (a) all obligations of such person for borrowed money or with respect to deposits or advances of any kind (other than prepaid subscriptions and similar deposits), (b) all obligations of such person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such person upon which interest charges are customarily paid (other than solely on past due amounts), (d) all obligations of such person under conditional sale or other title retention agreements relating to property or assets purchased by such person, (e) all obligations of such person issued or assumed as the deferred purchase price of property or services (excluding trade accounts payable and accrued obligations incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such person, whether or not the obligations secured thereby have been assumed, (g) all Guarantees by such person of Indebtedness of others, (h) all Capital Lease Obligations of such person, (i) all obligations of such person in respect of Hedging Agreements and (j) all obligations of such person as an account party in respect of letters of credit. The Indebtedness of any person shall include the Indebtedness of any partnership in which such person is a

general partner.

"Indemnified Taxes" shall mean Taxes other than Excluded Taxes.

"Indemnitee" shall have the meaning assigned to such term in Section 10.05(b).

"Indemnity, Subrogation and Contribution Agreement" shall mean an Indemnity, Subrogation and Contribution Agreement substantially in the form of Exhibit E among the Company, PHI, the Subsidiary Guarantors and the Collateral Agent.

"Intellectual Property" shall have the meaning assigned to such term in Section 3.20.

"Interest Payment Date" shall mean, with respect to any Loan, (i) each day that is the last day of an Interest Period applicable to the Borrowing of which such Loan is a part, (ii) in the case of a Loan with an Interest Period of longer than three months, each day that would have been the last day of an Interest Period had a series of three month Interest Periods been applicable to such Loan and (iii) the date of any prepayment of such Loan or conversion of such Loan to a Loan of a different Type.

"Interest Period" shall mean (a) as to any Eurodollar Borrowing, the period commencing on the date of such Borrowing or on the last day of the preceding Interest Period applicable thereto and ending on the numerically corresponding day (or, if there is no numerically corresponding day, on the last day) in the calendar month that is 1, 2, 3, or 6 (or, if available from all applicable Lenders, 9 or 12) months thereafter, as the Borrower may elect and (b) as to any ABR Borrowing, the period commencing on the date of such Borrowing or on the last day of the preceding Interest Period applicable thereto and ending on the earliest of (i) the next succeeding March 31, June 30, September 30 or December 31, (ii) the Revolving Credit Maturity Date, Tranche A Maturity Date or Tranche B Maturity Date, as applicable, and (iii) the date such Borrowing is converted to a Borrowing of a different Type in accordance with Section 2.10 or repaid or prepaid in accordance with Section 2.11, 2.12 or 2.13; provided, however, that if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

"Issuing Bank" shall have the meaning assigned to such term in the preamble to this Agreement.

"Issuing Bank Fees" shall have the meaning assigned to such term in Section 2.05(c).

"L/C Commitment" shall mean the commitment of the Issuing Bank to issue Letters of Credit pursuant to Section 2.22.

"L/C Disbursement" shall mean a payment or disbursement made by the Issuing Bank pursuant to a Letter of Credit.

"L/C Exposure" shall mean at any time the sum of (a) the Dollar Equivalent

of the aggregate undrawn amount of all outstanding Letters of Credit at such time plus (b) the Dollar Equivalent of the aggregate amount of all L/C Disbursements that have not yet been reimbursed at such time. The L/C Exposure of any Lender at any time shall mean its Pro Rata Percentage of the aggregate L/C Exposure at such time.

"L/C Participation Fee" shall have the meaning assigned to such term in Section 2.05(c).

"Lenders" shall mean (a) the financial institutions listed on Schedule 2.01 and (b) any financial institution that has become a party hereto pursuant to an Assignment and Acceptance (in either case other than any such financial institution that has ceased to be a party hereto pursuant to an Assignment and Acceptance).

"Letter of Credit" shall mean any letter of credit issued pursuant to Section 2.22.

"LIBO Rate" shall mean, with respect to any Eurodollar Borrowing for any Interest Period, the rate per annum determined by the Administrative Agent at approximately 11:00 a.m., London time, on the date which is two Business Days prior to the beginning of such Interest Period by reference to the British Bankers' Association Interest Settlement Rates for deposits in dollars (as set forth by any service selected by the Administrative Agent which has been nominated by the British Bankers' Association as an authorized information vendor for the purpose of displaying rates) for a period equal to such Interest Period, provided that, to the extent that an interest rate is not ascertainable pursuant to the foregoing provisions of this definition, the "LIBO Rate" shall be the interest rate per annum determined by the Administrative Agent equal to the rate per annum at which deposits in dollars are offered for such Interest Period by the Administrative Agent in the London interbank market in London, England at approximately 11:00 a.m., London time, on the date which is two Business Days prior to the beginning of such Interest Period.

"Lien" shall mean, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, encumbrance, charge or security interest in or on such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"Loan Documents" shall mean this Agreement, the Subsidiary Guarantee Agreement, the Security Documents and the Indemnity, Subrogation and Contribution Agreement.

"Loan Parties" shall mean the Company, PHI and each other Restricted Subsidiary that is, or is required by this Agreement to be, a party to the Subsidiary Guarantee Agreement or any Security Document.

"Loans" shall mean the Revolving Loans and the Term Loans.

"Margin Stock" shall have the meaning assigned to such term in Regulation U.

"Material Adverse Effect" shall mean one or more events, changes or effects which, individually or in the aggregate, could reasonably be expected to have a materially adverse effect on (a) the business, assets, results of operations or condition (financial or otherwise) of the Company and the Restricted Subsidiaries (including, on and after the Closing Date, Spice), taken as a whole, or on their ability to perform their obligations under the Loan Documents, or (b) the validity or enforceability of any Loan Document or any

other document entered into in connection with the Transactions or the other transactions contemplated hereby or the rights, remedies or benefits available to the Lenders, the Administrative Agent or the Collateral Agent.

"Material Indebtedness" shall mean Indebtedness (other than the Loans and Letters of Credit), or obligations in respect of one or more Hedging Agreements, of any one or more of the Company and its Restricted Subsidiaries in an aggregate principal amount for all such Indebtedness and obligations of $5,000,000 or more. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of the Company or any Restricted Subsidiary in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that the Company or such Restricted Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

"Merger Agreement" shall have the meaning assigned to such term in the preamble to this Agreement.

"Moody's" shall mean Moody's Investors Service, Inc., and any successor thereto.

"Mortgaged Properties" shall mean the real properties of the Loan Parties specified on Schedule 1.01(c) and all other real properties hereafter acquired by any of the Loan Parties in which the Collateral Agent shall acquire a security interest.

"Mortgages" shall mean mortgages, deeds of trust, assignments of rents, modifications and other security documents reasonably satisfactory to the Collateral Agent, delivered pursuant to Section 4.02(f) or Section 5.09. Each mortgage shall be substantially in the form of Exhibit I-1 and each deed of trust shall be substantially in the form of Exhibit I-2.

"Multiemployer Plan" shall mean a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Net Cash Proceeds" shall mean (a) with respect to any Asset Sale, the cash proceeds thereof, including any cash received in respect of any non-cash proceeds, but only as and when received, and any insurance or condemnation proceeds, net of (i) costs of sale (including payment of the outstanding principal amount of, premium or penalty, if any, interest and other amounts on any Indebtedness (other than Loans) required to be repaid under the terms thereof as a result of such Asset Sale), (ii) taxes attributable to such Asset Sale as a direct result thereof and (iii) amounts provided as a reserve, in accordance with GAAP, against any liabilities under any indemnification obligations, purchase price adjustment provisions or similar provisions associated with such Asset Sale (provided that, to the extent and at the time any such amounts are released from such reserve, such amounts shall constitute Net Cash Proceeds), and (b) with respect to any Equity Issuance or any issuance or other incurrence of Indebtedness for borrowed money, the cash proceeds thereof net of underwriting commissions or placement fees and expenses directly incurred in connection therewith.

"Net Working Capital" shall mean, at any date, (a) the consolidated current assets of the Company and the Restricted Subsidiaries as of such date (excluding cash and Permitted Investments) minus (b) the consolidated current liabilities of the Company and the Restricted Subsidiaries as of such date (excluding current liabilities in respect of Indebtedness). Net Working Capital at any date may be a positive number or negative number. Net Working Capital increases when it becomes more positive or less negative and decreases when it becomes less positive or more negative.

"Obligations" shall mean (a) the due and punctual payment by the Borrower

or the applicable Loan Parties of (i) the principal of and premium, if any, and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on the Loans, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, (ii) each payment required to be made by the Borrower under the Credit Agreement in respect of any Letter of Credit, when and as due, including payments in respect of reimbursement of disbursements, interest thereon and obligations to provide cash collateral, and (iii) all other monetary obligations, including fees, costs, expenses and indemnities, whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding), of the Loan Parties to the Administrative Agent, the Collateral Agent, the Lenders, the Issuing Bank or any other person under the Credit Agreement and the other Loan Documents, whether such Loans shall have been made or such interest, fees or other amounts shall have accrued prior to, on or after the Transfer Date,

(b) the due and punctual payment and performance of all covenants, agreements, obligations and liabilities of the Loan Parties, monetary or otherwise, under or pursuant to the Loan Documents and (c) the due and punctual payment and performance of all obligations of the Company or any Restricted Subsidiary, monetary or otherwise, under each Hedging Agreement entered into to limit interest rate risk with a counterparty that was a Lender or an Affiliate of a Lender at the time such Hedging Agreement was entered into.

"Ordinary Licensing Transaction" shall mean any licensing arrangement (a) entered into by the Company or any Restricted Subsidiary in the ordinary course of its business or (b) that is terminable by the Company or the applicable Restricted Subsidiary without the payment of any material penalty or other consideration within one year.

"Other Taxes" shall mean any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement.

"Participation" shall mean any obligation (other than a Deferment or a Residual) payable by the Company or any of its Restricted Subsidiaries in accordance with customary industry practice to a person who is not an Affiliate of the Company or any of the Subsidiaries in connection with the development, acquisition, production, distribution or exploitation of an item of Product or rights in Product, the payment of which is contingent upon and payable only to the extent of the receipt by the obligor of revenues from the exploitation of such item of Product or rights in Product.

"PBGC" shall mean the Pension Benefit Guaranty Corporation referred to and defined in ERISA.

"Perfection Certificate" shall mean the Perfection Certificate substantially in the form of Annex 1 to the Security Agreement.

"Permitted Investments" shall mean:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof;

(b) investments in commercial paper maturing within 180 days from

the date of acquisition thereof and having, at such date of acquisition, the highest credit rating obtainable from S&P or Moody's;

(c) investments in certificates of deposit, banker's acceptances and time deposits maturing within 180 days of the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any Lender or any commercial bank organized under the laws of the United States of America or any State thereof that has a combined capital and surplus and undivided profits of not less than $500,000,000;

(d) other investment instruments approved in writing by the Administrative Agent.

"person" shall mean any natural person, corporation, business trust, joint venture, association, company, partnership or government, or any agency or political subdivision thereof.

"PHI" shall have the meaning assigned to such term in the preamble to this Agreement.

"Plan" shall mean any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 307 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Playboy" shall have the meaning assigned to such term in the preamble to this Agreement.

"Playboy International" shall mean Playboy TV International, LLC, a California limited liability company formed pursuant to the Playboy International Agreements.

"Playboy International Agreements" shall mean the Playboy TV International, LLC Agreement Outline dated as of December 16, 1998, in the form heretofore delivered to the Administrative Agent, and the "Superceeding Agreements" referred to therein.

"Playboy International Capital Contributions" shall mean the capital contributions that Playboy Entertainment Group, Inc. is contractually obligated to make to Playboy International pursuant to the Playboy TV International, LLC Agreement Outline referred to in the definition of "Playboy International Agreements", to the extent such capital contributions are actually made.

"Playboy International Initial Fee" shall mean the fee payable under Section 8.1.1 of the Playboy TV International, LLC Agreement Outline referred to in the definition of "Playboy International Agreements" on the Funding Date (as defined therein).

"Playboy International Rights Acquisition Fee" shall mean the fees payable under Section 8.1 of the Playboy TV International, LLC Agreement Outline referred to in the definition of "Playboy International Agreements".

"Playboy International Transaction" shall mean the transactions provided for in the Playboy International Agreements.

"Playboy Merger" shall have the meaning assigned to such term in the preamble to this Agreement.

"Playboy Online" shall mean Playboy Online, Inc., a Delaware corporation which is initially an Unrestricted Subsidiary.

"Pledge Agreement" shall mean a Pledge Agreement substantially in the form of Exhibit F between the Company, PHI and each other Restricted Subsidiary owning Equity Interests, Rights or Indebtedness of the Company, PHI or any other Subsidiary and the Collateral Agent for the benefit of the Secured Parties.

"Prime Rate" shall mean the rate of interest per annum publicly announced from time to time by the Administrative Agent as its prime rate for dollar loans in effect at its principal office in New York City, New York; each change in the Prime Rate shall be effective on the date such change is publicly announced as being effective.

"Product" shall mean any still or motion pictures, films, videos, movies, sound recordings, script or similar audio, print or visual media of communication in use now, in the past, or in the future or any elements thereof in which the Company or any Subsidiary has any proprietary or financial interest including merchandising rights related to such Product.

"Pro Rata Percentage" of any Revolving Credit Lender at any time shall mean the percentage of the Total Revolving Credit Commitment represented by such Lender's Revolving Credit Commitment. In the event the Revolving Credit Commitments shall have been terminated, the Pro Rata Percentages of the Revolving Credit Lenders shall be determined by reference to the Revolving Credit Commitments most recently in effect (giving effect to any assignments pursuant to Section 10.04).

"Register" shall have the meaning assigned to such term in Section 10.04(d).

"Regulation D" shall mean Regulation D of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation U" shall mean Regulation U of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation X" shall mean Regulation X of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Related Fund" shall mean, with respect to any Lender that is a fund that invests in loans, any other fund that invests in loans and is managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

"Release" shall mean any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing, depositing, dispersing, emanating or migrating of any Hazardous Material in, into, onto or through the environment.

"Remedial Action" shall mean (a) "remedial action" as such term is defined in CERCLA, 42 U.S.C. Section 9601(24), and (b) all other actions required by any Governmental Authority or voluntarily undertaken to: (i) clean up, remove, treat, abate or in any other way address any Hazardous Material in the environment; (ii) prevent the Release or threat of Release, or minimize the further Release of any Hazardous Material so it does not migrate or endanger or threaten to endanger public health, welfare or the environment; or (iii) perform studies and investigations in connection with, or as a precondition to, clause

(i) or (ii) above.

"Required Lenders" shall mean, at any time, Lenders having Loans, L/C Exposures and unused Revolving Credit Commitments and Term Loan Commitments representing a majority of the sum of all Loans outstanding, L/C Exposures and unused Revolving Credit Commitments and Term Loan Commitments at such time.

"Residual" shall mean any obligation (other than a Participation or a Deferment) payable by the Company or any of the Restricted Subsidiaries in accordance with customary industry practice pursuant to guild agreements or collective bargaining agreements in connection with the development, acquisition, production, distribution or exploitation of any item of Product or rights in Product.

"Responsible Officer" of any entity shall mean any executive officer or Financial Officer of such entity and any other officer or similar official thereof responsible for the administration of the obligations of such entity in respect of this Agreement.

"Restricted Subsidiary" shall mean any Subsidiary other than an Unrestricted Subsidiary.

"Revolving Credit Borrowing" shall mean a Borrowing comprised of Revolving Loans.

"Revolving Credit Commitment" shall mean, with respect to each Lender, the commitment of such Lender to make Revolving Loans and to participate in Letters of Credit hereunder as set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender assumed its Revolving Credit Commitment, as applicable, as the same may be (a) reduced from time to time pursuant to Section 2.09 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 10.04.

"Revolving Credit Exposure" shall mean, with respect to any Lender at any time, the aggregate principal amount at such time of all outstanding Revolving Loans of such Lender plus the aggregate amount at such time of such Lender's L/C Exposure.

"Revolving Credit Lender" shall mean a Lender that has a Revolving Credit Commitment (or that had such a Commitment at the time the Revolving Credit Commitments were terminated).

"Revolving Credit Maturity Date" shall mean the fifth anniversary of the Closing Date.

"Revolving Loans" shall mean the revolving loans made by the Lenders to the Borrower pursuant to clause (c) of Section 2.01. Each Revolving Loan shall be a Eurodollar Revolving Loan or an ABR Revolving Loan.

"Rights" shall mean, with respect to any person, warrants, options or other rights to acquire Equity Interests in such person.

"S&P" shall mean Standard & Poor's Ratings Service and any successor thereto.

"Sale and Lease-Back Transaction" shall have the meaning assigned to such term in Section 6.03 of this Agreement.

"Scheduled Playboy Indebtedness" shall mean all Indebtedness incurred under the Credit Agreement dated as of February 10, 1995, among Playboy, the lenders party thereto, Harris Trust and Savings Bank, individually and as administrative agent, and LaSalle National Bank, individually and as Co-Agent,

as amended to the date hereof.

"Scheduled Spice Indebtedness" shall mean all Indebtedness under the Loan and Security Agreement dated as of January 15, 1997, between Spice and Darla L.L.C., as amended to the date hereof.

"Secured Parties" shall mean the Administrative Agent, the Collateral Agent, each Lender, the Issuing Bank and each other person to which any of the Obligations is owed.

"Security Agreement" shall mean a Security Agreement substantially in the form of Exhibit G between the Company, PHI and the other Restricted Subsidiaries from time to time party thereto and the Collateral Agent for the benefit of the Secured Parties, as the same may be amended, modified or supplemented from time to time in accordance with the provisions hereof.

"Security Documents" shall mean the Security Agreement, the Pledge Agreement, the Mortgages and each of the security agreements and other instruments and documents executed and delivered pursuant to any of the foregoing or pursuant to Section 5.09.

"Spice" shall have the meaning assigned to such term in the preamble to this Agreement.

"Spice Acquisition" shall have the meaning assigned to such term in the preamble to this Agreement.

"Spin-Off Transactions" shall have the meaning assigned to such term in the preamble to this Agreement.

"Statutory Reserves" shall mean a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board for Eurocurrency Liabilities (as defined in Regulation D). Such reserve percentages shall include those imposed pursuant to Regulation D. Eurodollar Loans shall be deemed to constitute Eurocurrency Liabilities and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under Regulation D. Statutory Reserves shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Stock Transfer" shall mean the Company's contribution to PHI of 100% of the Equity Interests and Rights (if any) of each of Playboy and Spice.

"Subsidiary" shall mean, with respect to any person (herein referred to as the "parent"), any corporation, partnership, association or other business entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power are, at the time any determination is being made, owned, controlled or held, or (b) that is, at the time any determination is made, otherwise

Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"Subsidiary" shall mean any subsidiary of the Company.

"Subsidiary Guarantee Agreement" shall mean a Subsidiary Guarantee Agreement substantially in the form of Exhibit D by the Subsidiary Guarantors in favor of the Collateral Agent for the benefit of the Secured Parties.

"Subsidiary Guarantors" shall mean each person listed on Schedule 1.01 and each other person that becomes party to the Subsidiary Guarantee Agreement as a Subsidiary Guarantor, and the permitted successors and assigns of each such person.

"Taxes" shall mean any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

"Term Borrowing" shall mean a Borrowing comprised of Tranche A Term Loans or Tranche B Term Loans.

"Term Loan Commitments" shall mean the Tranche A Commitments and the Tranche B Commitments.

"Term Loan Repayment Dates" shall mean the Tranche A Term Loan Repayment Dates and the Tranche B Term Loan Repayment Dates as set forth in Section 2.11(a).

"Term Loans" shall mean the Tranche A Term Loans and the Tranche B Term Loans.

"Total Revolving Credit Commitment" shall mean, at any time, the aggregate amount of the Revolving Credit Commitments, as in effect at such time.

"Tranche A Commitment" shall mean, with respect to each Lender, the commitment of such Lender to make Tranche A Term Loans as set forth on Schedule 2.01 or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Tranche A Commitment, as applicable, as the same may be (a) reduced from time to time pursuant to Section 2.09 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 10.04.

"Tranche A Lender" shall mean a Lender with a Tranche A Commitment or with outstanding Tranche A Term Loans.

"Tranche A Maturity Date" shall mean the fifth anniversary of the Closing Date.

"Tranche A Term Borrowing" shall mean a Borrowing comprised of Tranche A Term Loans.

"Tranche A Term Loan Repayment Date" shall mean each of the 15 consecutive calendar quarter end dates commencing with June 30, 2000 (or, if any such day shall not be a Business Day, the next preceding Business Day).

"Tranche A Term Loans" shall mean the term loans made by the Lenders to the Borrower pursuant to clause (a) of Section 2.01. Each Tranche A Term Loan shall be either a Eurodollar Term Loan or an ABR Term Loan.

"Tranche B Commitment" shall mean, with respect to each Lender, the commitment of such Lender to make Tranche B Term Loans as set forth on Schedule 2.01 or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Tranche B Commitment, as applicable, as the same may be (a) reduced from time to time pursuant to Section 2.09 and (b`) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 10.04.

"Tranche B Lender" shall mean a Lender with a Tranche B Commitment or with outstanding Tranche B Term Loans.

"Tranche B Maturity Date" shall mean the seventh anniversary of the Closing Date.

"Tranche B Term Borrowing" shall mean a Borrowing comprised of Tranche B Term Loans.

"Tranche B Term Loan Repayment Date" shall mean each of the 24 consecutive calendar quarter end dates commencing with March 31, 2000 (or, if any such day shall not be a Business Day, the next preceding Business Day).

"Tranche B Term Loans" shall mean the term loans made by the Lenders to the Borrower pursuant to clause (b) of Section 2.01. Each Tranche B Term Loan shall be either a Eurodollar Term Loan or an ABR Term Loan.

"Transactions" shall mean the execution, delivery and performance by each Loan Party of each of the Loan Documents, the Closing Date Transactions and the Borrowings and issuances of Letters of Credit hereunder after the Closing Date.

"Transfer Date" shall mean the Business Day immediately following the Closing Date.

"Type" shall refer, when used in respect of any Loan or Borrowing, to the Rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined. For purposes hereof, the term "Rate" shall include the Adjusted LIBO Rate and the Alternate Base Rate.

"Unrestricted Subsidiary" shall mean Playboy Online or any of its subsidiaries.

"Wholly Owned Subsidiary" shall mean a Subsidiary of which securities (except for directors' qualifying shares) or other ownership interests representing 100% of the equity and 100% of the ordinary voting power are, at the time any determination is being made, owned, controlled or held, directly or indirectly, by the Borrower or one or more wholly owned subsidiaries of the Borrower.

"Withdrawal Liability" shall mean liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Terms Generally. The definitions in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, any reference in this Agreement to any Loan Document shall mean such document as amended, restated, supplemented or otherwise modified from time to time.

SECTION 1.03. Accounting and Financial Terms. (a) Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided, however, that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent

notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

(b) All computations required to be made hereunder with respect to the Company and the Subsidiaries to demonstrate compliance with any of the financial covenants contained in Article VI shall exclude the assets, liabilities, results of operations and cash flows of the Unrestricted Subsidiaries; provided that if the Company shall deliver to the Administrative Agent a written election to have the assets, liabilities, results of operations and cash flows of the Unrestricted Subsidiaries included for purposes of determining compliance with such covenants, together with a certificate of a Financial Officer (i) stating that no Default or Event of Default has occurred and is continuing or will have occurred and be continuing after giving effect to such election and (ii) demonstrating to the satisfaction of the Administrative Agent that the Borrower shall be in compliance with the financial covenants set forth in Article VI giving pro forma effect to the inclusion of such assets, liabilities, results of operations and cash flows from the beginning of the most recent period of four fiscal quarters for which financial statements shall have been delivered pursuant to Section 5.03(a) or (b), as applicable, the assets, liabilities, results of operations and cash flows of the Unrestricted Subsidiaries shall at all times thereafter be included in such computations and the Unrestricted Subsidiaries shall at all times thereafter be deemed Restricted Subsidiaries, it being understood that any such election shall be permanent and irrevocable.

(c) All pro forma computations required to be made hereunder giving effect to any acquisition, investment, sale, disposition or similar event shall reflect on a pro forma basis such event and, to the extent applicable, the historical earnings and cash flows associated with the assets acquired or disposed of and any related incurrence or reduction of Indebtedness, but shall not take into account any projected synergies or similar benefits expected to be realized as a result of such event except to the extent such benefits would be permitted to be taken into account in the preparation of pro forma financial statements complying with Regulation S-X of the Securities and Exchange Commission and are approved by the Company's independent certified public accountants.

ARTICLE II

The Credits

SECTION 2.01. Commitments. Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Lender agrees, severally and not jointly, (a) to make a Tranche A Term Loan to the Borrower on the Closing Date in a principal amount equal to its Tranche A Commitment, (b) to make a Tranche B Term Loan to the Borrower on the Closing Date in a principal amount equal to its Tranche B Commitment and (c) to make Revolving Loans to the Borrower, at any time and from time to time on or after the Closing Date and until the earlier of the Revolving Credit Maturity Date and the termination of the Revolving Credit Commitment of such Lender in accordance

with the terms hereof, in an aggregate principal amount at any time outstanding that will not result in such Lender's Revolving Credit Exposure exceeding such

Lender's Revolving Credit Commitment. Within the limits set forth in clause (c) of the preceding sentence and subject to the terms, conditions and limitations set forth herein, the Borrower may borrow, pay or prepay and reborrow Revolving Loans. Amounts paid or prepaid in respect of Term Loans may not be reborrowed.

SECTION 2.02. Loans. (a) Each Loan shall be made as part of a Borrowing consisting of Loans made by the Lenders ratably in accordance with their applicable Commitments; provided, that the failure of any Lender to make any Loan shall not in itself relieve any other Lender of its obligation to lend hereunder (it being understood, however, that no Lender shall be responsible for the failure of any other Lender to make any Loan required to be made by such other Lender). Except for Loans deemed made pursuant to paragraph (f) below, the Loans comprising any Borrowing shall be in an aggregate principal amount that is (i) an integral multiple of $250,000 and not less than $1,000,000 or (ii) equal to the remaining available balance of the applicable Commitments.

(b) Subject to Sections 2.08 and 2.15, each Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the Borrower may request pursuant to Section 2.03. Each Lender may at its option make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accord ance with the terms of this Agreement. Borrowings of more than one Type may be outstanding at the same time; provided, however, that the Borrower shall not be entitled to request any Borrowing that, if made, would result in more than ten Eurodollar Borrowings outstanding hereunder at any time. For purposes of the foregoing, Eurodollar Borrowings having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Borrowings.

(c) Except with respect to Loans made pursuant to paragraph (f) below, each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds to such account in New York City as the Administrative Agent may designate not later than 12:00 (noon), New York City time, and the Administrative Agent shall promptly transfer the amounts so received to an account in the name of the Borrower designated by the Borrower in the applicable Borrowing Request or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Lenders.

(d) Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's portion of such Borrowing, the Administrative Agent may assume that

such Lender has made such portion available to the Administrative Agent on the date of such Borrowing in accordance with paragraph (c) above and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If the Administrative Agent shall have so made funds available then, to the extent that such Lender shall not have made such portion available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) in the case of the Borrower, the interest rate applicable at the time to the Loans comprising such Borrowing and (ii) in the case of such Lender, a rate determined by the Administrative Agent to represent its cost of overnight or short-term funds (which determination shall be conclusive absent manifest error). If such Lender shall repay to the Administrative Agent such corresponding amount, such amount shall constitute such Lender's Loan as part of such Borrowing for purposes of this Agreement.

(e) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request any Borrowing if the Interest Period requested with respect thereto would end after the Revolving Credit Maturity Date.

(f) If the Issuing Bank shall not have received from the Borrower the payment required to be made by Section 2.22(e) in respect of any L/C Disbursement within the time specified in such Section, the Issuing Bank will promptly notify the Administrative Agent of the amount of such L/C Disbursement and the dollar amount of the Revolving Credit Borrowing that will be required (in the case of an L/C Disbursement denominated in an Alternate Currency, at current exchange rates, as determined by the Issuing Bank, with such determination to be conclusive absent demonstrable error) to refinance such L/C Disbursement. The Administrative Agent will promptly notify each Revolving Credit Lender of the amount of such Revolving Credit Borrowing and its Pro Rata Percentage thereof. Each Revolving Credit Lender shall pay by wire transfer of immediately available funds to the Administrative Agent not later than 2:00 p.m., New York City time, on such date (or, if such Revolving Credit Lender shall have received such notice later than 12:00 (noon), New York City time, on any day, not later than 11:00 a.m., New York City time, on the immediately following Business Day), an amount equal to such Lender's Pro Rata Percentage of such Revolving Credit Borrowing (it being understood that such amount shall be deemed to constitute an ABR Revolving Loan of such Lender and that the Revolving Credit Borrowing made pursuant to this paragraph will be deemed to have reduced the L/C Exposure by the Dollar Equivalent of such L/C Disbursement), and the Administrative Agent will promptly pay to the Issuing Bank amounts so received by it from the Revolving Credit Lenders. The Administrative Agent will promptly pay to the Issuing Bank any amounts received by it from the Borrower pursuant to Section 2.22(e) prior to the time that any Revolving Credit Lender makes any payment pursuant to this paragraph (f); any such amounts received by the Administrative Agent thereafter will be promptly remitted by the

Administrative Agent to the Revolving Credit Lenders that shall have made such payments (after being converted into dollars, in the case of amounts received in any Alternate Currency) and to the Issuing Bank, as their interests may appear. If any Revolving Credit Lender shall not have made its Pro Rata Percentage of such Revolving Credit Borrowing available to the Administrative Agent as provided above, such Lender and the Borrower severally agree to pay interest on such amount, for each day from and including the date such amount is required to be paid in accordance with this paragraph to but excluding the date such amount is paid, to the Administrative Agent for the account of the Issuing Bank at (i) in the case of the Borrower, a rate per annum equal to the interest rate applicable to ABR Revolving Loans pursuant to Section 2.06(a), and (ii) in the case of such Lender, for the first such day, the Federal Funds Effective Rate, and for each day thereafter, the Alternate Base Rate.

SECTION 2.03. Borrowing Procedure. In order to request a Borrowing (other than a deemed Borrowing pursuant to Section 2.02(f), as to which this Section 2.03 shall not apply), the Borrower shall hand deliver or telecopy to the Administrative Agent a duly completed Borrowing Request (a) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before a proposed Borrowing, and (b) in the case of an ABR Borrowing, not later than 12:00 (noon), New York City time, on the Business Day of a proposed Borrowing. Each Borrowing Request shall be irrevocable, shall be signed by or on behalf of the Borrower and shall specify the following information: (i) whether the Borrowing then being requested is to be a Tranche A Term Borrowing, a Tranche B Term Borrowing or a Revolving Credit Borrowing, and, subject to the third sentence of Section 2.02(b), whether such Borrowing is to be a Eurodollar Borrowing or an ABR Borrowing; (ii) the date of such Borrowing (which shall be a Business Day), (iii) the number and location of the account to which funds are to be disbursed; (iv) the amount of such Borrowing; and (v) if such Borrowing is to be a Eurodollar Borrowing, the Interest Period with respect

thereto; provided, however, that, notwithstanding any contrary specification in any Borrowing Request, each requested Borrowing shall comply with the requirements set forth in Section 2.02. If no election as to the Type of Borrowing is specified in any such notice, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period with respect to any Eurodollar Borrowing is specified in any such notice, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. The Administrative Agent shall promptly advise the applicable Lenders of any notice given pursuant to this Section 2.03 (and the contents thereof), and of each Lender's portion of the requested Borrowing.

SECTION 2.04. Evidence of Debt; Repayment of Loans. (a) The Borrower hereby unconditionally promises to pay to the Administrative Agent for the account of each Lender (i) the then unpaid principal amount of each Revolving Loan on the Revolving Credit Maturity Date and (ii) the principal amount of each Term Loan of such Lender as provided in Section 2.11.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid such Lender from time to time under this Agreement.

(c) The Administrative Agent shall maintain accounts in which it will record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from the Borrower or any Guarantor and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraphs (b) and (c) above shall be prima facie evidence of the existence and amounts of the obligations therein recorded; provided, however, that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with their terms.

(e) Notwithstanding any other provision of this Agreement, in the event any Lender shall request and receive a promissory note payable to such Lender and its registered assigns, the interests represented by such note shall at all times (including after any assignment of all or part of such interests pursuant to Section 10.04) be represented by one or more promissory notes payable to the payee named therein or its registered assigns.

SECTION 2.05. Fees. (a) The Borrower agrees to pay to each Lender, through the Administrative Agent, on the last day of each calendar quarter commencing with the first such day after the date hereof (or, if any such day shall not be a Business Day, the next preceding Business Day), and on the date on which the last of the Commitments of such Lender shall expire or be terminated as provided herein (each such day being called a "Fee Payment Date"), a commitment fee (a "Commitment Fee") equal to .50% per annum on the average daily unused amount (with Letters of Credit counting as usage) of the Commitments of such Lender during the preceding quarter (or other period commencing with the date hereof or ending with the date on which the last of the Commitments of such Lender shall expire or be terminated). All Commitment Fees shall be computed on the basis of the actual number of days elapsed in a year of 360 days. The Commitment Fee due to each Lender shall commence to accrue on the date hereof and shall cease to accrue on the date on which the last of the Commitments of such Lender shall expire or be terminated as provided herein.

(b) The Borrower agrees to pay to the Arranger and to the Administrative

Agent, for their own accounts, the fees separately agreed upon by the Borrower, the Arranger and the Administrative Agent (the "Arranger and Agent Fees").

(c) The Borrower agrees to pay (i) to each Revolving Credit Lender, through the Administrative Agent, on each Fee Payment Date, a fee (an "L/C Participation Fee") calculated on such Lender's Pro Rata Percentage of the average daily aggregate L/C Exposure (excluding the portion thereof attributable to unreimbursed L/C Disbursements) during the preceding quarter (or shorter period commencing with the date hereof or ending with the Revolving Credit Maturity Date or the date on which all Letters of Credit have been canceled or have expired and the Revolving Credit Commitments of all Lenders shall have been terminated) at a rate equal to the Applicable Percentage from time to time used to determine the interest rate on Revolving Credit Borrowings comprised of Eurodollar Loans pursuant to Section 2.06, and (ii) to the Issuing Bank, (A) on each Fee Payment Date and on the date on which the Letter of Credit Commitment shall be terminated as provided herein and no Letters of Credit shall be outstanding, a fronting fee of .25% per annum (or such other rate per annum, if any, as the Borrower and the Issuing Bank may agree upon from time to time) on the undrawn face amount of each outstanding Letter of Credit, and (B) issuance and drawing fees specified from time to time by the Issuing Bank as its applicable issuance and drawing fees for letters of credit similar to the Letters of Credit (collectively, the "Issuing Bank Fees"). All L/C Participation Fees and Issuing Bank Fees shall be computed on the basis of the actual number of days elapsed in a year of 360 days.

All Fees shall be paid on the dates due, in immediately available funds, to the Administrative Agent for distribution, if and as appropriate, among the Lenders, except that the Issuing Bank Fees shall be paid directly to the Issuing Bank. Once paid, none of the Fees shall be refundable.

SECTION 2.06. Interest on Loans. (a) Subject to the provisions of Section 2.07, the Loans comprising each ABR Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be, when the Alternate Base Rate is determined by reference to the Prime Rate and over a year of 360 days at all other times) at a rate per annum equal to the Alternate Base Rate plus (x) in the case of Revolving Loans and Tranche A Term Loans, the Applicable Percentage in effect for such Loans from time to time and (y) in the case of Tranche B Term Loans, (i) prior to the date on which the Playboy International Transaction shall be completed, 2.75% per annum and (ii) on and after the date on which the Playboy International Transaction shall be completed, the greater of (A) the Applicable Percentage that would be used to determine the interest rate applicable to a Tranche A Term Loan plus .50% per annum and (B) 2.25% per annum.

(b) Subject to the provisions of Section 2.07, the Loans comprising each Eurodollar Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus (x) in the case of Revolving Loans and Tranche A Term Loans, the Applicable Percentage in effect for such Loans from time to time and (y) in

the case of Tranche B Term Loans, (i) prior to the date on which the Playboy International Transaction shall be completed, 3.75% per annum and (ii) on and after the date on which the Playboy International Transaction shall be completed, the greater of (A) the Applicable Percentage that would be used to determine the interest rate applicable to a Tranche A Term Loan plus .50% per annum and (B) 3.25% per annum.

(c) Interest on each Loan shall be payable on the Interest Payment Dates applicable to such Loan except as otherwise provided in this Agreement. The applicable Alternate Base Rate or Adjusted LIBO Rate for each Interest Period or day within an Interest Period, as the case may be, shall be determined by the Administrative Agent, and such determination shall be conclusive absent demonstrable error.

SECTION 2.07. Default Interest. If the Borrower shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder, by acceleration or otherwise, or under any other Loan Document, the Borrower shall on demand from time to time pay interest, to the extent permitted by law, on such defaulted amount to but excluding the date of actual payment (after as well as before judgment) (a) in the case of overdue principal, at the rate otherwise applicable to such Loan pursuant to Section 2.06 plus 2% per annum and (b) in all other cases, at the rate per annum applicable at such time to ABR Loans comprising Revolving Credit Borrowings plus 2% per annum.

SECTION 2.08. Alternate Rate of Interest. In the event and on each occasion that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Borrowing the Administrative Agent shall have determined that dollar deposits in the principal amounts of the Loans comprising such Borrowing are not generally available in the London interbank market, or that the rates at which such dollar deposits are being offered will not adequately reflect the cost to the Required Lenders of making or maintaining its Eurodollar Loan during such Interest Period, or that reasonable means do not exist for ascertaining the Adjusted LIBO Rate, the Administrative Agent shall, as soon as practicable thereafter, give written or telecopy notice of such determination to the Borrower and the Lenders. In the event of any such determination, until the Administrative Agent shall have advised the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist (which advice the Administrative Agent agrees to give promptly after it learns that such circumstances no longer exist), any request by the Borrower for a Eurodollar Borrowing pursuant to Section 2.03 or 2.10 shall be deemed to be a request for an ABR Borrowing. Each determination by the Administrative Agent hereunder shall be conclusive absent demonstrable error.

SECTION 2.09. Termination and Reduction of Commitments. (a) The Term Loan Commitments shall automatically terminate at 5:00 p.m., New York City time, on the Closing Date. The Revolving Credit Commitments and the L/C Commitment shall automatically terminate at 5:00 p.m., New York City time, on the Revolving Credit Maturity

Date. Notwithstanding the foregoing, all the Commitments shall automatically terminate at 5:00 p.m., New York City time, on March 18, 1999, if the initial Credit Event shall not have occurred by such time.

(b) Upon at least three Business Days' prior irrevocable written or telecopy notice to the Administrative Agent, the Borrower may at any time in whole permanently terminate, or from time to time in part permanently reduce, the Tranche A Commitments, the Tranche B Commitments or the Revolving Credit Commitments; provided, however, that (i) each partial reduction of the Tranche A Commitments, the Tranche B Commitments or the Revolving Credit Commitments shall be in an integral multiple of $250,000 and in a minimum amount of $1,000,000 and (ii) the Total Revolving Credit Commitment shall not be reduced to an amount that is less than the sum of (A) the Aggregate Revolving Credit Exposure at the time and (B) any portion of the Total Revolving Credit Commitment at the time being held available to fund the purchase of additional assets, as contemplated by the definition of "Asset Sale" in Section 1.01.

(c) Each reduction in the Tranche A Commitments, the Tranche B Commitments or the Revolving Credit Commitments hereunder shall be made ratably among the

Lenders in accordance with their respective applicable Commitments. The Borrower shall pay to the Administrative Agent for the accounts of the Revolving Credit Lenders, on the date of each termination or reduction, the Commitment Fees due on the amount of the Revolving Credit Commitments so terminated or reduced accrued to but excluding the date of such termination or reduction.

SECTION 2.10. Conversion and Continuation of Borrowings. The Borrower shall have the right (subject to the limitations specified in Section 2.02) at any time upon prior irrevocable notice to the Administrative Agent (a) not later than 12:00 (noon), New York City time, one Business Day prior to conversion, to convert any Eurodollar Borrowing into an ABR Borrowing, (b) not later than 12:00 (noon), New York City time, three Business Days prior to conversion or continuation, to convert any ABR Borrowing into a Eurodollar Borrowing or to continue any Eurodollar Borrowing as a Eurodollar Borrowing for an additional Interest Period, and (c) not later than 12:00 (noon), New York City time, three Business Days prior to conversion, to convert the Interest Period with respect to any Eurodollar Borrowing to another permissible Interest Period, subject in each case to the following:

(i) each conversion or continuation shall be made pro rata among the Lenders in accordance with the respective principal amounts of the Loans comprising the converted or continued Borrowing;

(ii) if less than all the outstanding principal amount of any Borrowing shall be converted or continued, then each resulting Borrowing shall satisfy the limitations

specified in Sections 2.02(a) and (b) regarding the principal amount and maximum number of Borrowings of the relevant Type;

(iii) each conversion shall be effected by each Lender and the Administrative Agent by recording for the account of such Lender the new Type or Interest Period for each Loan of such Lender resulting from such conversion; accrued interest on any Eurodollar Loan (or portion thereof) being converted shall be paid by the Borrower at the time of conversion;

(iv) if any Eurodollar Borrowing is converted at a time other than the end of the Interest Period applicable thereto, the Borrower shall pay, upon demand, any amounts due to the Lenders pursuant to Section 2.16;

(v) any portion of a Borrowing maturing or required to be repaid in less than one month may not be converted into or continued as a Eurodollar Borrowing;

(vi) any portion of a Eurodollar Borrowing that cannot be converted into or continued as a Eurodollar Borrowing by reason of the immediately preceding clause shall be automatically converted at the end of the Interest Period in effect for such Borrowing into an ABR Borrowing;

(vii) no Interest Period may be selected for any Tranche A Term Borrowing or Tranche B Term Borrowing that is a Eurodollar Borrowing that would end later than a Term Loan Repayment Date occurring on or after the first day of such Interest Period if, after giving effect to such selection, the aggregate outstanding amount of (A) the Tranche A Term Borrowings or Tranche B Term Borrowings, as the case may be, that are Eurodollar Borrowings with Interest Periods ending on or prior to such Term Loan Repayment Date and (B) the Tranche A Term Borrowings or Tranche B Term Borrowings, as the case may be, that are ABR Borrowings would not be at least equal to the principal amount of Tranche A Term Borrowings or Tranche B Term Borrowings to be paid on such Term Loan Repayment Date; and

(viii) upon notice to the Borrower from the Administrative Agent given at the request of the Required Lenders, after the occurrence and during the continuance of a Default or Event of Default, no outstanding Loan may be converted into, or continued as, a Eurodollar Loan. The foregoing is without prejudice to the other rights and remedies available hereunder upon an Event of Default.

Each notice pursuant to this Section 2.10 shall be irrevocable and shall refer to this Agreement and specify (i) the identity and amount of the Borrowing that the Borrower requests be converted or continued, (ii) whether such Borrowing is to be converted to or continued as a Eurodollar Borrowing or an ABR Borrowing, (iii) if such notice requests a

conversion, the date of such conversion (which shall be a Business Day) and (iv) if such Borrowing is to be converted to or continued as a Eurodollar Borrowing, the Interest Period with respect thereto. If no Interest Period is specified in any such notice with respect to any conversion to or continuation as a Eurodollar Borrowing, the Borrower shall be deemed to have selected an Interest Period of one month's duration. The Administrative Agent shall advise the Lenders of any notice given pursuant to this Section 2.10 and of each Lender's portion of any converted or continued Borrowing. If the Borrower shall not have given notice in accordance with this Section 2.10 to continue any Borrowing into a subsequent Interest Period (and shall not otherwise have given notice in accordance with this Section 2.10 to convert such Borrowing), such Borrowing shall, at the end of the Interest Period applicable thereto (unless repaid pursuant to the terms hereof), automatically be continued into a new Interest Period as an ABR Borrowing.

SECTION 2.11. Repayment of Term Borrowings. (a) (i) The Borrower shall pay to the Administrative Agent, for the accounts of the Lenders, on each Tranche A Term Loan Repayment Date, a principal amount of the Tranche A Term Loans equal to the percentage of the Tranche A Term Loans made on the Closing Date set forth below opposite the number corresponding to such Tranche A Term Loan Repayment Date (subject to adjustment from time to time pursuant to Sections 2.12 and principal amount to be paid to but excluding the date of such payment:

<TABLE>
<CAPTION>

Tranche A Term Loan Repayment Date	Percentage
<S>	<C>
1-4	3.6%
5-8	5.0%
9-12	7.1%
13-15	9.3%

</TABLE>

(ii) The Borrower shall pay to the Administrative Agent, for the accounts of the Lenders, on each Tranche B Term Loan Repayment Date, a principal amount of the Tranche B Term Loans equal to the percentage of the Tranche B Term Loans made on the Closing Date set forth below opposite the number corresponding to such Tranche B Term Loan Repayment Date (subject to adjustment from time to time pursuant to Sections 2.12 and 2.13(h)), together in each case with accrued and unpaid interest on the principal amount to be paid to but excluding the date of such payment:

<TABLE>

<CAPTION>

Tranche B Term Loan Repayment Date	Percentage
<S> <C>	<C>
1-17	0.3%
18-24	11.9%

</TABLE>

(b) To the extent not previously paid, all Tranche A Term Loans and Tranche B Term Loans shall be due and payable on the Tranche A Maturity Date and Tranche B Matu rity Date, respectively, together with accrued and unpaid interest on the principal amount to be paid to but excluding the date of payment.

(c) All repayments pursuant to this Section 2.11 shall be subject to Section 2.16, but shall otherwise be without premium or penalty.

SECTION 2.12. Optional Prepayments. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing, in whole or in part, upon at least three Business Days' prior written or telecopy notice (or telephone notice promptly confirmed by written or telecopy notice) to the Administrative Agent before 12:00 noon, New York City time; provided, however, that each partial prepayment shall be in an amount that is an integral multiple of $250,000 and not less than $1,000,000.

(b) Optional prepayments of Term Borrowings shall be allocated pro rata between the then-outstanding Tranche A Term Borrowings and Tranche B Term Borrowings and applied pro rata against the remaining scheduled installments of principal due in respect of the Tranche A Term Borrowings and Tranche B Term Borrowings under Sections 2.11(a)(i) and (ii), respectively.

(c) Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing (or portion thereof) to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Borrowing by the amount stated therein on the date stated therein. All prepayments of Borrowings under this Section 2.12 shall be subject to Section 2.16, but otherwise without premium (except, in the case of Tranche B Term Borrowings, as provided in paragraph (d) below) or penalty. All prepayments under this Section 2.12 shall be accompanied by accrued interest on the principal amount being prepaid to the date of payment.

(d) Any voluntary prepayment of Tranche B Term Loans made at any time (i) from the Closing Date to and including the first anniversary thereof will be in an amount equal to 102% of the principal amount of such loans prepaid, (ii) after the first anniversary of the Closing Date to and including the second anniversary of the Closing Date will be in an

amount equal to 101% of the principal amount of such loans prepaid and (iii) thereafter will be in an amount equal to 100% of the principal amount of such loans prepaid.

SECTION 2.13. Mandatory Prepayments. (a) In the event of any termination of all the Revolving Credit Commitments, the Borrower shall repay or prepay all the outstanding Revolving Credit Borrowings on the date of such termination. In the event of any partial reduction of the Revolving Credit Commitments, then (i) at or prior to the effective date of such reduction, the Administrative Agent shall notify the Borrower and the Revolving Credit Lenders of the Aggregate Revolving Credit Exposure after giving effect thereto and (ii) if the Total Revolving Credit Commitment after giving effect to such reduction or termination

would be less than the sum of (A) the Aggregate Revolving Credit Exposure at the time and (B) any portion of the Total Revolving Credit Commitment at the time being held available to fund the purchase of additional assets, as contemplated by the definition of "Asset Sale" in Article I, then the Borrower shall, on the date of such reduction or termination, repay or prepay Revolving Credit Borrowings in an amount sufficient to eliminate such deficiency.

(b) Not later than the Business Day following the receipt by the Company or any Restricted Subsidiary of any Net Cash Proceeds of any Asset Sale (other than the Playboy International Transaction), the Borrower shall prepay outstanding Term Loans and, if the Term Loans shall have been paid in full, to prepay Revolving Loans (without reducing the Revolving Credit Commitments) in an aggregate principal amount equal to (x) 100% of the Net Cash Proceeds received with respect thereto if on the date of such Asset Sale the Consolidated Leverage Ratio is greater than or equal to 3.00 to 1.00 and (y) 75% of the Net Cash Proceeds received with respect thereto if on the date of such Asset Sale the Consolidated Leverage Ratio is less than 3.00 to 1.00, in each case after giving pro forma effect to such Asset Sale and any substantially simultaneous prepayment of Term Loans (or prepayment of Revolving Loans) made pursuant to this paragraph or Section 2.12 as if such Asset Sale and such prepayment had occurred at the beginning of the most recent period of four fiscal quarters for which financial statements shall have been delivered pursuant to Section 5.03 (a) or (b), as applicable. Not later than the Business Day following the date on which any Net Cash Proceeds are deemed for purposes of this paragraph to constitute Net Cash Proceeds of an Asset Sale pursuant to clause (y) or the last sentence of the definition of "Asset Sale", the Borrower shall apply such Net Cash Proceeds to prepay outstanding Term Loans in accordance with the preceding sentence.

(c) Not later than the Business Day following the receipt by the Company or any Subsidiary of Net Cash Proceeds from any Equity Issuance (other than (i) Net Cash Proceeds of Equity Issuances by Unrestricted Subsidiaries in an aggregate amount not greater than $25,000,000 and (ii) Net Cash Proceeds of Equity Issuances by the Company and Restricted Subsidiaries that do not in the aggregate for all such Equity Issuances exceed $40,000,000 minus the aggregate Net Cash Proceeds of Equity Issuances referred to in the preceding clause (i)), the Borrower shall prepay outstanding Term Loans and, if the Term Loans shall

have been paid in full, to prepay Revolving Loans (without reducing the Revolving Credit Commitments) in an aggregate principal amount equal to (i) 75% of such Net Cash Proceeds at any time when the Consolidated Leverage Ratio is greater than or equal to 4.00 to 1.00, (ii) 50% of such Net Cash Proceeds at any time when the Consolidated Leverage Ratio is greater than or equal to 3.00 to 1.00, but less than 4.00 to 1.00 and (iii) 25% of such Net Cash Proceeds at any time when the Consolidated Leverage Ratio is less than 3.00 to 1.00.

(d) Not later than the earlier of (i) 90 days after the end of each fiscal year of the Borrower, commencing with the fiscal year ending December 31, 1999, and (ii) the date on which the financial statements with respect to such fiscal year are delivered pursuant to Section 5.03(a), the Borrower shall prepay outstanding Term Loans and, if the Term Loans shall have been paid in full, to prepay Revolving Loans (without reducing the Revolving Credit Commitments) in an aggregate principal amount equal to (A) 75% of Excess Cash Flow for such fiscal year if the Consolidated Leverage Ratio at the end of such fiscal year shall have been greater than or equal to 3.50 to 1.00, and (B) 50% of Excess Cash Flow for such fiscal year if the Consolidated Leverage Ratio at the end of such fiscal year shall have been less than 3.50 to 1.00.

(e) In the event that the Company or any Restricted Subsidiary shall receive Net Cash Proceeds from the incurrence or disposition of any Indebtedness (other than Indebtedness permitted under Section 6.01), the Borrower shall, as promptly as practicable and in any event not later than the Business Day

following the receipt of such Net Cash Proceeds, apply 100% of such Net Cash Proceeds to prepay outstanding Term Loans and, if the Term Loans shall have been paid in full, to prepay Revolving Loans (without reducing the Revolving Credit Commitments).

(f) Not later than the Business Day following receipt by the Company or any Subsidiary of the Playboy International Initial Fee, the Borrower shall (i) prepay outstanding Tranche A Term Loans in an aggregate principal amount equal to 25% of the lesser of (A) $20,000,000 and (B) the amount of such fee and (ii) prepay outstanding Tranche B Term Loans in an aggregate principal amount equal to 75% of the lesser of (A) $20,000,000 and (B) the amount of such fee, in each case minus the corresponding Playboy International Capital Contribution.

(g) In the event the Borrower shall receive or hold Net Cash Proceeds from any Asset Sale, Equity Issuance or incurrence of Indebtedness or other amounts that would, if not applied to the prepayment of senior Indebtedness or to purchase assets, be required to be applied to prepay, redeem, repurchase or defease any Indebtedness that is subordinated in right of payment to any of the Obligations, and if the Borrower shall not apply such Net Cash Proceeds to the voluntary prepayment of senior Indebtedness or to purchase assets, in either case in such manner as to avoid the requirement that subordinated Indebtedness be so prepaid, redeemed, repurchased or defeased, the Borrower shall, prior to the date on which

such Net Cash Proceeds or other amounts would be required to be applied to prepay, redeem, repurchase or defease any such subordinated Indebtedness, apply an amount equal to 100% of such Net Cash Proceeds or such other amounts to prepay outstanding Term Loans in accordance with paragraph (h) below or, after the Term Loans shall have been paid in full, to prepay Revolving Loans (without reducing the Revolving Credit Commitments).

(h) Mandatory prepayments of Term Loans shall, subject to paragraph (f) above and paragraph (l) below, be allocated ratably between the then-outstanding Tranche A Term Loans and Tranche B Term Loans and applied ratably against the remaining scheduled installments of principal due in respect of Tranche A Term Loans or Tranche B Term Loans under Section 2.11(a)(i) and (ii), respectively.

(i) If on any date the aggregate Revolving Credit Exposure shall exceed the aggregate Revolving Credit Commitments the Borrower shall on such date apply an amount equal to such excess to prepay the then outstanding Revolving Loans.

(j) The Borrower shall deliver to the Administrative Agent, at the time of each pre payment required under this Section 2.13, (i) a certificate signed by a Financial Officer of the Borrower setting forth in reasonable detail the calculation of the amount of such pre payment and (ii) to the extent practicable, at least three days prior written notice of such prepayment. Each notice of prepayment shall specify the prepayment date and the Type and principal amount of each Loan (or portion thereof) to be prepaid. All prepayments under this Section 2.13 shall be subject to Section 2.16, but shall otherwise be without premium or penalty.

(k) Amounts to be applied pursuant to this Section 2.13 to the prepayment of Term Loans and Revolving Loans shall be applied first to reduce outstanding ABR Term Loans or ABR Revolving Loans, as the case may be, and then to prepay Eurodollar Term Loans or Eurodollar Revolving Loans, as the case may be. In the event the amount of any prepayment required to be made pursuant to this Section shall exceed the aggregate principal amount of the ABR Tranche A Term Loans, ABR Tranche B Term Loans or ABR Revolving Loans, as the case may be, outstanding (the amount of any such excess being called the "Excess Amount"), the Borrower shall have the right, in lieu of making such prepayment in full, to prepay all the outstanding ABR Loans of the applicable class and to deposit an amount equal

to the Excess Amount with the Collateral Agent in a cash collateral account maintained (pursuant to documentation reasonably satisfactory to the Administrative Agent) by and in the sole dominion and control of the Collateral Agent. Any amounts so deposited shall be held by the Collateral Agent as collateral for the Obligations and applied to the prepayment of the applicable Eurodollar Loans at the ends of the current Interest Periods applicable thereto. At the request of the Borrower, amounts so deposited shall be invested by the Collateral Agent in Permitted Investments maturing prior to the date or dates on which it is anticipated that such amounts will be applied to prepay Eurodollar Loans; any

interest earned on such Permitted Investments will be for the account of the Borrower, and the Borrower will deposit with the Administrative Agent the amount of any loss on any such Permitted Investment to the extent necessary in order that the amount of the prepayment to be made with the deposited amounts may not be reduced.

(l) Any Tranche B Lender may elect, by notice to the Administrative Agent in writing (or by telephone or telecopy promptly confirmed in writing) at least one Business Day prior to any prepayment of Tranche B Term Loans required to be made by the Borrower for the account of such Lender pursuant to this Section 2.13, to cause all or a portion of such prepayment to be applied instead to prepay Tranche A Term Loans in accordance with paragraph (h) above (and any prepayment or portion thereof as to which such an election is made shall be so applied); provided that no Tranche B Lender shall be entitled to make such election to the extent that at the time thereof the portion of the prepayment as to which such election is made exceeds the outstanding amount of the Tranche A Term Loans.

SECTION 2.14. Reserve Requirements; Change in Circumstances. (a) Notwithstanding any other provision of this Agreement, if after the date of this Agreement any change in applicable law or regulation or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof (whether or not having the force of law) shall change the basis of taxation of payments to any Lender or the Issuing Bank of the principal of or interest on any Eurodollar Loan made by such Lender or any Fees or other amounts payable hereunder (other than (i) changes in respect of taxes with respect to which the Borrower is required to make payments under Section 2.20 and (ii) taxes imposed on the overall net income of such Lender or the Issuing Bank or branch or franchise taxes imposed on such Lender (or its applicable lending office) or the Issuing Bank, in each case by the jurisdiction in which such Lender or the Issuing Bank has its principal office or applicable lending office or by any political subdivision or taxing authority therein), or shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of or credit extended by any Lender or the Issuing Bank (except any such reserve requirement which is reflected in the Adjusted LIBO Rate) or shall impose on such Lender or the Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender or any Letter of Credit or participation therein, and the result of any of the foregoing shall be to increase the cost to such Lender or the Issuing Bank of making or maintaining any Eurodollar Loan or increase the cost to any Lender of issuing or maintaining any Letter of Credit or purchasing or maintaining a participation therein or to reduce the amount of any sum received or receivable by such Lender or the Issuing Bank hereunder (whether of principal, interest or otherwise) by an amount deemed by such Lender or the Issuing Bank to be material, then the Borrower will pay to such Lender or the Issuing Bank, as the case may be, upon demand such additional amount or amounts as will compensate such Lender or the Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Lender or the Issuing Bank shall have determined that the adoption after the date hereof of any law, rule, regulation, agreement or guideline regarding capital adequacy, or any change after the date hereof in any such law, rule, regulation, agreement or guideline (whether such law, rule, regulation, agreement or guideline has been adopted) or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof, or compliance by any Lender (or any lending office of such Lender) or the Issuing Bank or any Lender's or the Issuing Bank's holding company with any request or directive issued after the date hereof regarding capital adequacy (whether or not having the force of law) of any Governmental Authority has or would have the effect of reducing the rate of return on such Lender's or the Issuing Bank's capital or on the capital of such Lender's or the Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made or participations in Letters of Credit purchased by such Lender pursuant hereto or the Letters of Credit issued by the Issuing Bank pursuant hereto to a level below that which such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company could have achieved but for such applicability, adoption, change or compliance (taking into consideration such Lender's or the Issuing Bank's policies and the policies of such Lender's or the Issuing Bank's holding company with respect to capital adequacy) by an amount deemed by such Lender or the Issuing Bank to be material, then from time to time the Borrower shall pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company for any such reduction suffered.

(c) A certificate of a Lender or the Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or the Issuing Bank or its holding company, as applicable, as specified in paragraph (a) or (b) above, together with supporting documentation or computations, in each case in reasonable detail, shall be delivered to the Borrower and shall be conclusive absent demonstrable error. The Borrower shall pay such Lender or the Issuing Bank the amount shown as due on any such certificate delivered by it within 10 days after its receipt of the same.

(d) Failure or delay on the part of any Lender or the Issuing Bank to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in return on capital shall not constitute a waiver of such Lender's or the Issuing Bank's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender or the Issuing Bank pursuant to this Section for any increased costs or reductions incurred more than 120 days prior to the date that such Bank notifies the Borrower in writing of the change giving rise to such increased costs or reductions and of such Bank's intention to claim compensation therefor; provided further that, if the change giving rise to such increased costs or reductions shall be retroactive, then the 120-day period referred to above shall be extended to include the period of retroactive effect thereof. The protection of this Section shall be available to each Lender and the Issuing Bank regardless

of any possible contention of the invalidity or inapplicability of the law, rule, regulation, agreement, guideline or other change or condition that shall have occurred or been imposed.

SECTION 2.15. Change in Legality. (a) Notwithstanding any other provision

of this Agreement, if, after the date hereof, any change in any law or regulation or in the interpretation thereof by any Governmental Authority charged with the administration or interpretation thereof shall make it unlawful for any Lender to make or maintain any Eurodollar Loan or to give effect to its obligations as contemplated hereby with respect to any Eurodollar Loan, then, by written notice to the Borrower and to the Administrative Agent:

(i) such Lender may declare that Eurodollar Loans will not thereafter (for the duration of such unlawfulness) be made by such Lender hereunder (or, for such duration, be continued for additional Interest Periods and ABR Loans will not thereafter (for such duration) be converted into Eurodollar Loans), whereupon any request for a Eurodollar Borrowing (or to convert an ABR Borrowing to a Eurodollar Borrowing or to continue a Eurodollar Borrowing for an additional Interest Period) shall, as to such Lender only, be deemed a request for an ABR Loan (or a request to continue an ABR Loan as such for an additional Interest Period or to convert a Eurodollar Loan into an ABR Loan, as the case may be), unless such declaration shall be subsequently withdrawn; and

(ii) such Lender may require that all outstanding Eurodollar Loans made by it be converted to ABR Loans, in which event all such Eurodollar Loans shall be automatically converted to ABR Loans as of the effective date of such notice as provided in paragraph (b) below.

In the event any Lender shall exercise its rights under (i) or (ii) above, all payments and prepayments of principal that would otherwise have been applied to repay the Eurodollar Loans that would have been made by such Lender or the converted Eurodollar Loans of such Lender shall instead be applied to repay the ABR Loans made by such Lender in lieu of, or resulting from the conversion of, such Eurodollar Loans.

(b) For purposes of this Section 2.15, a notice to the Borrower by any Lender shall be effective as to each Eurodollar Loan made by such Lender, if lawful, on the last day of the Interest Period currently applicable to such Eurodollar Loan; in all other cases such notice shall be effective on the date of receipt by the Borrower.

SECTION 2.16. Indemnity. The Borrower shall indemnify each Lender against any loss (other than any loss of margin over funding cost or anticipated profit) or expense that such Lender may sustain or incur as a consequence of (a) any event, other than a default by such Lender in the performance of its obligations hereunder, which results in (i) such Lender

receiving or being deemed to receive any amount on account of the principal of any Eurodollar Loan prior to the end of the Interest Period in effect therefor (including by reason of any assignment pursuant to Section 2.21), (ii) the conversion of any Eurodollar Loan to an ABR Loan, or the conversion of the Interest Period with respect to any Eurodollar Loan, in each case other than on the last day of the Interest Period in effect therefor, or (iii) any Eurodollar Loan to be made by such Lender (including any Eurodollar Loan to be made pursuant to a conversion or continuation under Section 2.10) not being made after notice of such Loan shall have been given by the Borrower hereunder (any of the events referred to in this clause (a) being called a "Breakage Event") or (b) any default in the making of any payment or prepayment required to be made hereunder. In the case of any Breakage Event, such loss shall include an amount equal to the excess, as reasonably determined by such Lender, of (i) its cost of obtaining funds for the Eurodollar Loan that is the subject of such Breakage Event for the period from the date of such Breakage Event to the last day of the Interest Period in effect (or that would have been in effect) for such Loan over (ii) the amount of interest likely to be realized by such Lender in redeploying the funds released or not utilized by reason of such Breakage Event for such period. A certificate of any Lender setting forth any amount or amounts which

such Lender is entitled to receive pursuant to this Section 2.16, together with supporting documentation or computations, shall be delivered to the Borrower and shall be conclusive absent manifest error.

SECTION 2.17. Pro Rata Treatment. Except as required under Sections 2.13 and 2.15, each Borrowing, each payment or prepayment of principal of any Borrowing, each payment of interest on the Loans, each payment of the Commitment Fees, each reduction of the Term Loan Commitments or the Revolving Credit Commitments and each conversion of any Borrowing to or continuation of any Borrowing as a Borrowing of any Type shall be allocated pro rata among the Lenders in accordance with their respective applicable Commitments (or, if such Commitments shall have expired or been terminated, in accordance with the respective principal amounts of their applicable outstanding Loans), and the Borrower and each Lender agrees to take all such actions as shall be necessary to give effect to such requirement. Each Lender agrees that in computing such Lender's portion of any Borrowing to be made hereunder, the Administrative Agent may, in its discretion, round each Lender's percentage of such Borrowing to the next higher or lower whole dollar amount.

SECTION 2.18. Sharing of Setoffs. Each Lender agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim against the Borrower or any other Loan Party, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Lender under any applicable bankruptcy, insolvency or other similar law, or by any other means, obtain payment, voluntary or involuntary, in respect of any Loan or Loans or L/C Disbursement as a result of which the unpaid principal portion of its Tranche A Term Loans, Tranche B Term Loans and Revolving Loans and participations in L/C

Disbursements shall be proportionately less than the unpaid principal portion of the Tranche A Term Loans, Tranche B Term Loans and Revolving Loans and participations in L/C Disbursements of any other Lender, it shall be deemed simultaneously to have purchased from such other Lender at face value, and shall promptly pay to such other Lender the purchase price for, a participation in the Tranche A Term Loans, Tranche B Term Loans, Revolving Loans or L/C Exposure, as the case may be, of such other Lender, so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate unpaid principal amount of the Tranche A Term Loans, Tranche B Term Loans and Revolving Loans and L/C Exposure and participations in Tranche A Term Loans, Tranche B Term Loans, Revolving Loans and L/C Exposure held by the Lenders; provided, however, that (i) if any such participations are purchased pursuant to this Section 2.18 and the payment giving rise thereto shall thereafter be recovered, such participations shall be rescinded to the extent of such recovery and the purchase price restored without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in L/C Disbursements to any assignee or participant, other than to the Borrower or any of the Subsidiaries or any Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower expressly consents to the foregoing arrangements and agrees that any Lender holding a participation in a Term Loan or Revolving Loan or L/C Disbursement deemed to have been so purchased may exercise any and all rights of banker's lien, setoff or counterclaim with respect to any and all moneys owing by the Borrower to such Lender by reason of such participation as fully as if such Lender had made a Loan directly to the Borrower in the amount of such participation.

SECTION 2.19. Payments. (a) The Borrower shall make each payment (including principal of or interest on any Borrowing or any L/C Disbursement or any Fees or

other amounts) hereunder and under any other Loan Document not later than 1:00 p.m., New York City time, on the date when due in immediately available dollars, without setoff, defense or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. Each such payment (other than (i) Issuing Bank Fees, which shall be paid directly to the Issuing Bank, and (ii) payments pursuant to Sections 2.14, 2.16, 2.20 and 10.05, which shall be made directly to the persons entitled thereto) shall be made to the Administrative Agent at its offices at Eleven Madison Avenue, New York, New York 10010, or as otherwise directed.

(b) The Administrative Agent shall distribute any such payments received by it for the account of any other person to the appropriate recipient promptly following receipt thereof. Whenever any payment (including principal of or interest on any Borrowing or any Fees or other amounts) hereunder or under any other Loan Document shall become due, or

otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or Fees, if applicable.

(c) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed L/C Disbursements, interest and fees then due hereunder, such funds shall be applied (i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, towards payment of principal and unreimbursed L/C Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed L/C Disbursements then due to such parties.

SECTION 2.20. Taxes. (a) Any and all payments by or on account of any obligation of the Borrower hereunder shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.20(a)) the Administrative Agent, Lender or Issuing Bank, as the case may be, receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Administrative Agent, each Lender and the Issuing Bank, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent, such Lender or the Issuing Bank, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrower hereunder (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under Section 2.20(a)) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto (the "Assessed Amount"), whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority; provided that in the event that the Administrative Agent, Lender or Issuing Bank, as the case may be, successfully contests the assessment of the Assessed Amount, such Administrative Agent, Lender or Issuing Bank shall refund, to the extent of any refund thereof made to such Administrative Agent, Lender or Issuing Bank, any amounts paid by the Borrower under this Section 2.20(c) in respect of such

Assessed Amount net of all out-of-pocket expenses of the Administrative Agent, such Lender or Issuing Bank attributable thereto. The Borrower, upon the request of the

Administrative Agent, Lender or Issuing Bank, agrees to repay the amount paid over to the Borrower pursuant to the preceding sentence (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent, Lender or Issuing Bank in the event the Administrative Agent, such Lender or Issuing Bank, as applicable, is required to repay such refund to such Governmental Authority. Each Lender, the Administrative Agent and the Issuing Bank agree that it will contest any Assessed Amount if (i) the Borrower furnishes to it an opinion of reputable tax counsel acceptable to such Lender, the Administrative Agent or the Issuing Bank, as the case may be, to the effect that such Assessed Amount was wrongfully or illegally imposed and (ii) the Administrative Agent, Lender or Issuing Bank, as the case may be, determines in its sole discretion that it would not be disadvantaged or prejudiced in any manner whatsoever as a result of such contest. Nothing contained in this Section 2.20(c) shall require the Administrative Agent or any Lender to make available its Tax returns (or any other information relating to its Taxes which it deems confidential) to the Borrower or any other person. A certificate as to the amount of such Assessed Amount delivered to the Borrower by a Lender or the Issuing Bank, or by the Administrative Agent on its own behalf or on behalf of a Lender or the Issuing Bank, shall be conclusive absent demonstrable error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Each Lender that is not a "United States person" or whose lending office is not a "United States person" within the meaning of Section 7701(a)(30) of the Code, and the Administrative Agent or the Issuing Bank if it is not a "United States person," (a "Non-U.S. Lender") shall deliver to the Borrower (with a copy to the Administrative Agent) two copies of either United States Internal Revenue Service Form 1001 or Form 4224 (or successor forms) and either Internal Revenue Service Form W-8 or Form W-9 (or successor forms), or, in the case of a Non-U.S. Lender claiming exemption from U.S. Federal withholding tax under Section 871(h) or 881(c) of the Code with respect to payments of "portfolio interest", a Form W-8, or any subsequent versions thereof or successors thereto (and, if such Non-U.S. Lender delivers a Form W-8, a certificate representing that such Non-U.S. Lender is not a bank for purposes of Section 881(c) of the Code, is not a 10-percent shareholder of the Borrower (within the meaning of Section 871(h)(3)(B) of the Code) and is not a controlled foreign corporation related to the Borrower (within the meaning of Section 864(d)(4) of the Code)), properly completed and duly executed by such Non-U.S. Lender claiming complete exemption from, or a reduced rate of, U.S. Federal withholding tax on payments by the Borrower under this Agreement or any other Loan Document. Such forms shall be delivered by each Non-U.S. Lender on or before the date it becomes a party to this Agreement or

designates a new lending office. In addition, each Non-U.S. Lender shall deliver such forms promptly upon the obsolescence, expiration or invalidity of any form previously delivered by such Non-U.S. Lender. Notwithstanding any other provision of this Section 2.20, a Non-U.S. Lender shall not be required to deliver any form pursuant to this Section 2.20(e) that such Non-U.S. Lender is

not legally able to deliver.

SECTION 2.21. Assignment of Commitments Under Certain Circumstances; Duty to Mitigate. (a) In the event (i) any Lender or the Issuing Bank delivers a certificate requesting compensation pursuant to Section 2.14, (ii) any Lender or the Issuing Bank delivers a notice described in Section 2.08 or 2.15, (iii) the Borrower is required to pay any amount to any Lender or the Issuing Bank or any Governmental Authority on account of any Lender or the Issuing Bank pursuant to Section 2.20 or (iv) any Lender refuses to consent to any amendment, waiver or other modification of any Loan Document requested by the Borrower that requires the consent of a greater proportion of the Lenders than the Required Lenders and such amendment, waiver or other modification is consented to by the Required Lenders, the Borrower may, at its sole expense and effort (including with respect to the processing and recordation fee referred to in Section 10.04(b)), upon notice to such Lender or the Issuing Bank and the Administrative Agent, require such Lender or the Issuing Bank to transfer and assign, without recourse (in accordance with and subject to the restrictions contained in Section 10.04), all of its interests, rights and obligations under this Agreement to an assignee designated by the Borrower that shall assume such assigned obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (w) such assignment will result in a reduction in the claim for compensation under Section 2.14 or in the withdrawal of the notice under Section 2.08 or 2.15 or in the reduction of payments under Section 2.20, as the case may be, (x) such assignment shall not conflict with any law, rule or regulation or order of any court or other Governmental Authority having jurisdiction, (y) the Borrower shall have received the prior written consent of the Administrative Agent (and, if a Revolving Credit Commitment is being assigned, of the Issuing Bank), which consent shall not unreasonably be withheld, and (z) the Borrower or such assignee shall have paid to the affected Lender or the Issuing Bank in immediately available funds an amount equal to the sum of the principal of and interest accrued to the date of such payment on the outstanding Loans or L/C Disbursements of such Lender or the Issuing Bank, respectively, plus all Fees and other amounts accrued for the account of such Lender or the Issuing Bank hereunder (including any amounts under Section 2.14 and Section 2.20); provided further that, if prior to any such transfer and assignment the circumstances or event that resulted in such Lender's or the Issuing Bank's claim for compensation under Section 2.14 or notice under Section 2.08 or 2.15 or the amounts paid pursuant to Section 2.20, as the case may be, cease to cause such Lender or the Issuing Bank to suffer increased costs or reductions in amounts received or receivable or reduction in return on capital, or cease to have the consequences specified in Section 2.15, or cease to result in amounts being payable under Section 2.20, as the case may be (including as a result of any action taken by such Lender or the Issuing Bank pursuant to paragraph (b) below),

or if such Lender or the Issuing Bank shall waive its right to claim further compensation under Section 2.14 in respect of such circumstances or event or shall withdraw its notice under Section 2.08 or 2.15 or shall waive its right to further payments under Section 2.20 in respect of such circumstances or event or shall consent to the requested amendment, waiver or other modification, as the case may be, then such Lender or the Issuing Bank shall not thereafter be required to make any such transfer and assignment hereunder.

(b) If (i) any Lender or the Issuing Bank requests compensation under Section 2.14, (ii) any Lender or the Issuing Bank delivers a notice described in Section 2.08 or 2.15 or (iii) the Borrower is required to pay any amount to any Lender, the Issuing Bank or any Governmental Authority on account of any Lender or the Issuing Bank pursuant to Section 2.20, then such Lender or the Issuing Bank shall use reasonable efforts (which shall not require such Lender or the Issuing Bank to incur an unreimbursed loss or unreimbursed cost or expense or otherwise take any action inconsistent with its internal policies or legal or regulatory restrictions or suffer any disadvantage or burden deemed by it to be significant) (x) to file any certificate or document reasonably requested in

writing by the Borrower or (y) to assign its rights and delegate and transfer its obligations hereunder to another of its offices, branches or affiliates, if such filing or assignment would reduce its claims for compensation under Section 2.14 or enable it to withdraw its notice pursuant to Section 2.08 or 2.15 or would reduce amounts payable pursuant to Section 2.20, as the case may be, in the future. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender or the Issuing Bank in connection with any such filing or assignment, delegation and transfer.

SECTION 2.22. Letters of Credit. (a) General. The Borrower may request the issuance of Letters of Credit denominated in dollars or any Alternate Currency for its own account, at any time and from time to time while the Revolving Credit Commitments remain in effect (but not after the date that is five Business Days prior to the Revolving Credit Maturity Date), to support obligations (other than trade payables) incurred by the Borrower and the Subsidiaries in the conduct of their businesses. Each Letter of Credit will be in a form reasonably acceptable to the Administrative Agent and the Issuing Bank. This Section shall not be construed to impose an obligation upon the Issuing Bank to issue any Letter of Credit that is inconsistent with the terms and conditions of this Agreement.

(b) Notice of Issuance; Certain Conditions. In order to request the issuance of a Letter of Credit, the Borrower shall hand deliver or telecopy to the Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance) a notice requesting the issuance of a Letter of Credit and setting forth the date of issuance, the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) below), the amount of such Letter of Credit and the currency in which it is to be denominated, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare such Letter of Credit. A Letter of Credit shall be issued only if, and upon issuance

of each Letter of Credit the Borrower shall be deemed to represent and warrant that, after giving effect to such issuance (A) the L/C Exposure shall not exceed $10,000,000 and (B) the Aggregate Revolving Credit Exposure shall not exceed the Total Revolving Credit Commitment.

(c) Expiration Date. Each Letter of Credit shall expire at the close of business on the earlier of the date one year after the date of the issuance of such Letter of Credit and the date that is five Business Days prior to the Revolving Credit Maturity Date, unless such Letter of Credit expires by its terms on an earlier date; provided that a Letter of Credit may provide for automatic renewals for additional periods of up to one year, subject to a right on the part of the Issuing Bank to prevent any such renewal from occurring by giving reasonable notice to the beneficiary during a period satisfactory to the Administrative Agent.

(d) Participations. By the issuance of a Letter of Credit and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Revolving Credit Lender, and each such Lender hereby acquires from the Issuing Bank, a participation in such Letter of Credit equal to such Lender's Pro Rata Percentage of the aggregate amount available to be drawn under such Letter of Credit, effective upon the issuance of such Letter of Credit. In consideration and in furtherance of the foregoing, each Revolving Credit Lender hereby irrevocably, absolutely and unconditionally agrees, in the event any L/C Disbursement shall not be reimbursed by the Borrower forthwith on the date due as provided in paragraph (e) below, to pay to the Administrative Agent, for the account of the Issuing Bank, promptly after the receipt of a demand from the Issuing Bank, on account of such Lender's Pro Rata Percentage of such L/C Disbursement, the amount specified in Section 2.02(f). Each Revolving Credit Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is irrevocable, absolute and unconditional and shall not be affected by any

circumstance whatsoever, including the occurrence and continuance of a Default or an Event of Default or the termination of the Revolving Credit Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If the Issuing Bank shall make any L/C Disbursement in respect of a Letter of Credit, the Borrower shall pay to the Administrative Agent an amount equal to such L/C Disbursement, in the currency in which such L/C Disbursement shall have been made, not later than two hours after the Borrower shall have received notice from the Issuing Bank that payment of such draft will be made, or, if the Borrower shall have received such notice later than 10:00 a.m., New York City time, on any Business Day, not later than 10:00 a.m., New York City time, on the immediately following Business Day.

(f) Obligations Absolute. The Borrower's obligations to reimburse L/C Disbursements as provided in paragraph (e) above shall be absolute, unconditional and

irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under any and all circumstances whatsoever, and irrespective of:

(i) any lack of validity or enforceability of any Letter of Credit or any Loan Document, or any term or provision therein;

(ii) any amendment or waiver of or any consent to departure from all or any of the provisions of any Letter of Credit or any Loan Document;

(iii) the existence of any claim, setoff, defense or other right that the Borrower, any other party guaranteeing, or otherwise obligated with, the Borrower, any Subsidiary or other Affiliate thereof or any other person may at any time have against the beneficiary under any Letter of Credit, the Issuing Bank, the Administrative Agent or any Lender or any other person, whether in connection with this Agreement, any other Loan Document or any other related or unrelated agreement or transaction;

(iv) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(v) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit; and

(vi) any other act, or omission to act, or delay of any kind of the Issuing Bank, the Lenders, the Administrative Agent or any other person or any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Without limiting the generality of the foregoing, it is expressly understood and agreed that the absolute and unconditional obligation of the Borrower hereunder to reimburse L/C Disbursements will not be excused by the gross negligence or wilful misconduct of the Issuing Bank. However, the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Bank's gross negligence or wilful misconduct in determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof; it is understood that the Issuing Bank may accept documents that appear on their face to be in substantial compliance with the terms of a Letter of Credit, without responsibility for further

investigation, and make payment under such Letter of Credit, unless, in the Issuing Bank's judgment, it has received information that proves any such documents to be forged or fraudulent; provided that the Issuing Bank shall not be liable in any respect for any error made as a result of, or damages resulting from, the exercise of its judgment with regard to any such documents if such judgment is made in good faith. The parties hereto expressly agree that (i) the Issuing Bank's exclusive reliance on the documents presented to it under such Letter of Credit as to any and all matters set forth therein, including reliance on the amount of any draft presented under such Letter of Credit, whether or not the amount due to the beneficiary thereunder equals the amount of such draft and whether or not any document presented pursuant to such Letter of Credit proves to be insufficient in any respect, if such document on its face appears to be in substantial compliance with the terms of a Letter of Credit, and whether or not any other statement or any other document presented pursuant to such Letter of Credit proves to be forged, fraudulent or invalid or any statement therein proves to be inaccurate or untrue in any respect whatsoever and (ii) any noncompliance in any immaterial respect of the documents presented under such Letter of Credit with the terms thereof shall, in each case, be deemed not to constitute wilful misconduct or gross negligence of the Issuing Bank.

(g) Disbursement Procedures. The Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall as promptly as possible give telephonic notification, confirmed by telecopy, to the Administrative Agent and the Borrower of such demand for payment and whether the Issuing Bank has made or will make an L/C Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and the Revolving Credit Lenders with respect to any such L/C Disbursement. The Administrative Agent shall promptly give each Revolving Credit Lender notice thereof.

(h) Interim Interest. If the Issuing Bank shall make any L/C Disbursement in respect of a Letter of Credit, then, unless the Borrower shall reimburse such L/C Disbursement in full on such date, the unpaid amount thereof shall bear interest for the account of the Issuing Bank, for each day from and including the date of such L/C Disbursement, to but excluding the earlier of the date of payment by the Borrower or the date on which interest shall commence to accrue thereon as provided in Section 2.02(f), (i) in the case of any L/C Disbursement denominated in dollars, at the rate per annum that would apply to such amount if such amount were an ABR Revolving Credit Loan, and (ii) in the case of any L/C Disbursement denominated in an Alternate Currency, at a rate determined by the Issuing Bank (which determination shall be conclusive absent manifest error) to reflect its cost of overnight or short-term funds in such currency, plus the Applicable Percentage that would be employed in computing interest on a Eurodollar Revolving Loan.

(i) Resignation or Removal of the Issuing Bank. The Issuing Bank may resign at any time by giving 180 days' prior written notice to the Administrative Agent, the Lenders and the Borrower, and may be removed at any time by the Borrower by notice to the Issuing Bank, the Administrative Agent and the Lenders. Subject to the next succeeding paragraph, upon the acceptance of any appointment as the Issuing Bank hereunder by a Lender that shall agree to serve as a successor Issuing Bank, such successor shall succeed to and become vested with all the interests, rights and obligations of the retiring Issuing Bank and the retiring Issuing Bank shall be discharged from its obligations to issue additional Letters of Credit hereunder. At the time such removal or resignation shall become effective, the Borrower shall pay all accrued and unpaid fees pursuant to Section 2.05(c)(ii). The acceptance of any appointment as the Issuing Bank hereunder by a successor Lender shall be evidenced by an

agreement entered into by such successor, in a form satisfactory to the Borrower and the Administrative Agent, and, from and after the effective date of such agreement, (i) such successor Lender shall have all the rights and obligations of the previous Issuing Bank under this Agreement and the other Loan Documents and (ii) references herein and in the other Loan Documents to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the resignation or removal of the Issuing Bank hereunder, the retiring Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement and the other Loan Documents with respect to Letters of Credit issued by it prior to such resignation or removal, but shall not be required to issue additional Letters of Credit.

(j) Cash Collateralization. If any Event of Default shall occur and be continuing, the Borrower shall, on the Business Day it receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Revolving Credit Lenders holding participations in outstanding Letters of Credit representing greater than 50% of the aggregate undrawn amount of all outstanding Letters of Credit) thereof and of the amount to be deposited, deposit in an account with the Collateral Agent, for the benefit of the Revolving Credit Lenders, an amount in cash in dollars equal to the L/C Exposure as of such date, and shall thereafter from time to time deposit with the Collateral Agent such additional amounts in dollars as shall be necessary in order that the amount on deposit shall at all times equal or exceed the L/C Exposure. Such deposit shall be held by the Collateral Agent as collateral for the payment and performance of the Obligations. The Collateral Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits in Permitted Investments, which investments shall be made at the option and sole discretion of the Collateral Agent, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall (i) automatically be applied by the Administrative Agent to reimburse the Issuing Bank for L/C Disbursements for which it has not been reimbursed, (ii) be held for the satisfaction of the reimbursement obligations of the Borrower for the L/C Exposure at such time and (iii)

if the maturity of the Loans has been accelerated (but subject to the consent of Revolving Credit Lenders holding participations in outstanding Letters of Credit representing greater than 50% of the aggregate undrawn amount of all outstanding Letters of Credit), be applied to satisfy the Obligations. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Business Days after all Events of Default have been cured or waived.

ARTICLE III

Representations and Warranties

The Company and PHI represent and warrant to the Administrative Agent, the Issuing Bank and each of the Lenders that:

SECTION 3.01. Organization; Powers. The Company and each of the Subsidiaries (a) is an entity duly organized, validly existing and in good standing (where applicable) under the laws of the jurisdiction of its organization, (b) has all requisite power and authority, and all requisite licenses and permits from Governmental Authorities, to own its property and assets and to carry on its business as now conducted and as proposed to be conducted, except where the failure to have such licenses and permits could not reasonably be expected to result in a Material Adverse Effect, (c) is qualified to do business, and is in good standing (where applicable), in every jurisdiction where such qualification

is required, except where the failure so to qualify could not reasonably be expected to result in a Material Adverse Effect, and (d) has the corporate power and authority to execute, deliver and perform its obligations under each of the Loan Documents and each other agreement or instrument contemplated hereby to which it is or will be a party and, in the case of the Company and PHI, to borrow hereunder.

SECTION 3.02. Authorization. The Transactions (a) have been duly authorized by all requisite corporate and, if required, stockholder action and (b) will not (i) violate (A) any material provision of law, statute, rule or regulation, or of the certificate or articles of incorporation or other constitutive documents or by-laws of the Company or any of the Subsidiaries, (B) any order of any Governmental Authority or (C) any provision of any indenture, or any other material agreement or instrument, to which the Company or any of the Subsidiaries is a party or by which any of them or any of their property is or may be bound, (ii) be in conflict with, result in a breach of or constitute (alone or with notice or

lapse of time or both) a default under, or give rise to any right to accelerate or to require the prepayment, repurchase or redemption of any obligation under any such indenture, agreement or other instrument or (iii) result in the creation or imposition of any Lien upon or with respect to any property or assets now owned or hereafter acquired by the Company or any of the Subsidiaries (other than any Lien created hereunder or under the Security Documents).

SECTION 3.03. Enforceability. This Agreement has been duly executed and delivered by each of the Company and PHI and constitutes, and each other Loan Document when executed and delivered by each Loan Party party thereto will constitute, a legal, valid and binding obligation of the Company, PHI or such Loan Party enforceable against the Company, PHI or such Loan Party in accordance with its terms.

SECTION 3.04. Governmental Approvals. No action, consent or approval of, registration or filing with or any other action by any Governmental Authority is or will be required in connection with the Transactions, except for (a) the filing of Uniform Commercial Code financing statements and filings with the United States Patent and Trademark Office and the United States Copyright Office (including terminations of such filings related to the Scheduled Playboy Indebtedness and the Scheduled Spice Indebtedness), (b) recordation of the Mortgages (including terminations of such mortgages and fixture filings related to the Scheduled Playboy Indebtedness), (c) such as have been made or obtained and are in full force and effect and (d) such actions, consents, approvals, registrations or filings, the failure of which to make or obtain could not, in the Administrative Agent's judgment, be expected to result in a Material Adverse Effect.

SECTION 3.05. Financial Statements. (a) The Company has heretofore delivered to the Lenders (i) consolidated balance sheets and statements of income and cash flows of Playboy (A) as of the end of and for each fiscal year in the three-fiscal year period ended June 30, 1997, and as of the end of the transition period ending December 31, 1997, audited, in the case of such consolidated financial statements, by PricewaterhouseCoopers LLP, independent public accountants and (B) as of the end of and for the fiscal quarters ended March 31, June 30 and September 30, 1998, certified by a Financial Officer of the Company and (ii) consolidated balance sheets and statements of income and cash flows of Spice (A) as of the end of and for each of the fiscal years ended December 31, 1997 and December 31, 1996, audited, in the case of such consolidated financial statements, by Grant Thornton LLP, independent public accountants, (B) as of the end of and for the fiscal year ended December 31, 1995, audited by PricewaterhouseCoopers LLP, independent public accountants and (C) as of the end of and for the fiscal quarters ended March 31, June 30 and September 30, 1998, certified by a Financial Officer of Spice. Such financial statements present fairly the financial condition and results of operations and cash flows of

Playboy and its consolidated subsidiaries and, to the knowledge of the Company, Spice and its consolidated subsidiaries, as of such dates and for such periods. Such balance sheets and the notes thereto disclose all

material liabilities, direct or contingent, of Playboy and Spice and their respective consolidated subsidiaries as of the dates thereof. Such financial statements were prepared in accordance with GAAP applied on a consistent basis.

(b) The Company has heretofore delivered to the Lenders (i) its unaudited pro forma combined consolidated statements of income for the nine and 12 month periods ended September 30, 1998, and for the 12 month period ended December 31, 1997, and (ii) its unaudited pro forma combined consolidated balance sheets as of September 30, 1998, in each case prepared giving effect to the Closing Date Transactions as if they had occurred on each such date and at the beginning of each such period. Such financial statements have been prepared in good faith by the Company and its subsidiaries, based on the assumptions used to prepare the pro forma financial information contained in the Confidential Information Memorandum (which assumptions were at the time made believed by the Company and its subsidiaries to be reasonable), were based on the best information available to the Company and its subsidiaries as of the date of delivery thereof, accurately reflect all adjustments required to be made to give effect to the Closing Date Transactions and present fairly on a pro forma basis the consolidated financial condition and results of operations of the Company and its consolidated subsidiaries as of the dates and for the periods set forth therein, assuming that the Closing Date Transactions had actually occurred at such dates and at the beginnings of such periods.

SECTION 3.06. No Material Adverse Change. Since December 31, 1997, there has not occurred or become known any event, condition or change in or affecting Playboy, Spice, the Company or their subsidiaries that, individually or in the aggregate with other such events, conditions or changes, has had or could reasonably be expected to have a Material Adverse Effect.

SECTION 3.07. Title to Properties; Possession Under Leases. (a) The Company and each of the Restricted Subsidiaries has good and marketable title to, or valid leasehold interests in, all its material properties and assets (including the Collateral and Mortgaged Properties), except for minor defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties and assets for their intended purposes. All such material properties and assets are free and clear of Liens, other than Liens expressly permitted by Section 6.02, and no material portion of any Mortgaged Property is subject to any lease, license, sublease or other agreement granting to any person any right to use, occupy or enjoy the same, except as set forth on Schedule 3.07(a).

(b) The Company and each Restricted Subsidiary has complied with all material obligations under all material leases to which it is a party and all such leases are in full force and effect and the Company and each Restricted Subsidiary enjoys peaceful and undisturbed possession under all such material leases to which it is a party.

(c) Except as set forth on Schedule 3.07(c), the Company has not received any notice of, and has no knowledge of, any pending or contemplated condemnation proceeding affecting any Mortgaged Property or any sale or disposition thereof in lieu of condemnation.

(d) Neither the Company nor any Restricted Subsidiary is obligated under any right of first refusal, option or other contractual right to sell, assign or otherwise dispose of any Mortgaged Property or any interest therein.

SECTION 3.08. Subsidiaries. Schedule 3.08 sets forth as of the Closing Date, after giving effect to the Spice Acquisition and the Playboy Merger, a list of all Subsidiaries, setting forth for each Subsidiary the jurisdiction of its organization, a description of each class of its capital stock and the ownership interest of the Company and each other Subsidiary therein. The shares of capital stock or other ownership interests so indicated on Schedule 3.08 are fully paid and non-assessable and are owned by the persons indicated on such Schedule, free and clear of all Liens.

SECTION 3.09. Litigation; Compliance with Laws. (a) Except as set forth on Schedule 3.09, there are not any actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the knowledge of the Company or PHI, threatened in writing against or affecting the Company or any of the Subsidiaries or any business, property or rights of any such person (i) that involve any Loan Document or the Transactions, (ii) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect, (iii) as to which there is a reasonable possi bility of an adverse determination and that, if adversely determined, could materially and adversely affect the ability of the Loan Parties fully and timely to perform their respective obligations under the Loan Documents or the other documents executed in connection with the Transactions or the ability of the parties to consummate the Transactions or (iv) as to which there is a reasonable possibility of an adverse determination and that have or, if adversely determined, would have, individually or in the aggregate, a reasonable likelihood of restraining, preventing or imposing burdensome conditions on the Transactions.

(b) The Company and each Subsidiary is in compliance with all laws, regulations, consent decrees and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to comply, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

(c) None of the Company, any Subsidiary or any of their respective material properties or assets is in violation of, nor will the continued operation of their material properties and assets as currently conducted violate, any law, rule or regulation (including

any zoning, building, Environmental Law, ordinance, code or approval or any building permit) or any restrictions of record or agreements affecting the Mortgaged Property, or is in default with respect to any judgment, writ, injunction, decree or order of any Governmental Authority, where such violation or default could reasonably be expected to result in a Material Adverse Effect.

(d) Certificates of occupancy and permits are in effect as required by applicable law for each Mortgaged Property as currently constructed, and true and complete copies of such certificates of occupancy have been delivered to the Collateral Agent as mortgagee with respect to each Mortgaged Property.

SECTION 3.10. Agreements. Neither the Company nor any of the Subsidiaries is in default in any manner under any provision of any indenture or other agreement or instrument evidencing Indebtedness, or any other material agreement or instrument to which it is a party or by which it or any of its properties or assets are or may be bound, where such default could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.11. Federal Reserve Regulations. (a) Neither the Company nor any of the Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of buying or carrying Margin

Stock.

(b) No part of the proceeds of any Loan or any Letter of Credit will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, for any purpose that entails a violation of, or that is inconsistent with, the provisions of the Regulations of the Board, including Regulation U or X. The Company and the Subsidiaries will at no time acquire or hold any Margin Stock unless the Borrower shall have delivered to the Administrative Agent evidence (including, if the Administrative Agent shall so request, a duly completed and executed Form U-1) demonstrating to the satisfaction of the Administrative Agent that the credit extended hereunder will not violate Regulation U.

SECTION 3.12. Investment Company Act; Public Utility Holding Company Act. Neither the Company nor any of the Subsidiaries is (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

SECTION 3.13. Use of Proceeds. The proceeds of the Loans and the Letters of Credit will be used only for the purposes specified in the preamble to this Agreement.

SECTION 3.14. Tax Returns. Except as set forth on Schedule 3.14, the Company and each Subsidiary has filed or caused to be filed all Federal, state, local and foreign income tax returns

and all other material Federal, state, local and foreign tax returns required to have been filed by it and has paid or caused to be paid all material taxes due and payable by it and all material assessments received by it, except taxes that are being contested in good faith by appropriate proceedings and for which the Company or such Subsidiary, as applicable, shall have set aside on its books adequate reserves.

SECTION 3.15. No Material Misstatements. None of (a) the Confidential Information Memorandum or (b) any other information, report, financial statement, exhibit, schedule or document furnished by or on behalf of the Company or the Subsidiaries to the Administrative Agent or any Lender in connection with the negotiation of any Loan Document or included therein or delivered pursuant thereto, contained, contains or will contain any material misstatement of fact or omitted, omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were, are or will be made, not misleading; provided that to the extent any such information, report, financial statement, exhibit, schedule or document was based upon or constituted a forecast or projection, the Company and PHI represent only that they acted in good faith and utilized reasonable assumptions and due care in the preparation of such information, report, financial statement, exhibit or schedule.

SECTION 3.16. Employee Benefit Plans. Each of the Company, PHI and each ERISA Affiliate is in compliance in all material respects with the applicable provisions of ERISA and the Code and the regulations and published interpretations thereunder. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events, could reasonably be expected to result in material liability of the Company, PHI or any ERISA Affiliate. The present value of all benefit liabilities under each Plan (based on those assumptions used to fund such Plan) did not, as of the last annual valuation date applicable thereto, exceed the fair market value of the assets of such Plan, and the present value of all benefit liabilities of all underfunded Plans (based on those assumptions used to fund each such Plan) did not, as of the last annual valuation dates applicable thereto, exceed the fair market value of the assets of all such underfunded Plans.

SECTION 3.17. Environmental Matters. Except as set forth in Schedule 3.17:

(a) The properties owned, leased or operated by the Company and the Subsidiaries (the "Properties") do not contain any Hazardous Materials in amounts or concentrations which (i) constitute, or constituted a violation of, (ii) require Remedial Action under, or (iii) could reasonably be expected to give rise to liability under, Environmental Laws, which violations, Remedial Actions and liabilities, in the aggregate, could reasonably be expected to result in a Material Adverse Effect;

(b) The Properties and all operations of the Company and the Subsidiaries are in compliance, and in the last five years have been in compliance, with all Environmental Laws and all necessary Environmental Permits have been obtained and are in effect, except to the

extent that such non-compliance or failure to obtain any necessary permits, in the aggregate, could not reasonably be expected to result in a Material Adverse Effect;

(c) There have been no Releases or threatened Releases at, from, under or proximate to the Properties or otherwise in connection with the operations of the Company or the Subsidiaries, which Releases or threatened Releases, in the aggregate, could reasonably be expected to result in a Material Adverse Effect;

(d) Neither the Company nor any of the Subsidiaries has received any notice of an Environmental Claim in connection with the Properties or the operations of the Company or the Subsidiaries or with regard to any person whose liabilities for environmental matters the Company or the Subsidiaries has retained or assumed, in whole or in part, contractually, by operation of law or otherwise, which, in the aggregate, could reasonably be expected to result in a Material Adverse Effect, nor do the Company or the Subsidiaries have reason to believe that any such Environmental Claim is being threatened; and

(e) Hazardous Materials have not been transported from the Properties, and have not been generated, treated, stored or disposed of at, on or under any of the Properties, in any case in a manner that could give rise to liability under any Environmental Law, nor have the Company or the Subsidiaries retained or assumed any liability, contractually, by operation of law or otherwise, with respect to the generation, treatment, storage or disposal of Hazardous Materials, which transportation, generation, treatment, storage or disposal, or retained or assumed liabilities, in the aggregate, could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.18. Insurance. Schedule 3.18 sets forth a true, complete and correct description of all insurance maintained by the Company or the Subsidiaries as of the Closing Date. As of the Closing Date, such insurance is in full force and effect and all premiums have been duly paid. The Company and the Subsidiaries have insurance in such amounts and covering such risks and liabilities as are in accordance with normal industry practice.

SECTION 3.19. Security Documents. (a) The Pledge Agreement is effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Pledge Agreement), and when the Collateral is delivered to the Collateral Agent the Pledge Agreement will constitute a fully perfected first priority Lien on and security interest in all right, title and interest of each pledgor thereunder in the Collateral, in each case prior and superior in right to any other person.

(b) The Security Agreement is effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Security Agreement), and when financing statements in

appropriate form are filed in the offices specified on Schedule 6 to the Perfection Certificate, the Security Agreement will constitute a fully perfected Lien on and security interest in all right, title and interest of the grantors thereunder in such Collateral, in each case prior and superior in right to any other person, other than with respect to Liens expressly permitted by Section 6.02.

(c) When the Security Agreement is filed in the United States Patent and Trademark Office and the United States Copyright Office, the Security Agreement will constitute a fully perfected Lien on, and security interest in, all right, title and interest of the grantors thereunder in the Intellectual Property (as defined in the Security Agreement) that is registered in the United States, in each case prior and superior in right to any other person.

(d) The Mortgages are effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable Lien on all of the Loan Parties' right, title and interest in and to the Mortgaged Properties and the proceeds thereof, and when the Mortgages are filed in the offices specified on Schedule 3.19(d), the Mortgages will constitute fully perfected Liens on, and security interest in, all right, title and interest of the Loan Parties in the Mortgaged Properties and the proceeds thereof, in each case prior and superior in right to any other person, other than with respect to the rights of persons pursuant to Liens expressly permitted by Section 6.02.

(e) On the Closing Date, after giving effect to the Closing Date Transactions, and at all times thereafter, the Collateral Requirement and the Guarantee Requirement will have been satisfied.

SECTION 3.20. Intellectual Property. The Company and each Restricted Subsidiary owns, or is licensed to use, all patents, trademarks, tradenames, service marks, copyrights, technology, know-how and processes (together with all applications therefor and licenses granting rights therein, "Intellectual Property") reasonably necessary for the conduct of its business as currently conducted, except for those the failure to own or be licensed to use which could not reasonably be expected to result in a Material Adverse Effect. To the knowledge of the Company, (a) the use of Intellectual Property by the Company and its Restricted Subsidiaries does not infringe on the rights of any person, (b) no Intellectual Property of the Company or any of its Restricted Subsidiaries is being infringed upon by any Person, and (c) no claim is pending or threatened in writing challenging the use or the validity of any Intellectual Property of the Company or any Restricted Subsidiary, except for infringements and claims referred to in the foregoing clauses (a), (b) and (c) that, in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.21. Location of Real Property and Leased Premises. (a) Schedule 3.21(a) lists completely and correctly as of the Closing Date all real property owned by the Company and the Restricted Subsidiaries and the addresses thereof. The

Company and the Restricted Subsidiaries own in fee all the real property set forth on Schedule 3.21(a).

(b) Schedule 3.21(b) lists completely and correctly as of the Closing Date all real property leased by the Company and the Restricted Subsidiaries and the addresses thereof. The Company and the Restricted Subsidiaries have valid leases in all the real property set forth on Schedule 3.21(b).

SECTION 3.22. Labor Matters As of the Closing Date, there are no strikes, lockouts or slowdowns against the Company or any of the Restricted Subsidiaries pending or, to the knowledge of the Company or any of the Restricted Subsidiaries, threatened in writing. The hours worked by and payments made to employees of the Company and the Restricted Subsidiaries have not been in violation of the Fair Labor Standards Act or any other applicable Federal, state, local or foreign law dealing with such matters. All payments due from the Company or any of the Restricted Subsidiaries, or for which any claim has been earned against the Company or any of the Restricted Subsidiaries, on account of wages and employee health and welfare insurance and other benefits, have been paid or accrued as a liability on the books of the Company or the applicable Subsidiary. The consummation of the Transactions will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which the Company or any of the Subsidiaries is bound.

SECTION 3.23. Solvency. Immediately after the consummation of the Closing Date Transactions, (i) the fair value of the assets of each Loan Party will exceed its debts and liabilities, subordinated, contingent or otherwise; (ii) the present fair saleable value of the property of each Loan Party will be greater than the amount that will be required to pay its probable liability on its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; (iii) each Loan Party will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (iv) each Loan Party will not have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and is proposed to be conducted following the Closing Date.

SECTION 3.24. Merger Agreement. The representations and warranties of Playboy and the Company and, to the best knowledge of the Company, Spice, set forth in the Merger Agreement are true and correct in all material respects.

SECTION 3.25. Year 2000. Any reprogramming required to permit the proper functioning, in and following the year 2000, of (i) the Company's and each Subsidiary's computer systems and (ii) equipment containing embedded microchips (including systems and equipment supplied by others or, to the Company's knowledge, with which the Company's and each Subsidiary's systems interface) and the testing of all such material

systems and equipment, as so reprogrammed, will be completed by September 30, 1999. The cost to the Company and each of the Subsidiaries of such reprogramming and testing and of the reasonably foreseeable consequences of year 2000 to the Company and the Subsidiaries (including, without limitation, reprogramming errors and the failure of others' systems or equipment) will not result in a Default or a Material Adverse Effect. Except for such of the reprogramming referred to in the preceding sentence as may be necessary, the computer and management information systems of the Company and the Subsidiaries are and, with ordinary course upgrading and maintenance, will continue for the term of this Agreement to be, sufficient to permit the Company and each Subsidiary to conduct its business without Material Adverse Effect.

ARTICLE IV

Conditions of Lending

The obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder are subject to the satisfaction of the following conditions:

SECTION 4.01. All Credit Events. On the date of each Borrowing and on the date of each issuance of a Letter of Credit (each such event being called a "Credit Event"):

(a) The Administrative Agent shall have received a notice of such Borrowing as required by Section 2.03 (or such notice shall have been deemed given in accordance with Section 2.03) or, in the case of the issuance of a Letter of Credit, the Issuing Bank and the Administrative Agent shall have received a notice requesting the issuance of such Letter of Credit as required by Section 2.22(b).

(b) The representations and warranties set forth in Article III shall be true and correct in all material respects on and as of the date of such Credit Event with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date.

(c) At the time of and immediately after such Credit Event, no Event of Default or Default shall have occurred and be continuing.

Each Credit Event shall be deemed to constitute a representation and warranty by the Company and PHI on the date of such Credit Event as to the satisfaction of the conditions set forth in paragraphs (b) and (c) of this Section 4.01. In the case of the Credit Events occurring on the Closing Date, the conditions set forth in paragraphs (b) and (c) of this

Section 4.01 shall be construed after giving effect to the Spice Acquisition and the other Closing Date Transactions.

SECTION 4.02. Initial Credit Event. On the Closing Date:

(a) The Administrative Agent shall have received, on behalf of itself, the Lenders and the Issuing Bank, favorable written opinions of (i) Howard Shapiro, Esq., General Counsel of the Company, substantially to the effect set forth in Exhibit H-1, (ii) Paul, Weiss, Rifkind, Wharton & Garrison, special counsel for the Company and the Subsidiaries, substantially to the effect set forth in Exhibit H-2, (iii) local counsel for the Company and the Subsidiaries satisfactory to the Administrative Agent in each jurisdiction where any Mortgaged Property is located, substantially to the effect set forth in Exhibit H-3 and (iv) Daniel J. Barsky, Esq., General Counsel of Spice, substantially to the effect set forth in Exhibit H-4, in each case dated the Closing Date, addressed to the Administrative Agent, the Lenders and the Issuing Bank and covering such other matters relating to the Loan Documents and the Transactions as the Administrative Agent shall reasonably request, and the Company hereby requests such counsel to deliver such opinions.

(b) The Administrative Agent shall have received (i) a copy of the certificate or articles of incorporation, including all amendments thereto, of each Loan Party, certified as of a recent date by the Secretary of State or comparable official of the state or other jurisdiction of its organization, and, except with respect to jurisdictions that do not issue such certificates for persons organized in the manner of such Loan Party, a certificate as to the good standing of each Loan Party as of a recent date, from such Secretary of State or other official; (ii) a certificate of the Secretary or Assistant Secretary of each Loan Party dated the Closing Date and certifying (A) that attached thereto is a true and complete copy of the by-laws of such Loan Party as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors of such Loan Party authorizing the execution, delivery and performance of the Loan Documents to which such person is a party and, in the case of the Company and PHI, the Borrowings hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate or articles of incorporation of such Loan Party have not been amended since the date of the last amendment thereto shown on the certified copy thereof furnished pursuant to clause (i) above, and (D) as to the incumbency and specimen signature of each officer executing any Loan Document or any other document

delivered in connection herewith on behalf of such Loan Party; (iii) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to (ii) above; and (iv) such other documents as the Lenders, the Issuing Bank or the Administrative Agent may reasonably request.

(c) The Administrative Agent shall have received a certificate, dated the Closing Date and signed by a Financial Officer of the Company, confirming compliance with the conditions precedent set forth in paragraphs (b) and (c) of Section 4.01.

(d) The Administrative Agent shall have received all Fees and other amounts due and payable on or prior to the Closing Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder or under any other Loan Document.

(e) Each of the Spice Acquisition and the Playboy Merger shall have been, or shall substantially simultaneously with the initial Credit Event be, consummated in accordance with the Merger Agreement and applicable law, without any amendment to or waiver of any material terms or conditions of the Merger Agreement not approved by the Lenders, and arrangements reasonably satisfactory to the Administrative Agent shall have been made for the completion of the Stock Transfer on the Transfer Date, as required by Section 5.11. The Lenders and the Issuing Bank shall have received executed copies of the Merger Agreement and all certificates, opinions and other documents delivered in connection therewith, all certified by a Financial Officer as complete and correct.

(f) The Collateral Requirement shall be satisfied.

(g) The Collateral Agent shall have received the results of a search of the Uniform Commercial Code (or equivalent) filings made with respect to the Loan Parties in the states (or other jurisdictions) in which the chief executive office of each such person is located, any offices of such persons in which records have been kept relating to accounts receivable and the other jurisdictions in which Uniform Commercial Code filings (or equivalent filings) are to be made pursuant to clause (b) of the definition of "Collateral Requirement", together with copies of the financing statements (or similar documents) disclosed by such search, and accompanied by evidence satisfactory to the Collateral Agent that the Liens indicated in any such financing statement (or similar document) are permitted under Section 6.02 or have been released.

(h) The Collateral Agent shall have received a Perfection Certificate dated the Closing Date and duly executed by a Responsible Officer of the Company.

(i) The Guarantee Requirement shall be satisfied.

(j) All requisite Governmental Authorities and third parties shall have approved or consented to the Transactions and the other transactions contemplated in connection therewith to the extent required, in each case to the extent failure to obtain such approvals or consents could, individually or in the aggregate, result in a Material Adverse Effect or could materially and adversely affect the rights or interests of the Lenders, the

Administrative Agent or the Issuing Bank, and there shall be no action by any Governmental Authority, actual or threatened, that has a reasonable likelihood of restraining, preventing or imposing burdensome conditions on the Transactions or the other transactions contemplated in connection therewith.

(k) The Administrative Agent shall have received pro forma computations

satisfactory to it indicating that the Consolidated Adjusted EBITDA for the twelve months ended September 30, 1998, giving pro forma effect to the Closing Date Transactions as if they had occurred at the beginning of such period, shall have been not less than $24,800,000.

(l) The terms on which the Closing Date Transactions shall have been completed and the capitalization (including Indebtedness) of the Company and the Subsidiaries after giving effect to the Closing Date Transactions shall be consistent in all material respects with the pro forma financial statements and projections provided to the Lenders prior to the date hereof.

(m) The assets and obligations of the "Playboy Online" business shall have been contributed to Playboy Online.

(n) The Administrative Agent shall have received a copy of, or a certificate as to coverage under, the insurance policies required by applicable provisions of the Security Documents, each of which shall be endorsed or otherwise amended to include a "standard" or "New York" lender's loss payable endorsement and to name the Collateral Agent as additional insured, in form and substance reasonably satisfactory to the Administrative Agent.

(o) The Scheduled Playboy Indebtedness and the Scheduled Spice Indebtedness shall have been or shall simultaneously be repaid in full, all agreements and instruments evidencing or governing such Indebtedness and all lending or other commitments thereunder shall have been terminated and all Liens securing such Indebtedness shall have been released, and the Administrative Agent shall have received such evidence as it shall reasonably have requested as to the satisfaction of such conditions. After giving effect to the Closing Date Transactions, neither the Company nor any Restricted Subsidiary shall have outstanding any Indebtedness or preferred stock (or similar Equity Interests) other than as set forth in Schedule 6.01.

(p) If requested, the Administrative Agent shall have received for each Lender a statement on Federal Reserve Form U-1 demonstrating compliance with Regulation U.

ARTICLE V

Affirmative Covenants

Each of the Company and PHI covenants and agrees with each Lender that so long as this Agreement shall remain in effect and until the Commitments have been terminated and the principal of and interest on each Loan, all Fees and, to the extent at the time due and owing, all other expenses or amounts payable under any Loan Document shall have been paid in full and all Letters of Credit have been canceled or have expired and all amounts drawn thereunder have been reimbursed in full, unless the Required Lenders shall otherwise consent in writing, it will, and will cause each of the Restricted Subsidiaries to:

SECTION 5.01. Existence; Businesses and Properties, Insurance. (a) Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence, except, in the case of any Restricted Subsidiary other than PHI, as otherwise expressly permitted under Section 6.05.

(b) Do or cause to be done all things necessary to obtain, preserve, renew, extend and keep in full force and effect the rights, licenses, permits, franchises, authorizations, patents, copyrights, trademarks and trade names material to the conduct of its business; comply in all material respects with all applicable laws, rules, regulations (including any zoning, building, Environmental Law, ordinance, code or approval) and decrees and orders of any Governmental Authority, whether now in effect or hereafter enacted; at all times maintain and preserve all property material to the conduct of such business and keep such property in good repair, working order and condition and from time to

time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times; and maintain, with financially sound and reputable insurance companies, insurance in such amounts and against such risks as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations.

SECTION 5.02. Obligations and Taxes. Pay its material Indebtedness and other obligations promptly and in accordance with their terms and pay and discharge promptly when due all Taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property, before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise that, if unpaid, might give rise to a Lien upon such properties or any part thereof; provided, however, that (a) such payment and discharge shall not be required with respect to any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings and the Company shall have set aside on its books adequate reserves with respect thereto in accordance with GAAP and such

contest operates to suspend collection of the contested obligation, tax, assessment or charge and enforcement of a Lien and, in the case of Mortgaged Property, there is no risk of forfeiture of such property and (b) failure to pay any Indebtedness shall not be a breach of this covenant unless such failure would give rise to an Event of Default under paragraph (f) of Article VII.

SECTION 5.03. Financial Statements, Reports, etc. In the case of the Company, furnish to the Administrative Agent and each Lender:

(a) within 90 days after the end of each fiscal year, consolidated balance sheets and related statements of operations, cash flows and stockholders' equity showing the financial condition of the Company and its consolidated subsidiaries as of the close of such fiscal year and the results of its operations and the operations of such subsidiaries during such year and the immediately preceding year, all audited by PricewaterhouseCoopers LLP or other independent public accountants of recognized national standing reasonably acceptable to the Required Lenders and accompanied by an opinion of such accountants (which shall not be qualified as to the scope of the audit or going concern) to the effect that such consolidated financial statements fairly present in all material respects the financial condition and results of operations of the Company and its consolidated subsidiaries on a consolidated basis in accordance with GAAP;

(b) within 60 days after the end of each of the first three fiscal quarters of each fiscal year, consolidated balance sheets and related statements of operations and cash flows showing the financial condition of the Company and its consolidated subsidiaries as of the close of such fiscal quarter and the results of its operations and the operations of such subsidiaries during such fiscal quarter and the then elapsed portion of the fiscal year and during the corresponding periods in the immediately preceding fiscal year, all certified by a Financial Officer of the Company as fairly presenting in all material respects the financial condition and results of operations of the Company and its consolidated subsidiaries on a consolidated basis in accordance with GAAP, subject to normal year-end audit adjustments;

(c) within 60 days after the end of each fiscal quarter of each fiscal year, a management report in form satisfactory to the Administrative Agent setting forth the consolidating revenues of the Company and its consolidated subsidiaries for such quarter and the operating income before depreciation and amortization for each business segment during such quarter;

(d) concurrently with any delivery of financial statements under paragraph

(a) or (b) above, a certificate of the accounting firm or Financial Officer opining on or certifying such statements (which certificate, when furnished by an accounting

firm, may be limited to accounting matters and disclaim responsibility for legal interpretations) (i) certifying that no Event of Default or Default has occurred or, if such an Event of Default or Default has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken with respect thereto, (ii) setting forth computations in reasonable detail reasonably satisfactory to the Administrative Agent demonstrating compliance with the financial covenants contained in Article VI (excluding the assets, liabilities, results of operations and cash flows of the Unrestricted Subsidiaries to the extent required by Section 1.03) and (iii) identifying the Determination Date associated with the delivery of such financial statements;

(e) concurrently with each delivery of financial statements under paragraph (a) above, beginning with the financial statements for the fiscal year ending December 31, 1999, a certificate of a Financial Officer in form and detail satisfactory to the Administrative Agent setting forth a calculation of Excess Cash Flow for the fiscal year to which such statements relate;

(f) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by the Company or any of the Restricted Subsidiaries with the Securities and Exchange Commission, or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange;

(g) as soon as available, and in any event within 90 days after the commencement of each fiscal year of the Company, a copy of the consolidated business and financial plan of the Company and the Restricted Subsidiaries for such fiscal year, month by month, together with such supporting schedules and other information as the Required Lenders may reasonably request, but in any event including projected cash flow information and a projected income statement, in each case for the following 12 months and in form and detail reasonably satisfactory to the Required Lenders;

(h) promptly after their execution and delivery, copies certified by a Responsible Officer of the Borrower of the Superceeding Agreements referred to in the definition of "Playboy International Agreements" in Section 1.01;

(i) concurrently with any delivery of financial statements under paragraph (a) above, the certificates executed by the chief legal officer of the Company required to be delivered under Section 4.02 of the Security Agreement; and

(j) promptly, from time to time, such other information regarding the operations, business affairs and financial condition of the Company or any of the

Subsidiaries, or compliance with the terms of any Loan Document, as the Administrative Agent or any Lender may reasonably request through the Administrative Agent.

SECTION 5.04. Litigation and Other Notices. Furnish to the Administrative Agent prompt written notice of the following:

(a) any Event of Default or Default, specifying the nature and extent thereof and the corrective action (if any) taken or proposed to be taken with

respect thereto;

(b) the filing or commencement of, or any threat or notice of intention of any person to file or commence, any action, suit or proceeding, whether at law or in equity or by or before any Governmental Authority, against the Company or any Affiliate thereof that could reasonably be expected to result in a Material Adverse Effect;

(c) the loss, suspension or material impairment of any material license, approval, certification or authorization granted by any Governmental Authority that could reasonably be expected to result in a Material Adverse Effect; and

(d) any other development that has resulted in, or could reasonably be expected to result in, a Material Adverse Effect.

SECTION 5.05. Employee Benefits. (a) Comply in all material respects with the applicable provisions of ERISA and the Code and (b) furnish to the Administrative Agent as soon as possible after, and in any event within 10 days after any Responsible Officer of the Company or any ERISA Affiliate knows or has reason to know that, any ERISA Event has occurred that, alone or together with any other ERISA Events that have occurred could reasonably be expected to result in liability of the Company and/or the Subsidiaries in an aggregate amount exceeding $5,000,000 or requiring payments exceeding $1,000,000 in any year, a statement of a Financial Officer of the Borrower setting forth details as to such ERISA Event and the action, if any, that the Company and/or the Subsidiaries propose to take with respect thereto.

SECTION 5.06. Maintaining Records; Access to Properties and Inspections. Keep proper books of record and account in which full, true and correct entries in conformity with GAAP and all requirements of law are made of all dealings and transactions in relation to its business and activities. Subject to the provisions of Section 10.16, each Loan Party will, and will cause each of the Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender to visit and inspect the properties (limited, in the case of any Lender, to the corporate offices) and the financial records of the Company or any of the Subsidiaries, and to make extracts from and copies of such financial records, at

reasonable times and as often as reasonably requested and to discuss the affairs, finances and condition of the Company or any of the Subsidiaries with the officers thereof and independent accountants therefor.

SECTION 5.07. Use of Proceeds. Use the proceeds of the Loans and request the issuance of Letters of Credit only for the purposes set forth in the preamble to this Agreement.

SECTION 5.08. Compliance with Environmental Laws. (a) Comply, and use its best efforts to cause all lessees and other persons occupying its properties to comply, in all material respects with all Environmental Laws and Environmental Permits applicable to its operations and properties; obtain and renew all Environmental Permits necessary for its operations and properties; and conduct any Remedial Action required in accordance with Environmental Laws; provided, however, that neither the Company nor any of the Subsidiaries shall be required to undertake any compliance or Remedial Action, to the extent that its obligation to do so is being contested in good faith and by proper proceedings and appropriate reserves are being maintained with respect to such circumstances.

(b) If a Default caused by reason of a breach of Section 3.17 or paragraph (a) of this 5.08 shall have occurred and be continuing, at the request of the Required Lenders through the Administrative Agent, provide to the Lenders within 45 days after such request, at the expense of the Borrower, a report relating to the matters that are the subject of such breach and any matter reasonably

related to such breach, prepared by an environmental consulting firm acceptable to the Administrative Agent and indicating the estimated cost of any compliance or Remedial Action required to address such breach and any such related matter.

SECTION 5.09. Further Assurances. (a) Execute any and all further documents, financing statements, agreements and instruments, and take all further action (including filing Uniform Commercial Code and other financing statements, mortgages and deeds of trust) that may be required under applicable law, or that the Required Lenders, the Administrative Agent or the Collateral Agent may reasonably request, in order to cause the Guarantee Requirement and the Collateral Requirement to be satisfied at all times.

(b) From time to time, at the request of the Administrative Agent or the Required Lenders, take all such actions as the Collateral Agent shall reasonably specify to create and perfect Liens on any properties or assets of the Company or the Domestic Restricted Subsidiaries that have substantial value and are not subject to the Liens created by the Security Documents to secure the Obligations or are subject to such Liens that are unperfected.

(c) From time to time, at the request of the Administrative Agent or the Required Lenders, use commercially reasonable best efforts to cause each person required under the

terms of any material agreement to which the Company, PHI or any Subsidiary shall be party to consent to the assignment pursuant to the Security Agreement of the rights of the Company, PHI or any other Restricted Subsidiary under such material agreement in order for such assignment to be effective to execute and deliver a consent to such assignment reasonably satisfactory to the Collateral Agent.

SECTION 5.10. Hedging Arrangements. The Borrower will enter into, as promptly as practicable and in any event not later than the 90th day following the Closing Date, and will thereafter maintain in effect for a period of not less than two years, one or more Hedging Agreements with any of the Lenders or other financial institutions reasonably satisfactory to the Administrative Agent, on customary terms reasonably satisfactory to the Administrative Agent, the effect of which is to limit the weighted average effective interest rate applicable to at least 50% of the initial principal amount of the Term Loans to a rate reasonably satisfactory to the Administrative Agent.

SECTION 5.11. Transfer of Equity Interests and Rights. On the Transfer Date, upon or prior to the effectiveness of the Assignment and Assumption, the Company will (a) consummate the Stock Transfer in the manner previously approved by the Administrative Agent and in accordance with applicable law and (b) deliver to the Administrative Agent a notice to the effect that the Stock Transfer has been so consummated, together with certified copies of all instruments and documents executed in connection therewith.

ARTICLE VI

Negative Covenants

Each of the Company and PHI covenants and agrees with each Lender that, so long as this Agreement shall remain in effect and until the Commitments have been terminated and the principal of and interest on each Loan, all Fees and, to the extent at the time due and owing, all other expenses or amounts payable under any Loan Document have been paid in full and all Letters of Credit have been canceled or have expired and all amounts drawn

thereunder have been reimbursed in full, unless the Required Lenders shall otherwise consent in writing, it will not, and will not cause or permit any of the Restricted Subsidiaries to:

SECTION 6.01. Indebtedness. Incur, create, assume or permit to exist any Indebtedness, except:

(a) Indebtedness for borrowed money existing on the date hereof and set forth in Schedule 6.01 and any extensions, renewals and replacements of such Indebtedness to the extent the principal amount of such Indebtedness is not increased, the weighted average life to maturity of such Indebtedness is not decreased, such Indebtedness, if subordinated to the Obligations, remains so subordinated on terms not less favorable to the Lenders and the original obligors in respect of such Indebtedness remain the only obligors thereon;

(b) Indebtedness created hereunder and under the other Loan Documents;

(c) Prior to the Closing Date, the Scheduled Playboy Indebtedness and the Scheduled Spice Indebtedness;

(d) Indebtedness of the Borrower to any Wholly Owned Subsidiary and of any Wholly Owned Subsidiary to the Borrower or any other Wholly Owned Subsidiary; provided, that (i) in the case of any such Indebtedness in an amount greater than $2,000,000 owed to the Borrower or any Domestic Restricted Subsidiary by a Foreign Subsidiary, an Unrestricted Subsidiary or a non-Wholly Owned Subsidiary, such Indebtedness is evidenced by a promissory note that has been pledged as security for the Obligations under the Pledge Agreement, and (ii) in the case of all such Indebtedness, the loans and advances giving rise thereto are permitted under Section 6.04;

(e) Indebtedness of the Borrower or any Restricted Subsidiary consisting of (i) Capital Lease Obligations, (ii) purchase money obligations in respect of (A) real property or equipment, in either case incurred in the ordinary course of business after the Closing Date, and (B) Acquisitions and (iii) extensions, renewals and replacements of such Capital Lease Obligations or purchase money obligations; provided that the aggregate principal amount of the Capital Lease Obligations, purchase money obligations and extensions, renewals and replacements thereof incurred pursuant to this clause (e) and outstanding at any time shall not exceed $5,000,000;

(f) Indebtedness of the Borrower created under Hedging Agreements required under Section 5.10 or entered into to hedge or mitigate risks to which the

Borrower or any Subsidiary is exposed in the conduct of its business or the management of its liabilities and not for speculative purposes;

(g) Indebtedness of any Subsidiary that existed at the time such person became a Subsidiary and that was not incurred in contemplation of the acquisition by the Borrower or a Subsidiary of such person;

(h) up to $20,000,000 aggregate principal amount of unsecured Indebtedness of the Company or PHI that is not by its terms required to be repaid, prepaid, redeemed, purchased or defeased prior to the Tranche B Maturity Date, that is subordinated to the obligations of the Company or PHI, as the case may be, hereunder and under the other Loan Documents on terms not less favorable to the Lenders than those customary for publicly offered subordinated debt obligations, and the subordination and other terms of which have been approved by the Administrative Agent;

(i) up to $2,000,000 aggregate principal amount of Indebtedness of Foreign Subsidiaries; and

(j) other Indebtedness of the Company or PHI in an aggregate principal

amount not exceeding $5,000,000, of which $2,000,000 may be secured.

SECTION 6.02. Liens. Create, incur, assume or permit to exist any Lien on any property or assets (including stock or other securities of any person, including any Restricted Subsidiary) now owned or hereafter acquired by it or on any income or revenues or rights in respect thereof, or assign or transfer any such income or revenues or rights in respect thereof, except:

(a) Liens on property or assets existing on the date hereof and set forth in Schedule 6.02; provided that such Liens shall extend only to those assets to which they extend on the date hereof and shall secure only those obligations which they secure on the date hereof;

(b) any Lien created under the Loan Documents;

(c) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower or any of the Subsidiaries; provided that (i) such Lien is not created in contemplation of or in connection with such acquisition, (ii) such Lien does not apply to any property or assets of the Borrower or any of the Subsidiaries other than such acquired property or assets and (iii) such Lien does not (A) materially interfere with the use, occupancy and operation of any asset or property subject thereto, (B) materially reduce the fair market value of such asset or property but for such

Lien or (C) result in any material increase in the cost of operating, occupying or owning or leasing such asset or property;

(d) Liens for taxes not yet due or which are being contested in compliance with Section 5.02;

(e) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business and securing obligations that are not due and payable or that are being contested in compliance with Section 5.02;

(f) pledges and deposits made in the ordinary course of business in compliance with workmen's compensation, unemployment insurance and other social security laws or regulations;

(g) deposits to secure the performance of bids, trade contracts (other than for Indebtedness), leases (other than Capital Lease Obligations), statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(h) zoning restrictions, easements, rights-of-way, restrictions on use of real property and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and do not materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of the Borrower and the Restricted Subsidiaries;

(i) Liens that are contractual rights of setoff (i) relating to the establishment of depository relations with banks not given in connection with the issuance of Indebtedness or (ii) pertaining to pooled deposit and/or sweep accounts of the Company or any Subsidiary to permit satisfaction of overdraft or similar obligations incurred in the ordinary course of business of the Company and the Subsidiaries;

(j) judgment liens securing judgments that have not resulted in an Event of Default under paragraph (i) of Article VII;

(k) purchase money security interests in real property, improvements thereto or equipment hereafter acquired (or, in the case of improvements,

constructed) by the Borrower or any of the Subsidiaries; provided that (i) such security interests secure Indebtedness permitted by Section 6.01(e), (ii) such security interests are incurred, and the Indebtedness secured thereby is created, within 90 days after such acquisition (or construction), (iii) the Indebtedness secured thereby does not exceed 100% of the lesser of the cost or the fair market value of such real property, improvements or

equipment at the time of such acquisition (or construction) and (iv) such security interests do not apply to any other property or assets of the Company or any of the Subsidiaries;

(l) the interests of lessors under Capital Leases permitted under Section 6.01;

(m) Liens on any item of Product or rights in Product to the extent securing Residuals, Deferments or Participations payable by the Company or any of the Subsidiaries relating exclusively to such items of Product or rights in Product;

(n) rights of licensees under Ordinary Licensing Transactions;

(o) rights of Playboy International as licensee under the Playboy International Agreements;

(p) rights of licensees which are not Affiliates of the Company or any of the Subsidiaries under agreements pursuant to which such licensees have access to duplicating material for the purpose of making prints or other copies of any item of Product licensed to them, and rights of distributors, exhibitors, licensees and other Persons which are not Affiliates of the Company or any of the Restricted Subsidiaries in any item of Product created in connection with the distribution or exploitation of any such item of Product or rights in Product in the ordinary course of business pursuant to arm's-length agreements in accordance with customary industry practice;

(q) Liens on any asset relating to any item of Product or rights in Product acquired by the Company or any of the Subsidiaries granted in accordance with customary industry practice in favor of any lender or financier financing any or all of the development, acquisition or production costs of such item of Product or in favor of any person guaranteeing the completion of production or delivery of such item of Product, provided such Lien is and will remain confined to the same Product or rights in Product so acquired;

(r) Liens granted in accordance with customary industry practice to distributors or licensees which are not Affiliates of the Company or any of the Restricted Subsidiaries to secure the exploitation rights or any rights ancillary thereto in items of Product or rights in Product licensed or leased to such distributors or licensees, provided that the collateral subject to any such Lien shall be limited to such rights licensed or leased to such distributor or licensee, the Product and proceeds of such rights and a non-exclusive right of access to customary duplicating materials to exercise such rights;

(s) Liens of film laboratories, sound studios or similar production or post production facilities which are not Affiliates of the Company or any of the Restricted Subsidiaries incurred in the ordinary course of business for sums not yet due or being contested in good faith; and

(t) other Liens securing obligations in an aggregate principal amount not exceeding (i) $2,000,000 minus (ii) the proceeds of any Sale and Lease-Back

Transactions permitted under Section 6.03.

SECTION 6.03. Sale and Lease-Back Transactions. Enter into any arrangement, directly or indirectly, with any person whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred (a "Sale and Lease-Back Transaction") unless (a) such sale is permitted under Section 6.05, (b) any Indebtedness arising therefrom is permitted under Section 6.01 and (c) the aggregate proceeds of all Sale and Lease-Back Transactions permitted under this Section does not exceed $2,000,000 minus the aggregate amount of the obligations secured by Liens permitted only under Section 6.02(t).

SECTION 6.04. Investments, Loans and Advances. Purchase, hold or acquire any capital stock, evidences of Indebtedness or other securities of, make or permit to exist any loans or advances to, or make or permit to exist any investment or any other interest in, any other person, except:

(a) investments by the Company and PHI existing on the date hereof and set forth on Schedule 6.04 or resulting from the Spice Acquisition and the Playboy Merger;

(b) investments existing on the date hereof in the Borrower or any Subsidiary;

(c) additional investments in (i) Wholly Owned Domestic Restricted Subsidiaries, and (ii) Wholly Owned Foreign Restricted Subsidiaries in an aggregate amount for all investments under this clause (ii) not greater than $2,500,000;

(d) loans and advances to the Borrower or any Restricted Subsidiary to the extent the resulting Indebtedness is permitted under section 6.01(d);

(e) investments in and loans and advances to Playboy Online made (i) with Net Cash Proceeds of Asset Sales not required to be applied to prepay Term Loans

under Section 2.13(b), (ii) with Excess Cash Flow for any fiscal year not required to be applied to prepay Term Loans under Section 2.13(d); provided that if the Consolidated Leverage Ratio at the end of such fiscal year is greater than or equal to 3.00 to 1.00, the amount of Excess Cash Flow for such fiscal year that may be applied to make investments in and loans and advances to Playboy Online shall be limited to $2,000,000, (iii) with Net Cash Proceeds of any Equity Issuance by the Company; provided that investments, loans and advances made at any time pursuant to this clause (iii) shall not in the aggregate exceed (A) $25,000,000 (the "Base Amount") plus (B) an amount equal to (1) 25% of any such Net Cash Proceeds in excess of the Base Amount if at the time of the applicable Equity Issuance the Consolidated Leverage Ratio shall have been greater than 4.00 to 1.00, (2) 50% of any such Net Cash Proceeds in excess of the Base Amount if at the time of the applicable Equity Issuance the Consolidated Leverage Ratio shall have been greater than 3.00 to 1.00 but less than or equal to 4.00 to 1.00 and (3) 75% of any such Net Cash Proceeds in excess of the Base Amount if at the time of the applicable Equity Issuance the Consolidated Leverage Ratio shall have been less than or equal to 3.00 to 1.00, minus (C) the aggregate Net Cash Proceeds of all Equity Issuances after the date hereof by Unrestricted Subsidiaries not used to prepay Term Loans and (iv) with proceeds of Revolving Credit Loans in an aggregate principal amount not to exceed $12,000,000; provided that in the case of clauses (i) and (ii) of this paragraph (e), the amounts required to be applied to prepay Term Loans under Section 2.13 shall be determined as though the entire amounts of the Term Loans made on the Closing Date remained outstanding, notwithstanding that the Term Loans shall have been paid in full;

(f) loans and advances to employees in an aggregate amount outstanding at any time not to exceed $1,000,000;

(g) investments by the Borrower and the Restricted Subsidiaries in Equity Interests of persons (other than Playboy Online) that, upon the making of such investments, become Wholly Owned Subsidiaries; provided that (i) the ownership by the Borrower of such persons is consistent with the limitations of Section 6.08, (ii) no Default or Event of Default results from the making of any such investment and (iii) prior to the making of any such investment the Borrower shall have delivered to the Administrative Agent calculations demonstrating pro forma compliance with the covenants contained in Sections 6.13, 6.14, 6.15 and 6.16 as of the end of and for the most recent period of four fiscal quarters for which financial statements shall have been delivered pursuant to Section 5.03(a) or (b), giving effect to such investment and any related incurrence or repayment of Indebtedness as if they had occurred at the beginning of such period;

(h) the initial investment of Playboy Entertainment Group, Inc. in Playboy International, as described in the Playboy International Agreements;

(i) investments of funds set aside to meet the Company's or any Subsidiary's obligations under any nonqualified deferred compensation plan or arrangement; provided that such investments do not in the aggregate at any time exceed 105% of the liabilities of such plans or arrangements;

(j) investments in and loans and advances to Restricted Subsidiaries to procure assets, properties or contract rights to be used in gaming operations in an aggregate amount not to exceed $7,500,000;

(k) investments in the Unrestricted Subsidiaries to fund administrative services for such Unrestricted Subsidiaries including, but not limited to, payroll, cash management, corporate administration, billing, and procurement; provided that the Unrestricted Subsidiary in which such investments are made agrees to reimburse the provider of such services for the cost of the provision of such services and such Unrestricted Subsidiary indemnifies and holds the Company (or the Restricted Subsidiary providing such services) harmless for all losses, claims and expenses arising out of the provision of such services and arising under any contracts that the provider of such services enters into so that it may provide such services to the Unrestricted Subsidiary;

(l) investments by the Company and the Subsidiaries in foreign networks (including Playboy International) in an aggregate amount not to exceed $10,000,000 during any fiscal year;

(m) investments by Playboy Entertainment Group, Inc. that it is contractually obligated to make pursuant to the Playboy International Agreements;

(n) investments received in settlement of obligations owed to the Company or any Restricted Subsidiary in the ordinary course of business;

(o) investments consisting of non-cash proceeds of asset dispositions for which the consideration consists of at least 80% cash as required under Section 6.05;

(p) Permitted Investments ; and

(q) other investments, loans and advances (other than investments in or loans or advances to Playboy Online) in an aggregate amount (valued at cost or outstanding principal amount, as the case may be) not greater than $15,000,000.

SECTION 6.05. Mergers, Consolidations and Sales of Assets. Merge into or consolidate with any other person, or permit any other person to merge into or consolidate with it, or sell, transfer, lease, license or otherwise dispose of (in one transaction or in a series of transactions) all or any substantial part of its assets (whether now owned or here after acquired), or any capital stock of any Subsidiary, or permit any Restricted Subsidiary to issue any shares of its capital stock to any person other than the Borrower or another Subsidiary, or, except as expressly permitted under Section 6.04, purchase, lease, license or otherwise acquire (in one transaction or a series of transactions) all or any substantial part of the assets of any other person or assets that are substantial in relation to the Company and its subsidiaries taken as a whole, except that (a) the Borrower and any of the Subsidiaries may (i) purchase and dispose of inventory in the ordinary course of business and enter into Ordinary Licensing Transactions and (ii) dispose of obsolete or worn out assets, (b) if at the time thereof and immediately after giving effect thereto no Event of Default or Default shall have occurred and be continuing and the Collateral Requirement and the Guarantee Requirement shall be satisfied, (i) any subsidiary of the Borrower may merge into the Borrower in a transaction in which the Borrower is the surviving corporation and no person other than the Borrower receives any consideration and (ii) any subsidiary of the Borrower may merge into or consolidate with any other subsidiary of the Borrower in a transaction in which, after giving effect to such merger, the percentage ownership of the surviving entity is not less than the Company's or the subsidiary's ownership in either of the subsidiaries prior to such merger or consolidation and no person other than the Borrower or a Wholly Owned Subsidiary receives any consideration, (c) the Borrower or any subsidiary of the Borrower may sell, transfer or otherwise dispose of other assets (other than the Equity Interests of Restricted Subsidiaries, but including the Playboy Mansion in Los Angeles, California) for consideration at least 80% of which consists of cash in one or more arm's length transactions so long as (i) the proceeds of any such sale are held and applied in accordance with the terms of this Agreement and (ii) after giving effect to such sale, the aggregate fair market value of the assets sold by the Borrower and its subsidiaries pursuant to this clause (c), excluding any sale of the Playboy Mansion, does not exceed $10,000,000 in any fiscal year and (d) the Borrower and its subsidiaries may make investments expressly permitted by Section 6.04. Notwithstanding anything to the contrary in this Section 6.05, the Company may consummate the Playboy Merger, the Spice Merger, the Stock Transfer and the Playboy International Transaction.

SECTION 6.06. Dividends and Distributions; Restrictions on Ability of Restricted Subsidiaries to Pay Dividends. (a) Declare or pay, directly or indirectly, any dividend or make any other distribution (by reduction of capital or otherwise), whether in cash, property, securities or a combination thereof, with respect to any shares of its capital stock (other than in additional shares of its capital stock) or directly or indirectly redeem, purchase, retire or otherwise acquire for value (or permit any Restricted Subsidiary to purchase or acquire) any shares of any class of its capital stock or set aside any amount for any such purpose; provided, however, that (i) any subsidiary of PHI may declare and pay dividends or make other distributions ratably on its Equity Interests and (ii) PHI may declare and pay

dividends to the Company in the amounts and at the times required to permit the Company to pay income and franchise taxes and other expenses incidental to the activities permitted under Section 6.08(a).

(b) Permit any Restricted Subsidiary of the Borrower, directly or indirectly, to create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any such subsidiary to (i) pay any dividends or make any other distributions on its Equity Interests or (ii) make

or repay any loans or advances to the Borrower or to any other subsidiary of the Borrower (other than restrictions subordinating Indebtedness permitted under Section 6.01(d) to the Obligations).

SECTION 6.07. Transactions with Affiliates. Sell or transfer any property or assets to, or purchase or acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates (other than PHI or any Subsidiary), except that the Company or any Subsidiary may engage in any of the foregoing transactions in the ordinary course of business at prices and on terms and conditions not less favorable to the Company, the Borrower or such Subsidiary than could be obtained on an arm's-length basis from an unrelated third party.

SECTION 6.08. Business of the Company and Restricted Subsidiaries. (a) In the case of the Company after the Stock Transfer, own any assets or any Equity Interests or Rights in any person other than PHI, or engage at any time in any business or business activity other than the ownership of all the Equity Interests in PHI and business activities incidental thereto.

(b) In the case of PHI or any other Restricted Subsidiary, (i) engage at any time in any business or business activity other than businesses in which it is engaged on the date hereof and business activities reasonably related thereto or (ii) expend more than $7,500,000 to procure assets, properties or contract rights to be used in gaming operations or activities related thereto.

SECTION 6.09. Amendment of Material Agreements. Amend, modify or waive in any material respect the Playboy International Agreements (other than by execution of the Superceeding Agreements referred to in the definition of "Playboy International Agreements" in Section 1.01) or any agreement governing Material Indebtedness if any such amendment, modification or waiver, taken together with any related amendments, modifications or waivers, could reasonably be expected to result in a Material Adverse Effect or to be materially adverse to the rights or interests of the Lenders (including by reducing the amount of any prepayment required to be made hereunder), or permit the terms of such Superceeding Agreements to depart from the terms of the Playboy TV International, LLC Agreement Outline referred to in the definition of "Playboy International Agreements"

in Section 1.01 in any respect that could reasonably be expected to result in a Material Adverse Effect or to be materially adverse to the rights or interests of the Lenders (including by reducing the amount of any prepayment required to be made hereunder).

SECTION 6.10. Prepayments, Redemptions and Repurchases of Debt. Make any payment, whether in cash, property, securities or a combination thereof in respect of, or pay, or offer or commit to pay, or otherwise directly or indirectly redeem, repurchase, retire or otherwise acquire for consideration or defease, any Indebtedness for borrowed money or Capital Lease Obligation (other than Indebtedness under the Loan Documents and intercompany Indebtedness) of the Company or any of the Restricted Subsidiaries, or set apart any sum for the aforesaid purposes, except that the Company and the Restricted Subsidiaries may make scheduled or mandatory payments of principal, interest or Capital Lease Obligations as and when due (to the extent not prohibited by applicable subordination provisions).

SECTION 6.11. Collateral and Guarantee Requirements; Ownership of Domestic Subsidiaries. (a) Take any action that would result in the Collateral Requirement or the Guarantee Requirement not being satisfied.

(b) Permit any Domestic Subsidiary to be owned directly or indirectly, in whole or in part, by any Foreign Subsidiary.

SECTION 6.12. Fiscal Year. Change the end of its fiscal year from December 31

to any other date.

SECTION 6.13. Annual Consolidated EBITDA. Permit Consolidated EBITDA for any period of four consecutive fiscal quarters ending on a date set forth below to be less than the amount set forth below opposite such date:

<TABLE>
<CAPTION>

Date	Amount
<S>	<C>
June 30, 1999	$44,000,000
September 30, 1999	$47,000,000
December 31, 1999	$47,000,000
March 31, 2000	$48,500,000
June 30, 2000	$50,000,000
September 30, 2000	$53,500,000
December 31, 2000	$57,000,000
March 31, 2001	$59,250,000
June 30, 2001	$61,500,000
September 30, 2001	$66,750,000

</TABLE>

<TABLE>
<CAPTION>

<S>	<C>
December 31, 2001	$72,000,000
March 31, 2002	$73,200,000
June 30, 2002	$74,400,000
September 30, 2002	$77,200,000
December 31, 2002	$80,000,000
March 31, 2003	$81,500,000
June 30, 2003	$83,000,000
September 30, 2003	$86,500,000
December 31, 2003	$90,000,000
March 31, 2004	$91,500,000
June 30, 2004	$93,000,000
September 30, 2004	$96,500,000
December 31, 2004	$100,000,000
March 31, 2005	$101,500,000
June 30, 2005	$103,000,000
September 30, 2005	$106,500,000
December 31, 2005 and each fiscal quarter end thereafter	$110,000,000

</TABLE>

SECTION 6.14. Consolidated Leverage Ratio. Permit the Consolidated Leverage Ratio at any time during any period beginning on a date set forth below and ending on the day immediately preceding the next such date to be in excess of the ratio set forth below opposite such initial date below:

<TABLE>
<CAPTION>

Date	Ratio
<S>	<C>
September 30, 1999	5.900 to 1.00
December 31, 1999	5.900 to 1.00
March 31, 2000	5.900 to 1.00
June 30, 2000	4.950 to 1.00
September 30, 2000	4.950 to 1.00
December 31, 2000	4.000 to 1.00
March 31, 2001	4.000 to 1.00
June 30, 2001	3.375 to 1.00
September 30, 2001	3.375 to 1.00
December 31, 2001	2.750 to 1.00

March 31, 2002	2.750 to 1.00
June 30, 2002	2.625 to 1.00

</TABLE>

<TABLE>
<CAPTION>

<S>	<C>
September 30, 2002	2.625 to 1.00
December 31, 2002 and each fiscal quarter end thereafter	2.500 to 1.00

</TABLE>

SECTION 6.15. Consolidated Interest Expense Coverage Ratio. Permit the Consolidated Interest Expense Coverage Ratio for any four-fiscal-quarter period (or such lesser number of fiscal quarters as shall have elapsed since March 31, 1999) ending on any date set forth below to be less than the ratio set forth below opposite such date below:

<TABLE>
<CAPTION>

Date	Ratio
<S>	<C>
September 30, 1999	2.00 to 1.00
December 31, 1999	2.00 to 1.00
March 31, 2000	2.00 to 1.00
June 30, 2000	2.50 to 1.00
September 30, 2000	2.50 to 1.00
December 31, 2000	3.00 to 1.00
March 31, 2001	3.00 to 1.00
June 30, 2001	3.25 to 1.00
September 30, 2001	3.25 to 1.00
December 31, 2001 and each fiscal quarter end thereafter	3.50 to 1.00

</TABLE>

SECTION 6.16. Consolidated Fixed Charge Coverage Ratio. Permit the Consolidated Fixed Charge Coverage Ratio for any four-fiscal-quarter period (or such lesser number of fiscal quarters as shall have elapsed since March 31, 1999) ending on any date set forth below to be less than the ratio set forth below opposite such date below:

<TABLE>
<CAPTION>

Date	Ratio
<S>	<C>
September 30, 1999	1.10 to 1.00
December 31, 1999	1.10 to 1.00
March 31, 2000	1.10 to 1.00
June 30, 2000	1.10 to 1.00
September 30, 2000	1.10 to 1.00
December 31, 2000	1.10 to 1.00
March 31, 2001	1.10 to 1.00
June 30, 2001	1.15 to 1.00
September 30, 2001	1.15 to 1.00
December 31, 2001 and each fiscal quarter end thereafter	1.20 to 1.00

</TABLE>

SECTION 6.17. Capital Expenditures. Permit the aggregate amount of Capital Expenditures (other than (a) expenditures of insurance or condemnation proceeds for the repair or replacement of assets that have been damaged, destroyed or taken by condemnation, (b) expenditures of the proceeds of sales of property, plant and equipment to acquire additional property, plant and equipment used for the same purpose and (c) permitted Acquisitions) made by the Company and the Restricted Subsidiaries in any fiscal year to exceed $4,000,000.

ARTICLE VII

Events of Default

In case of the happening of any of the following events ("Events of Default"):

(a) any representation or warranty made or deemed made in or in connection with any Loan Document or the Borrowings or issuances of Letters of Credit hereunder, or any representation, warranty, statement or information made, deemed made or furnished in connection with or pursuant to any Loan Document, shall prove to have been false or misleading in any material respect when so made, deemed made or furnished;

(b) default shall be made in the payment of any principal of any Loan or any reimbursement with respect to any L/C Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or by acceleration thereof or otherwise;

(c) default shall be made in the payment of any interest on any Loan or L/C Disbursement or of any Fee or any other amount (other than an amount referred to in (b) above) due under any Loan Document, when and as the same shall become due and payable, and such default shall continue unremedied for a period of five days;

(d) default shall be made in the due observance or performance by the Company or any of the Subsidiaries of any covenant, condition or agreement contained in Section 5.01(a) insofar as it relates to the existence of the Borrower, 5.04, 5.07 or 5.11 or in Article VI;

(e) default shall be made in the due observance or performance by the Company or any of the Restricted Subsidiaries of any covenant, condition or agree ment contained in any Loan Document (other than those specified in (b), (c) or (d)

above) and such default shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent or any Lender to the Borrower;

(f) (i) the Company or any of the Restricted Subsidiaries shall fail to pay any principal or interest, regardless of amount, due in respect of any Material Indebtedness when and as the same shall become due and payable, (ii) the Company or any of the Restricted Subsidiaries shall fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Indebtedness, or any other event or condition shall occur, if the effect of any failure or other event or condition referred to in this clause (ii) shall be to cause, or to permit the holder or holders of such Material Indebtedness or a trustee on its or their behalf to cause, such Material Indebtedness to become due or to be required to be repurchased, redeemed or defeased prior to its stated maturity, or (iii) the Company or any of the Restricted Subsidiaries shall fail to observe or perform any term, covenant, condition or agreement contained in any of the Playboy International Agreements, if the effect of any failure or other event or condition referred to in this clause (iii) shall be to cause or permit Bloomfield Mercantile Inc. or its successors or assigns, or any of their respective Affiliates, to exercise any rights or

remedies under the Playboy International Agreements that could reasonably be expected to result in a Material Adverse Effect;

(g) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Company or any of the Restricted Subsidiaries, or of a substantial part of the property or assets of the Company or a Restricted Subsidiary, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal, state or foreign bankruptcy, insolvency, receivership or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Company or any of the Restricted Subsidiaries or for a substantial part of the property or assets of the Company or a Restricted Subsidiary or (iii) the winding-up or liquidation of the Company or any of the Restricted Subsidiaries; and such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(h) the Company or any of the Restricted Subsidiaries shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal, state or foreign bankruptcy, insolvency, receivership or similar law, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in (g) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator,

conservator or similar official for the Company or any of the Restricted Subsidiaries or for a substantial part of the property or assets of the Company or any of the Restricted Subsidiaries, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take any action for the purpose of effecting any of the foregoing;

(i) one or more judgments for the payment of money in an aggregate amount in excess of $5,000,000 in the aggregate shall be rendered against the Company, any of the Restricted Subsidiaries or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to levy upon assets or properties of the Company or any of the Restricted Subsidiaries to enforce any such judgment;

(j) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other such ERISA Events, could reasonably be expected to result in liability of the Company, PHI and their ERISA Affiliates which in the judgment of the Required Lenders could reasonably be expected to have a Material Adverse Effect;

(k) any Guarantee purported to be created hereunder or under the Subsidiary Guarantee Agreement shall cease to be, or shall be asserted by any Loan Party not to be, a valid and enforceable Guarantee of the Obligations (except as otherwise expressly provided in this Agreement or such Subsidiary Guarantee Agreement), or any security interest purported to be created by any Security Document shall cease to be, or shall be asserted by any Loan Party not to be, a valid, perfected, first priority (except as otherwise expressly provided in this Agreement or such Security Document) security interest in the securities, assets or properties covered thereby; or

(l) there shall have occurred a Change in Control,

then, and in every such event (other than an event with respect to the Company or PHI described in paragraph (g) or (h) above), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate forthwith the Commitments and (ii) declare the Loans then outstanding to be forthwith due and payable in whole or in part, whereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder and

under any other Loan Document, shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding; and in any event with respect to the Company or PHI described in paragraph (g) or (h) above, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower and the other Loan Parties accrued hereunder and under any other Loan Document, shall automatically become due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding.

ARTICLE VIII. THE AGENTS

In order to expedite the transactions contemplated by this Agreement, CSFB is hereby appointed to act as Administrative Agent and Collateral Agent on behalf of the Lenders and the Issuing Bank (for purposes of this Article VIII, the Administrative Agent and the Collateral Agent are referred to collectively as the "Agents"). Each of the Lenders, each assignee of any such Lender and the Issuing Bank hereby irrevocably authorizes the Agents to take such actions on behalf of such Lender or assignee or the Issuing Bank and to exercise such powers as are specifically delegated to the Agents by the terms and provisions hereof and of the other Loan Documents, together with such actions and powers as are reasonably incidental thereto. The Administrative Agent is hereby expressly authorized by the Lenders and the Issuing Bank, without hereby limiting any implied authority, (a) to receive on behalf of the Lenders and the Issuing Bank all payments of principal of and interest on the Loans, all payments in respect of L/C Disbursements and all other amounts due to the Lenders hereunder, and promptly to distribute to each Lender or the Issuing Bank its proper share of each payment so received; (b) to give notice on behalf of each of the Lenders to the Borrower of any Event of Default specified in this Agreement of which the Administrative Agent has actual knowledge acquired in connection with its agency hereunder; and (c) to distribute to each Lender copies of all notices, financial statements and other materials delivered by the Company and PHI or any other Loan Party pursuant to this Agreement or the other Loan Documents as received by the Administrative Agent. Without limiting the generality of the foregoing, the Agents are hereby expressly authorized to release any Guarantor from its obligations hereunder and under the other Loan Documents and release the Security Interest in any Collateral, in the event that all the capital stock of the Guarantor, or such Collateral, shall be sold, transferred or otherwise disposed of to a person that is not an Affiliate of the Borrower in a transaction permitted by Section 6.05 hereof, and to execute any and all documents (including releases) with respect

to the Collateral and the rights of the Secured Parties with respect thereto, in

each case as contemplated by and in accordance with the provisions of this Agreement and the other Loan Documents.

Neither the Agents nor any of their respective directors, officers, employees or agents shall be liable as such for any action taken or omitted by any of them except for its or his own gross negligence or wilful misconduct, or be responsible for any statement, warranty or representation herein or the contents of any document delivered in connection herewith, or be required to ascertain or to make any inquiry concerning the performance or observance by the Borrower or any other Loan Party of any of the terms, conditions, covenants or agreements contained in any Loan Document. The Agents shall not be responsible to the Lenders for the due execution, genuineness, validity, enforceability or effectiveness of this Agreement or any other Loan Documents, instruments or agreements. The Agents shall in all cases be fully protected in acting, or refraining from acting, in accordance with written instructions signed by the Required Lenders and, except as otherwise specifically provided herein, such instructions and any action or inaction pursuant thereto shall be binding on all the Lenders. Each Agent shall, in the absence of knowledge to the contrary, be entitled to rely on any instrument or document believed by it in good faith to be genuine and correct and to have been signed or sent by the proper person or persons. Neither the Agents nor any of their respective directors, officers, employees or agents shall have any responsibility to the Company or any other Loan Party on account of the failure of or delay in performance or breach by any Lender or the Issuing Bank of any of its obligations hereunder or to any Lender or the Issuing Bank on account of the failure of or delay in performance or breach by any other Lender or the Issuing Bank or the Company or any other Loan Party of any of their respective obligations hereunder or under any other Loan Document or in connection herewith or therewith. Each of the Agents may execute any and all duties hereunder by or through agents or employees and shall be enti tled to rely upon the advice of legal counsel selected by it with respect to all matters arising hereunder and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel.

The Lenders hereby acknowledge that no Agent shall be under any duty to take any discretionary action permitted to be taken by it pursuant to the provisions of this Agreement unless it shall be requested in writing to do so by the Required Lenders.

Subject to the appointment and acceptance of a successor Agent as provided below, any Agent may resign at any time by notifying the Lenders and the Borrower in writing. Upon any such resignation, the Required Lenders shall have the right to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Agent gives notice of its resignation, then the retiring Agent may, on behalf of the Lenders, appoint a successor

Agent which shall be a bank with an office in New York, New York, having a combined capital and surplus of at least $500,000,000 or an Affiliate of any such bank. Upon the acceptance of any appointment as Agent hereunder by a successor bank, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent and the retiring Agent shall be discharged from its duties and obligations hereunder. After the Agent's resignation hereunder, the provisions of this Article and Section 10.05 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

With respect to the Loans made by it hereunder, each Agent in its individual capacity and not as Agent shall have the same rights and powers as any other Lender and may exercise the same as though it were not an Agent, and the Agents and their Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Company or any of the Subsidiaries or other Affiliate thereof as if it were not an Agent.

Each Lender agrees (a) to reimburse the Agents, on demand, in the amount of its pro rata share (based on the amount of its Loans and available commitments hereunder) of any expenses incurred for the benefit of the Lenders by the Agents, including counsel fees and compensation of agents and employees paid for services rendered on behalf of the Lenders, that shall not have been reimbursed by the Borrower and (b) to indemnify and hold harmless each Agent and any of its directors, officers, employees or agents, on demand, in the amount of such pro rata share, from and against any and all liabilities, taxes, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by or asserted against it in its capacity as Agent or any of them in any way relating to or arising out of this Agreement or any other Loan Document or action taken or omitted by it or any of them under this Agreement or any other Loan Document, to the extent the same shall not have been reimbursed by the Borrower or any other Loan Party; provided that no Lender shall be liable to an Agent or any such other indemnified person for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements that are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or wilful misconduct of such Agent or any of its directors, officers, employees or agents. Each Revolving Credit Lender agrees to reimburse each of the Issuing Bank and its directors, officers, employees and agents, in each case, to the same extent and subject to the same limitations as provided above for the Agents.

Each Lender acknowledges that it has, independently and without reliance upon the Agents or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agents or any other Lender and based on such documents and information as it shall from time to

time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement or any other Loan Document, any related agreement or any document furnished hereunder or thereunder.

ARTICLE IX. GUARANTEE

To induce the Lenders to make the Loans and the Issuing Bank to issue Letters of Credit, (a) the Company, after it shall have been released from its obligations as the initial Borrower hereunder as contemplated by Section 10.17, and (b) PHI, until such time as it shall effectively have assumed the obligations of the Borrower hereunder as contemplated by Section 10.17, hereby unconditionally and irrevocably guarantees, as a primary obligor and not merely as a surety, the due and punctual payment and performance of all the Obligations. Each and every default in payment of the principal of and premium, if any, or interest on any Obligation shall give rise to a separate cause of action hereunder, and separate suits may be brought hereunder as each cause of action arises.

Each of the Company and PHI waives presentation to, demand of payment from and protest to the Borrower of any of the Obligations, and also waives notice of acceptance of this Guarantee and notice of protest for nonpayment and all other formalities. The obligations of the Company and PHI hereunder shall not be discharged or impaired or otherwise affected by (a) the failure or delay of any Secured Party to assert any claim or demand or to enforce any right or remedy against any Loan Party under the provisions of any Loan Document or otherwise; (b) any extension or renewal of any of the Obligations; (c) any rescission, waiver, amendment or modification of, or any release from, any of the terms or provisions of any Loan Document, any guarantee or any other agreement or instrument; (d) the release of (or the failure to perfect a security interest in) any security held by any Secured Party for the performance of the

Obligations or any of them; (e) the failure or delay of any Secured Party to exercise any right or remedy against any other guarantor of the Obligations; (f) the failure of any Secured Party to assert any claim or demand or to enforce any remedy under any Loan Document, any guarantee or any other agreement or instrument; (g) any default, failure or delay, wilful or otherwise, in the performance of the Obligations; or (h) any other act, omission or delay to do any other act which may or might in any manner or to any extent vary the risk of the Company or otherwise operate as a discharge of the Company or PHI as a matter of law or equity or which would impair or eliminate any right of the Company or PHI to subrogation.

Each of the Company and PHI further agrees that this Guarantee constitutes a guarantee of payment when due and not of collection, and waives any right to require that any resort be had by any Secured Party to any security held for payment of the Obligations or to any balance of any deposit account or credit on the books of any Secured Party in favor of the Borrower or any other person.

The obligations of the Company and PHI hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense (other than the defense of payment in full of the Obligations) or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of the Obligations or otherwise.

Each of the Company and PHI further agrees that this Guarantee shall continue to be effective or be reinstated, as the case may be, if at any time any payment, or any part thereof, on any Obligation is rescinded or must otherwise be restored by any Secured Party upon the bankruptcy or reorganization of the Borrower or otherwise.

In furtherance of the foregoing and not in limitation of any other right which any Secured Party may have at law or in equity against the Company or PHI by virtue hereof, upon the failure of the Borrower to pay any Obligation when and as the same shall become due, whether at maturity, by acceleration, after notice of prepayment or otherwise, each of the Company and PHI hereby promises to and will, upon receipt of written demand by any Lender, forthwith pay, or cause to be paid, to the Administrative Agent for distribution to the Secured Parties in cash an amount equal to the sum of (i) the unpaid principal amount of such Obligations then due, (ii) accrued and unpaid interest and fees on such Obligations and (iii) all other monetary Obligations then due.

Upon payment by the Company or PHI of any sums to the Secured Parties hereunder, all rights of the Company or PHI against the Borrower arising as a result thereof shall in all respects be subordinate and junior in right of payment to the prior indefeasible payment in full of all the Obligations and, if any payment shall be made to the Company or PHI on account of such rights prior to the indefeasible payment in full of all the Obligations, such payment shall forthwith be paid to the Administrative Agent to be credited and applied against the Obligations to the extent necessary to discharge such Obligations. Upon payment by the Company or PHI of the sums to the Administrative Agent hereunder, subject to the indefeasible payment in full of all the Obligations, the Company or PHI, as the case may be, shall be subrogated to the rights of the Secured Parties to receive payments of the Obligations.

Each of the Company and PHI waives notice of and hereby consents to any agreements or arrangements whatsoever by the Secured Parties with any other person pertaining to the Obligations, including agreements and arrangements for payment, extension, subordination, composition, arrangement, discharge or release of the whole or any part of the Obligations, or for the discharge or surrender of any or all security, or for compromise, whether by way of acceptance of part payment or otherwise, and the same shall in no way impair the

Company's or PHI's liability hereunder. Nothing shall discharge

or satisfy the liability of the Company or PHI hereunder except the full performance and payment of the Obligations.

Each reference herein to any Secured Party shall be deemed to include their or its successors and assigns, in whose favor the provisions of this Guarantee shall also inure.

ARTICLE X

Miscellaneous

SECTION 10.01. Notices. Notices and other communications provided for herein and in the other Loan Documents shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to the Company, to it at 680 North Lake Shore Drive, Chicago, Illinois 60611 Attention: Executive Vice President Finance & Operations and Chief Financial Officer, with a copy to Executive Vice President Law & Administration and General Counsel (Fax No. (312)-751-2818);

(b) if to PHI, to it at 680 North Lake Shore Drive, Chicago, Illinois 60611 Attention: Executive Vice President Finance & Operations and Chief Financial Officer, with a copy to Executive Vice President Law & Administration and General Counsel (Fax No. (312)-751-2818);

(c) if to the Administrative Agent, to Credit Suisse First Boston, Eleven Madison Avenue, New York, NY 10010, Attention of Agency Group (Fax No. (212) 325-8304); and

(d) if to a Lender, to it at its address (or telecopy number) set forth on Schedule 2.01 or in the Assignment and Acceptance pursuant to which such Lender shall have become a party hereto.

All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt if delivered by hand or overnight courier service or sent by telecopy or on the date five Business Days after dispatch by certified or registered mail if mailed, in each case delivered, sent or mailed (properly addressed) to such party as provided in this Section 10.01 or in accordance with the latest unrevoked direction from such party given

in accordance with this Section 10.01; provided, that each notice under Article II will be delivered by hand or overnight courier service or sent by telecopy.

SECTION 10.02. Survival of Agreement. All covenants, agreements, representations and warranties made by the Company, PHI and the other Subsidiaries herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the Lenders and the Issuing Bank and shall survive the making by the Lenders of the Loans and the issuance of Letters of Credit by the Issuing Bank, regardless of any investigation made by the Lenders or the Issuing Bank or on their behalf, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any Fee or any other amount payable under this

Agreement or any other Loan Document is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not been terminated. The provisions of Sections 2.14, 2.16, 2.20, 10.05 and 10.16 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the expiration of the Commitments, the expiration of any Letter of Credit, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Administrative Agent, the Collateral Agent, any Lender or the Issuing Bank.

SECTION 10.03. Binding Effect. This Agreement shall become effective when it shall have been executed by the Company, PHI and the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and assigns.

SECTION 10.04. Successors and Assigns. (a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the permitted successors and assigns of such party; and all covenants, promises and agreements by or on behalf of the Company, PHI, the Administrative Agent, the Issuing Bank or the Lenders that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns.

(b) Each Lender may assign to one or more assignees all or a portion of its interests, rights and obligations under this Agreement (including all or a portion of any or all of its Commitments and the Loans at the time owing to it); provided, however, that (i) except in the case of an assignment to another Lender or an Affiliate or Related Fund of the assigning Lender or another Lender (x) the Borrower (unless an Event of Default shall have occurred and be continuing for at least ten days) and the Administrative Agent (and, in the case of any assignment of a Revolving Credit Commitment, the Issuing Bank) must give their prior

written consent to such assignment (which consent shall not be unreasonably withheld or delayed) and (y) the amount of the Revolving Credit Commitment and the Term Loan Commitment or outstanding Term Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than $5,000,000 in the aggregate (or, if less, the entire remaining amount of such Lender's Revolving Credit Commitment or outstanding Term Loans) and (ii) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire and any tax form as required by the Internal Revenue Service or Section 2.20(e) of this Agreement, if applicable. Upon acceptance and recording pursuant to paragraph (e) of this Section 10.04 and payment, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement and (B) the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.14, 2.16, 2.20 and 10.05, as well as to any Fees accrued for its account and not yet paid, and to be bound by the provisions of Section 10.16).

(c) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such

assigning Lender warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim and that its Term Loan Commitments and Revolving Credit Commitment, and the outstanding balances of its Term Loans and Revolving Loans, in each case without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance, (ii) except as set forth in (i) above, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto, or the financial condition of the Company or any of the Subsidiaries or the performance or observance by the Company or any of the Subsidiaries of any of its obligations under this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements referred to in Section 3.05(a) or delivered pursuant to Section 5.03 and such other documents and information as it has deemed

appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Administrative Agent, the Collateral Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Administrative Agent and the Collateral Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent and the Collateral Agent, respectively, by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(d) The Administrative Agent shall maintain at one of its offices in The City of New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amount of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive and the Company, PHI, the Administrative Agent, the Issuing Bank, the Collateral Agent and the Lenders may treat each person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register and any Assignments and Acceptances delivered to the Administrative Agent pursuant to this Section 10.04(d) shall be available for inspection by the Borrower, the Issuing Bank, the Collateral Agent and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, an Administrative Questionnaire completed in respect of the assignee (unless the assignee shall already be a Lender hereunder), a processing and recordation fee of $3,500 (which shall be paid by the assigning Lender and such assignee as they may agree) and, if required, the written consent of the Borrower, the Issuing Bank and the Administrative Agent to such assignment, the Administrative Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrower, Lenders and the Issuing Bank. No assignment shall be effective unless it has been recorded in the Register as provided in this paragraph (e).

(f) Each Lender may, without the consent of the Borrower, the Issuing Bank

or the Administrative Agent, sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided, however, that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain

solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other entities shall be entitled to the benefit of the cost protection provisions contained in Sections 2.14, 2.16 and 2.20, and shall be bound by the confidentiality provisions contained in Section 10.16, to the same extent as is such Lender and (iv) the Borrower, the Administrative Agent, the Issuing Bank and the Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, and such Lender shall retain the sole right to enforce the obligations of the Borrower relating to the Loans or L/C Disbursements and to approve any amendment, modification or waiver of any provision of this Agreement (other than amendments, modifications or waivers decreasing any fees payable hereunder or the amount of principal of or the rate at which interest is payable on the Loans subject to such participation, extending any scheduled principal payment date or date fixed for the payment of interest on such Loans, increasing or extending the Commitments subject to such participation or releasing all or substantially all the Guarantors or the Collateral). All amounts payable by the Borrower to any Lender hereunder in respect of any Loan and the applicability of the cost protection provisions contained in Sections 2.14, 2.16 and 2.20 shall be determined as if such Lender had not sold or agreed to sell any participation in such Loan, and as if such Lender were funding the participated portion of such Loan in the same way that it is funding the portion of such Loan in which no participation has been sold.

(g) Any Lender or participant may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 10.04, disclose to the assignee or participant or proposed assignee or participant any information relating to the Company or PHI furnished to such Lender by or on behalf of the Company or PHI; provided that, prior to any such disclosure of non-public information, each such assignee or participant or proposed assignee or participant shall execute an agreement whereby such assignee or participant shall agree (subject to customary exceptions) to preserve the confidentiality of such confidential information on terms no less restrictive than those applicable to the Lenders pursuant to Section 10.16.

(h) Any Lender may at any time assign all or any portion of its rights under this Agreement to a Federal Reserve Bank to secure extensions of credit by such Federal Reserve Bank to such Lender; provided that no such assignment shall release a Lender from any of its obligations hereunder or substitute any such Bank for such Lender as a party hereto. In order to facilitate such an assignment to a Federal Reserve Bank, the Borrower shall, at the request of the assigning Lender, duly execute and deliver to the assigning Lender a promissory note or notes evidencing the Loans made to the Borrower by the assigning Lender hereunder.

(i) Notwithstanding anything to the contrary contained herein, any Lender (a "Granting Lender") may grant to a special purpose funding vehicle (an "SPC"), identified as such in writing from time to time by the Granting Lender to the Administrative Agent

and the Borrower, the option to provide to the Borrower all or any part of any Loan that such Granting Lender would otherwise be obligated to make to the Borrower pursuant to this Agreement; provided that (i) nothing herein shall constitute a commitment by any SPC to make any Loan and (ii) if an SPC elects

not to exercise such option or otherwise fails to provide all or any part of such Loan, the Granting Lender shall be obligated to make such Loan pursuant to the terms hereof. The making of a Loan by an SPC hereunder shall utilize the Commitment of the Granting Lender to the same extent, and as if, such Loan were made by such Granting Lender. Each party hereto hereby agrees that no SPC shall be liable for any indemnity or similar payment obligation under this Agreement (all liability for which shall remain with the Granting Lender). In furtherance of the foregoing, each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding commercial paper or other senior indebtedness of any SPC, it will not institute against, or join any other person in instituting against, such SPC any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings under the laws of the United States or any State thereof. In addition, notwithstanding anything to the contrary in this Section 10.04, any SPC may (i) with notice to, but without the prior written consent of, the Borrower and the Administrative Agent and without paying any processing fee therefor, assign all or a portion of its interests in any Loans to the Granting Lender or to any financial institutions (consented to by the Borrower and the Administrative Agent) providing liquidity and/or credit support to or for the account of such SPC to support the funding or maintenance of Loans and (ii) disclose on a confidential basis any non-public information relating to its Loans to any rating agency, commercial paper dealer or provider of any surety, guarantee or credit or liquidity enhancement to such SPC. As this Section applies to any particular SPC, this section may not be amended without the written consent of such SPC.

(j) Except as provided in Section 10.17, the Borrower shall not assign or delegate any of its rights or duties hereunder without the prior written consent of the Administrative Agent, the Issuing Bank and each Lender, and any such attempted assignment without such consent shall be null and void.

(k) In the event that S&P, Moody's and Thompson's BankWatch (or InsuranceWatch Ratings Service, in the case of Lenders that are insurance companies (or Best's Insurance Reports, if such insurance company is not rated by Insurance Watch Ratings Service)) shall, after the date that any Lender becomes a Revolving Credit Lender, downgrade the long-term certificate deposit ratings of such Lender, and the resulting ratings shall be below BBB-, Baa3 and C (or BB, in the case of a Lender that is an insurance company (or B, in the case of an insurance company not rated by InsuranceWatch Ratings Service)), then the Issuing Bank shall have the right, but not the obligation, at its own expense, upon notice to such Lender and the Administrative Agent, to replace such Lender with an assignee (in accordance with and subject to the restrictions contained in

paragraph (b) above), and such Lender hereby agrees to transfer and assign without recourse (in accordance with and subject to the restrictions contained in paragraph (b) above) all its interests, rights and obligations in respect of its Revolving Credit Commitment to such assignee; provided, however, that (i) no such assignment shall conflict with any law, rule and regulation or order of any Governmental Authority and (ii) the Issuing Bank or such assignee, as the case may be, shall pay to such Lender in immediately available funds on the date of such assignment the principal of and interest accrued to the date of payment on the Loans made by such Lender hereunder and all other amounts accrued for such Lender's account or owed to it hereunder or under any other Loan Document.

SECTION 10.05. Expenses; Indemnity. (a) The Borrower agrees to pay upon request all out-of-pocket expenses incurred by the Administrative Agent, the Collateral Agent and the Issuing Bank in connection with the syndication of the credit facilities provided for herein and the preparation and administration of this Agreement and the other Loan Documents or in connection with any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions hereby or thereby contemplated shall be

consummated) or incurred by the Administrative Agent, the Collateral Agent or any Lender in connection with the enforcement (including in connection with the negotiation of any restructuring or "work out" (whether or not consummated) of the Obligations) or protection of its rights in connection with this Agreement and the other Loan Documents or in connection with the Loans made or Letters of Credit issued hereunder, including the fees, charges and disbursements of Cravath, Swaine & Moore, counsel for the Administrative Agent and the Collateral Agent, local real estate counsel, if any, retained by the Collateral Agent in connection with the Mortgages and, in connection with any such enforcement or protection, the fees, charges and disbursements of any other counsel for the Administrative Agent, the Collateral Agent or any Lender.

(b) The Borrower agrees to indemnify the Administrative Agent, the Collateral Agent, each Lender and the Issuing Bank, each Affiliate of any of the foregoing persons and each of their respective directors, officers, employees, agents and controlling persons (each such person being called an "Indemnitee") against, and to hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements, incurred by or asserted against any Indemnitee arising out of, in any way connected with, or as a result of (i) the execution or delivery of this Agreement or any other Loan Document or any agreement or instrument contemplated thereby, the performance by the parties thereto of their respective obligations thereunder or the consummation of the Transactions and the other transactions contemplated thereby, (ii) the use of the proceeds of the Loans or issuance of Letters of Credit, (iii) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any Indemnitee is a party thereto, or (iv) any actual or alleged presence or Release of Hazardous Materials on any property owned, leased or operated by

the Borrower or any of the Subsidiaries, or any Environmental Claim arising out of the actions or properties of the Borrower or the Subsidiaries; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses have resulted from the gross negligence or wilful misconduct of such Indemnitee.

(c) The provisions of this Section 10.05 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the expiration of the Commitments, the expiration of any Letter of Credit, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Administrative Agent, the Collateral Agent, any Lender or the Issuing Bank. All amounts due under this Section 10.05 shall be payable on written demand therefor.

SECTION 10.06. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and the Issuing Bank is hereby authorized at any time and from time to time, except to the extent prohibited by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender or the Issuing Bank, as the case may be, to or for the credit or the account of the Company or PHI against any of and all the obligations of the Company or PHI now or hereafter existing under this Agreement and other Loan Documents held by such Lender, irrespective of whether or not such Lender or the Issuing Bank shall have made any demand under this Agreement or such other Loan Document. The rights of each Lender and the Issuing Bank under this Section 10.06 are in addition to other rights and remedies (including other rights of setoff) which such Lender or the Issuing Bank may have.

SECTION 10.07. Applicable Law. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (OTHER THAN LETTERS OF CREDIT AND AS EXPRESSLY SET FORTH IN OTHER LOAN DOCUMENTS) SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE

STATE OF NEW YORK. EACH LETTER OF CREDIT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED IN ACCORDANCE WITH, THE LAWS OR RULES DESIGNATED IN SUCH LETTER OF CREDIT, OR IF NO SUCH LAWS OR RULES ARE DESIGNATED, THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1993 REVISION), INTERNATIONAL CHAMBER OF COMMERCE, PUBLICATION NO. 500 (THE "UNIFORM CUSTOMS") AND, AS TO MATTERS NOT GOVERNED BY THE UNIFORM CUSTOMS, THE LAWS OF THE STATE OF NEW YORK.

SECTION 10.08. Waivers; Amendment. (a) No failure or delay of the Company, PHI, the Administrative Agent, the Collateral Agent, any Lender or the Issuing Bank in

exercising any power or right hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Company, PHI, the Administrative Agent, the Collateral Agent, the Issuing Bank and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or any other Loan Document or consent to any departure by the Company, PHI or any other Loan Party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on the Company or PHI in any case shall entitle the Company or PHI to any other or further notice or demand in similar or other circumstances.

(b) None of this Agreement or any other Loan Document or any provision hereof or thereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Company, PHI and the Required Lenders (and, in the case of any other Loan Document, any other person whose consent is required thereunder); provided, however, that no such agreement shall (i) decrease the principal amount of, or extend the maturity of or any scheduled principal payment date or date for the payment of any interest on any Loan or any fees or any date for reimbursement of an L/C Disbursement, or waive or excuse any such payment or any part thereof, amend or modify the provisions of Section 2.09(c), 2.13 (a) or 10.05, amend or modify the definition of the term "Revolving Credit Maturity Date", or decrease the rate of interest on any Loan or L/C Disbursement or any fees, without the prior written consent of each Lender affected thereby, (ii) change or extend the Commitment or decrease the amount of or extend the date for payment of the Commitment Fees of any Lender without the prior written consent of such Lender, (iii) amend or modify the provisions of Section 2.17, 2.18 or 10.04(i), the provisions of this Section or the definition of the term "Required Lenders" or release any Guarantors (other than pursuant to a permitted sale or liquidation of a Subsidiary Guarantor) or all or any substantial part of the Collateral without the prior written consent of each Lender, (iv) except as provided in Section 2.13(l), waive or change the allocation between Tranche A Term Loans and Tranche B Term Loans of any prepayment pursuant to Section 2.12 or 2.13 without the prior written consent of Lenders holding more than 50% of the aggregate outstanding principal amount of the Tranche A Term Loans and more than 50% of the aggregate outstanding principal amount of the Tranche B Term Loans or (v) amend Section 2.13(l) without the prior written consent of the Lenders holding a majority of the aggregate outstanding principal amount of the Tranche B Term Loans; provided further that (i) no such agreement that by its terms adversely affects the rights of the Revolving Credit Lenders, the Tranche A Lenders or the Tranche B Lenders in a manner different from its effect on the other classes of Lenders shall become effective unless approved by a majority in interest of each class of Lenders so adversely affected and (ii)

no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent, the Collateral Agent or the Issuing Bank hereunder or under any other Loan Document without the prior written consent of the Administrative Agent, the Collateral Agent or the Issuing Bank. Notwithstanding the foregoing, if the Borrower shall request the release of any Collateral to be sold as part of any Asset Sale and shall deliver to the Collateral Agent a certificate to the effect that such Asset Sale and the disposition of the proceeds thereof will comply with the terms of this Agreement, the Collateral Agent, if satisfied that the applicable certificate is correct, shall, without the consent of any Lender, execute and deliver all such instruments as may be required to effect the release of such Collateral.

SECTION 10.09. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan or participation in any L/C Disbursement, together with all fees, charges and other amounts which are treated as interest on such Loan or participation in such L/C Disbursement under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan or participation in accordance with applicable law, the rate of interest payable in respect of such Loan or participation hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan or participation but were not payable as a result of the operation of this Section 10.09 shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or participations or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

SECTION 10.10. Entire Agreement. This Agreement and the other Loan Documents constitute the entire contract between the parties relative to the subject matter hereof. Any other previous agreement among the parties with respect to the subject matter hereof is superseded by this Agreement and the other Loan Documents. Nothing in this Agreement or in the other Loan Documents, expressed or implied, is intended to confer upon any party other than the parties hereto and thereto any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

SECTION 10.11. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR

OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 10.11.

SECTION 10.12. Severability. In the event any one or more of the provisions contained in this Agreement or in any other Loan Document should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforce able provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 10.13. Counterparts. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original but all of which when taken together shall constitute a single contract, and shall become effective as provided in Section 10.03. Delivery of an executed signature page to this Agreement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Agreement.

SECTION 10.14. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

SECTION 10.15. Jurisdiction; Consent to Service of Process. (a) Each of the Company and PHI hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in the borough of Manhattan in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent, the Collateral Agent, the Issuing Bank or any Lender may otherwise

have to bring any action or proceeding relating to this Agreement or the other Loan Documents against the Company, PHI or their properties in the courts of any jurisdiction.

(b) Each of the Company and PHI hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the other Loan Documents in any New York State or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 10.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 10.16. Confidentiality. The Administrative Agent, the Collateral Agent, the Issuing Bank and each of the Lenders agrees to keep confidential (and to use its reasonable best efforts to cause its respective agents and representatives to keep confidential) the Information (as defined below) and all copies thereof, extracts therefrom and analyses or other materials based thereon, except that the Administrative Agent, the Collateral Agent, the Issuing Bank or any Lender shall be permitted to disclose Information (a) to such of its respective officers, directors, employees, agents, affiliates and representatives as need to know such Information in connection with the performance of their duties related to the Loan Documents and the transactions contemplated thereby or the legal and regulatory compliance requirements of the Administrative Agent, the Collateral Agent, the Issuing Bank or such Lender, as the case may be, (b) to the extent requested by any regulatory authority, including the National Association of Insurance Commissioners or any successor

entity thereto, (c) to the extent otherwise required by applicable laws and regulations or by any subpoena or similar legal process, (d) in connection with any suit, action or proceeding relating to the enforcement of its rights hereunder or under the other Loan Documents (e) to any direct or indirect contractual counterparty in swap agreements or such contractual counterparty's professional advisor (so long as such contractual counterparty or professional advisor to such contractual counterparty agrees to be bound by the provisions of this Section 10.16) or (f) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section 10.16 or (ii) becomes available to the Administrative Agent, the Issuing Bank, any Lender or the Collateral Agent on a nonconfidential basis from a source other than the Borrower; provided, however, that the Administrative Agent, the Collateral Agent, the Issuing Bank and/or any Lender, as the case may be, shall (to the extent it may lawfully do so) provide the Borrower, to the extent practicable, with advance notice of any disclosure of information referred to in clauses (c) and (d) above. For the purposes of this Section, "Information" shall mean all financial statements, certificates, reports, agreements and information (including all analyses,

compilations and studies prepared by the Administrative Agent, the Collateral Agent, the Issuing Bank or any Lender based on any of the foregoing and including any budget, programming and program scheduling information) that are received from the Company or any Subsidiary and related to, the Company, the Borrower or any Subsidiary, other than any of the foregoing that were available to the Administrative Agent, the Collateral Agent, the Issuing Bank or any Lender on a nonconfidential basis prior to its disclosure thereto by the Company or any Subsidiary, and that are in the case of Information provided after the date hereof, clearly identified at the time of delivery as confidential or of such a nature that a prudent person would expect such Information to be confidential. The provisions of this Section 10.16 shall remain operative and in full force and effect regardless of the expiration and term of this Agreement.

SECTION 10.17. Assignment, Delegation and Assumption. On the Transfer Date, upon the completion of the Stock Transfer, the Assigned Rights and Obligations will automatically, without further act of the parties hereto and with immediate effect be assigned and delegated by the Company to PHI and PHI will automatically succeed to and assume all the Assigned Rights and Obligations (the "Assignment and Assumption"). Upon the effectiveness of the Assignment and Assumption the Company will be released from all of its obligations as the initial Borrower under this Agreement (but not from its other obligations hereunder, including its obligations as Guarantor under Article VIII of this Agreement), and from and after such time PHI will for all purposes be the Borrower hereunder and all references herein or in the other Loan Documents to the "Borrower" will be deemed references to PHI, it being understood that references herein and in the other Loan Documents to the "Company" will continue to refer to the Company and not to PHI.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

NEW PLAYBOY, INC.,

by

Name:

Title:

PEI HOLDINGS, INC.,

by

Name:
Title:

CREDIT SUISSE FIRST BOSTON,
individually and as Administrative
Agent, Collateral Agent and Issuing
Bank,

by

Name:
Title:

by

Name:
Title:

EXHIBIT 10.21 (b)

SUBSIDIARY GUARANTEE AGREEMENT (together with instruments executed and delivered pursuant to Section 20, this "Agreement") dated as of March 15, 1999, among each of the subsidiaries of Playboy Enterprises, Inc. (f/k/a New Playboy, Inc.) (the "Company") listed on Schedule I hereto (the "Subsidiary Guarantors"), and CREDIT SUISSE FIRST BOSTON, a bank organized under the laws of Switzerland, acting though its New York Branch ("CSFB"), as collateral agent (in such capacity, the "Collateral Agent") for the Secured Parties (as defined in the Credit Agreement referred to below).

Reference is made to the Credit Agreement dated as of February 26, 1999, (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement") among the Company, PEI HOLDINGS, INC., a Delaware corporation and wholly owned subsidiary of the Company ("PHI"), the Lenders (as defined in Article I thereof), and CSFB, as administrative agent (in such capacity, the "Administrative Agent"), as collateral agent (in such capacity, the "Collateral Agent") and as issuing bank (in such capacity, the "Issuing Bank") for the Lenders. Capitalized terms used and not defined herein (including, without limitation, the term "Obligations", as used in Section 1 and elsewhere herein) are used with the meanings assigned to such terms in the Credit Agreement.

The Lenders have agreed to make Loans to the Borrower, and the Issuing Bank has agreed to issue Letters of Credit for the account of the Borrower, in each case pursuant to, and upon the terms and subject to the conditions specified in, the Credit Agreement. Each of the Subsidiary Guarantors is a Subsidiary of the Company and acknowledges that it will derive substantial benefit from the making of the Loans by the Lenders to the Borrower, and the issuance of the Letters of Credit by the Issuing Bank for the account of the Borrower. The obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit are conditioned on, among other things, the execution and delivery by the Subsidiary Guarantors of a Subsidiary Guarantee Agreement in the form hereof. As consideration therefor and in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit, the Subsidiary Guarantors are willing to execute this Agreement.

Accordingly, the parties hereto agree as follows:

SECTION 1. Subsidiary Guarantee. Each Subsidiary Guarantor unconditionally guarantees, jointly with the other Subsidiary Guarantors and severally, as a primary obligor and not merely as a surety, the due and punctual payment of the Obligations. Each Subsidiary Guarantor waives notice of and hereby consents to any agreements or arrangements whatsoever by the Secured Parties with any other person pertaining to the Obligations, including agreements and arrangements for payment, extension, renewal, subordination, composition, arrangement, discharge

or release of the whole or any part of the Obligations, or for the discharge or surrender of any or all security, or for the

compromise, whether by way of acceptance of part payment or otherwise, and the same shall in no way impair such Subsidiary Guarantor's liability hereunder.

SECTION 2. Obligations Not Waived. To the fullest extent permitted by applicable law, each Subsidiary Guarantor waives presentment to, demand of payment from and protest to the Borrower or any other person of any of the Obligations, and also waives notice of acceptance of its guarantee, notice of protest for nonpayment, and all other formalities. To the fullest extent permitted by applicable law, the obligations of each Subsidiary Guarantor hereunder shall not be affected by (a) the failure of any Loan Party to assert any claim or demand or to enforce or exercise any right or remedy against the Company, the Borrower or any other Subsidiary Guarantor under the provisions of the Credit Agreement, any other Loan Document or otherwise, (b) any extension, renewal or increase of or in any of the Obligations, (c) any rescission, waiver, amendment or modification of, or any release from, any of the terms or provisions of this Agreement, the Credit Agreement, any other Loan Document, any guarantee or any other agreement or instrument, including with respect to any other Subsidiary Guarantor under this Agreement and with respect to the Company under Article IX of the Credit Agreement, (d) the release of (or the failure to perfect a security interest in) any of the security held by or on behalf of the Collateral Agent or any other Secured Party or (e) the failure or delay of any Secured Party to exercise any right or remedy against any other guarantor of the Obligations.

SECTION 3. Security. Each of the Subsidiary Guarantors authorizes the Collateral Agent to (a) take and hold security for the payment of this Subsidiary Guarantee and the Obligations and exchange, enforce, waive and release any such security, (b) apply such security and direct the order or manner of sale thereof as it in its sole discretion may determine subject to the terms of any other Loan Documents and (c) release or substitute any one or more endorsees, other guarantors or other obligors.

SECTION 4. Guarantee of Payment. Each Subsidiary Guarantor further agrees that its guarantee constitutes a guarantee of payment when due and not of collection, and waives any right to require that any resort be had by the Collateral Agent or any other Secured Party to any of the security held for payment of the Obligations or to any balance of any deposit account or credit on the books of the Collateral Agent or any other Secured Party in favor of the Borrower or any other person.

SECTION 5. No Discharge or Diminishment of Guarantee. The obligations of each Subsidiary Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason (other than the indefeasible payment in full in cash of the Obligations), including any claim of

waiver, release, surrender, alteration or compromise of any of the Obligations, and shall not be subject to any defense (other than a defense of payment) or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of the Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of each Subsidiary Guarantor hereunder shall

not be discharged or impaired or otherwise affected by the failure of the Collateral Agent or any other Secured Party to assert any claim or demand or to enforce any remedy under the Credit Agreement, any other Loan Document, any guarantee or any other agreement or instrument, by any amendment, waiver or modification of any provision of the Credit Agreement or any other Loan Document or other agreement or instrument, by any default, failure or delay, wilful or otherwise, in the performance of the Obligations, or by any other act, omission or delay to do any other act that may or might in any manner or to any extent vary the risk of such Subsidiary Guarantor or that would otherwise operate as a discharge of such Subsidiary Guarantor as a matter of law or equity (other than the indefeasible payment in full in cash of all the Obligations) or which would impair or eliminate any right of such Subsidiary Guarantor to subrogation.

SECTION 6. Defenses Waived. To the fullest extent permitted by applicable law, each of the Subsidiary Guarantors waives any defense based on or arising out of the unenforceability of the Obligations or any part thereof from any cause or the cessation from any cause of the liability (other than the final and indefeasible payment in full in cash of the Obligations) of the Borrower or any other person. The Collateral Agent and the other Secured Parties may, at their election, foreclose on any security held by one or more of them by one or more judicial or nonjudicial sales, accept an assignment of any such security in lieu of foreclosure, compromise or adjust any part of the Obligations, make any other accommodation with the Borrower or any other guarantor or exercise any other right or remedy available to them against the Borrower or any other guarantor, without affecting or impairing in any way the liability of any Subsidiary Guarantor hereunder except to the extent the Obligations have been fully, finally and indefeasibly paid in cash. Pursuant to applicable law, each of the Subsidiary Guarantors waives any defense arising out of any such election even though such election operates, pursuant to applicable law, to impair or to extinguish any right of reimbursement or subrogation or other right or remedy of such Subsidiary Guarantor against the Borrower or any other guarantor or any security.

SECTION 7. Agreement to Pay; Subordination. In furtherance of the foregoing and not in limitation of any other right that the Collateral Agent or any other Secured Party has at law or in equity against any Subsidiary Guarantor by virtue hereof, upon the failure of the Borrower or any other Loan Party to pay any Obligation when and as the same shall become due, whether at maturity, by acceleration, after notice of prepayment or otherwise, each Subsidiary Guarantor hereby promises to and will forthwith pay, or cause to be paid, to the

Collateral Agent or such other Secured Party as designated thereby in cash an amount equal to the unpaid principal amount of such Obligations then due, together with accrued and unpaid interest and fees on such Obligations. Upon payment by any Subsidiary Guarantor of any sums to the Collateral Agent or any Secured Party as provided above, all rights of such Subsidiary Guarantor against the Borrower arising as a result thereof by way of right of subrogation, contribution, reimbursement, indemnity or otherwise shall in all respects be subordinate and junior in right of payment to the prior indefeasible payment in full in cash of all the Obligations. In addition, any indebtedness of the Borrower or any Subsidiary now

or hereafter held by any Subsidiary Guarantor is hereby subordinated in right of payment to the prior payment in full of the Obligations. If any amount shall be paid to any Subsidiary Guarantor on account of (i) such subrogation, contribution, reimbursement, indemnity or similar right or (ii) any such indebtedness at any time when any Obligation then due and owing has not been paid, such amount shall be held in trust for the benefit of the Secured Parties and shall forthwith be paid to the Collateral Agent to be credited against the payment of the Obligations, whether matured or unmatured, in accordance with the terms of the Loan Documents.

SECTION 8. Information. Each of the Subsidiary Guarantors assumes all responsibility for being and keeping itself informed of the Borrower's financial condition and assets, all other circumstances bearing upon the risk of nonpayment of the Obligations and the nature, scope and extent of the risks that such Subsidiary Guarantor assumes and incurs hereunder and agrees that none of the Collateral Agent or the other Secured Parties will have any duty to advise any of the Subsidiary Guarantors of information known to it or any of them regarding such circumstances or risks.

SECTION 9. Representations and Warranties. Each of the Subsidiary Guarantors represents and warrants as to itself that all representations and warranties relating to it contained in the Credit Agreement are true and correct.

SECTION 10. Termination. The Guarantees made hereunder (a) shall terminate when (i) the principal of and premium, if any, and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on all Loans, (ii) each payment required to be made under the Credit Agreement in respect of any Letter of Credit, and (iii) all other obligations then due and owing, have in each case been indefeasibly paid in full and the Lenders have no further commitment to lend under the Credit Agreement, the L/C Exposure has been reduced to zero and the Issuing Bank has no further obligation to issue Letters of Credit under the Credit Agreement and (b) shall continue to be effective or be reinstated, as the case may be, if at any time any payment, or any part thereof, on any Obligation is rescinded or must otherwise be

restored by any Secured Party upon the bankruptcy or reorganization of the Company, the Borrower, or any Subsidiary Guarantor or otherwise.

SECTION 11. Binding Effect; Several Agreement; Assignments; Releases. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all covenants, promises and agreements by or on behalf of the Subsidiary Guarantors that are contained in this Agreement shall bind and inure to the benefit of each party hereto and their respective successors and assigns. This Agreement shall become effective as to any Subsidiary Guarantor when a counterpart hereof (or a Supplement referred to in Section 20) executed on behalf of such Subsidiary Guarantor shall have been delivered to the Collateral Agent and

a counterpart hereof (or a Supplement referred to in Section 20) shall have been executed on behalf of the Collateral Agent, and thereafter shall be binding upon such Subsidiary Guarantor and the Collateral Agent and their respective successors and assigns, and shall inure to the benefit of such Subsidiary Guarantor, the Collateral Agent and the other Secured Parties, and their respective successors and assigns, except that no Subsidiary Guarantor shall have the right to assign its rights or obligations hereunder or any interest herein (and any such attempted assignment shall be void). This Agreement shall be construed as a separate agreement with respect to each Subsidiary Guarantor and may be amended, modified, supplemented, waived or released with respect to any Subsidiary Guarantor without the approval of any other Subsidiary Guarantor and without affecting the obligations of any other Subsidiary Guarantor. The Collateral Agent is hereby expressly authorized to, and agrees upon request of the Borrower it will, release any Subsidiary Guarantor from its obligations hereunder in the event that all the capital stock of such Subsidiary Guarantor shall be sold, transferred or otherwise disposed of to a person that is not an Affiliate of the Borrower in a transaction permitted by Section 6.05 of the Credit Agreement.

SECTION 12. Waivers; Amendment. (a) No failure or delay of the Collateral Agent in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Collateral Agent hereunder and of the other Secured Parties under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by any Subsidiary Guarantor therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on any Subsidiary Guarantor in any case shall entitle such Subsidiary Guarantor to any other or further notice or demand in similar or

other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to a written agreement entered into between the Subsidiary Guarantors to which such waiver, amendment or modification relates and the Collateral Agent with consent required under the Credit Agreement.

SECTION 13. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 14. Notices. All communications and notices hereunder shall be in writing and given as provided in Section 10.01 of the Credit Agreement. All communications and notices hereunder to each Subsidiary Guarantor shall be given to it at its address set forth in Schedule I with a copy to the Company.

SECTION 15. Survival of Agreement; Severability. (a) All covenants, agreements, representations and warranties made by the Subsidiary Guarantors herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the Collateral Agent and the other Secured Parties and shall survive the making by the Lenders of the Loans and the issuance of the Letters of Credit by the Issuing Bank regardless of any investigation made by the Secured Parties or on their behalf, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any other fee or amount payable under this Agreement or any other Loan Document is outstanding and unpaid, the L/C Exposure does not equal zero or the Commitments and the L/C Commitment have not been terminated.

(b) In the event any one or more of the provisions contained in this Agreement or in any other Loan Document should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 16. Counterparts. This Agreement may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract, and shall become effective as provided in Section 11. Delivery of an executed signature page to this Agreement by facsimile transmission shall be as effective as delivery of a manually executed counterpart of this Agreement.

SECTION 17. Rules of Interpretation. The rules of interpretation specified in Section 1.02 of the Credit Agreement shall be applicable to this Agreement.

SECTION 18. Jurisdiction; Consent to Service of Process. (a) Each Subsidiary Guarantor hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State court or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Collateral Agent or any other Secured Party

may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents against any Subsidiary Guarantor or its properties in the courts of any jurisdiction.

(b) Each Subsidiary Guarantor hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the other Loan Documents in any New York State or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 14. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 19. Waiver of Jury Trial. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 19.

SECTION 20. Additional Subsidiary Guarantors. Pursuant to Section 5.09 of the Credit Agreement, each Restricted Subsidiary (other than any Foreign Subsidiary) that was not in existence on the date of the Credit Agreement is required to enter into this Agreement as a Subsidiary Guarantor upon becoming a Subsidiary. Upon execution and delivery after the date hereof by the Collateral Agent and such a Subsidiary of a Supplement in the form of Annex 1, such Subsidiary shall become a Subsidiary Guarantor hereunder with the same force and effect as if originally named as a Subsidiary Guarantor herein. The execution and delivery of any Supplement adding an additional Subsidiary Guarantor as a party to this Agreement shall not require the consent of any other Subsidiary Guarantor hereunder. The rights and obligations of each Subsidiary Guarantor hereunder shall remain in full force and effect notwithstanding the addition of any new Subsidiary Guarantor as a party to this Agreement.

SECTION 21. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Secured Party is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other Indebtedness at any time owing by such Secured Party to or for the credit or the account of any Subsidiary Guarantor against any or all the obligations of such Subsidiary Guarantor now or hereafter existing under this Agreement and the other Loan Documents held by such Secured Party, irrespective of whether or not the Collateral Agent or any Secured Party shall have made any demand under this Agreement or any other Loan Document and although such obligations may be unmatured. The rights of each Secured Party under this Section 21 are in addition to other rights and remedies (including other rights of setoff) which such Secured Party may have.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

EACH OF THE SUBSIDIARIES LISTED
ON SCHEDULE I HERETO,

by

Name:
Title:

CREDIT SUISSE FIRST BOSTON, as
Collateral Agent,

by

Name:
Title:

by

Name:
Title:

Schedule I to the
Subsidiary Guarantee Agreement

Subsidiary Guarantor	Address
AdulTVision Communications, Inc.	c/o Playboy Enterprises, Inc. 680 North Lake Shore Drive Chicago, IL 60611 Fax: (312) 751 8000 Attn: General Counsel Attn: Chief Financial Officer with a copy to: Paul, Weiss, Rifkind, Wharton & Garrison 1285 Avenue of the Americas New York, NY 10019 Fax: (212) 757-3990 Attn: James M. Dubin
After Dark Video, Inc.	
Alta Loma Entertainment, Inc.	
Alta Loma Distribution, Inc.	
Cameo Films, Inc.	
Critics' Choice Video, Inc.	
Impulse Productions, Inc.	
Lake Shore Press, Inc.	
Lifestyle Brands, Ltd.	
Mystique Films, Inc.	
PEI Holdings, Inc.	
Playboy Club of Hollywood, Inc.	
Playboy Club of New York, Inc.	
Playboy Clubs International, Inc.	
Playboy Enterprises, Inc. to be renamed Playboy Enterprises International, Inc.	
Playboy Entertainment Group, Inc.	

Playboy Gaming International, Ltd.

Playboy Gaming Nevada, Inc.

Playboy Models, Inc.

Playboy of Lyons, Inc.

Playboy of Sussex, Inc.

Playboy Preferred, Inc.

Playboy Properties, Inc.

Playboy Shows, Inc.

Precious Films, Inc.

Special Editions, Ltd.

Steelton, Inc.

Telecom International, Inc.

Women Productions, Inc.

CPV Productions, Inc.

Cyberspice, Inc.

MH Pictures, Inc.

Spice Entertainment Companies, Inc.

Spice Direct, Inc.

Spice International, Inc.

Spice Networks, Inc.

Spice Productions, Inc.

Annex 1 to the
Subsidiary Guarantee Agreement

SUPPLEMENT NO. dated as of , to the Subsidiary Guarantee Agreement dated as of March 15, 1999 (the "Subsidiary Guarantee Agreement"), among each of the subsidiaries of Playboy Enterprises, Inc. (f/k/a New Playboy, Inc.) (the "Company") listed

on Schedule I thereto (the "Subsidiary Guarantors"), and CREDIT SUISSE FIRST BOSTON, a bank organized under the laws of Switzerland, acting though its New York Branch ("CSFB"), as collateral agent (in such capacity, the "Collateral Agent") for the Secured Parties (as defined in the Credit Agreement referred to below).

A. Reference is made to the Credit Agreement dated as of February 26, 1999, (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement") among the Company, PEI HOLDINGS, INC., a Delaware corporation and wholly owned subsidiary of the Company ("PHI"), the Lenders (as defined in Article I thereof), and CSFB, as administrative agent (in such capacity, the "Administrative Agent"), as collateral agent (in such capacity, the "Collateral Agent") and as issuing bank (in such capacity, the "Issuing Bank") for the Lenders.

B. Capitalized terms used and not otherwise defined herein are used with the meanings assigned to such terms in the Subsidiary Guarantee Agreement and the Credit Agreement.

C. The Subsidiary Guarantors have entered into the Subsidiary Guarantee Agreement in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit. Pursuant to Section 5.09 of the Credit Agreement, each Restricted Subsidiary (other than any Foreign Subsidiary) that was not in existence or not a Restricted Subsidiary on the date of the Credit Agreement is required to enter into the Subsidiary Guarantee Agreement as a Subsidiary Guarantor upon becoming a Restricted Subsidiary. Section 20 of the Subsidiary Guarantee Agreement provides that additional Subsidiaries may become Subsidiary Guarantors under the Subsidiary Guarantee Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary of the Company (the "New Subsidiary Guarantor") is executing this Supplement in accordance with the requirements of the Credit Agreement to become a Subsidiary Guarantor under the Subsidiary Guarantee Agreement in order to induce the Lenders to make additional Loans and the Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made and Letters of Credit previously issued.

Accordingly, the Collateral Agent and the New Subsidiary Guarantor agree as follows:

SECTION 1. In accordance with Section 20 of the Subsidiary Guarantee Agreement, the New Subsidiary Guarantor by its signature below becomes a Subsidiary Guarantor under the Subsidiary Guarantee Agreement with the same force and effect as if originally named therein as a Subsidiary Guarantor and the New Subsidiary Guarantor hereby (a) agrees to all the terms and provisions of the Subsidiary Guarantee Agreement applicable to it as a Subsidiary Guarantor

thereunder (including its guarantee of the Obligations) and (b) represents and warrants that the representations and warranties made by it as a Subsidiary Guarantor thereunder are true and correct on and as of the date hereof. Each reference to a "Subsidiary Guarantor" in the Subsidiary Guarantee Agreement shall be deemed to include the New Subsidiary Guarantor.

SECTION 2. The New Subsidiary Guarantor represents and warrants to the Collateral Agent and the other Secured Parties that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 3. This Supplement may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Subsidiary Guarantor and the Collateral Agent. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually executed counterpart of this Supplement.

SECTION 4. Except as expressly supplemented hereby, the Subsidiary Guarantee Agreement shall remain in full force and effect.

SECTION 5. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 6. In case any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and in the Subsidiary Guarantee Agreement shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision hereof in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties hereto shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7. All communications and notices hereunder shall be in writing and given as provided in Section 14 of the Subsidiary Guarantee Agreement. All communications and notices hereunder to the New Subsidiary Guarantor shall be given to it at the address set forth under its signature below, with a copy to the Company.

SECTION 8. The New Subsidiary Guarantor agrees to reimburse the Collateral Agent for its out-of-pocket expenses in connection with this Supplement, including the reasonable fees, disbursements and other charges of counsel for

the Collateral Agent.

IN WITNESS WHEREOF, the New Subsidiary Guarantor and the Collateral Agent have duly executed this Supplement to the Subsidiary Guarantee Agreement as of the day and year first above written.

[Name Of New Subsidiary Guarantor],

by

Name:
Title:
Address:

CREDIT SUISSE FIRST BOSTON, as
Collateral Agent,

by

Name:
Title:

by

Name:
Title:

EXHIBIT 10.21(C)

INDEMNITY, SUBROGATION and CONTRIBUTION AGREEMENT (together with instruments executed and delivered pursuant to Section 12, this "Agreement") dated as of March 15, 1999, among PLAYBOY ENTERPRISES, INC. (f/k/a New Playboy, Inc.), a Delaware corporation (the "Company"), PEI HOLDINGS, INC., a Delaware corporation and wholly owned subsidiary of the Company ("PHI" and, together with the Company, the "Parents"), each other subsidiary of the Company listed on Schedule I hereto (the "Subsidiary Guarantors") and CREDIT SUISSE FIRST BOSTON, a bank organized under the laws of Switzerland, acting through its New York Branch ("CSFB"), as collateral agent (in such capacity, the "Collateral Agent") for the Secured Parties (as defined herein).

Reference is made to (a) the Credit Agreement dated as of February 26, 1999, (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement") among the Company, PHI, the Lenders (as defined in Article I thereof), and CSFB as administrative agent (in such capacity, the "Administrative Agent"), as collateral agent (in such capacity, the "Collateral Agent") and as issuing bank (in such capacity, the "Issuing Bank") for the Lenders and (b) the Subsidiary Guarantee Agreement dated as of March 15, 1999 (as amended, supplemented or otherwise modified from time to time, the "Subsidiary Guarantee Agreement"), among the Subsidiary Guarantors and the Collateral Agent and (c) the Security Documents referred to in the Credit Agreement. Capitalized terms used herein and not defined herein are used with the meanings assigned to such terms in the Credit Agreement.

The Lenders have agreed to make Loans to the Borrower, and the Issuing Bank has agreed to issue Letters of Credit for the account of the Borrower, in each case pursuant to, and upon the terms and subject to the conditions specified in, the Credit Agreement. The Guarantors have guaranteed such Loans and the other Obligations (as defined in the Credit Agreement) of the Borrower under the Credit Agreement pursuant to the Credit Agreement and the Subsidiary Guarantee Agreement and have granted Liens on and security interests in certain of their assets pursuant to the Security Documents to secure the Obligations. The obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit are conditioned on, among other things, the execution and delivery by the Parents and the Subsidiary Guarantors of an agreement in the form hereof.

Accordingly, the Borrower, each Parent, each Subsidiary Guarantor and the Collateral Agent agree as follows:

SECTION 1. Indemnity and Subrogation. In addition to all such rights of indemnity and subrogation as the Subsidiary Guarantors may have under applicable law (but subject to Section 3), the Parents agree that (a) in the event a payment shall be made by any Subsidiary Guarantor under the Subsidiary Guarantee Agreement, the Parents shall indemnify such Subsidiary Guarantor for the full amount of such payment and, until such indemnification obligation shall have been satisfied, such Subsidiary Guarantor shall be subrogated to the rights of the person to whom such payment shall have been made to the extent of such payment and (b) in the event any assets of any Subsidiary Guarantor shall be sold pursuant to any Security Document to satisfy a claim of any Secured Party, the Parents shall indemnify such Subsidiary Guarantor in an amount equal to the greater of the book value or the fair market value of the assets so sold.

SECTION 2. Contribution and Subrogation. Each Subsidiary Guarantor (a "Contributing Guarantor") agrees (subject to Section 3) that, in the event a payment shall be made by any other Subsidiary Guarantor under the Subsidiary Guarantee Agreement or assets of any other Subsidiary Guarantor shall be sold pursuant to any Security Document to satisfy a claim of any Secured Party, and, in either case, such other Subsidiary Guarantor (the "Claiming Guarantor") shall not have been fully indemnified by the Parents as provided in Section 1, the Contributing Guarantor shall, to the extent the Claiming Guarantor shall not have been so indemnified by the Parents, indemnify the Claiming Guarantor in an amount equal to the amount of such payment or the fair market value of such assets, as the case may be, in each case multiplied by a fraction of which the numerator shall be the net worth of the Contributing Guarantor on the date hereof (or, in the case of any Subsidiary Guarantor becoming a party hereto pursuant to Section 12, the date of the Supplement hereto executed and delivered by such Subsidiary Guarantor) and the denominator shall be the aggregate net worth of all the Subsidiary Guarantors on the date hereof (or, in the case of any Subsidiary Guarantor becoming a party hereto pursuant to Section 12, the date of the Supplement hereto executed and delivered by such Subsidiary Guarantor). Any Contributing Guarantor making any payment to a Claiming Guarantor pursuant to this Section 2 shall be subrogated to the rights of such Claiming Guarantor under Section 1 to the extent of such payment.

SECTION 3. Subordination. Notwithstanding any provision of this Agreement to the contrary, all rights of the Subsidiary Guarantors under Sections 1 and 2 and all other rights of indemnity, contribution or subrogation under applicable law or otherwise shall be fully subordinated to the indefeasible payment in full in cash of the Obligations. No failure on the part of either Parent or any Subsidiary Guarantor to make the payments required by Sections 1 and 2 (or any other payments required under applicable law or otherwise) shall in any respect limit the obligations and liabilities of any Subsidiary Guarantor with respect to its obligations hereunder, and each Subsidiary Guarantor shall remain liable for the full amount of the obligations of such Subsidiary Guarantor hereunder.

SECTION 4. Termination. This Agreement shall survive and be in full force

and effect so long as the Subsidiary Guarantee Agreement has not been terminated, and shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of any Obligation is rescinded or must otherwise be restored by any Secured Party upon the bankruptcy or reorganization of either Parent, any Subsidiary Guarantor or otherwise.

SECTION 5. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 6. No Waiver; Amendment. (a) No failure on the part of the Collateral Agent or any Subsidiary Guarantor to exercise, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy by the Collateral Agent or any Subsidiary Guarantor preclude any other or further exercise thereof or the exercise of any other right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies provided by law. None of the Collateral Agent and the Subsidiary Guarantors shall be deemed to have waived any rights hereunder unless such waiver shall be in writing and signed by such parties.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to a written agreement entered into between the Parents, the Subsidiary Guarantors and the Collateral Agent, with any consent required under the Credit Agreement.

SECTION 7. Notices. All communications and notices hereunder shall be in writing and given as provided in the Credit Agreement or the Subsidiary Guarantee Agreement, as applicable, and addressed as specified therein.

SECTION 8. Binding Agreement; Assignments. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all covenants, promises and agreements by or on behalf of the parties that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns. Neither Parent nor any Subsidiary Guarantor may assign or transfer any of its rights or obligations hereunder (and any such attempted assignment or transfer shall be void) without the prior written consent of the Required Lenders. Notwithstanding the foregoing, at the time any Subsidiary Guarantor is released from its obligations under the Subsidiary Guarantee Agreement in accordance with the Subsidiary Guarantee Agreement and the Credit Agreement, such Subsidiary Guarantor will cease to have any rights or obligations under this Agreement.

SECTION 9. Survival of Agreement; Severability. (a) All covenants and agreements made by each Parent and each Subsidiary Guarantor herein and in the certificates or other instruments prepared or delivered in connection with this Agreement or the other Loan Documents shall be considered to have been relied upon by the Collateral Agent, the other Secured Parties and each Subsidiary

Guarantor, shall survive the making by the Lenders of the Loans and the issuance of the Letters of Credit by the Issuing Bank and shall continue in full force and effect as long as the principal of or any accrued interest on any Loans or any other fee or amount payable under the Credit Agreement, this Agreement or any of the other Loan Documents is outstanding and unpaid, the L/C Exposure does not equal zero or the Commitments have not been terminated.

(b) In case any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, no party hereto shall be required to comply with such provision for so long as such provision is held to be invalid, illegal or unenforceable, but the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 10. Counterparts. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement shall be effective with respect to any Subsidiary Guarantor when a counterpart bearing the signature of such Subsidiary Guarantor shall have been delivered to the Collateral Agent. Delivery of an executed signature page to this Agreement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Agreement.

SECTION 11. Rules of Interpretation. The rules of interpretation specified in Section 1.02 of the Credit Agreement shall be applicable to this Agreement.

SECTION 12. Additional Subsidiary Guarantors. Pursuant to Section 5.09 of the Credit Agreement, each Domestic Restricted Subsidiary that was not in existence on the date of the Credit Agreement is required to enter into this Agreement as a Subsidiary Guarantor upon becoming such a Subsidiary. Upon execution and delivery, after the date hereof, by the Collateral Agent and such a Subsidiary of an instrument in the form of Annex 1 hereto, such Subsidiary shall become a Subsidiary Guarantor hereunder with the same force and effect as if originally named as a Subsidiary Guarantor hereunder. The execution and delivery of any instrument adding an additional Subsidiary Guarantor as a party to this Agreement shall not require the consent of any Subsidiary Guarantor hereunder. The rights and obligations of each Subsidiary Guarantor hereunder shall remain in full force and effect notwithstanding the addition of any new Subsidiary Guarantor as a party to this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the date first appearing above.

PLAYBOY ENTERPRISES, INC. (f/k/a New Playboy, Inc.),

by

Name:
Title:

PEI HOLDINGS, INC.,

by

Name:
Title:

EACH OF THE SUBSIDIARIES LISTED ON SCHEDULE I HERETO,

by

Name:
Title:

CREDIT SUISSE FIRST BOSTON, as Collateral Agent,

by

Name:
Title:

by

Name:
Title:

SCHEDULE I
to the Indemnity, Subrogation and Contribution Agreement

Subsidiary Guarantor	Address

AdulTVision Communications, Inc.

After Dark Video, Inc.

Alta Loma Entertainment, Inc.

Alta Loma Distribution, Inc.

Cameo Films, Inc.

Critics' Choice Video, Inc.

Impulse Productions, Inc.

Lake Shore Press, Inc.

Lifestyle Brands, Ltd.

Mystique Films, Inc.

PEI Holdings, Inc.

Playboy Club of Hollywood, Inc.

Playboy Club of New York, Inc.

Playboy Clubs International, Inc.

Playboy Enterprises, Inc. to be renamed Playboy Enterprises International, Inc.

Playboy Entertainment Group, Inc.

Playboy Gaming International, Ltd.

Playboy Gaming Nevada, Inc.

Playboy Models, Inc.

Playboy of Lyons, Inc.

Playboy of Sussex, Inc.

Playboy Preferred, Inc.

c/o Playboy Enterprises, Inc.
680 North Lake Shore Drive
Chicago, IL 60611
Fax: (312) 751 8000
Attn: General Counsel
Attn: Chief Financial Officer

with a copy to:
Paul, Weiss, Rifkind,
Wharton & Garrison
1285 Avenue of the Americas
New York, NY 10019
Fax: (212) 757-3990
Attn: James M. Dubin

Playboy Properties, Inc.

Playboy Shows, Inc.

Precious Films, Inc.

Special Editions, Ltd.

Steelton, Inc.

Telecom International, Inc.

Women Productions, Inc.

CPV Productions, Inc.

Cyberspice, Inc.

MH Pictures, Inc.

Spice Entertainment Companies, Inc.

Spice Direct, Inc.

Spice International, Inc.

Spice Networks, Inc.

Spice Productions, Inc.

Annex 1 to
the Indemnity, Subrogation and
Contribution Agreement

SUPPLEMENT NO. (this "Supplement") dated as of [ ], to the Indemnity, Subrogation and Contribution Agreement dated as of March 15, 1999 (as the same may be amended, supplemented or otherwise modified from time to time, the "Indemnity, Subrogation and Contribution Agreement"), among PLAYBOY ENTERPRISES, INC. (f/k/a New Playboy, Inc.), a Delaware corporation (the "Company"), PEI HOLDINGS, INC., a Delaware corporation and wholly owned subsidiary of the Company ("PHI" and, together with the Company, the "Parents"), each other subsidiary of the Company listed on Schedule I thereto (the "Subsidiary Guarantors) and CREDIT SUISSE FIRST BOSTON, a bank organized under the laws of Switzerland, acting through its New York Branch ("CSFB"), as collateral agent (in such capacity, the "Collateral Agent") for the Secured Parties (as defined herein).

A. Reference is made to (a) the Credit Agreement dated as of February 26,

1999, (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement") among the Company, PHI, the Lenders (as defined in Article I thereof), and CSFB as administrative agent (in such capacity, the "Administrative Agent"), as collateral agent (in such capacity, the "Collateral Agent") and as issuing bank (in such capacity, the "Issuing Bank") for the Lenders and (b) the Subsidiary Guarantee Agreement dated as of March 15, 1999 (as amended, supplemented or otherwise modified from time to time, the "Subsidiary Guarantee Agreement"), among the Subsidiary Guarantors and the Collateral Agent and (c) the Security Documents referred to in the Credit Agreement.

B. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Indemnity, Subrogation and Contribution Agreement and the Credit Agreement.

C. The Parents and the Subsidiary Guarantors have entered into the Indemnity, Subrogation and Contribution Agreement in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit. Pursuant to Section 5.09 of the Credit Agreement, each Domestic Restricted Subsidiary that was not in existence or not such a Subsidiary on the date of the Credit Agreement is required to enter into the Indemnity, Subrogation and Contribution Agreement as a Subsidiary Guarantor upon becoming such a Subsidiary. Section 12 of the Indemnity, Subrogation and Contribution Agreement provides that additional Subsidiaries may become Subsidiary Guarantors under the Indemnity, Subrogation and Contribution Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary (the "New Guarantor") is executing this Supplement in accordance with the require ments of the Credit Agreement to become a Subsidiary Guarantor under the Indemnity, Subrogation and Contribution Agreement in order to induce the Lenders to make additional

Loans and the Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made and Letters of Credit previously issued.

Accordingly, the Collateral Agent and the New Guarantor agree as follows:

SECTION 1. In accordance with Section 12 of the Indemnity, Subrogation and Contribution Agreement, the New Guarantor by its signature below becomes a Subsidiary Guarantor under the Indemnity, Subrogation and Contribution Agreement with the same force and effect as if originally named therein as a Subsidiary Guarantor and the New Guarantor hereby agrees to all the terms and provisions of the Indemnity, Subrogation and Contribution Agreement applicable to it as a Subsidiary Guarantor thereunder. Each reference to a "Subsidiary Guarantor" in the Indemnity, Subrogation and Contribution Agreement shall be deemed to include the New Guarantor.

SECTION 2. The New Guarantor represents and warrants to the Collateral

Agent and the other Secured Parties that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 3. This Supplement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Guarantor and the Collateral Agent. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Supplement.

SECTION 4. Except as expressly supplemented hereby, the Indemnity, Subrogation and Contribution Agreement shall remain in full force and effect.

SECTION 5. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 6. In case any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, neither party hereto shall be required to comply with such provision for so long as such provision is held to be invalid, illegal or unenforceable, but the validity, legality and enforceability of the remaining provisions contained herein and in the Indemnity, Subrogation and Contribution Agreement shall not in any way be affected or impaired. The parties hereto shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7. All communications and notices hereunder shall be in writing and given as provided in Section 7 of the Indemnity, Subrogation and Contribution Agreement. All communications and notices hereunder to the New Guarantor shall be given to it at the address set forth under its signature.

SECTION 8. The New Guarantor agrees to reimburse the Collateral Agent for its reasonable out-of-pocket expenses in connection with this Supplement, including the reasonable fees, other charges and disbursements of counsel for the Collateral Agent.

IN WITNESS WHEREOF, the New Guarantor and the Collateral Agent have duly executed this Supplement to the Indemnity, Subrogation and Contribution Agreement as of the day and year first above written.

[Name Of New Guarantor],

by

Name:
Title:
Address:

CREDIT SUISSE FIRST BOSTON, as Collateral Agent,

by

Name:
Title:

by

Name:
Title:

PLEDGE AGREEMENT (together with instruments executed and delivered pursuant to Section 23, this "Agreement") dated as of March 15, 1999, among PLAYBOY ENTERPRISES, INC. (f/k/a New Playboy, Inc.), a Delaware corporation (the "Company"), PEI HOLDINGS, INC., a Delaware corporation and wholly owned subsidiary of the Company ("PHI"), each other subsidiary of the Company listed on Schedule I hereto (the "Subsidiary Pledgors"; the Company, PHI and the Subsidiary Pledgors are referred to collectively as the "Pledgors") and CREDIT SUISSE FIRST BOSTON, a bank organized under the laws of Switzerland, acting through its New York Branch ("CSFB"), as collateral agent (in such capacity, the "Collateral Agent") for the Secured Parties (as defined in the Credit Agreement referred to below).

Reference is made to (a) the Credit Agreement dated as of February 26, 1999, (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement") among the Company, PHI, the Lenders (as defined in Article I thereof), and CSFB as administrative agent (in such capacity, the "Administrative Agent"), as collateral agent (in such capacity, the "Collateral Agent") and as issuing bank (in such capacity, the "Issuing Bank") for the Lenders and (b) the Subsidiary Guarantee Agreement dated as of March 15, 1999 (as amended, supplemented or otherwise modified from time to time, the "Subsidiary Guarantee Agreement"), among the Subsidiary Guarantors and the Collateral Agent. Capitalized terms used and not defined herein (including, without limitation, the term "Obligations", as used in the next paragraph and elsewhere herein) are used with the meanings assigned to such terms in the Credit Agreement.

The Lenders have agreed to make Loans to the Borrower and the Issuing Bank has agreed to issue Letters of Credit for the account of the Borrower, in each case pursuant to, and upon the terms and subject to the conditions specified in, the Credit Agreement. The Guarantors have agreed to guarantee, among other things, all the obligations of the Borrower under the Credit Agreement. The obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit are conditioned upon, among other things, the execution and delivery by the Pledgors of a Pledge Agreement in the form hereof to secure the Obligations.

Accordingly, the Pledgors and the Collateral Agent, on behalf of itself and each Secured Party (and each of their respective successors or assigns), hereby agree as follows:

SECTION 1. Pledge. As security for the payment and performance, as the case may be, in full of the Obligations, each Pledgor hereby transfers, grants, bargains, sells, conveys, hypothecates, pledges, sets over, assigns as security

and delivers unto the Collateral Agent, its successors and assigns, and hereby grants to the Collateral Agent, its successors and assigns, for the ratable benefit of the Secured Parties, a security interest in all of such Pledgor's right, title and interest in, to and under (a) the shares of capital stock and other Equity Interests and Rights owned by it and listed on Schedule II hereto and any shares of capital stock and other Equity Interests and Rights of any Restricted Subsidiary or any other person obtained in the future by such Pledgor and any and all certificates representing the foregoing (collectively, the "Pledged Stock"); provided that the Pledged Stock shall not include (i) more than 65% of the issued and outstanding shares of voting capital stock of any Foreign Subsidiary or (ii) to the extent that applicable law requires that a Subsidiary of the Pledgor issue directors' qualifying shares, such qualifying shares and (iii) any such capital stock, Equity Interests and Rights set forth on Schedule III, not evidenced by a certificate and subject to a perfected security interest under the Security Agreement; (b)(i) the debt securities listed opposite the name of such Pledgor on Schedule II hereto, (ii) any debt securities of any other Pledgor or any Restricted Subsidiary in the future issued to or held by such Pledgor and (iii) the promissory notes and any other instruments evidencing such debt securities (the "Pledged Debt Securities"); (c) all other property that may be delivered to and held by the Collateral Agent pursuant to the terms hereof; (d) subject to Section 5, all payments of principal or interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed, in respect of, in exchange for or upon the conversion of the securities referred to in clauses (a) and (b) above; (e) subject to Section 5, all rights and privileges of such Pledgor with respect to the securities, interests and other property referred to in clauses (a), (b), (c) and (d) above; and (f) all proceeds of any of the foregoing (the items referred to in clauses (a) through (f) above being collectively referred to as the "Collateral"). Upon delivery to the Collateral Agent, (a) any certificates, notes or other securities (including the Pledged Debt Securities) now or hereafter included in the Collateral (the "Pledged Securities") shall be accompanied by undated stock or bond powers duly executed in blank or other instruments of transfer satisfactory to the Collateral Agent and by such other indorsements, instruments and documents as the Collateral Agent may reasonably request and (b) all other property comprising part of the Collateral shall be accompanied by proper instruments of assignment duly executed by each Pledgor and such other indorsements, instruments or documents as the Collateral Agent may reasonably request. Each delivery of Pledged Securities shall be accompanied by a schedule describing the securities theretofore and then being pledged hereunder, which schedule shall be attached hereto as Schedule II and made a part hereof. Each delivery of Pledged Stock shall be accompanied by a schedule

describing any capital stock, Equity Interests and Rights theretofore and then being pledged hereunder which are in uncertificated form, which schedule shall be attached hereto as Schedule III and made a part hereof. Each schedule so delivered shall supersede any prior schedules so delivered.

TO HAVE AND TO HOLD the Collateral, together with all right, title, interest, powers, privileges and preferences pertaining or incidental thereto, unto the Collateral Agent, its successors and assigns, for the ratable benefit of the Secured Parties, forever; subject, however, to the terms, covenants and conditions hereinafter set forth.

SECTION 2. Delivery of the Collateral. (a) Each Pledgor agrees promptly to deliver or cause to be delivered to the Collateral Agent any and all Pledged Securities, and any and all certificates or other instruments or documents representing the Collateral.

(b) Each Pledgor will cause any Indebtedness for borrowed money in excess of $2,000,000 owed to such Pledgor by any Foreign Subsidiary, Unrestricted Subsidiary or non-Wholly Owned Subsidiary to be evidenced by a duly executed promissory note that is pledged and delivered to the Collateral Agent pursuant to the terms hereof.

SECTION 3. Representations, Warranties and Covenants. Each Pledgor hereby represents, warrants and covenants, as to itself and the Collateral pledged by it hereunder, to and with the Collateral Agent that:

(a) the Pledged Stock represents the percentages set forth on Schedule II of the issued and outstanding shares of each class of the capital stock or other Equity Interests of the respective issuers of such Pledged Stock;

(b) except for the security interest granted hereunder, such Pledgor (i) is and will at all times continue to be the direct owner, beneficially and of record, of the Pledged Securities indicated on Schedule II, (ii) holds the same free and clear of all Liens, (iii) will make no assignment, pledge, hypothecation or transfer of, or create or permit to exist any security interest in or other Lien on, the Collateral, other than pursuant hereto, and (iv) subject to Section 5, will cause any and all Collateral, whether for value paid by the Pledgor or otherwise, to be forthwith deposited with the Collateral Agent and pledged or assigned hereunder;

(c) such Pledgor (i) has the power and authority to pledge the Collateral in the manner hereby done or contemplated and (ii) will defend its title or interest thereto or therein against any and all Liens (other than the Lien created by this Agreement), however arising, of all persons whomsoever;

(d) no consent of any other person (including stockholders or creditors of such Pledgor) and no consent or approval of any Governmental Authority or any

securities exchange was or is necessary to the validity of the pledge effected hereby;

(e) by virtue of the execution and delivery by the Pledgors of this Agreement, when the Pledged Securities, certificates or other documents representing or evidencing the Collateral are delivered to the Collateral Agent in accordance with this Agreement or, if a security interest in any of such Collateral may not under applicable law be perfected by possession, then upon the filing of appropriate financing statements, the Collateral Agent will obtain a valid and perfected first lien upon and security interest in such Pledged Securities as security for the payment and performance of the Obligations;

(f) the pledge effected hereby is effective to vest in the Collateral Agent, on behalf of the Secured Parties, the rights of the Collateral Agent in the Collateral as set forth herein;

(g) all of the Pledged Stock has been duly authorized and validly issued, is fully paid and nonassessable and is in certificated form;

(h) all information set forth herein relating to the Pledged Stock is accurate and complete in all material respects as of the date hereof;

(i) the pledge of the Pledged Stock pursuant to this Agreement does not violate Regulation U or X of the Federal Reserve Board or any successor thereto as of the date hereof; and

(j) the Collateral shall not be represented by any certificates, notes, securities, documents or other instruments other than those delivered hereunder.

SECTION 4. Registration in Nominee Name; Denominations. The Collateral Agent, on behalf of the Secured Parties, shall have the right (in its sole and absolute discretion), upon the occurrence and during the continuance of a Default or an Event of Default, to hold the Pledged Securities in its own name as pledgee, the name of its nominee (as pledgee or as sub-agent) or the name of the Pledgors, endorsed or assigned in blank or in favor of the Collateral Agent. If a Default or an Event of Default shall have occurred and be continuing, each Pledgor will promptly give to the Collateral Agent copies of any notices or other communications received by it at any time during the continuance of such Default or Event of Default with respect to Pledged Securities registered in the name of such Pledgor. The Collateral Agent shall at all times have the right to exchange the certificates representing Pledged Securities for certificates of smaller or larger denominations for any purpose consistent with this Agreement.

SECTION 5. Voting Rights; Dividends and Interest, etc. (a) Unless and until an Event of Default shall have occurred and be continuing and the Collateral

Agent shall have given the Pledgors notice of its intent to exercise its rights under this Agreement:

(i) Each Pledgor shall be entitled to exercise any and all voting and/or other consensual rights and powers inuring to an owner of Pledged Securities or any part thereof for any purpose not inconsistent with the terms of this Agreement, the Credit Agreement and the other Loan Documents; provided, however, that such Pledgor will not be entitled to exercise any such right if the result thereof could materially and adversely affect the rights inuring to a holder of the Pledged Securities or the rights and remedies of any of the Secured Parties under this Agreement or the Credit Agreement or any other Loan Document or the ability of the Secured Parties to exercise the same.

(ii) Each Pledgor shall be entitled to receive and retain any and all cash dividends, distributions, interest and principal paid on the Pledged Securities to the extent and only to the extent that such cash dividends, distributions, interest and principal are permitted by, and otherwise paid in accordance with, the terms and conditions of the Credit Agreement, the other Loan Documents and applicable laws. All noncash dividends, distributions, interest and principal, and all dividends, distributions, interest and principal paid or payable in cash or otherwise in connection with a partial or total liquidation or dissolution, return of capital, capital surplus or paid-in surplus, and all other distributions (other than distributions referred to in the preceding sentence) made on or in respect of the Pledged Securities, whether paid or payable in cash or otherwise, whether resulting from a subdivision, combination or reclassification of the outstanding capital stock of the issuer of any Pledged Securities or received in exchange for Pledged Securities or any part thereof, or in redemption thereof, or as a result of any merger, consolidation, acquisition or other exchange of assets to which such issuer may be a party or otherwise, shall be and become part of the Collateral, and, if received by any Pledgor, shall not be commingled by such Pledgor with any of its other funds or property but shall be held separate and apart therefrom, shall be held in trust for the benefit of the Collateral Agent and shall be forthwith delivered to the Collateral Agent in the same form as so received (with any necessary endorsement). This paragraph (ii) shall not apply to distributions of property subject to a perfected security interest under the Security Agreement; provided that the Company notifies the Collateral Agent in writing, specifically referring to this Section 5, at the time of such distribution and takes any actions the Collateral Agent reasonably specifies to ensure the continuance of its perfected security interest in such property under the Security Agreement.

(iii) The Collateral Agent shall execute and deliver to each Pledgor, or cause to be executed and delivered to each Pledgor, all such proxies, powers of

attorney and other indorsements or instruments as such Pledgor may reasonably request for the purpose of enabling such Pledgor to exercise the voting and/or consensual rights and powers it is entitled to exercise pursuant to subparagraphs (i) and (ii) above.

(b) Upon the occurrence and during the continuance of an Event of Default and the giving by the Collateral Agent of a notice of its intention to exercise its remedies, all rights of any Pledgor to dividends, distributions, interest or principal that such Pledgor is authorized to receive pursuant to paragraph (a)(ii) above shall cease, and all such rights shall thereupon become vested in the Collateral Agent, which shall have the sole and exclusive right and authority to receive and retain such dividends, distributions, interest or principal. All dividends, distributions, interest or principal received by any Pledgor contrary to the provisions of this Section 5 shall be held in trust for the benefit of the Collateral Agent, shall be segregated from other property or funds of such Pledgor and shall be forthwith delivered to the Collateral Agent upon demand in the same form as so received (with any necessary endorsement). Any and all money and other property paid over to or received by the Collateral Agent pursuant to the provisions of this paragraph (b) shall be retained by the Collateral Agent in an account to be established by the Collateral Agent upon receipt of such money or other property and shall be applied in accordance with the provisions of Section 7. After all Events of Default have been cured or waived, the Collateral Agent shall, within five Business Days after all such Events of Default have been cured or waived, repay to each Pledgor all cash dividends, distributions, interest or principal (without interest), that such Pledgor would otherwise be permitted to retain pursuant to the terms of paragraph (a)(ii) above and which remain in such account.

(c) Upon the occurrence and during the continuance of an Event of Default and the giving by the Collateral Agent of a notice of its intention to exercise its remedies, all rights of any Pledgor to exercise the voting and consensual rights and powers it is entitled to exercise pursuant to paragraph (a) of this Section 5, and the obligations of the Collateral Agent under paragraph (a)(iii) of this Section 5, shall cease, and all such rights shall thereupon become vested in the Collateral Agent, which shall have the sole and exclusive right and authority to exercise such voting and consensual rights and powers, provided that, unless otherwise directed by the Required Lenders, the Collateral Agent shall have the right from time to time following and during the continuance of an Event of Default to permit such Pledgor to exercise such rights. After all Events of Default have been cured or waived, such Pledgor will have the right to exercise the voting and consensual rights and powers that it would otherwise be entitled to exercise pursuant to the terms of paragraph (a)(i) above.

SECTION 6. Remedies upon Default. Upon the occurrence and during the continuance of an Event of Default, subject to applicable regulatory and legal requirements, the Collateral Agent may sell the Collateral, or any part thereof, at public or private sale or at any broker's board or on any securities exchange, for cash, upon

credit or for future delivery as the Collateral Agent shall deem appropriate. The Collateral Agent shall be authorized at any such sale (if it deems it advisable to do so) to restrict the prospective bidders or purchasers to persons who will represent and agree that they are purchasing the Collateral for their own account for investment and not with a view to the distribution or sale thereof or to impose other restrictions necessary in its judgment to ensure compliance with applicable securities laws, as more fully set forth in Section 11, and upon consummation of any such sale the Collateral Agent shall have the right to assign, transfer and deliver to the purchaser or purchasers thereof the Collateral so sold. Each such purchaser at any such sale shall hold the property sold absolutely free from any claim or right on the part of any Pledgor, and, to the extent permitted by applicable law, each Pledgor hereby waives all rights of redemption, stay, valuation and appraisal such Pledgor now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted.

The Collateral Agent shall give a Pledgor 10 days' prior written notice (which each Pledgor agrees is reasonable notice within the meaning of Section 9-504(3) of the Uniform Commercial Code as in effect in the State of New York or its equivalent in other jurisdictions or successor versions of such Uniform Commercial Code) of the Collateral Agent's intention to make any sale of such Pledgor's Collateral. Such notice, in the case of a public sale, shall state the time and place for such sale and, in the case of a sale at a broker's board or on a securities exchange, shall state the board or exchange at which such sale is to be made and the day on which the Collateral, or portion thereof, will first be offered for sale at such board or exchange. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as the Collateral Agent may fix and state in the notice of such sale. At any such sale, the Collateral, or portion thereof, to be sold may be sold in one lot as an entirety or in separate parcels, as the Collateral Agent may (in its sole and absolute discretion) determine. The Collateral Agent shall not be obligated to make any sale of any Collateral if it shall determine not to do so, regardless of the fact that notice of sale of such Collateral shall have been given. The Collateral Agent may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. In case any sale of all or any part of the Collateral is made on credit or for future delivery, the Collateral so sold may be retained by the Collateral Agent until the sale price is paid in full by the purchaser or purchasers thereof, but the Collateral Agent shall not incur any liability in case any such purchaser or purchasers shall fail to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may be sold again upon like notice. At any public (or, to the extent permitted by applicable law, private) sale made pursuant to this Section 6, any Secured Party may bid for or purchase, free from any right of redemption, stay or apprai sal on the part of any Pledgor (all said rights being also hereby waived and released), the Collateral or any part thereof offered for sale and may make payment on account

thereof by using any claim then due and payable to it from such Pledgor as a credit against the

purchase price, and it may, upon compliance with the terms of sale, hold, retain and dispose of such property without further accountability to such Pledgor therefor. For pur poses hereof, (a) a written agreement to purchase the Collateral or any portion thereof shall be treated as a sale thereof, (b) the Collateral Agent shall be free to carry out such sale pursuant to such agreement and (c) such Pledgor shall not be entitled to the return of the Collateral or any portion thereof subject thereto, notwithstanding the fact that after the Collateral Agent shall have entered into such an agreement all Events of Default shall have been remedied and the Obligations paid in full. As an alternative to exercising the power of sale herein conferred upon it, the Collateral Agent may proceed by a suit or suits at law or in equity to foreclose upon the Collateral and to sell the Collateral or any portion thereof pursuant to a judgment or decree of a court or courts having competent jurisdiction or pursuant to a proceeding by a court-appointed receiver. Any sale pursuant to the provisions of this Section 6 shall be deemed to conform to the commercially reasonable standards as provided in Section 9-504(3) of the Uniform Commercial Code as in effect in the State of New York or its equivalent in other jurisdictions or successor versions of such Uniform Commercial Code.

SECTION 7. Application of Proceeds of Sale. The proceeds of any sale, foreclosure or other realization upon any Collateral pursuant to Section 6, as well as any Collateral consisting of cash, shall be applied by the Collateral Agent as follows:

FIRST, to the payment of all costs and expenses incurred by the Collateral Agent in connection with such sale, foreclosure or realization or otherwise in connection with this Agreement, any other Loan Document or any of the Obliga tions, including all court costs and the reasonable fees and expenses of its agents and legal counsel, the repayment of all advances made by the Collateral Agent hereunder or under any other Loan Document on behalf of any Pledgor and any other costs or expenses incurred in connection with the exercise of any right or remedy hereunder or under any other Loan Document;

SECOND, to the payment in full of the Obligations (the amounts so applied to be distributed among the Secured Parties pro rata in accordance with the amounts of the Obligations owed to them on the date of any such distribution); and

THIRD, to the Pledgor, its successors or assigns, or as a court of competent jurisdiction may otherwise direct.

The Collateral Agent shall have absolute discretion as to the time of application of any such proceeds, moneys or balances in accordance with this Agreement. Upon any sale of the Collateral by the Collateral Agent (including

pursuant to a power of sale granted by statute or under a judicial proceeding), the receipt of the purchase money by the Collateral Agent or of the officer making the sale shall be a sufficient discharge to the

purchaser or purchasers of the Collateral so sold and such purchaser or purchasers shall not be obligated to see to the application of any part of the purchase money paid over to the Collateral Agent or such officer or be answerable in any way for the misapplication thereof.

SECTION 8. Reimbursement of Collateral Agent. (a) Each Pledgor agrees to pay upon demand to the Collateral Agent the amount of any and all reasonable expenses, including the reasonable fees, other charges and disbursements of its counsel and of any experts or agents, that the Collateral Agent may incur in connection with (i) the administration of this Agreement, (ii) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Collateral, (iii) the exercise or enforcement of any of the rights of the Collateral Agent hereunder or (iv) the failure by any Pledgor to perform or observe any of the provisions hereof.

(b) Without limitation of its indemnification obligations under the other Loan Documents, each Pledgor agrees to indemnify the Collateral Agent and the Indemnitees against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, other charges and disbursements, incurred by or asserted against any Indemnitee arising out of, in any way connected with, or as a result of (i) the execution or delivery of this Agreement or any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations thereunder or the consummation of the Transactions and the other transactions contemplated thereby or (ii) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any Indemnitee is a party thereto, provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses have resulted from the gross negligence or wilful misconduct of any Indemnitee.

(c) Any amounts payable as provided hereunder shall be additional Obligations secured hereby and by the other Security Documents. The provisions of this Section 8 shall remain operative and in full force and effect regardless of the termination of this Agreement or any other Loan Document, the consummation of the transactions contemplated hereby, the repayment of any of the Obligations, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document or any investigation made by or on behalf of the Collateral Agent or any other Secured Party. All amounts due under this Section 8 shall be payable on written demand therefor and shall bear interest at the rate specified in Section 2.06 of the Credit Agreement.

SECTION 9. Collateral Agent Appointed Attorney-in-Fact. Each Pledgor hereby

appoints the Collateral Agent the attorney-in-fact of such Pledgor for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instrument that the Collateral Agent may deem necessary or advisable to accomplish the

purposes hereof, which appointment is irrevocable and coupled with an interest. Without limiting the generality of the foregoing, the Collateral Agent shall have the right, upon the occurrence and during the continuance of an Event of Default, with full power of substitution either in the Collateral Agent's name or in the name of such Pledgor, to ask for, demand, sue for, collect, receive and give acquittance for any and all moneys due or to become due under and by virtue of any Collateral, to endorse checks, drafts, orders and other instruments for the payment of money payable to such Pledgor representing any interest or dividend or other distribution payable in respect of the Collateral or any part thereof or on account thereof and to give full discharge for the same, to settle, compromise, prosecute or defend any action, claim or proceeding with respect thereto, and to sell, assign, endorse, pledge, transfer and to make any agreement respecting, or otherwise deal with, the same; provided that nothing herein contained shall be construed as requiring or obligating the Collateral Agent to make any commitment or to make any inquiry as to the nature or sufficiency of any payment received by the Collateral Agent, or to present or file any claim or notice, or to take any action with respect to the Collateral or any part thereof or the moneys due or to become due in respect thereof or any property covered thereby. The Collateral Agent and the other Secured Parties shall be accountable only for amounts actually received as a result of the exercise of the powers granted to them herein, and neither they nor their officers, directors, employees or agents shall be responsible to any Pledgor for any act or failure to act hereunder, except for their own gross negligence or wilful misconduct. The Collateral Agent agrees not to exercise the power of attorney provided for in this Section 9 unless a Default or Event of Default shall have occurred and be continuing.

SECTION 10. Waivers; Amendment. (a) No failure or delay of the Collateral Agent or any of the Pledgors in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Collateral Agent and the Pledgors hereunder and of the other Secured Parties under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provisions of this Agreement or consent to any departure by any Pledgor therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on any Pledgor in any case shall entitle such Pledgor to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to a written agreement entered into by the Pledgor or Pledgors with respect to which such waiver, amendment or modification is to apply, and by the Collateral Agent with any consent required under the Credit Agreement.

SECTION 11. Securities Act, etc. In view of the position of the Pledgors in relation to the Pledged Securities, or because of other current or future circumstances, a question may arise under the Securities Act of 1933, as now or hereafter in effect, or any similar statute hereafter enacted analogous in purpose or effect (such Act and any such similar statute as from time to time in effect being called the "Federal Securities Laws") with respect to any disposition of the Pledged Securities permitted hereunder. Each Pledgor understands that compliance with the Federal Securities Laws might very strictly limit the course of conduct of the Collateral Agent if the Collateral Agent were to attempt to dispose of all or any part of the Pledged Securities, and might also limit the extent to which or the manner in which any subsequent transferee of any Pledged Securities could dispose of the same. Similarly, there may be other legal restrictions or limitations affecting the Collateral Agent in any attempt to dispose of all or part of the Pledged Securities under applicable Blue Sky or other state securities laws or similar laws analogous in purpose or effect. Each Pledgor recognizes that in light of such restrictions and limitations the Collateral Agent may, with respect to any sale of the Pledged Securities, limit the purchasers to those who will agree, among other things, to acquire such Pledged Securities for their own account, for investment, and not with a view to the distribution or resale thereof. Each Pledgor acknowledges and agrees that in light of such restrictions and limitations, the Collateral Agent, in its sole and absolute discretion, (a) may proceed to make such a sale whether or not a registration statement for the purpose of registering such Pledged Securities or part thereof shall have been filed under the Federal Securities Laws and (b) may approach and negotiate with a single potential purchaser to effect such sale. Each Pledgor acknowledges and agrees that any such sale might result in prices and other terms less favorable to the seller than if such sale were a public sale without such restrictions. In the event of any such sale, the Collateral Agent shall incur no responsibility or liability for selling all or any part of the Pledged Securities at a price that the Collateral Agent, in its sole and absolute discretion, may in good faith deem reasonable under the circumstances, notwithstanding the possibility that a substantially higher price might have been realized if the sale were deferred until after registration as aforesaid or if more than a single purchaser were approached. The provi sions of this Section 11 will apply notwithstanding the existence of a public or private market upon which the quotations or sales prices may exceed substantially the price at which the Collateral Agent sells.

SECTION 12. Security Interest Absolute. All rights of the Collateral Agent hereunder, the grant of a security interest in the Collateral and all

obligations of each Pledgor hereunder, shall be absolute and unconditional irrespective of (a) any lack of validity or enforceability of the Credit Agreement, any other Loan Document, any agreement with respect to any of the Obligations or any other agreement or instrument relating to any of the foregoing, (b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the Credit Agreement, any other Loan Document or any other agreement or instrument relating to any of the foregoing, (c) any

exchange, release or nonperfection of any other collateral, or any release or amendment or waiver of or consent to or departure from any guaranty, for all or any of the Obligations or (d) any other circumstance that might otherwise constitute a defense available to, or a discharge of, any Pledgor in respect of the Obligations or in respect of this Agreement (other than the indefeasible payment in full of all the Obligations).

SECTION 13. Termination or Release. (a) This Agreement and the security interests granted hereby shall terminate when (i) the principal of and premium, if any, and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on all Loans, (ii) each payment required to be made under the Credit Agreement in respect of any Letter of Credit, and (iii) all other obligations then due and owing, have in each case been indefeasibly paid in full and the Lenders have no further commitment to lend under the Credit Agreement, the L/C Exposure has been reduced to zero and the Issuing Bank has no further obligation to issue Letters of Credit under the Credit Agreement.

(b) Upon the effectiveness of any written consent to the release of the security interest granted hereby in any Collateral pursuant to Section 10.08(b) of the Credit Agreement, the security interest in such Collateral shall be automatically released.

(c) In connection with any termination or release pursuant to paragraph (a) or (b) above, the Collateral Agent shall execute and deliver to any Pledgor, at such Pledgor's expense, all documents that such Pledgor shall reasonably request to evidence such termination or release. Any execution and delivery of documents pursuant to this Section 13 shall be without recourse to or warranty by the Collateral Agent.

SECTION 14. Notices. All communications and notices hereunder shall be in writing and given as provided in Section 10.01 of the Credit Agreement. All communications and notices hereunder to any Subsidiary Pledgor shall be given to it at the address for notices set forth in Schedule I.

SECTION 15. Further Assurances. Each Pledgor agrees to do such further acts

and things, and to execute and deliver such additional conveyances, assignments, agreements, indorsement and instruments, as the Collateral Agent may at any time reasonably request in connection with the administration and enforcement of this Agreement or with respect to the Collateral or any part thereof or in order better to assure and confirm unto the Collateral Agent its rights and remedies hereunder, including taking any actions the Collateral Agent reasonably requests to ensure that any capital stock, Equity Interests and Rights set forth on Schedule III are validly pledged hereunder in the event that certificates representing any such capital stock, Equity Interests or Rights are issued.

SECTION 16. Binding Effect; Several Agreement; Assignments. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all covenants, promises and agreements by or on behalf of any Pledgor that are contained in this Agreement shall bind and inure to the benefit of its successors and assigns. This Agreement shall become effective as to any Pledgor when a counterpart hereof (or a Supplement referred to in Section 23) executed on behalf of such Pledgor shall have been delivered to the Collateral Agent and a counterpart hereof (or a Supplement referred to in Section 23) shall have been executed on behalf of the Collateral Agent, and thereafter shall be binding upon such Pledgor and the Collateral Agent, and their respective successors and assigns, enforceable by such Pledgor against the Collateral Agent and by the Collateral Agent against such Pledgor, and their respective successors and assigns, and shall inure to the benefit of such Pledgor, the Collateral Agent and the other Secured Parties, and their respective successors and assigns, except that no Pledgor shall have the right to assign its rights hereunder or any interest herein or in the Collateral (and any such attempted assignment shall be void), except as expressly contemplated by this Agreement or the other Loan Documents. This Agreement shall be construed as a separate agreement with respect to each Pledgor and may be amended, modified, supplemented, waived or released with respect to any Pledgor without the approval of any other Pledgor and without affecting the obligations of any other Pledgor hereunder.

SECTION 17. Survival of Agreement; Severability. (a) All covenants, agreements, representations and warranties made by each Pledgor herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the Collateral Agent and the other Secured Parties, shall survive the making by the Lenders of the Loans and the issuance of the Letters of Credit by the Issuing Bank, regardless of any investigation made by the Secured Parties or on their behalf, and shall continue in full force and effect until terminated in accordance with Section 14.

(b) In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the

economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 18. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 19. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original, but all of which, when taken together, shall constitute a single contract, and shall become effective as provided in Section 17. Delivery of an executed counterpart of a signature page to this Agreement by facsimile transmission shall be as effective as delivery of a manually executed counterpart of this Agreement.

SECTION 20. Rules of Interpretation. The rules of interpretation specified in Section 1.02 of the Credit Agreement shall be applicable to this Agreement. Section headings used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting this Agreement.

SECTION 21. Jurisdiction; Consent to Service of Process. (a) Each Pledgor hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that, to the extent permitted by applicable law, all claims in respect of any such action or proceeding may be heard and determined in such New York State court or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Collateral Agent or any other Secured Party may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents against the Pledgor or its properties in the courts of any jurisdiction.

(b) Each Pledgor hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the other Loan Documents in any New York State or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 14. Nothing in this

Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 22. Waiver Of Jury Trial. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 23. Additional Pledgors. Pursuant to Section 5.09 of the Credit Agreement, each Domestic Restricted Subsidiary that was not in existence or not a Restricted Subsidiary on the date of the Credit Agreement is required to enter into this Agreement as a Subsidiary Pledgor upon becoming a Restricted Subsidiary if such Subsidiary owns or possesses property of a type that would be considered Collateral hereunder. Upon execution and delivery by the Collateral Agent and a Subsidiary of a Supplement in the form of Annex 1, such Subsidiary shall become a Subsidiary Pledgor hereunder with the same force and effect as if originally named as a Subsidiary Pledgor herein. The execution and delivery of such Supplement shall not require the consent of any Pledgor hereunder. The rights and obligations of each Pledgor hereunder shall remain in full force and effect notwithstanding the addition of any new Subsidiary Pledgor as a party to this Agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

PLAYBOY ENTERPRISES, INC. (f/k/a New Playboy, Inc.),

by

Name:
Title:

PEI HOLDINGS, INC.,

by

Name:
Title:

EACH OF THE SUBSIDIARIES LISTED ON
SCHEDULE I HERETO,

by

Name:
Title:

CREDIT SUISSE FIRST BOSTON, as
Collateral Agent,

by

Name:
Title:

by

Name:
Title:

Schedule I to the
Pledge Agreement

<TABLE>
<CAPTION>

Subsidiary Guarantor	Address
<S>	<C>
AdulTVision Communications, Inc.	c/o Playboy Enterprises, Inc. 680 North Lake Shore Drive Chicago, IL 60611 Fax: (312) 751 8000 Attn: General Counsel Attn: Chief Financial Officer with a copy to: Paul, Weiss, Rifkind, Wharton & Garrison 1285 Avenue of the Americas New York, NY 10019 Fax: (212) 757-3990 Attn: James M. Dubin
After Dark Video, Inc.	
Alta Loma Entertainment, Inc.	
Alta Loma Distribution, Inc.	
Cameo Films, Inc.	
Critics' Choice Video, Inc.	
Impulse Productions, Inc.	

Lake Shore Press, Inc.

Lifestyle Brands, Ltd.

Mystique Films, Inc.

PEI Holdings, Inc.

Playboy Club of Hollywood, Inc.

Playboy Club of New York, Inc.

Playboy Clubs International, Inc.

Playboy Enterprises, Inc. to be renamed Playboy Enterprises International, Inc.

Playboy Entertainment Group, Inc.

Playboy Gaming International, Ltd.

Playboy Gaming Nevada, Inc.

Playboy Models, Inc.

Playboy of Lyons, Inc.

Playboy of Sussex, Inc.

Playboy Preferred, Inc.

Playboy Properties, Inc.

Playboy Shows, Inc.

Precious Films, Inc.

Special Editions, Ltd.

</TABLE>

Steelton, Inc.

Telecom International, Inc.

Women Productions, Inc.

CPV Productions, Inc.

Cyberspice, Inc.

MH Pictures, Inc.

Spice Entertainment Companies, Inc.

Spice Direct, Inc.

Spice International, Inc.

Spice Networks, Inc.

Spice Productions, Inc.

Schedule II to the
Pledge Agreement

EQUITY INTERESTS

<TABLE>
<CAPTION>

Pledgor	Issuer	Number of Certificate	Registered Owner	Number and Class of Shares	Percentage of Shares
<S>	<C>	<C>	<C>	<C>	<C>

</TABLE>

DEBT SECURITIES

<TABLE>
<CAPTION>

Pledgor	Issuer	Principal Amount	Date of Note	Maturity Date
<S>	<C>	<C>	<C>	<C>

</TABLE>

Annex 1 to the
Pledge Agreement

SUPPLEMENT NO. (this "Supplement") dated as of to the PLEDGE AGREEMENT dated as of March 15, 1999 (the "Pledge Agreement"), among PLAYBOY ENTERPRISES, INC. (f/k/a New Playboy, Inc.), a Delaware corporation (the "Company"), PEI HOLDINGS, INC., a Delaware corporation and wholly owned subsidiary of the Company ("PHI"), each other subsidiary of the Company listed on Schedule I thereto (together with PHI, the "Subsidiary Pledgors"; the Company and the Subsidiary Pledgors are referred to collectively as the "Pledgors") and CREDIT SUISSE FIRST BOSTON, a bank organized under the laws of Switzerland,

acting through its New York Branch ("CSFB"), as collateral agent (in such capacity, the "Collateral Agent") for the Secured Parties (as defined in the Credit Agreement referred to below).

A. Reference is made to (a) the Credit Agreement dated as of February 26, 1999, (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement") among the Company, PHI, the Lenders (as defined in Article I thereof), and CSFB as administrative agent (in such capacity, the "Administrative Agent"), as collateral agent (in such capacity, the "Collateral Agent") and as issuing bank (in such capacity, the "Issuing Bank") for the Lenders and (b) the Subsidiary Guarantee Agreement dated as of March 15, 1999 (as amended, supplemented or otherwise modified from time to time, the "Subsidiary Guarantee Agreement"), among the Subsidiary Guarantors and the Collateral Agent.

B. Capitalized terms used herein and not otherwise defined herein are used with the meanings assigned to such terms in the Credit Agreement and the Pledge Agreement.

C. The Pledgors have entered into the Pledge Agreement in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit. Pursuant to Section 5.09 of the Credit Agreement, each Domestic Restricted Subsidiary that was not in existence or not a Restricted Subsidiary on the date of the Credit Agreement is required to enter into the Pledge Agreement as a Subsidiary Pledgor upon becoming a Domestic Restricted Subsidiary if such Subsidiary owns or possesses property of a type that would be considered Collateral under the Pledge Agreement. Section 23 of the Pledge Agreement provides that such Subsidiaries may become Subsidiary Pledgors under the Pledge Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary (the "New Pledgor") is executing this Supplement in accordance with the requirements of the Credit Agreement to become a Subsidiary Pledgor under the Pledge Agreement in order to induce the Lenders to make additional Loans and the Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made and Letters of Credit previously issued.

Accordingly, the Collateral Agent and the New Pledgor agree as follows:

SECTION 1. In accordance with Section 23 of the Pledge Agreement, the New Pledgor by its signature below becomes a Pledgor under the Pledge Agreement with the same force and effect as if originally named therein as a Pledgor and the New Pledgor hereby agrees (a) to all the terms and provisions of the Pledge Agreement applicable to it as a Pledgor thereunder and (b) represents and warrants that the representations and warranties made by it as a Pledgor thereunder are true and correct on and as of the date hereof. In furtherance of

the foregoing, the New Pledgor, as security for the payment and performance in full of the Obligations, does hereby create and grant to the Collateral Agent, its successors and assigns, for the benefit of the Secured Parties, their successors and assigns, a security interest in and lien on all of the New Pledgor's right, title and interest in and to the Collateral of the New Pledgor. Each reference to a "Subsidiary Pledgor" or a "Pledgor" in the Pledge Agreement shall be deemed to include the New Pledgor.

SECTION 2. The New Pledgor represents and warrants to the Collateral Agent and the other Secured Parties that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 3. This Supplement may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Pledgor and the Collateral Agent. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Supplement.

SECTION 4. The New Pledgor hereby represents and warrants that set forth on Schedule I attached hereto is a true and correct schedule of all its Pledged Securities. Schedule II to the Pledge Agreement is hereby supplemented to add thereto the Pledged Securities set forth in Schedule I hereto.

SECTION 5. Except as expressly supplemented hereby, the Pledge Agreement shall remain in full force and effect.

SECTION 6. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 7. In case any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, neither party

hereto shall be required to comply with such provision for so long as such provision is held to be invalid, illegal or unenforceable, but the validity, legality and enforceability of the remaining provisions contained herein and in the Pledge Agreement shall not in any way be affected or impaired. The parties hereto shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 8. All communications and notices hereunder shall be in writing and given as provided in Section 14 of the Pledge Agreement. All communications and notices hereunder to the New Pledgor shall be given to it at the address set forth under its signature hereto.

SECTION 9. The New Pledgor agrees to reimburse the Collateral Agent for its reasonable out-of-pocket expenses in connection with this Supplement, including the reasonable fees, other charges and disbursements of counsel for the Collateral Agent.

IN WITNESS WHEREOF, the New Pledgor and the Collateral Agent have duly executed this Supplement to the Pledge Agreement as of the day and year first above written.

[Name of New Pledgor],

by

Name:
Title:
Address:

CREDIT SUISSE FIRST BOSTON, as
Collateral Agent,

by

Name:
Title:

by

Name:
Title:

Schedule I to
Supplement No.
to the Pledge Agreement

Pledged Securities of the New Pledgor

<TABLE>

<CAPTION>

EQUITY INTERESTS

Issuer	Number of Certificate	Registered Owner	Number and Class of Shares	Percentage Shares
<S>	<C>	<C>	<C>	<C>

</TABLE>

DEBT SECURITIES

<TABLE>
<CAPTION>

Issuer	Principal Amount	Date of Note	Maturity Date
<S>	<C>	<C>	<C>

Schedule II to
Supplement No.
to the Pledge Agreement

</TABLE>

EXHIBIT 10.21(e)

SECURITY AGREEMENT (together with any instruments executed and delivered pursuant to Section 7.15, this "Agreement") dated as of March 15, 1999, among PLAYBOY ENTERPRISES, INC. (f/k/a New Playboy, Inc.), a Delaware corporation (the "Company"), PEI HOLDINGS, INC., a Delaware corporation and wholly owned subsidiary of the Company ("PHI"), each other subsidiary of the Company listed on Schedule I hereto or becoming a party hereto pursuant to Section 7.15 (the "Subsidiary Grantors"; and, together with the Company and PHI, the "Grantors") and CREDIT SUISSE FIRST BOSTON, a bank organized under the laws of Switzerland, acting through its New York Branch ("CSFB"), as collateral agent (in such capacity, the "Collateral Agent") for the Secured Parties (as defined herein).

Reference is made to (a) the Credit Agreement dated as of February 26, 1999, (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement") among the Company, PHI, the Lenders (as defined in Article I thereof) and CSFB, as administrative agent (in such capacity, the "Administrative Agent"), as collateral agent (in such capacity, the "Collateral Agent") and as issuing bank (in such capacity, the "Issuing Bank") for the Lenders and (b) the Subsidiary Guarantee Agreement dated as of March 15, 1999 (as amended, supplemented or otherwise modified from time to time, the "Subsidiary Guarantee Agreement"), among the Subsidiary Guarantors (as defined therein) and the Collateral Agent.

The Lenders have agreed to make Loans to the Borrower (as defined in the Credit Agreement), and the Issuing Bank has agreed to issue Letters of Credit for the account of the Borrower, in each case pursuant to, and upon the terms and subject to the conditions specified in, the Credit Agreement. Each of the Grantors has agreed to guarantee, among other things, all the obligations of the Borrower under the Credit Agreement. The obligations of the Lenders to make such Loans and of the Issuing Bank to issue such Letters of Credit are conditioned upon, among other things, the execution and delivery by the Grantors of an agreement in the form hereof to secure the Obligations.

Accordingly, the Grantors and the Collateral Agent, on behalf of itself and each Secured Party (and each of their respective successors or assigns), hereby agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Definition of Terms Used Herein. (a) Unless the context otherwise requires, all capitalized terms used herein but not defined herein shall have the meanings set

forth in the Credit Agreement and all references to the Uniform Commercial Code shall mean the Uniform Commercial Code in effect in the State of New York as of the date hereof.

(b) As used herein, the following terms shall have the following meanings:

"Account Debtor" shall mean any person who is or who may become obligated to any Grantor under, with respect to or on account of an Account.

"Accounts" shall mean any and all right, title and interest of any Grantor to payment for goods and services sold or leased, including any such right evidenced by chattel paper, whether due or to become due, whether or not it has been earned by performance, and whether now or hereafter acquired or arising in the future, including payments due from Affiliates of the Grantors.

"Account Rights" shall mean all Accounts and all right, title and interest in any returned goods, together with all rights, titles, securities and guarantees with respect thereto, including any rights to stoppage in transit, replevin, reclamation and resales, and all related security interests, liens and pledges, whether voluntary or involuntary, in each case whether now existing or owned or hereafter arising or acquired.

"Collateral" shall mean all (a) Account Rights, (b) Documents, (c) Inventory, (d) Contract Rights, (e) Equipment, (f) General Intangibles, (g) cash and cash accounts, (h) Intellectual Property, (i) Investment Property and (j) Proceeds; provided that the Collateral shall not include (i) except as set forth in Section 9-318 of the U.C.C., any agreement or License which can not be pledged or assigned according to its terms, (ii) Investment Property evidenced by a certificate pledged under the Pledge Agreement, (iii) except as set forth in Section 9-318 of the U.C.C., any agreement or License to the extent that the pledge or assignment of such property requires the consent of any third party unless such third party has consented thereto and (iv) property subject to a Lien permitted by Section 6.02(a), (c) and (k) of the Credit Agreement

"Commodity Account" shall mean an account maintained by a Commodity Intermediary in which a Commodity Contract is carried for a Commodity Customer.

"Commodity Contract" shall mean a commodity futures contract, an option on a commodity futures contract, a commodity option or any other contract that, in each case, is (a) traded on or subject to the rules of a board of trade that has been designated as a contract market for such a contract pursuant to the federal commodities laws or (b) traded on a foreign commodity board of trade, exchange or market, and is carried on the books of a Commodity Intermediary for a Commodity Customer.

"Commodity Customer" shall mean a person for whom a Commodity Intermediary carries a Commodity Contract on its books.

"Commodity Intermediary" shall mean (a) a person who is registered as a futures commission merchant under the federal commodities laws or (b) a person who in the ordinary course of its business provides clearance or settlement services for a board of trade that has been designated as a contract market pursuant to federal commodities laws.

"Contract Rights" shall mean the rights of the Grantors to bill and receive payment under any and all contracts, agreements or purchase orders.

"Copyright License" shall mean any written agreement, now or hereafter in effect, granting any right to any Grantor under any Copyright now or hereafter owned by any third party, and all rights of such Grantor under any such agreement.

"Copyrights" shall mean all of the following now owned or hereafter acquired by any Grantor: (a) all copyright rights in any work subject to the copyright laws of the United States or any other country, whether as author, assignee, transferee or otherwise, and (b) all registrations and applications for registrations of any such copyright in the United States or any other country, including registrations, recordings, supplemental registrations and pending applications for registration in the United States Copyright Office or any similar offices in any other country, including those listed on Schedule II.

"Credit Agreement" shall have the meaning assigned to such term in the preliminary statement of this Agreement.

"Documents" shall mean all instruments, certificates representing shares of capital stock or other securities, files, records, ledger sheets and documents covering or relating to any of the Collateral.

"Entitlement Holder" shall mean a person identified in the records of a Securities Intermediary as the person having a Security Entitlement against the Securities Intermediary. If a person acquires a Security Entitlement by virtue of Section 8-501(b)(2) or (3) of the Uniform Commercial Code, such person is the Entitlement Holder.

"Equipment" shall mean all equipment, furniture and furnishings and all tangible personal property similar to any of the foregoing, including tools, parts and supplies of every kind and description, and all improvements, accessions or appurtenances thereto, that are now or hereafter owned by any Grantor. The term Equipment shall include Fixtures.

"Financial Asset" shall mean (a) a Security, (b) an obligation of a person or a share, participation or other interest in a person or in property or an enterprise of a person, which is, or is of a type, dealt with in or traded on financial markets, or which is recognized in any area in which it is issued or dealt in as a medium for investment or (c) any property that is held by a Securities Intermediary for another person in a

Securities Account if the Securities Intermediary has expressly agreed with the other person that the property is to be treated as a Financial Asset under Article 8 of the Uniform Commercial Code. As the context requires, the term Financial Asset shall mean either the interest itself or the means by which a person's claim to it is evidenced, including a certificated or uncertificated Security, a certificate representing a Security or a Security Entitlement.

"Fixtures" shall mean all items of Equipment, whether now owned or hereafter acquired, of any Grantor that become so related to particular real estate that an interest in them arises under any real estate law applicable thereto.

"General Intangibles" shall mean all choses in action and causes of action and all other assignable intangible personal property of any Grantor of every kind and nature (other than Account Rights) now owned or hereafter acquired by any Grantor, including all rights and interests in partnerships, limited partnerships, limited liability companies and other unincorporated entities, the capital stock, Equity Interests and Rights in uncertificated form set forth on Schedule VI, corporate or other business records, indemnification claims, contract rights (including (a) rights under leases, whether entered into as lessor or lessee, (b) rights under the Playboy International Agreements, (c) rights under Hedging Agreements, (d) intercompany payment obligations, (e) any written agreement, now or hereafter in effect, granting any right to any third party under any Copyright now or hereafter owned by any Grantor or which such Grantor otherwise has the right to license, and all rights of such Grantor under any such agreement, (f) any written agreement, now or hereafter in effect, granting to any third party any right to make, use or sell any invention on which a Patent, now or hereafter owned by any Grantor or which any Grantor otherwise has the right to license, is in existence, and all rights of any Grantor under any such agreement (g) any written agreement, now or hereafter in effect, granting any right to any third party to use any Trademark now or hereafter owned by any Grantor or which such Grantor otherwise has the right to license, and all rights of such Grantor under any such agreement, and (h) other agreements, goodwill, registrations, franchises, tax refund claims and any letter of credit, guarantee, claim, security interest or other security held by or granted to any Grantor to secure payment by an Account Debtor of any of the Account Rights.

"Intellectual Property" shall mean all intellectual property of any Grantor of every kind and nature now owned or hereafter acquired by any Grantor, including

inventions, designs, Patents, Copyrights, Licenses, Trademarks, trade secrets, confidential or proprietary technical and business information, know-how, show-how or other data or information, software and databases and all embodiments or fixations thereof and related documentation, registrations and franchises, and all additions, improvements and accessions to, and books and records describing or used in connection with, any of the foregoing.

"Inventory" shall mean all goods of any Grantor, whether now owned or hereafter acquired, held for sale or lease, or furnished or to be furnished by any Grantor under

contracts of service or consumed in any Grantor's business, including raw materials, intermediates, work in process, packaging materials, finished goods, semi-finished inventory, scrap inventory, manufacturing supplies and spare parts, and all such goods that have been returned to or repossessed by or on behalf of any Grantor.

"Investment Property" shall mean all Securities (whether certificated or uncertificated), Security Entitlements, Securities Accounts, Commodity Contracts and Commodity Accounts of any Grantor, whether now owned or hereafter acquired by any Grantor.

"License" shall mean any Patent License, Trademark License, Copyright License or other license or sublicense to which any Grantor is a party, including those listed on Schedule III (other than those licenses or license agreements in existence on the date hereof and listed on Schedule III and those licenses or license agreements entered into after the date hereof, in either case which by their terms prohibit (or as to which applicable law prohibits) assignment or a grant of a security interest by such Grantor).

"Obligations" shall have the meaning assigned to such term in the Credit Agreement.

"Patent License" shall mean any written agreement, now or hereafter in effect, granting to any Grantor any right to make, use or sell any invention on which a Patent, now or hereafter owned by any third party, is in existence, and all rights of any Grantor under any such agreement.

"Patents" shall mean all of the following now owned or hereafter acquired by any Grantor: (a) all letters patent of the United States or any other country, all registrations and recordings thereof and all applications for letters patent of the United States or any other country, including registrations, recordings and pending applications in the United States Patent and Trademark Office or any similar offices in any other country, including those listed on Schedule IV, and (b) all reissues, continuations, divisions, continuations-in-part, renewals or extensions thereof and the inventions disclosed or claimed therein, including

the right to make, use and/or sell the inventions disclosed or claimed therein.

"Perfection Certificate" shall mean a certificate substantially in the form of Annex 1 hereto, completed and supplemented with the schedules and attachments contemplated thereby, and duly executed by a Financial Officer and the chief legal officer of the Company.

"Proceeds" shall mean any consideration received from the sale, exchange, license, lease or other disposition of any asset or property that constitutes Collateral, any value received as a consequence of the possession of any Collateral and any payment received from any insurer or other person or entity as a result of the destruction, loss, theft, damage or other involuntary conversion of whatever nature of any asset or property which constitutes Collateral and shall include (a) any claim of any Grantor against any third party for (and the

right to sue and recover for and the rights to damages or profits due or accrued arising out of or in connection with) (i) past, present or future infringement of any Patent now or hereafter owned by any Grantor or licensed to any Grantor under a Patent License, (ii) past, present or future infringement or dilution of any Trademark now or hereafter owned by any Grantor or licensed to a Grantor under a Trademark License or injury to the goodwill associated with or symbolized by any Trademark now or hereafter owned by any Grantor, (iii) past, present or future breach of any License and (iv) past, present or future infringement of any Copyright now or hereafter owned by any Grantor or licensed to a Grantor under a Copyright License and (b) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

"Secured Parties" shall mean (a) the Lenders, (b) the Administrative Agent, (c) the Collateral Agent, (d) the Issuing Bank, (e) each counterparty to a Hedging Agreement entered into with the Borrower if such counterparty was a Lender at the time the Hedging Agreement was entered into, (f) the beneficiaries of each indemnification obligation undertaken by any Grantor under any Loan Document and (g) the successors and assigns of each of the foregoing.

"Securities" shall mean any obligations of an issuer or any shares, participations or other interests in an issuer or in property or an enterprise of an issuer which (a) are represented by a certificate representing a security in bearer or registered form, or the transfer of which may be registered upon books maintained for that purpose by or on behalf of the issuer, (b) are one of a class or series or by its terms is divisible into a class or series of shares, participations, interests or obligations and (c)(i) are, or are of a type, dealt with or traded on securities exchanges or securities markets or (ii) are a medium for investment and by their terms expressly provide that they are a security governed by Article 8 of the Uniform Commercial Code (other than as expressly excluded by Section 8-103(c), (e) and (f) of such Article).

"Securities Account" shall mean an account to which a Financial Asset is or may be credited in accordance with an agreement under which the person maintaining the account undertakes to treat the person for whom the account is maintained as entitled to exercise rights that comprise the Financial Asset.

"Security Entitlements" shall mean the rights and property interests of an Entitlement Holder with respect to a Financial Asset.

"Security Interest" shall have the meaning assigned to such term in Section 2.01.

"Securities Intermediary" shall mean (a) a clearing corporation or (b) a person, including a bank or broker, that in the ordinary course of its business maintains securities accounts for others and is acting in that capacity.

"Trademark License" shall mean any written agreement, now or hereafter in effect, granting to any Grantor any right to use any Trademark now or hereafter owned by any third party, and all rights of any Grantor under any such agreement.

"Trademarks" shall mean all of the following now owned or hereafter acquired by any Grantor: (a) all trademarks, service marks, trade names, corporate names, company names, business names, fictitious business names, trade styles, trade dress, logos, other source or business identifiers, designs and general intangibles of like nature, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all registration applications filed in connection therewith, including registrations and registration applications in the United States Patent and Trademark Office, any State of the United States or any similar offices in any other country or any political subdivision thereof, and all extensions or renewals thereof, including those listed on Schedule V, (b) all goodwill associated therewith or symbolized thereby and (c) all other assets, rights and interests that uniquely reflect or embody such goodwill.

SECTION 1.02. Rules of Interpretation. The rules of interpretation specified in Sections 1.02 and 1.03 of the Credit Agreement shall be applicable to this Agreement.

ARTICLE II

Security Interest

SECTION 2.01. Security Interest. As security for the payment or performance, as the case may be, in full of the Obligations and any extensions, renewals, modifications or refinancings of the Obligations, each Grantor hereby mortgages and pledges to the Collateral Agent, its successors and assigns, for the benefit

of the Secured Parties, and hereby grants to the Collateral Agent, its successors and assigns, for the benefit of the Secured Parties, a security interest in, all of such Grantor's right, title and interest in, to and under the Collateral (the "Security Interest"). Without limiting the foregoing, the Collateral Agent is hereby authorized to file one or more financing statements (including fixture filings), continuation statements, filings with the United States Patent and Trademark Office or United States Copyright Office (or any successor office) or other documents for the purpose of perfecting, confirming, continuing, enforcing or protecting the Security Interest granted by each Grantor, without the signature of any Grantor, and naming any Grantor or the Grantors as debtors and the Collateral Agent as secured party.

SECTION 2.02. No Assumption of Liability. The Security Interest is granted as security only and shall not subject the Collateral Agent or any other Secured Party to, or in any way alter or modify, any obligation or liability of any Grantor with respect to or arising out of the Collateral.

SECTION 2.03. Licencing Arrangements. Notwithstanding anything in the Loan Documents to the contrary, the Grantors shall each have the right, without the consent of the Collateral Agent or the Lenders, to enter into bona fide licensing arrangements permitted by Section 6.05 of the Credit Agreement in the ordinary course of their businesses at arm's length with unaffiliated third parties for the use by such third parties of any Collateral consisting of Intellectual Property so long as (a) the Administrative Agent retains the right to collect any sums due the Grantor in accordance with the terms of such arrangements (subject to the right of setoff granted Playboy International under the Playboy International Agreements) and (b) the proceeds of such licensing arrangements are applied in accordance with the Credit Agreement. Copies of the documentation for such arrangements shall be promptly provided by the Grantor or the Company to the Administrative Agent). The Lenders agree that, whether or not the Collateral Agent has foreclosed or exercised any other rights to enforce its Lien on such Collateral, licensees under such licensing arrangements described in the foregoing sentence shall be afforded the use of such Collateral in accordance with the terms of such licensing arrangements for the duration set forth therein.

ARTICLE III

Representations and Warranties

The Grantors jointly and severally represent and warrant to the Collateral Agent and the Secured Parties that:

SECTION 3.01. Title and Authority. Each Grantor has good and valid rights in and title to the Collateral with respect to which it has purported to grant a Security Interest hereunder and has full power and authority to grant to the

Collateral Agent the Security Interest in such Collateral pursuant hereto and to execute, deliver and perform its obligations in accordance with the terms of this Agreement, without the consent or approval of any other person other than any consent or approval which has been obtained.

SECTION 3.02. Filings. (a) The Perfection Certificate has been duly prepared, completed and executed and the information set forth therein is correct and complete. Fully executed Uniform Commercial Code financing statements (including fixture filings, as applicable) or other appropriate filings, recordings or registrations containing a description of the Collateral have been delivered to the Collateral Agent for filing in each governmental, municipal or other office specified in Schedule 6 to the Perfection Certificate, which are all the filings, recordings and registrations (other than filings required to be made in the United States Patent and Trademark Office and the United States Copyright Office in order to perfect the Security Interest in Collateral consisting of United States Patents, Trademarks and Copyrights or rights in any thereof) that are necessary to publish notice of and protect the validity of and to establish a legal, valid and perfected security interest in favor of the Collateral Agent (for the benefit of the Secured Parties) in respect of all Collateral in which the Security Interest may be perfected by filing, recording or registration in the United States

(or any political subdivision thereof) and its territories and possessions, and no further or subsequent filing, refiling, recording, rerecording, registration or reregistration is necessary in any such jurisdiction, except as provided under applicable law with respect to the filing of continuation statements or, upon any amendments to applicable law, the change of any Grantor's name, location, identity or corporate structure, with respect to the filing of financing statements or amendments to filed financing statements.

(b) Each Grantor represents and warrants that fully executed security agreements in the form hereof and containing a description of all Collateral consisting of Intellectual Property (other than Copyrights, as to which this representation and warranty shall be limited to Copyrights registered on the date hereof in the name of a Grantor which are noted on Schedule II) shall have been received and recorded within three months after the execution of this Agreement with respect to United States Patents and United States registered Trademarks (and Trademarks for which United States registration applications are pending) and within one month after the execution of this Agreement with respect to United States registered Copyrights(1) by the United States Patent and Trademark Office and the United States Copyright Office pursuant to 35 U.S.C. ss. 261, 15 U.S.C. ss. 1060 or 17 U.S.C. ss. 205 and the regulations thereunder, as applicable, to the extent necessary to protect the validity of and to establish a legal, valid and perfected security interest (to the extent perfectible by filing in the United States Patent and Trademark Office or the United States Copyright Office) in favor of the Collateral Agent (for the

benefit of the Secured Parties) in respect of all Collateral consisting of United States Patents and Trademarks and Copyrights noted on Schedule III in which a security interest may be perfected by filing, recording or registration in such offices, and no further or subsequent filing, refiling, recording, rerecording, registration or reregistration is necessary (other than such actions as are necessary to perfect the Security Interest with respect to any Collateral consisting of Patents, Trademarks and Copyrights (or registrations or applications for registration thereof) acquired or registered after the date hereof) for that purpose.

SECTION 3.03. Validity of Security Interest. The Security Interest constitutes (a) a legal and valid security interest in all the Collateral securing the payment and performance of the Obligations, (b) subject to the filings described in Section 3.02 above, a perfected security interest in all Collateral in which a security interest may be perfected by filing, recording or registering a financing statement or analogous document in the United States (or any political subdivision thereof) and its territories and possessions pursuant to the Uniform Commercial Code or other applicable law in such jurisdictions and (c) a security interest that shall be perfected in all United States Collateral (other than Copyrights, as to which this representation and warranty shall be limited to Copyrights registered on the date hereof in the name of a Grantor which are noted on Schedule II) in which a security interest may be perfected upon the receipt and recording of this Agreement with the United States

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(1) Discuss actions to be taken to perfect on film, video and photo libraries. Describe Copyrights as to which no Federal filings will be made.

Patent and Trademark Office and the United States Copyright Office, as applicable, within the three month period (commencing as of the date hereof) pursuant to 35 U.S.C. ss. 261 or 15 U.S.C. ss. 1060 or the one month period (commencing as of the date hereof) pursuant to 17 U.S.C. ss. 205. The Security Interest is and shall be prior to any other Lien on any of the Collateral, other than Liens expressly permitted to be prior to the Security Interest pursuant to Section 6.02 of the Credit Agreement.

SECTION 3.04. Absence of Other Liens. The Collateral is owned by the Grantors free and clear of any Lien, except for Liens expressly permitted pursuant to Section 6.02 of the Credit Agreement. No Grantor has filed or consented to the filing of (a) any financing statement or analogous document under the Uniform Commercial Code or any other applicable laws covering any Collateral, (b) any assignment in which any Grantor assigns any Collateral or any security agreement or similar instrument covering any Collateral with the United States Patent and Trademark Office or the United States Copyright Office or (c) any assignment in which any Grantor assigns any Collateral or any security agreement or similar instrument covering any Collateral with any foreign governmental, municipal or

other office, which financing statement or analogous document, assignment, security agreement or similar instrument is still in effect, except, in each case, for Liens expressly permitted pursuant to Section 6.02 of the Credit Agreement.

ARTICLE IV

Covenants

SECTION 4.01. Change of Name; Location of Collateral; Records; Place of Business. (a) Each Grantor agrees promptly to notify the Collateral Agent in writing of any change (i) in its corporate name or in any trade name used to identify it in the conduct of its business or in the ownership of its properties, (ii) in the location of its chief executive office, its principal place of business, any office in which it maintains books or records relating to Collateral owned by it or any office or facility at which Collateral owned by it is located (including the establishment of any such new office or facility), (iii) in its identity or corporate structure or (iv) in its Federal Taxpayer Identification Number. Each Grantor agrees not to effect or permit any change referred to in the preceding sentence unless all filings have been made under the Uniform Commercial Code or otherwise that are required in order for the Collateral Agent to continue at all times following such change to have a valid, legal and perfected first priority security interest in all the Collateral. Each Grantor agrees promptly to notify the Collateral Agent if any material portion of the Collateral owned or held by such Grantor is damaged or destroyed.

(b) Each Grantor agrees to maintain, at its own cost and expense, such complete and accurate records with respect to the Collateral owned by it as is consistent with its current practices and in accordance with such prudent and standard practices used in industries that are the same as or similar to those in which such Grantor is engaged, but in any event to

include complete accounting records indicating all payments and proceeds received with respect to any part of the Collateral, and, at such time or times as the Collateral Agent may reasonably request, promptly to prepare and deliver to the Collateral Agent a duly certified schedule or schedules in form and detail satisfactory to the Collateral Agent showing the identity, amount and location of any and all Collateral.

SECTION 4.02. Periodic Certification. (a) Each year, at the time of delivery of annual financial statements with respect to the preceding fiscal year pursuant to Section 5.03 of the Credit Agreement, the Company shall deliver to the Collateral Agent a certificate executed by a Financial Officer and the chief legal officer of the Company (i) setting forth the information required pursuant to Section 2 of the Perfection Certificate or confirming that there has been no change in such information since the date of such certificate or the date of the

most recent certificate delivered pursuant to this Section 4.02(a) and (ii) certifying that all Uniform Commercial Code financing statements (including fixture filings, as applicable) or other appropriate filings, recordings or registrations, including all refilings, rerecordings and reregistrations, containing a description of the Collateral have been filed of record in each governmental, municipal or other appropriate office in each jurisdiction identified pursuant to clause (i) above to the extent necessary to protect and perfect the Security Interest for a period of not less than 18 months after the date of such certificate (except as noted therein with respect to any continuation statements to be filed within such period) and (b) each year (i) at the time of delivery of annual financial statements with respect to the preceding fiscal year pursuant to Section 5.03 of the Credit Agreement and (ii) within 60 days after the end of the second fiscal quarter, the Company shall deliver to the Collateral Agent a certificate executed by a Financial Officer and the chief legal officer of the Company (x) identifying in the format of Schedule II, III, IV or V, as applicable, all Copyrights, Licenses, Patents and Trademarks of any Grantor in existence on the date thereof and not then listed on such Schedules or previously so identified to the Collateral Agent and (y) certifying, as to any such United States Copyrights, Licenses, Patents or Trademarks that have been registered, or for which applications for registration are pending, in the United States Patent and Trademark Office or the United States Copyright Office, that all appropriate filings, recordings or registrations, including all refilings, rerecordings and reregistrations, have been filed in the United States Patent and Trademark Office or the United States Copyright Office, as applicable, to protect the validity of and to establish a legal, valid and perfected security interest (to the extent perfectible by filing in the United States Patent and Trademark Office or the United States Copyright Office) in favor of the Collateral Agent (for the benefit of the Secured Parties) in each United States Copyright, License, Patent and Trademark identified pursuant to clause (x) above and that no further or subsequent filing, refiling, recording, rerecording, registration or reregistration is necessary for that purpose.

SECTION 4.03. Protection of Security. Each Grantor shall, at its own cost and expense, take any and all actions necessary to defend title to the Collateral against all persons and to defend the Security Interest of the Collateral Agent in the Collateral and the

priority thereof against any Lien not expressly permitted pursuant to Section 6.02 of the Credit Agreement.

SECTION 4.04. Further Assurances. Each Grantor agrees, at its own expense, to execute, acknowledge, deliver and cause to be duly filed all such further instruments and documents and take all such actions as the Collateral Agent may from time to time reasonably request to better assure, preserve, protect and perfect the Security Interest and the rights and remedies created hereby,

including the payment of any fees and taxes required in connection with the execution and delivery of this Agreement, the granting of the Security Interest and the filing of any financing statements (including fixture filings) or other documents in connection herewith or therewith. If any amount payable to any Grantor under or in connection with any of the Collateral shall be or become evidenced by any promissory note or other instrument in an amount in excess of $100,000, such note or instrument shall be immediately pledged and delivered to the Collateral Agent, duly endorsed in a manner satisfactory to the Collateral Agent.

Without limiting the generality of the foregoing, each Grantor hereby authorizes the Collateral Agent to supplement this Agreement by adding additional schedules hereto to specifically identify any asset or item that may constitute Collateral; provided, however, that any Grantor shall have the right, exercisable within 10 days after it has been notified by the Collateral Agent of the specific identification of such Collateral, to advise the Collateral Agent in writing of any inaccuracy of the representations and warranties made by such Grantor hereunder with respect to such Collateral. Each Grantor agrees that it will use its best efforts to take such action as shall be necessary in order that all representations and warranties hereunder shall be true and correct in all material respects with respect to such Collateral within 30 days after the date it has been notified by the Collateral Agent of the specific identification of such Collateral.

SECTION 4.05. Inspection and Verification. The Collateral Agent and such persons as the Collateral Agent may reasonably designate shall have the right, at the Grantors' own cost and expense, to inspect the Collateral, all records related thereto (and to make extracts and copies from such records) and the premises upon which any of the Collateral is located, to discuss the Grantors' affairs with the officers of the Grantors and their independent accountants and to verify under reasonable procedures, in accordance with Section 5.06 of the Credit Agreement, the validity, amount, quality, quantity, value, condition and status of, or any other matter relating to, the Collateral, including, in the case of Accounts or Collateral in the possession of any third person, by contacting Account Debtors or the third person possessing such Collateral for the purpose of making such a verification during normal business hours upon reasonable advance notice. The Collateral Agent shall have the absolute right to share any information it gains from such inspection or verification with any Secured Party.

SECTION 4.06. Taxes; Encumbrances. At its option, the Collateral Agent may discharge past due taxes, assessments, charges, fees, Liens, security interests or other encumbrances at any time levied or placed on the Collateral and not permitted pursuant to Section 6.02 of the Credit Agreement, and may pay for the maintenance and preservation of the Collateral to the extent any Grantor fails to do so as required by the Credit Agreement or this Agreement, and each Grantor

jointly and severally agrees to reimburse the Collateral Agent on demand for any payment made or any expense incurred by the Collateral Agent pursuant to the foregoing authorization; provided, however, that nothing in this Section 4.06 shall be interpreted as excusing any Grantor from the performance of, or imposing any obligation on the Collateral Agent or any Secured Party to cure or perform, any covenants or other promises of any Grantor with respect to taxes, assessments, charges, fees, liens, security interests or other encumbrances and maintenance as set forth herein or in the other Loan Documents.

SECTION 4.07. Assignment of Security Interest. If at any time any Grantor shall take a security interest in any property of an Account Debtor or any other person to secure payment and performance of an Account, such Grantor shall promptly assign such security interest to the Collateral Agent. Such assignment need not be filed of public record unless necessary to continue the perfected status of the security interest against creditors of and transferees from the Account Debtor or other person granting the security interest.

SECTION 4.08. Continuing Obligations of the Grantors. Each Grantor shall remain liable to observe and perform all the conditions and obligations to be observed and performed by it under each contract, agreement or instrument relating to the Collateral, all in accordance with the terms and conditions thereof, and each Grantor jointly and severally agrees to indemnify and hold harmless the Collateral Agent and the Secured Parties from and against any and all liability for such performance.

SECTION 4.09. Use and Disposition of Collateral. None of the Grantors shall make or permit to be made an assignment, pledge or hypothecation of the Collateral or shall grant any other Lien in respect of the Collateral, except as expressly permitted by Section 6.02 of the Credit Agreement. None of the Grantors shall make or permit to be made any transfer of the Collateral and each Grantor shall remain at all times in possession of the Collateral owned by it, except that (a) Inventory may be sold in the ordinary course of business and (b) unless and until the Collateral Agent shall notify the Grantors that an Event of Default shall have occurred and be continuing and that during the continuance thereof the Grantors shall not sell, convey, lease, assign, transfer or otherwise dispose of any Collateral (which notice may be given by telephone if promptly confirmed in writing), the Grantors may use and dispose of the Collateral in any lawful manner not inconsistent with the provisions of this Agreement, the Credit Agreement or any other Loan Document. Without limiting the generality of the foregoing, each Grantor agrees that it shall not permit any Inventory in excess of $500,000 to be in the possession or control of any warehouseman, bailee, agent or processor at any time unless such warehouseman, bailee, agent or processor shall have been

notified of the Security Interest and the Company shall have used reasonable best efforts to cause such warehouseman, bailee, agent or processor to agree in

writing to hold the Inventory subject to the Security Interest and the instructions of the Collateral Agent and to waive and release any Lien held by it with respect to such Inventory, whether arising by operation of law or otherwise.

SECTION 4.10. Limitation on Modification of Accounts. None of the Grantors will, without the Collateral Agent's prior written consent, grant any extension of the time of payment of any of the Account Rights, compromise, compound or settle the same for less than the full amount thereof, release, wholly or partly, any person liable for the payment thereof or allow any credit or discount whatsoever thereon, other than extensions, credits, discounts, compromises or settlements granted or made in the ordinary course of business and consistent with its current practices and in accordance with such prudent and standard practices used in industries that are the same as or similar to those in which such Grantor is engaged.

SECTION 4.11. Insurance. The Grantors, at their own expense, shall keep or cause to be kept the Inventory and Equipment adequately insured at all times by financially sound and reputable insurers; maintain such other insurance, to such extent and against such risks, including fire and other risks insured against by extended coverage, as is customary with companies in the same or similar businesses operating in the same or similar locations, including public liability insurance against claims for personal injury or death or property damage occurring upon, in, about or in connection with the use of any properties owned, occupied or controlled by it; and maintain such other insurance as may be required by law.

(b) The Grantors shall: (i) cause all such policies to be endorsed or otherwise amended to include a "standard" or "New York" lender's loss payable endorsement, in form and substance reasonably satisfactory to the Administrative Agent and the Collateral Agent, which endorsement shall provide that, from and after the Closing Date, if the insurance carrier shall have received written notice from the Administrative Agent or the Collateral Agent of the occurrence of an Event of Default, the insurance carrier shall pay all proceeds otherwise payable to the Company or any Loan Party under such policies directly to the Collateral Agent; (ii) deliver original or certified copies of all such policies or certificates of insurance for the same to the Collateral Agent; (iii) cause each such policy to provide that it shall not be canceled, modified or not renewed except (x) by reason of nonpayment of premium upon not less than 10 days' prior written notice thereof by the insurer to the Administrative Agent and the Collateral Agent (giving the Administrative Agent and the Collateral Agent the right to cure defaults in the payment of premiums) or (y) for any other reason upon not less than 30 days' prior written notice thereof by the insurer to the Administrative Agent and the Collateral Agent; and (iv) deliver to the Administrative Agent and the Collateral Agent, prior to the cancelation, material modification or nonrenewal of any such policy of insurance, a copy of a renewal or replacement policy (or other evidence of renewal of a policy previously delivered to the Administrative Agent and the Collateral

Agent) together with evidence satisfactory to the Administrative Agent and the Collateral Agent of payment of the premium therefor.

(c) The Grantors shall notify the Administrative Agent and the Collateral Agent immediately whenever any separate insurance concurrent in form or contributing in the event of loss with that required to be maintained under this Section 4.11 is taken out by the Company; and promptly deliver to the Administrative Agent and the Collateral Agent a duplicate original copy of such policy or policies or certificates of insurance of the same.

(d) In connection with the covenants set forth in this Section 4.11, it is understood and agreed that:

(i) none of the Administrative Agent, the Lenders, the Issuing Bank, or their respective agents or employees shall be liable for any loss or damage insured by the insurance policies required to be maintained under this Section 4.11, it being understood that (A) the Company and the other Loan Parties shall look solely to their insurance companies or any other parties other than the aforesaid parties for the recovery of such loss or damage and (B) such insurance companies shall have no rights of subrogation against the Administrative Agent, the Collateral Agent, the Lenders, the Issuing Bank or their agents or employees. If, however, the insurance policies do not provide waiver of subrogation rights against such parties, as required above, then the Company hereby agrees, to the extent permitted by law, to waive its right of recovery, if any, against the Administrative Agent, the Collateral Agent, the Lenders, the Issuing Bank and their agents and employees; and

(ii) the designation of any form, type or amount of insurance coverage by the Administrative Agent, the Collateral Agent or the Required Lenders under this Section 4.11 shall in no event be deemed a representation, warranty or advice by the Administrative Agent, the Collateral Agent or the Lenders that such insurance is adequate for the purposes of the business of the Company and the Subsidiaries or the protection of their properties and the Administrative Agent, the Collateral Agent and the Required Lenders shall have the right from time to time to require the Company and the other Loan Parties to keep other insurance in such form and amount as the Administrative Agent, the Collateral Agent or the Required Lenders may reasonably request, provided that such insurance shall be obtainable on commercially reasonable terms.

(e) Each Grantor irrevocably makes, constitutes and appoints the Collateral Agent (and all officers, employees or agents designated by the Collateral Agent) as such Grantor's true and lawful agent (and attorney-in-fact) for the purpose, during the continuance of an Event of Default, of making, settling and adjusting claims in respect of Collateral under policies of insurance, endorsing the name of such Grantor on any check, draft, instrument or other item of payment for the proceeds of such policies of insurance and for making all

determinations and decisions with respect thereto. In the event that any Grantor at any time or times shall fail to obtain or maintain any of the policies of insurance required hereby or to pay any premium in whole or part relating thereto, the Collateral Agent may, without waiving or releasing any obligation or liability of the Grantors hereunder or any Event of Default, in its sole discretion, obtain and maintain such policies of insurance and pay such premium and take any other actions with respect thereto as the Collateral Agent deems advisable. All sums disbursed by the Collateral Agent in connection with this Section 4.11, including reasonable attorneys' fees, court costs, expenses and other charges relating thereto, shall be payable, upon demand, by the Grantors to the Collateral Agent and shall be additional Obligations secured hereby.

SECTION 4.12. Legend. Each Grantor shall legend, in form and manner reasonably satisfactory to the Collateral Agent, its books, records and documents evidencing or pertaining to Account Rights with an appropriate reference to the fact that such Account Rights have been assigned to the Collateral Agent for the benefit of the Secured Parties and that the Collateral Agent has a security interest therein.

SECTION 4.13. Covenants Regarding Patent, Trademark and Copyright Collateral. (a) Each Grantor agrees that it will not, nor will it permit any of its licensees (unless (i) it has a purpose in the ordinary course of business to do otherwise or (ii) to do otherwise could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect) to, do any act, or omit to do any act, which would cause any Patents that are, individually or in the aggregate, material to the conduct of such Grantor's business to become invalidated or dedicated to the public, and agrees that it shall continue to mark any products covered by a Patent with the relevant patent number as necessary and sufficient to establish and preserve its maximum rights under applicable patent laws.

(b) Each Grantor (either itself or through its licensees or its sublicensees) will, for all Trademarks that are, individually or in the aggregate, material to the conduct of such Grantor's business, (unless (x) it has a purpose in the ordinary course of business to do otherwise or (y) to do otherwise could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect) (i) maintain such Trademarks in full force free from any claim of abandonment or invalidity for non-use, (ii) maintain the quality of products and services offered under such Trademarks, (iii) display such Trademarks with notice of Federal or foreign registration to the extent necessary and sufficient to establish and preserve its maximum rights under applicable law and (iv) not knowingly use or knowingly permit the use of such Trademarks in violation of any third party rights.

(c) Each Grantor (either itself or through licensees) will, for all works covered by Copyrights that are, individually or in the aggregate, material to the conduct of such Grantor's business (unless (i) it has a purpose in the

ordinary course of business to do otherwise or (ii) to do otherwise could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect), continue to publish, reproduce, display,

adopt and distribute the works with appropriate copyright notices as necessary and sufficient to establish and preserve its maximum rights under applicable copyright laws.

(d) Each Grantor shall notify the Collateral Agent immediately if it knows or should be reasonably expected to know that any Patents, Trademarks or Copyrights that are, individually or in the aggregate, material to the conduct of its business may become abandoned, lost or dedicated to the public, or of any adverse determination or development (including the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark Office, United States Copyright Office or any court or similar office of any country other than non-final determinations of such offices or courts) regarding such Grantor's ownership of any such material Patents, Trademarks or Copyrights, its right to register the same, or to keep and maintain the same.

(e) In the event any Grantor, either itself or through any agent, employee, licensee or designee, files an application for any Patent, Trademark or Copyright (or for the registration of any Trademark or Copyright) with the United States Patent and Trademark Office, United States Copyright Office or any office or agency in any political subdivision of the United States, it shall within fifteen business days of such Grantor's receipt of an application number (with respect to Patent and Trademark applications) or registration numbers (with respect to Copyright applications) execute, deliver and file in such office or agency any and all agreements, instruments, documents and papers as shall be required or as the Collateral Agent may reasonably request to evidence the Collateral Agent's security interest in such Patent, Trademark or Copyright, and shall provide evidence of all such filings to the Collateral Agent at the time of providing the Collateral Agent with the next Certificate pursuant to Section 4.02(b) hereof. Each Grantor hereby appoints the Collateral Agent as its attorney-in-fact to execute and file all instruments and documents that it shall deem necessary or advisable for the foregoing purposes, all acts of such attorney being hereby ratified and confirmed; such power, being coupled with an interest, is irrevocable.

(f) Each Grantor will take all necessary steps it deems appropriate under the circumstances that are consistent with the practice in any proceeding before the United States Patent and Trademark Office, United States Copyright Office or any office or agency in any political subdivision of the United States or in any other country or any political subdivision thereof (unless (i) it has a purpose in the ordinary course of business to do otherwise or (ii) to do otherwise could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect), to maintain and pursue each material application

relating to the Patents, Trademarks and/or Copyrights (and to use its reasonable best efforts to obtain the relevant grant or registration) and to maintain each issued Patent and each registration of the Trademarks and Copyrights that is material to the conduct of any Grantor's business, including timely filings of applications for renewal, affidavits of use, affidavits of incontestability and payment of maintenance fees, and, if consistent with good business judgment, to initiate opposition, interference and cancelation proceedings against third parties.

(g) In the event that any Grantor has reason to believe that any Collateral consisting of Patents, Trademarks or Copyrights that are, individually or in the aggregate, material to the conduct of any Grantor's business have been or are about to be infringed, misappropriated or, in the case of any material Trademark, diluted by a third party, such Grantor (unless (i) it has a purpose in the ordinary course of business to do otherwise or (ii) to do otherwise could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect) promptly shall notify the Collateral Agent and shall, if consistent with the Grantor's good business judgment, promptly sue for infringement, misappropriation or dilution and to recover any and all damages for such infringement, misappropriation or dilution, and take such other actions as are appropriate under the circumstances to protect such Collateral. Such Grantor may discontinue or settle any such suit or other action if the Grantor deems such discontinuance or settlement to be appropriate in its reasonable business judgment.

(h) Upon and during the continuance of an Event of Default, each Grantor shall, at the request of the Collateral Agent, use its reasonable best efforts to obtain all requisite consents or approvals by the licensor of each Copyright License, Patent License or Trademark License to effect the assignment of all of such Grantor's right, title and interest thereunder to the Collateral Agent or its designee.

ARTICLE V

Power of Attorney

Each Grantor irrevocably makes, constitutes and appoints the Collateral Agent (and all officers, employees or agents designated by the Collateral Agent) as such Grantor's true and lawful agent and attorney-in-fact, and in such capacity the Collateral Agent shall have the right, with power of substitution for each Grantor and in each Grantor's name or otherwise, for the use and benefit of the Collateral Agent and the Secured Parties, upon the occurrence and during the continuance of an Event of Default (a) to receive, endorse, assign and/or deliver any and all notes, acceptances, checks, drafts, money orders or other evidences of payment relating to the Collateral or any part thereof; (b) to demand, collect, receive payment of, give receipt for and give discharges and

releases of all or any of the Collateral; (c) to sign the name of any Grantor on any invoice or bill of lading relating to any of the Collateral; (d) to send verifications of Account Rights to any Account Debtor; (e) to commence and prosecute any and all suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect or otherwise realize on all or any of the Collateral or to enforce any rights in respect of any Collateral; (f) to settle, compromise, compound, adjust or defend any actions, suits or proceedings relating to all or any of the Collateral; (g) to notify, or to require any Grantor to notify, Account Debtors to make payment directly to the Collateral Agent; and (h) to use, sell, assign, transfer, pledge, make any agreement with respect to or otherwise deal with all or any of the Collateral, and to do all other acts and things necessary to carry out the purposes of this Agreement, as fully and completely as

though the Collateral Agent were the absolute owner of the Collateral for all purposes; provided, however, that nothing herein contained shall be construed as requiring or obligating the Collateral Agent or any Secured Party to make any commitment or to make any inquiry as to the nature or sufficiency of any payment received by the Collateral Agent or any Secured Party, or to present or file any claim or notice, or to take any action with respect to the Collateral or any part thereof or the moneys due or to become due in respect thereof or any property covered thereby, and no action taken or omitted to be taken by the Collateral Agent or any Secured Party with respect to the Collateral or any part thereof shall give rise to any defense, counterclaim or offset in favor of any Grantor or to any claim or action against the Collateral Agent or any Secured Party. It is understood and agreed that the appointment of the Collateral Agent as the agent and attorney-in-fact of the Grantors for the purposes set forth above is coupled with an interest and is irrevocable. The provisions of this Section shall in no event relieve any Grantor of any of its obligations hereunder or under any other Loan Document with respect to the Collateral or any part thereof or impose any obligation on the Collateral Agent or any Secured Party to proceed in any particular manner with respect to the Collateral or any part thereof, or in any way limit the exercise by the Collateral Agent or any Secured Party of any other or further right which it may have on the date of this Agreement or hereafter, whether hereunder, under any other Loan Document, by law or otherwise.

ARTICLE VI

Remedies

SECTION 6.01. Remedies upon Default. Upon the occurrence and during the continuance of an Event of Default, each Grantor agrees to deliver each item of Collateral to the Collateral Agent on demand, and it is agreed that the Collateral Agent shall have the right to take any of or all the following actions at the same or different times: (a) with respect to any Collateral

consisting of Intellectual Property, on demand, to cause the Security Interest to become an assignment, transfer and conveyance of any of or all such Collateral by the applicable Grantors to the Collateral Agent or to license or sublicense, whether general, special or otherwise, and whether on an exclusive or non-exclusive basis, any such Collateral throughout the world on such terms and conditions and in such manner as the Collateral Agent shall determine (other than in violation of any then-existing licensing arrangements to the extent that waivers cannot be obtained) and (b) with or without legal process and with or without prior notice or demand for performance, to take possession of the Collateral and without liability for trespass to enter any premises where the Collateral may be located for the purpose of taking possession of or removing the Collateral, exercise any Pledgor's right to bill and receive payment for completed work, and, generally, to exercise any and all rights afforded to a secured party under the Uniform Commercial Code or other applicable law. Without limiting the generality of the foregoing, each Grantor agrees that the Collateral Agent shall have the right, subject to the mandatory requirements of applicable law, to sell or otherwise dispose of all or any part of the Collateral, at public

or private sale or at any broker's board or on any securities exchange, for cash, upon credit or for future delivery as the Collateral Agent shall deem appropriate. The Collateral Agent shall be authorized at any such sale (if it deems it advisable to do so) to restrict the prospective bidders or purchasers to persons who will represent and agree that they are purchasing any Collateral which constitutes a "security" under applicable securities law for their own account for investment and not with a view to the distribution or sale thereof, and upon consummation of any such sale the Collateral Agent shall have the right to assign, transfer and deliver to the purchaser or purchasers thereof the Collateral so sold. Each such purchaser at any such sale shall hold the property sold absolutely, free from any claim or right on the part of any Grantor, and each Grantor hereby waives (to the extent permitted by law) all rights of redemption, stay and appraisal which such Grantor now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted.

The Collateral Agent shall give the Grantors 10 days' written notice (which each Grantor agrees is reasonable notice within the meaning of Section 9-504(3) of the Uniform Commercial Code as in effect in the State of New York or its equivalent in other jurisdictions) of the Collateral Agent's intention to make any sale of Collateral. Such notice, in the case of a public sale, shall state the time and place for such sale and, in the case of a sale at a broker's board or on a securities exchange, shall state the board or exchange at which such sale is to be made and the day on which the Collateral, or portion thereof, will first be offered for sale at such board or exchange. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as the Collateral Agent may fix and state in the notice (if any) of

such sale. At any such sale, the Collateral, or portion thereof, to be sold may be sold in one lot as an entirety or in separate parcels, as the Collateral Agent may (in its sole and absolute discretion) determine. The Collateral Agent shall not be obligated to make any sale of any Collateral if it shall determine not to do so, regardless of the fact that notice of sale of such Collateral shall have been given. The Collateral Agent may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. In case any sale of all or any part of the Collateral is made on credit or for future delivery, the Collateral so sold may be retained by the Collateral Agent until the sale price is paid by the purchaser or purchasers thereof, but the Collateral Agent shall not incur any liability in case any such purchaser or purchasers shall fail to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may be sold again upon like notice. At any public (or, to the extent permitted by law, private) sale made pursuant to this Section, any Secured Party may bid for or purchase, free (to the extent permitted by law) from any right of redemption, stay, valuation or appraisal on the part of any Grantor (all said rights being also hereby waived and released to the extent permitted by law), the Collateral or any part thereof offered for sale and may make payment on account thereof by using any claim then due and payable to such Secured Party from any Grantor as a credit against the purchase price, and such Secured Party may, upon compliance with the terms of sale, hold, retain and dispose of such property without further accountability to any

Grantor therefor. For purposes hereof, a written agreement to purchase the Collateral or any portion thereof shall be treated as a sale thereof; the Collateral Agent shall be free to carry out such sale pursuant to such agreement and no Grantor shall be entitled to the return of the Collateral or any portion thereof subject thereto, notwithstanding the fact that after the Collateral Agent shall have entered into such an agreement all Events of Default shall have been remedied and the Obligations paid in full. As an alternative to exercising the power of sale herein conferred upon it, the Collateral Agent may proceed by a suit or suits at law or in equity to foreclose this Agreement and to sell the Collateral or any portion thereof pursuant to a judgment or decree of a court or courts having competent jurisdiction or pursuant to a proceeding by a court-appointed receiver.

SECTION 6.02. Application of Proceeds. The Collateral Agent shall apply the proceeds of any collection or sale of the Collateral, as well as any Collateral consisting of cash, as follows:

FIRST, to the payment of all costs and expenses incurred by the Administrative Agent or the Collateral Agent (in its capacity as such hereunder or under any other Loan Document) in connection with such collection

or sale or otherwise in connection with this Agreement or any of the Obligations, including all court costs and the reasonable fees and expenses of its agents and legal counsel, the repayment of all advances made by the Collateral Agent hereunder or under any other Loan Document on behalf of any Grantor and any other reasonable costs or expenses incurred in connection with the exercise of any right or remedy hereunder or under any other Loan Document;

SECOND, to the payment in full of the Obligations (the amounts so applied to be distributed among the Secured Parties pro rata in accordance with the amounts of the Obligations owed to them on the date of any such distribution); and

THIRD, to the Grantors, their successors or assigns, or as a court of competent jurisdiction may otherwise direct.

The Collateral Agent shall have absolute discretion as to the time of application of any such proceeds, moneys or balances in accordance with this Agreement. Upon any sale of the Collateral by the Collateral Agent (including pursuant to a power of sale granted by statute or under a judicial proceeding), the receipt of the Collateral Agent or of the officer making the sale shall be a sufficient discharge to the purchaser or purchasers of the Collateral so sold and such purchaser or purchasers shall not be obligated to see to the application of any part of the purchase money paid over to the Collateral Agent or such officer or be answerable in any way for the misapplication thereof.

SECTION 6.03. Grant of License to Use Intellectual Property. For the purpose of enabling the Collateral Agent to exercise rights and remedies under this Article at such time

as the Collateral Agent shall be lawfully entitled to exercise such rights and remedies, each Grantor hereby grants to the Collateral Agent an irrevocable, non-exclusive license (exercisable without payment of royalty or other compensation to the Grantors) to use, license or sub-license any of the Collateral consisting of Intellectual Property now owned or hereafter acquired by such Grantor, and wherever the same may be located, and including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and to all computer software and programs used for the compilation or printout thereof. The use of such license by the Collateral Agent may be exercised, at the option of the Collateral Agent, upon the occurrence and during the continuation of an Event of Default; provided that any license, sub-license or other transaction entered into by the Collateral Agent in accordance herewith shall be binding upon the Grantors notwithstanding any subsequent cure of an Event of Default.

ARTICLE VII

SECTION 7.01. Notices. All communications and notices hereunder shall (except as otherwise expressly permitted herein) be in writing and given as provided in Section 10.01 of the Credit Agreement. All communications and notices hereunder to any Grantor shall be given to it at its address or telecopy number set forth on Schedule I, with a copy to the Company.

SECTION 7.02. Security Interest Absolute. All rights of the Collateral Agent hereunder, the Security Interest and all obligations of the Grantors hereunder shall be absolute and unconditional irrespective of (a) any lack of validity or enforceability of the Credit Agreement, any other Loan Document, any agreement with respect to any of the Obligations or any other agreement or instrument relating to any of the foregoing, (b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the Credit Agreement, any other Loan Document or any other agreement or instrument, (c) any exchange, release or non-perfection of any Lien on other collateral, or any release or amendment or waiver of or consent under or departure from any guarantee, securing or guaranteeing all or any of the Obligations, or (d) any other circumstance that might otherwise constitute a defense available to, or a discharge of, any Grantor in respect of the Obligations or this Agreement.

SECTION 7.03. Survival of Agreement. All covenants, agreements, representations and warranties made by any Grantor herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the Secured Parties and shall survive the making by the Lenders of the Loans, and the execution and delivery to the Lenders of any notes evidencing such

Loans, regardless of any investigation made by the Lenders or on their behalf, and shall continue in full force and effect until this Agreement shall terminate.

SECTION 7.04. Binding Effect; Several Agreement. This Agreement shall become effective as to any Grantor when a counterpart hereof executed on behalf of such Grantor shall have been delivered to the Collateral Agent and a counterpart hereof shall have been executed on behalf of the Collateral Agent, and thereafter this Agreement shall be binding upon such Grantor and the Collateral Agent and their respective successors and assigns and shall inure to the benefit of such Grantor, the Collateral Agent and the other Secured Parties and their respective successors and assigns, except that no Grantor shall have the right to assign or transfer its rights or obligations hereunder or any interest herein or in the Collateral (and any such assignment or transfer shall be void) except as expressly contemplated by this Agreement or the Credit Agreement. This

Agreement shall be construed as a separate agreement with respect to each Grantor and may be amended, modified, supplemented, waived or released with respect to any Grantor without the approval of any other Grantor and without affecting the obligations of any other Grantor hereunder.

SECTION 7.05. Successors and Assigns. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all covenants, promises and agreements by or on behalf of any Grantor or the Collateral Agent that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns.

SECTION 7.06. Collateral Agent's Fees and Expenses; Indemnification. (a) Each Grantor jointly and severally agrees to pay upon demand to the Collateral Agent the amount of any and all reasonable expenses, including the reasonable fees, disbursements and other charges of its counsel and of any experts or agents, which the Collateral Agent may incur in connection with (i) the administration of this Agreement (including the customary fees and charges of the Collateral Agent for any audits conducted by it or on its behalf with respect to the Account Rights or Inventory), (ii) the custody or preservation of, or the sale of, collection from or other realization upon any of the Collateral, (iii) the exercise, enforcement or protection of any of the rights of the Collateral Agent hereunder or (iv) the failure of any Grantor to perform or observe any of the provisions hereof.

(b) Without limitation of its indemnification obligations under the other Loan Documents, each Grantor jointly and severally agrees to indemnify the Collateral Agent and the other Indemnitees against, and hold each of them harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable fees, disbursements and other charges of counsel, incurred by or asserted against any of them arising out of, in any way connected with, or as a result of, the execution, delivery or performance of this Agreement or any claim, litigation, investigation or proceeding relating hereto or to the Collateral, whether or not any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages,

liabilities or related expenses have resulted from the gross negligence or willful misconduct of any Indemnitee.

(c) Any such amounts payable as provided hereunder shall be additional Obligations secured hereby and by the other Security Documents. The provisions of this Section 7.06 shall remain operative and in full force and effect regardless of the termination of this Agreement or any other Loan Document, the consummation of the transactions contemplated hereby, the repayment of any of the Obligations, the invalidity or unenforceability of any term or provision of

this Agreement or any other Loan Document, or any investigation made by or on behalf of the Collateral Agent or any other Secured Party. All amounts due under this Section 7.06 shall be payable on written demand therefor and shall bear interest at the rate specified in Section 2.07 of the Credit Agreement.

SECTION 7.07. GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

SECTION 7.08. Waivers; Amendment. (a) No failure or delay of the Collateral Agent in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Collateral Agent hereunder and of the Collateral Agent, the Issuing Bank, the Administrative Agent and the Lenders under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provisions of this Agreement or any other Loan Document or consent to any departure by any Grantor therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on any Grantor in any case shall entitle such Grantor or any other Grantor to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Grantor or Grantors with respect to which such waiver, amendment or modification is to apply and by the Collateral Agent with any consent required under the Credit Agreement.

SECTION 7.09. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF

ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 7.09.

SECTION 7.10. Severability. In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining

provisions contained herein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7.11 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract, and shall become effective as provided in Section 7.04. Delivery of an executed signature page to this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof.

SECTION 7.12. Headings. Article and Section headings used herein are for the purpose of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

SECTION 7.13. Jurisdiction; Consent to Service of Process. (a) Each Grantor hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Collateral Agent, the Administrative Agent, the Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents against any Grantor or its properties in the courts of any jurisdiction.

(b) Each Grantor hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the other Loan Documents in any New York State or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in

the manner provided for notices in Section 7.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 7.14. Termination. This Agreement and the Security Interest shall terminate when (i) the principal of and premium, if any, and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on all Loans, (ii) each payment required to be made under the Credit Agreement in respect of any Letter of Credit, and (iii) all other obligations then due and owing, have in each case been indefeasibly paid in full, the Lenders have no further commitment to lend, the L/C Exposure has been reduced to zero and the Issuing Bank has no further commitment to issue Letters of Credit under the Credit Agreement, at which time the Collateral Agent shall execute and deliver to the Grantors, at the Grantors' expense, all Uniform Commercial Code termination statements, terminations and reassignments for mortgages and assignments of copyrights, patents and trademarks, and similar documents which the Grantors shall reasonably request to evidence such termination. Any execution and delivery of termination statements or documents pursuant to this Section 7.14 shall be without recourse to or warranty by the Collateral Agent. The Collateral Agent is hereby expressly authorized to, and upon request of the Company shall, release the Security Interest in any Collateral in the event that such Collateral, or all the capital stock of the Grantor owning such Collateral, shall be sold, transferred or otherwise disposed of to a person that is not an Affiliate of the Borrower in a transaction permitted by Section 6.05 of the Credit Agreement, and to execute any and all documents (including releases) with respect to the Collateral and the rights of the Secured Parties with respect thereto, in each case as contemplated by and in accordance with the provisions of the Credit Agreement and the other Loan Documents.

SECTION 7.15. Additional Grantors. Pursuant to Section 5.09 of the Credit Agreement, each Subsidiary (other than any Foreign Subsidiary) that was not in existence on the date of the Credit Agreement is required to enter into the Security Agreement as a Grantor upon becoming such a Subsidiary. Upon execution and delivery by the Collateral Agent and such a Subsidiary of a Supplement in the form of Annex 2 hereto, such Subsidiary shall become a Grantor hereunder with the same force and effect as if originally named as a Grantor herein. The execution and delivery of any such instrument shall not require the consent of any Grantor hereunder. The rights and obligations of each Grantor hereunder

shall remain in full force and effect notwithstanding the addition of any new Grantor as a party to this Agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

PLAYBOY ENTERPRISES, INC. (f/k/a New Playboy, Inc.),

by

Name:
Title:

PEI HOLDINGS, INC.,

by

Name:
Title:

EACH OF THE SUBSIDIARIES LISTED ON SCHEDULE I HERETO,

by

Name:
Title:

CREDIT SUISSE FIRST BOSTON, as Collateral Agent,

by

Name:
Title:

by

Name:
Title:

SCHEDULE I
TO SECURITY AGREEMENT

<TABLE>
<CAPTION>

Subsidiary Guarantor	Address
<S>	<C>
AdulTVision Communications, Inc.	c/o Playboy Enterprises, Inc. 680 North Lake Shore Drive Chicago, IL 60611 Fax: (312) 751-8000 Attn: General Counsel Attn: Chief Financial Officer with a copy to: Paul, Weiss, Rifkind, Wharton & Garrison 1285 Avenue of the Americas New York, NY 10019 Fax: (212) 757-3990 Attn: James M. Dubin
After Dark Video, Inc.	
Alta Loma Entertainment, Inc.	
Alta Loma Distribution, Inc.	
Cameo Films, Inc.	
Critics' Choice Video, Inc.	
Impulse Productions, Inc.	
Lake Shore Press, Inc.	
Lifestyle Brands, Ltd.	
Mystique Films, Inc.	
Playboy Club of Hollywood, Inc.	
Playboy Club of New York, Inc.	
Playboy Clubs International, Inc.	
Playboy Enterprises, Inc. to be renamed Playboy Enterprises International, Inc.	
Playboy Entertainment Group, Inc.	
Playboy Gaming International, Ltd.	
Playboy Gaming Nevada, Inc.	
Playboy Models, Inc.	
Playboy of Lyons, Inc.	
Playboy of Sussex, Inc.	
Playboy Preferred, Inc.	

Playboy Properties, Inc.

Playboy Shows, Inc.

Precious Films, Inc.

Special Editions, Ltd.

Steelton, Inc.

Telecom International, Inc.

Women Productions, Inc.

CPV Productions, Inc.

Cyberspice, Inc.

MH Pictures, Inc.

Spice Entertainment Companies, Inc.

Spice Direct, Inc.

Spice International, Inc.

Spice Networks, Inc.

Spice Productions, Inc.
</TABLE>

SCHEDULE II
TO SECURITY AGREEMENT

U.S. COPYRIGHTS OWNED BY [NAME OR GRANTOR]

[Make a separate Schedule I for each Grantor and if no copyrights owned so state. List in numerical order by Registration No.]

U.S. Copyright Registrations

Title	Reg. No.	Author

Pending U.S. Copyright Applications for Registration

Title	Author	Class	Date Filed

SCHEDULE III
TO SECURITY AGREEMENT

LICENSES

[Make a separate Schedule III for each Grantor, and if not a licensor/licensee in a license/sublicense so state.]

PART 1

LICENSES/SUBLICENSEES OF [NAME OF GRANTOR] AS LICENSOR ON DATE HEREOF

A. Copyrights

[List U.S. copyrights in numerical order by Reg. No.]

U.S. Copyrights

<TABLE>
<CAPTION>

License Name and Address	Date of License/ Sublicense	Title of U.S. Copyright	Author	Reg. No.
<S>	<C>	<C>	<C>	<C>

</TABLE>

B. Patents

[List in numerical order by U.S. patent nos. followed by U.S. patent application nos.]

U.S. Patents

<TABLE>
<CAPTION>

Licensee Name and Address	Date of License/ Sublicense	Issue Date	Patent No.
<S>	<C>	<C>	<C>

</TABLE>

U.S. Patent Applications

<TABLE>
<CAPTION>

Licensee Name and Address	Date of License/ Sublicense	U.S. Mark	Reg. Date	Reg. No.
<S>	<C>	<C>	<C>	<C>

</TABLE>

C. Trademarks

[List in numerical order by U.S. trademark nos., followed by U.S. trademark application nos.]

U.S. Trademarks

<TABLE>
<CAPTION>

Licensee Name and Address	Date of License/ Sublicense	U.S. Mark	Reg. Date	Reg. No.
<S>	<C>	<C>	<C>	<C>

</TABLE>

U.S. Trademark Applications

<TABLE>
<CAPTION>

Licensee Name and Address	Date of License/ Sublicense	U.S. Mark	Date Filed	Application No.
<S>	<C>	<C>	<C>	<C>

</TABLE>

D. Others

<TABLE>
<CAPTION>

License Name and Address	Date of License/ Sublicense	Subject Matter
<S>	<C>	<C>

</TABLE>

PART 2

LICENSEES/SUBLICENSES OF [NAME OF GRANTOR] AS LICENSEE ON DATE HEREOF

A. Copyrights

[List U.S. copyrights in numerical order by Reg. No.]

U.S. Copyrights

<TABLE>
<CAPTION>

Licensee Name and Address	Date of License/ Sublicense	Title of U.S. Copyright	Author	Reg. No.
<S>	<C>	<C>	<C>	<C>

</TABLE>

B. Patents

[List in numerical order by U.S. patent nos. followed by U.S. patent application nos.]

<TABLE>
<CAPTION>

U.S. Patents

Licensee Name and Address	Date of License/ Sublicense	Issue Date	Patent No.
<S>	<C>	<C>	<C>

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U.S. Patent Applications

<TABLE>
<CAPTION>

Licensee Name and Address	Date of License/ Sublicense	Date Filed	Application No.
<S>	<C>	<C>	<C>

</TABLE>

C. Trademarks

[List in numerical order by U.S. trademark nos.,
followed by U.S. trademark application nos.]

U.S. Trademarks

<TABLE>
<CAPTION>

Licensee Name and Address	Date of License/ Sublicense	U.S. Mark	Reg. Date	Reg. No.
<S>	<C>	<C>	<C>	<C>

</TABLE>

U.S. Trademark Applications

<TABLE>
<CAPTION>

Licensee Name and Address	Date of License/ Sublicense	U.S. Mark	Date Filed	Application No.
<S>	<C>	<C>	<C>	<C>

</TABLE>

SCHEDULE IV
TO SECURITY AGREEMENT

PATENTS OWNED BY [NAME OF GRANTOR]

[Make a separate Schedule IV for each Grantor and if no patents owned so state. List in numerical order by Patent No./Patent Application No.]

U.S. Patent Registrations

Patent Numbers	Issue Date

U.S. Patent Applications

Patent Application No.	Filing Date

SCHEDULE V

TRADEMARK/TRADE NAMES OWNED BY [NAME OF GRANTOR]

[Make a separate Schedule V for each Grantor
and if no trademarks/trade names owned so state.
List in numerical order by trademark registration/application no.]

U.S. Trademark Registrations

Mark	Reg. Date	Reg. No.

U.S. Trademark Applications

Mark	Filing Date	Application No.

State Trademark Registrations
[List in alphabetical order by State/numerical order by trademark no.]

State	Mark	Filing Date	Application No.

Trade Names

Country(s) Where Used	Trade Names

Annex 1 to the
Security Agreement

[Form of]
PERFECTION CERTIFICATE

Reference is made to (a) the Credit Agreement dated as of February 26, 1999, (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement") among NEW PLAYBOY, INC., a Delaware corporation (the "Company"), PEI HOLDINGS, INC., a [Delaware] corporation and wholly owned subsidiary of the Company ("PHI"), the Lenders (as defined in Article I thereof), and CREDIT SUISSE FIRST BOSTON, a bank organized under the laws of Switzerland, acting through its New York Branch ("CSFB"), as administrative agent (in such capacity, the "Administrative Agent"), as collateral agent (in such capacity, the "Collateral Agent") and as issuing bank (in such capacity, the "Issuing Bank") for the Lenders and (b) the Subsidiary Guarantee Agreement

dated as of March 15, 1999 (as amended, supplemented or otherwise modified from time to time, the "Subsidiary Guarantee Agreement"), among the Subsidiary Grantors and the Collateral Agent.

The undersigned, a Financial Officer and a Legal Officer, respectively, of the Company, hereby certify to the Collateral Agent and each other Secured Party as follows:

1. Names. (a) The exact corporate name of each Grantor, as such name appears in its respective certificate of incorporation, is as follows:

(b) Set forth below is each other corporate name each Grantor has had in the past five years, or currently proposes to adopt after the date hereof together with the date of the relevant change:

(c) Except as set forth in the recitals to the Credit Agreement or in Schedule 1 hereto, no Grantor has changed its identity or corporate structure in any way within the past five years and no Grantor currently proposes to make any such change. Changes in identity or corporate structure would include mergers, consolidations and acquisitions, as well as any change in the form, nature or jurisdiction of corporate organization. If any such change has occurred, include in Schedule 1 the information required by Sections 1 and 2 of this certificate as to each acquiree or constituent party to a merger or consolidation.

(d) The following is a list of all other names (including trade names or similar appellations) used by each Grantor or any of its divisions or other business units in connection with the conduct of its business or the ownership of its properties at any time during the past five years:

(e) Set forth below is the Federal Taxpayer Identification Number of each Grantor:

2. Current Locations. (a) The chief executive office of each Grantor is located at the address set forth opposite its name below:

<TABLE>
<CAPTION>

Grantor	Mailing Address	County	State
<S>	<C>	<C>	<C>

</TABLE>

(b) Set forth below opposite the name of each Grantor are all locations where such Grantor maintains any books or records relating to any Account Rights (with each location at which chattel paper, if any, is kept being indicated by an "*"):

<TABLE>
<CAPTION>

Grantor	Mailing Address	County	State
<S>	<C>	<C>	<C>

</TABLE>

(c) Set forth below opposite the name of each Grantor are all the places of business of such Grantor not identified in paragraph (a) or (b) above:

<TABLE>
<CAPTION>

Grantor	Mailing Address	County	State
<S>	<C>	<C>	<C>

</TABLE>

(d) Set forth below opposite the name of each Grantor are all the locations where such Grantor maintains any Collateral not identified above:

<TABLE>
<CAPTION>

Grantor	Mailing Address	County	State
<S>	<C>	<C>	<C>

</TABLE>

(e) Set forth below opposite the name of each Grantor are the names and addresses of all persons other than such Grantor that have possession of any of the Collateral of such Grantor:

<TABLE>
<CAPTION>

Grantor	Mailing Address	County	State
<S>	<C>	<C>	<C>

</TABLE>

3. Unusual Transactions with respect to Account Rights and Inventory. Except as set forth below, all Account Rights have been originated by the Grantors and all Inventory has been acquired by the Grantors in the ordinary course of business:

4. UCC File Search Reports. Attached hereto as Schedule 4(A) are true copies of file search reports from the Uniform Commercial Code filing offices

where filings described in Section 3.19 of the Credit Agreement are to be made. Attached hereto as Schedule 4(B) is a true copy of each financing statement or other filing identified in such file search reports.

5. Intellectual Property File Search Reports. Attached hereto as Schedule 5(A) are true copies of file search reports from the United States Patent and Trademark Office and the United States Copyright Office. Attached hereto as Schedule 5(B) is a true copy of each filing identified in such file search reports.

6. UCC Filings. Duly signed financing statements on Form UCC-1 in substantially the form of Schedule 6 hereto (or such other form as shall be appropriate in any jurisdiction) have been prepared for filing in the Uniform Commercial Code filing office in each jurisdiction where a Grantor has Collateral as identified in Section 2 hereof.

7. Schedule of UCC Filings. Attached hereto as Schedule 7 is a schedule setting forth, with respect to the filings described in Section 6 above, each filing and the filing office in which such filing is to be made.

8. Schedule of Intellectual Property Filings. Attached hereto as Schedule 8(A) is a schedule setting forth each filing to be made in the United States Patent and Trademark Office to satisfy the conditions and agreements set forth in the Credit Agreement and the Security Agreement. Attached hereto as Schedule 8(B) is a schedule setting forth each filing to be made in the United States Copyright Office.

9. Advances. Attached hereto as Schedule 9 is a true and correct list of all unpaid intercompany transfers of goods sold and delivered by or to the Company or any Subsidiary.

IN WITNESS WHEREOF, the undersigned have duly executed this certificate on this 15 day of March 1999.

NEW PLAYBOY, INC.,

by

Name:
Title:[Financial Officer]

by

Name:
Title:[Legal Officer]

Annex 2 to the
Security Agreement

SUPPLEMENT NO. (this "Supplement") dated as of _____, to the Security Agreement dated as of March 15, 1999 (the "Security Agreement"), among PLAYBOY ENTERPRISES, INC. (f/k/a New Playboy, Inc.), a Delaware corporation (the "Company"), PEI HOLDINGS, INC., a Delaware corporation and wholly owned subsidiary of the Company ("PHI"), each other subsidiary of the Company listed on Schedule I thereto (together with PHI, the "Subsidiary Grantors"; and, together with the Company, the "Grantors") and CREDIT SUISSE FIRST BOSTON, a bank organized under the laws of Switzerland, acting through its New York Branch ("CSFB"), as collateral agent (in such capacity, the "Collateral Agent") for the Secured Parties (as defined therein).

A. Reference is made to (a) the Credit Agreement dated as of February 26, 1999, (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement") among the Company, PHI, the Lenders (as defined in Article I thereof), and CSFB, as administrative agent (in such capacity, the "Administrative Agent"), as collateral agent (in such capacity, the "Collateral Agent") and as issuing bank (in such capacity, the "Issuing Bank") for the Lenders and (b) the Subsidiary Guarantee Agreement dated as of March 15, 1999 (as amended, supplemented or otherwise modified from time to time, the "Subsidiary Guarantee Agreement"), among the Subsidiary Grantors and the Collateral Agent.

B. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Security Agreement and the Credit Agreement.

C. The Grantors have entered into the Security Agreement in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit. Section 7.15 of the Security Agreement provides that additional Subsidiaries may become Grantors under the Security Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary (the "New Grantor") is executing this Supplement in accordance with the requirements of the Credit Agreement to become a Grantor under the Security Agreement in order to induce the Lenders to make additional Loans and the Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made and Letters of Credit previously issued.

Accordingly, the Collateral Agent and the New Grantor agree as follows:

SECTION 1. In accordance with Section 7.15 of the Security Agreement, the New Grantor by its signature below becomes a Grantor under the Security Agreement with the same force and effect as if originally named therein as a Grantor and the New Grantor hereby (a) agrees to all the terms and provisions of the Security Agreement applicable to it as a Grantor thereunder and (b) represents and warrants that the representations and warranties made by it as

a Grantor thereunder are true and correct on and as of the date hereof. In furtherance of the foregoing, the New Grantor, as security for the payment and performance in full of the Obligations (as defined in the Credit Agreement), does hereby create and grant to the Collateral Agent, its successors and assigns, for the benefit of the Secured Parties, their successors and assigns, a security interest in and lien on all of the New Grantor's right, title and interest in and to the Collateral (as defined in the Security Agreement) of the New Grantor. Each reference to a "Grantor" in the Security Agreement shall be deemed to include the New Grantor.

SECTION 2. The New Grantor represents and warrants to the Collateral Agent and the other Secured Parties that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 3. This Supplement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received counterparts of this Supplement that, when taken together, bear the signatures of the New Grantor and the Collateral Agent. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Supplement.

SECTION 4. The New Grantor hereby represents and warrants that Schedule I attached hereto sets forth all information as to such Grantor that would be required in order to make the Perfection Certificate true and complete if it were executed and delivered by such Grantor on and as of the date hereof.

SECTION 5. Except as expressly supplemented hereby, the Security Agreement shall remain in full force and effect.

SECTION 6. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 7. In case any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained

herein and in the Security Agreement shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties hereto shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 8. The New Grantor agrees to reimburse the Collateral Agent for its reasonable out-of-pocket expenses in connection with this Supplement, including the reasonable fees, other charges and disbursements of counsel for the Collateral Agent.

IN WITNESS WHEREOF, the New Grantor and the Collateral Agent have duly executed this Supplement to the Security Agreement as of the day and year first above written.

[Name of New Grantor],

by

Name:
Title:
Address:

CREDIT SUISSE FIRST BOSTON, as
Collateral Agent,

by

Name:
Title:

by

Name:
Title:

EXHIBIT 10.22(F)

Playboy Enterprises, Inc.
Fifth Amendment To Credit Agreement

Harris Trust and Savings Bank
Chicago, Illinois

LaSalle National Bank
Chicago, Illinois

Ladies and Gentlemen:

Reference is hereby made to the Credit Agreement dated as of February 10, 1995, as amended (said Credit Agreement as so amended being referred to herein as the "Credit Agreement") currently in effect by and among, Playboy Enterprises, Inc., a Delaware corporation (the "Company"), and you (the "Lenders"). All capitalized terms used herein without definition shall have the same meanings herein as such terms have in the Credit Agreement.

The Company hereby applies to the Lenders to increase the amount of the Revolving Credit Commitments to $40,000,000 and make certain other amendments to the Credit Agreement, and the Lenders are willing to do so under the terms and conditions set forth in this Amendment.

1. Amendment.

Upon the satisfaction of the conditions precedent set forth in Section 2 hereof the Credit Agreement shall be and hereby is amended as follows:

1.01. Increase in Revolving Credit Commitments. The amount of each Lender's Revolving Credit Commitment set forth opposite its name on its signature page to the Credit Agreement shall be amended and as so amended shall be restated as follows:

Lender	Amount of Revolving Credit Commitment
Harris Trust and Savings Bank	$20,000,000
LaSalle National Bank	$20,000,000

Notwithstanding that the increase in the Revolving Credit Commitments contemplated by Section 1.01 hereof shall not become effective until the satisfaction of the conditions precedent set forth in Section 2 hereof, for purposes of calculating the commitment fee payable under Section 3.1 of the Credit Agreement, the Revolving Credit Commitments of the Lenders shall be

deemed to have been so increased immediately upon the date on which all the Lenders have executed this Amendment (the "Fifth Amendment Effective Date").

1.02. Replacement of B-Notes. In replacement for the B-Notes both dated March 5, 1996 in the aggregate face principal amount of $5,000,000 (the "Existing B-Notes") now outstanding for Loans by the Lenders in excess of $30,000,000 to the Company pursuant to the Credit Agreement and the other changes made hereby, the Company shall execute and deliver to each of the Lenders revolving credit notes in the aggregate face principal amount of $10,000,000 in the form annexed hereto as Exhibit A-1 (the "New B-Notes") which shall substitute for the Existing B-Notes. Each New B-Note to a Lender shall evidence such Lender's ratable share of all Loans now or hereafter outstanding in excess of $30,000,000 under the Revolving Credit (including such Lender's ratable share of the Loans previously evidenced by the Existing B-Notes). All references in the Credit Agreement or in any other instrument or document referring to the Existing B-Notes shall be deemed references to the New B-Notes.

1.03. Exhibit A-1. Exhibit A-1 of the Credit Agreement shall be replaced with Exhibit A-1 attached hereto.

2. Conditions Precedent.

The effectiveness of this Amendment is subject to the satisfaction of all of the following conditions precedent:

2.01. The Company, the Agent and the Lenders shall have executed and delivered this Amendment.

2.02. The Agent shall have received, for cancellation and return to the Company, the Existing B-Notes currently held by the Lenders, such Existing B-Notes to no longer constitute B-Notes for any purpose of the Credit Agreement upon the Agent's delivery of the same to the Company.

2.03. The Agent shall have received for the account of the Lenders replacement B-Notes in the form attached hereto as Exhibit A-1.

2.04. The Company shall have executed a Third Supplemental Deed of Trust, Fixture Filing and Security Agreement with Assignment of Rents (the "Third Supplement") supplementing the California Mortgage so that the same shall secure the Revolving Credit as increased hereby.

2.05. No Default or Event of Default shall have occurred and be continuing as of the date this Amendment would otherwise take effect.

3. Condition Subsequent.

The Agent shall have received for the Lenders on or before January 19, 1999 copies of resolutions of the Company's and of each Subsidiary's Board of

Directors ratifying the execution, delivery and performance of this Amendment and the other Loan Documents to which it is a party and the consummation of the transactions contemplated hereby and thereby, all certified in each instance by its Secretary or Assistant Secretary.

4. Representations.

In order to induce the Lenders to execute and deliver this Amendment, the Company hereby represents to the Lenders that as of the date hereof, the representations and warranties set forth in Section 6 of the Credit Agreement are and shall be and remain true and correct (except that for purposes of this paragraph, (i) the representations contained in Section 6.3 shall be deemed to include this Amendment as and when it refers to Loan Documents and (ii) the representations contained in Section 6.5 shall be deemed to refer to the most recent financial statements of the Company delivered to the Lenders) and the Company is in full compliance with all of the terms and conditions of the Credit Agreement and no Default or Event of Default has occurred and is continuing under the Credit Agreement or shall result after giving effect to this Amendment.

5. Miscellaneous.

5.01. The Company acknowledges and agrees that all of the Collateral Documents to which it is a party remain in full force and effect for the benefit and security of, among other things, the Revolving Credit as modified hereby. The Company further acknowledges and agrees that all references in such Collateral Documents to the Revolving Credit shall be deemed a reference to the Revolving Credit as so modified. The Company further agrees to execute and deliver any and all instruments or documents as may be required by the Agent or Required Lenders to confirm any of the foregoing.

5.02. Except as specifically amended herein, the Credit Agreement shall continue in full force and effect in accordance with its original terms. Reference to this specific Amendment need not be made in the Credit Agreement, the Notes, or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made pursuant to or with respect to the Credit Agreement, any reference in any of such items to the Credit Agreement being sufficient to refer to the Credit Agreement as amended hereby.

5.03. This Amendment may be executed in any number of counterparts, and by the different parties on different counterpart signature pages, all of which taken together shall constitute one and the same agreement. Any of the parties hereto may execute this Amendment by signing any such counterpart and each of such counterparts shall for all purposes be deemed to be an original. This Amendment shall be governed by the internal laws of the State of Illinois.

Dated as of December 31, 1998.

Playboy Enterprises, Inc.

By /s/ Robert D. Campbell

Its V.P., Treasurer

Each of the undersigned acknowledges and agrees that while the following is not required, each confirms that: (i) all of the Collateral Documents to which it is a party remain in full force and effect for the benefit and security of, among other things, the Revolving Credit as modified hereby; (ii) all references in such Collateral Documents to the Credit Agreement shall be deemed a reference to the Credit Agreement as amended hereby; (iii) each of the undersigned will continue to execute and deliver any and all instruments or documents as may be required by the Agent or Required Lenders to confirm any of the foregoing.

PLAYBOY ENTERTAINMENT GROUP, INC.

By /s/ Robert D. Campbell

Its V.P., Treasurer

CRITICS' CHOICE VIDEO, INC.

By /s/ Robert D. Campbell

Its V.P., Treasurer

LIFESTYLE BRANDS, LTD.

By /s/ Robert D. Campbell

Its V.P., Treasurer

Accepted and agreed to in Chicago, Illinois as of the date and year last above written.

Harris Trust And Savings Bank

By /s/ Scott F. Geik

Its Vice President

LaSalle National Bank

By /s/ Melissa Bleiweis

Its Assistant Vice President

B-Note

Chicago, Illinois
$5,000,000 December 31, 1998

On the Termination Date, for value received, the undersigned, Playboy Enterprises, Inc., a Delaware corporation (the "Company"), hereby promises to pay to the order of Harris Trust and Savings Bank (the "Lender"), at the principal office of Harris Trust and Savings Bank in Chicago, Illinois, the principal sum of (i) Five Million and no/100 Dollars ($5,000,000), or (ii) such lesser amount as may at the time of the maturity hereof, whether by acceleration or otherwise, be the aggregate unpaid principal amount of all Loans owing from the Company to the Lender under the Revolving Credit provided for in the Credit Agreement hereinafter mentioned.

This Note evidences loans constituting part of a "Domestic Rate Portion" and "LIBOR Portions" as such terms are defined in that certain Credit Agreement dated as of February 10, 1995, as amended, between the Company, Harris Trust and Savings Bank, individually and as Administrative Agent thereunder, and the other Lenders which are now or may from time to time hereafter become parties thereto (said Credit Agreement, as the same may be amended, modified or restated from time to time, being referred to herein as the "Credit Agreement") made and to be made to the Company by the Lender under the Revolving Credit provided for under the Credit Agreement, and the Company hereby promises to pay interest at the office described above on each loan evidenced hereby at the rates and at the times and in the manner specified therefor in the Credit Agreement.

Each loan made under the Revolving Credit provided for in the Credit Agreement by the Lender to the Company against this Note, any repayment of principal hereon, the status of each such loan from time to time as part of the Domestic Rate Portion or a LIBOR Portion and, in the case of any LIBOR Portion, the interest rate and Interest Period applicable thereto shall be endorsed by the holder hereof on a schedule to this Note or recorded on the books and records of the holder hereof (provided that such entries shall be endorsed on a

schedule to this Note prior to any negotiation hereof). The Company agrees that in any action or proceeding instituted to collect or enforce collection of this Note, the entries so endorsed on a schedule to this Note or recorded on the books and records of the holder hereof shall be prima facie evidence of the unpaid principal balance of this Note, the status of each such loan from time to time as part of the Domestic Rate Portion or a LIBOR Portion, and, in the case of any LIBOR Portion, the interest rate and Interest Period applicable thereto.

This Note is issued by the Company under the terms and provisions of the Credit Agreement and is secured by, among other things, the Collateral Documents, and this Note and the holder hereof are entitled to all of the benefits and security provided for thereby or referred to therein, to which reference is hereby made for a statement thereof. This Note may be declared to be, or be and become, due prior to its expressed maturity, voluntary prepayments may be made hereon, and certain prepayments are required to be made hereon, all in the events, on the terms

and with the effects provided in the Credit Agreement. All capitalized terms used herein without definition shall have the same meanings herein as such terms are defined in the Credit Agreement.

This Note is issued in substitution and replacement for, and evidences in part certain of the indebtedness previously evidenced by that certain B-Note of the Company dated March 5, 1996 payable to the order of the Lender in the face principal amount of $2,500,000.

This Note shall be construed in accordance with, and governed by, the internal laws of the State of Illinois without regard to principles of conflicts of laws.

The Company hereby promises to pay all costs and expenses (including reasonable attorneys' fees) suffered or incurred by the holder hereof in collecting this Note or enforcing any rights in any collateral therefor. The Company hereby waives presentment for payment and demand.

PLAYBOY ENTERPRISES, INC.

By /s/ Robert D. Campbell

Name: Robert D. Campbell

Title: V.P., Treasurer

EXHIBIT 10.22(G)

Playboy Enterprises, Inc.
Sixth Amendment To Credit Agreement

Harris Trust and Savings Bank
Chicago, Illinois

LaSalle National Bank
Chicago, Illinois

Ladies and Gentlemen:

Reference is hereby made to the Credit Agreement dated as of February 10, 1995, as amended (said Credit Agreement as so amended being referred to herein as the "Credit Agreement") currently in effect by and among, Playboy Enterprises, Inc., a Delaware corporation (the "Company"), and you (the "Lenders"). All capitalized terms used herein without definition shall have the same meanings herein as such terms have in the Credit Agreement.

The Company hereby applies to the Lenders to extend the availability of the Revolving Credit under the Credit Agreement, and the Lenders are willing to do so under the terms and conditions set forth in this Amendment.

1. Amendment.

Upon the satisfaction of the conditions precedent set forth in Section 2 hereof, the definition of "Termination Date" appearing in Section 5.1 of the Credit Agreement is hereby amended and as so amended shall be restated in its entirety to read as follows:

> " "Termination Date" means March 31, 1999, or such earlier date on which the Revolving Credit Commitments are terminated in whole pursuant to Sections 3.4, 3.5, 9.2 or 9.3 hereof or such later date to which the Revolving Credit Commitments are extended pursuant to Section 11.20 hereof.

2. Conditions Precedent.

The effectiveness of this Amendment is subject to the satisfaction of all of the following conditions precedent:

2.01. The Company, the Agent and the Lenders shall have executed and delivered this Amendment.

2.02. No Default or Event of Default shall have occurred and be continuing as of the date this Amendment would otherwise take effect.

3. Condition Subsequent.

The Agent shall have received for the Lenders on or before March 17, 1999 copies of resolutions of the Company's and of each Subsidiary's Board of Directors ratifying the execution, delivery and performance of this Amendment and the other Loan Documents to which it is a party and the consummation of the transactions contemplated hereby and thereby, all certified in each instance by its Secretary or Assistant Secretary.

4. Representations.

In order to induce the Lenders to execute and deliver this Amendment, the Company hereby represents to the Lenders that as of the date hereof, the representations and warranties set forth in Section 6 of the Credit Agreement are and shall be and remain true and correct (except that for purposes of this paragraph, (i) the representations contained in Section 6.3 shall be deemed to include this Amendment as and when it refers to Loan Documents and (ii) the representations contained in Section 6.5 shall be deemed to refer to the most recent financial statements of the Company delivered to the Lenders) and the Company is in full compliance with all of the terms and conditions of the Credit Agreement and no Default or Event of Default has occurred and is continuing under the Credit Agreement or shall result after giving effect to this Amendment.

5. Miscellaneous.

5.01. The Company acknowledges and agrees that all of the Collateral Documents to which it is a party remain in full force and effect for the benefit and security of, among other things, the Revolving Credit as modified hereby. The Company further acknowledges and agrees that all references in such Collateral Documents to the Revolving Credit shall be deemed a reference to the Revolving Credit as so modified. The Company further agrees to execute and deliver any and all instruments or documents as may be required by the Agent or Required Lenders to confirm any of the foregoing.

5.02. Except as specifically amended herein, the Credit Agreement shall continue in full force and effect in accordance with its original terms. Reference to this specific Amendment need not be made in the Credit Agreement, the Notes, or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made pursuant to or with respect to the Credit Agreement, any reference in any of such items to the Credit Agreement being sufficient to refer to the Credit Agreement as amended hereby.

5.03. This Amendment may be executed in any number of counterparts, and by the different parties on different counterpart signature pages, all of which taken together shall constitute one and the same agreement. Any of the parties hereto may execute this Amendment by signing any such counterpart and each of such counterparts shall for all purposes be deemed to be an original. This Amendment shall be governed by the internal laws of the State of Illinois.

Dated as of March 5, 1999.

Playboy Enterprises, Inc.

By/s/ Robert D. Campbell

Its V.P., Treasurer

Each of the undersigned acknowledges and agrees that while the following is not required, each confirms that: (i) all of the Collateral Documents to which it is a party remain in full force and effect for the benefit and security of, among other things, the Revolving Credit as modified hereby; (ii) all references in such Collateral Documents to the Credit Agreement shall be deemed a reference to the Credit Agreement as amended hereby; (iii) each of the undersigned will continue to execute and deliver any and all instruments or documents as may be required by the Agent or Required Lenders to confirm any of the foregoing.

Playboy Entertainment Group, Inc.

By/s/ Robert D. Campbell

Its Treasurer

Critics' Choice Video, Inc.

By/s/ Robert D. Campbell

Its Treasurer

Lifestyle Brands, Ltd.

By/s/ Robert D. Campbell

Its Treasurer

Accepted and agreed to in Chicago, Illinois as of the date and year last above written.

Harris Trust And Savings Bank

By/s/ Scott F. Geik

Its Vice President

LaSalle National Bank

By/s/ Melissa Bleiweis

Its Assistant Vice President

EXHIBIT 10.24(D)

COMMERCIAL OFFICE LEASE

BETWEEN

5055 WILSHIRE LIMITED PARTNERSHIP

as Landlord

AND

PLAYBOY ENTERPRISES, INC.

as Tenant

Dated: January 6, 1999

TABLE OF CONTENTS

LIST OF EXHIBITS

COMMERCIAL OFFICE
LEASE

THIS COMMERCIAL OFFICE LEASE (hereinafter the "Lease") is made as of the 6th day of January 1999 ("Date of Lease"), by and between 5055 WILSHIRE LIMITED PARTNERSHIP, a Texas limited partnership ("Landlord"), and PLAYBOY ENTERPRISES, INC., a Delaware corporation ("Tenant").

Landlord and Tenant, intending legally to be bound, agree as set forth below.

ARTICLE I
BASIC LEASE PROVISIONS

In addition to the terms which are defined elsewhere in this Lease, the following defined terms are used in this Lease:

1.1 Building. The building located at the address indicated below which is on the Land (as hereinafter defined), and all alterations, additions, improvements, restorations or replacements now or hereafter made thereto.

1.2 Building Address: 5055 Wilshire Boulevard
Los Angeles, California 90036

1.3 Premises. 21,270 rentable square feet known as Suite 800 and consisting of the entire eighth (8th) floor of the Building as outlined on Exhibit A-1 attached hereto and made a part hereof. The Premises contains 18,666 usable square feet and the rentable area thereof has been determined in accordance with ANSI/BOMA Z65.1-1996.

1.4 Land. The piece or parcel of land which comprises the Project (as hereinafter defined), as more particularly described on Exhibit A-2 attached hereto and made a part hereof, and all rights, easements and appurtenances thereunto belonging or pertaining, or such portion thereof as shall be allocated by Landlord to the Project.

1.5 Project. The development known as 5055 Wilshire consisting of the real property and all improvements built thereon including without limitation the Land, Building, Common Area (as hereinafter defined), Parking Facilities (as hereinafter defined), and any other buildings, walkways, driveways, fences and landscaping, containing approximately 168,873 rentable square feet. For purposes of this Lease, the calculation of the rentable square feet of the Project excludes the rentable square feet of the basement of the Building and the rentable square feet of the delicatessen.

1.6 (Intentionally Deleted).

1.7 Permitted Use. The Premises shall be used solely as a general business and video film editing office, including, without limitation, for a gentlemen's magazine. Under no circumstances shall any live nude video filming or live nude photography be conducted within the Premises.

1.8 Commencement Date. January 1, 1999, subject to adjustment as specified in Article III.

1.9 Expiration Date. February 28, 2002.

1.10 Term. Thirty-eight (38) months, beginning on the Commencement Date and expiring on the Expiration Date, subject to adjustment as specified in Article III.

1.11 Basic Rent. The amount set forth in the following schedule, subject to adjustment as specified in Article IV.

Month(s)	Monthly Basic Rent	Annual Basic Rent
1-12	$35,095.50	$421,146.00
13-24	$36,159.00	$433,908.00
25-38	$37,222.50	$446,670.00

1.12 Base Year. A period of twelve (12) months comprising calendar year 1999.

1.13 Lease Year. Each consecutive twelve (12) month period elapsing after: (i) the Commencement Date if the Commencement Date occurs on the first day of a month; or (ii) the first day of the month following the Commencement Date if the Commencement Date does not occur on the first day of a month. Notwithstanding the foregoing, the first Lease Year shall include the additional days, if any, between the Commencement Date and the first day of the month following the Commencement Date, in the event the Commencement Date does not occur on the first day of a month.

1.14 Calendar Year. For the purpose of this Lease, Calendar Year shall be a period of twelve (12) months commencing on each January 1 during the Term, except that the first Calendar Year shall be that period from and including the

Commencement Date through December 31 of that same year, and the last Calendar Year shall be that period from and including the last January 1 of the Term through the earlier of the Expiration Date or date of Lease termination.

1.15 Tenant's Proportionate Share. Tenant's Proportionate Share of the Project is 12.60% (determined by dividing the rentable square feet of the Premises by the rentable square feet of the Project and multiplying the resulting quotient by one hundred and rounding to the second decimal place).

1.16 Parking Space Allocation. Tenant shall have the right to eighty-six (86) parking spaces within the Parking Facilities, five (5) of which shall be reserved garage parking spaces at a rate of $125.00 per month per space for the initial Term, twenty-four (24) of which shall be unreserved garage parking spaces at a rate of $75.00 per month per space for the initial Term and fifty-seven (57) of which shall be unreserved parking spaces on the surface parking lot as shown on Exhibit E attached hereto and incorporated herein by reference. The rental rate for the surface parking spaces shall be $50.00 per month per space for the initial Term. All quoted parking rates are exclusive of taxes, which taxes shall be payable by Tenant in addition to parking rental simultaneously with payment of such rents. Tenant's Parking Space Allocation shall include one (1)

unreserved handicapped parking space. Tenant shall have the right to reduce its Parking Space Allocation in accordance with the provisions of Article VIII, Section (c).

1.17 Security Deposit. (Intentionally Deleted).

1.18 Broker (if any).

Landlord's:	Grubb & Ellis Company 1000 Wilshire Boulevard, Suite 200 Los Angeles, California 90017
Tenant's:	First Property Realty Corporation 1930 Century Park West, Suite 333 Los Angeles, California 90067
1.19 Guarantor(s):	N/A
1.20 Landlord's Notice Address	USAA Real Estate Company 9830 Colonnade Boulevard, Suite 600

	San Antonio, Texas 78230-2239 Attention: AVP Portfolio Management
with a copy at the same time to:	USAA Real Estate Company 9830 Colonnade Boulevard, Suite 600 San Antonio, Texas 78230-2239 Attention: VP Real Estate Counsel
	USAA Realty Company 2201 Dupont Drive, Suite 360 Irvine, California 92612 Attention: Executive Director, Western Region
	USAA Realty Company 5055 Wilshire Boulevard, Suite 320 Los Angeles, California 90036 Attention: Property Manager
1.21 Tenant's Notice Address:	9242 Beverly Blvd. Beverly Hills, California 90210 Attention: Legal Department
1.22 Guarantor(s) Notice Address:	N/A

1.23 Interest Rate: The per annum interest rate listed as the base rate on corporate loans at large U.S. money center commercial banks as published from time to time under "Money Rates" in the Wall Street Journal plus three percent (3%), but in no event greater than the maximum rate permitted by law. In the event the Wall Street Journal ceases to publish such rates, Landlord shall choose, at Landlord's reasonable discretion, a similarly published rate.

1.24 Common Area: All areas, improvements, facilities and equipment from time to time designated by Landlord for the general and nonexclusive common use or benefit of Tenant, other tenants of the Project, Landlord and their respective Agents (as hereinafter defined), including, without limitation, roadways, entrances and exits, hallways, stairs, loading areas, landscaped areas , open areas, park areas, exterior lighting, service drives, walkways, sidewalks, atriums, courtyards, concourses, ramps, washrooms, maintenance and utility rooms and closets, exterior utility lines, lobbies, elevators and their housing and rooms, common window areas, common walls, common ceilings, common

trash areas, vending or mail areas, common pipes, conduits, ducts and wires, and Parking Facilities.

1.25 Agents: Officers, partners, directors, employees, agents, licensees, contractors, customers and invitees; to the extent customers and invitees are under the principal's control or direction.

1.26 Parking Facilities: All parking areas now or hereafter designated by Landlord for use by tenants of the Project and/or their guests and invitees, including, without limitation, surface parking, parking decks, parking structures and parking areas under or within the Project whether reserved, exclusive, non-exclusive or otherwise.

ARTICLE II
THE PREMISES

2.1 Lease of Premises. In consideration of the agreements contained herein, Landlord hereby leases the Premises to Tenant, and Tenant hereby leases the Premises from Landlord, for the Term and upon the terms and conditions hereinafter provided. It is specifically understood that, for the purpose of any calculations which are based on the rentable square feet of the Premises, the number of rentable square feet stated in Article I shall control. The Premises are leased subject to, and Tenant agrees not to violate, any and all Restrictions (as hereinafter defined) to the extent such Restrictions (i) do not materially interfere with or materially deprive Tenant of the benefit of Tenant's use and enjoyment of the Building or the Premises for the Permitted Use as defined in Section 1.7; (ii) do not materially affect Tenant's rights under the Lease; and (iii) do not deny Tenant reasonable ingress and egress to and from the Premises. The Restrictions shall be defined as all encumbrances of record as of the Date of Lease and all future covenants, conditions and restrictions placed of record which affect the Land. As an appurtenance to the Premises, Tenant shall have the general and nonexclusive right, together with Landlord and the other tenants of the Project and their respective Agents (as previously defined), to use the Common Area subject to the terms and conditions of this Lease.

2.2 Landlord's Reservations. Landlord shall retain absolute dominion and control over the Common Area and shall operate and maintain the Common Area in such manner as Landlord in its sole discretion, shall determine; provided however, such exclusive right shall not operate to (i) prohibit Tenant from its material benefit and enjoyment of the Building or the Premises for the Permitted Use as defined in Section 1.7; (ii) deny Tenant reasonable ingress and egress to and from the Premises; or (iii) materially affect

Tenant's rights under the Lease. Tenant acknowledges that without advance notice

to Tenant and without any liability to Tenant in any respect, but subject to the conditions set forth in the immediately preceding sentence, Landlord shall have the right to (a) temporarily close any of the Common Area for maintenance, alteration or improvement purposes; and (b) change, alter, add to, temporarily close or otherwise affect the Parking Facilities or the Parking Space Allocation (provided, however, any Landlord reduction of the Parking Space Allocation must be temporary in nature and reasonably necessary in order to allow Landlord the opportunity to repair, restripe or otherwise operate and maintain the Parking Facilities) in such manner as Landlord, in its sole discretion, deems appropriate including, without limitation, the right to designate reserved spaces available only for use by one or more tenants (however, in such event, those parking spaces shall still be deemed Common Area for the purpose of the definition of Operating Expenses), provided that, except in emergency situations or situations beyond Landlord's control, Landlord shall provide reasonably comparable alternative Parking Facilities. Landlord may exercise any or all of the foregoing rights, subject to the foregoing conditions, without being deemed to be guilty of an eviction, actual or constructive, or a disturbance or interruption of the business of Tenant or Tenant's use or occupancy of the Premises.

ARTICLE III
TERM

The Term shall commence no later than the Commencement Date and expire at midnight on the Expiration Date. Notwithstanding the foregoing, if Substantial Completion (as defined in the Work Agreement attached hereto and made a part hereof as Exhibit B-1) of the Premises occurs on a date earlier than the Commencement Date, or if Tenant uses or accepts all or any portion of the Premises before the Commencement Date, for the purpose of conducting business operations therein, then the Commencement Date shall be the earlier of: (i) the date of Substantial Completion; or (ii) the date upon which Tenant uses or accepts all or any portion of the Premises for the purpose of conducting business operations therein. In such event, the Expiration Date shall remain unchanged. In accordance with the terms of the Work Agreement, Landlord shall diligently prosecute to completion the construction of all the Tenant Work. Landlord shall provide Tenant written notice upon Substantial Completion.

ARTICLE IV
RENT

4.1 Basic Rent. Tenant shall pay to Landlord the Basic Rent as specified in Section 1.11.

4.2 Payment of Basic Rent. Basic Rent shall be payable in monthly installments as specified in Section 1.11, in advance, without demand, notice, deduction, offset or counterclaim, except as expressly provided herein, on or before the first day of each and every calendar month during the Term; provided, however, that the installment of the Basic Rent payable for the first full calendar month of the Term (and, if the Commencement Date occurs on a date other than on the first day of a calendar month, Basic Rent prorated from such date until the first day of the following month) shall be due and payable at the time

of execution and delivery of this Lease. Tenant shall pay the Basic Rent and all Additional Rent as hereinafter defined, by good check or in lawful currency of the United States of America, to Landlord at such address as Landlord specifies to Tenant. Any payment made by Tenant to Landlord on account of Basic Rent may be credited by Landlord to the payment of any late charges then due and payable and to any Basic Rent or Additional Rent then past due before being credited to Basic Rent currently due.

4.3 Additional Rent. All sums payable by Tenant under this Lease, other than Basic Rent, shall be deemed "Additional Rent," and, unless otherwise set forth herein, shall be payable in the same manner as set forth above for Basic Rent.

4.4 Rent. Basic Rent as defined in Section 1.11 hereof and Additional Rent as defined in Section 4.3 above shall jointly be referred to as "Rent" within the meaning of California Civil Code Section 1951(a), the nonpayment of which shall entitle Landlord to exercise all rights and remedies provided in Article 21 or by law.

4.5 Sales or Excise Taxes. Tenant shall pay to Landlord as Additional Rent, concurrently with payment of Basic Rent or Additional Rent to Landlord all taxes (including, but not limited to any and all sales, rent or excise taxes) on Basic Rent or Additional Rent or other amounts payable by Tenant to or otherwise benefitting Landlord, as levied or assessed by any governmental or political body or subdivision thereof against Landlord on account of such Basic Rent, Additional Rent or other amounts payable by Tenant to or otherwise benefitting Landlord, or any portion thereof. Nothing contained in this Lease shall require Tenant to pay any franchise, estate, inheritance or succession transfer tax of Landlord or any income, profits, revenue tax or charge upon the net income of Landlord from all sources.

ARTICLE V
(INTENTIONALLY DELETED)

ARTICLE VI
OPERATING EXPENSES

6.1 Operating Expense Rental. Commencing upon expiration of the Base Year, Tenant shall pay to Landlord throughout the remainder of the Term, as Additional Rent, Tenant's Proportionate Share (as defined in Section 1.15) of the amount by which the Operating Expenses (as hereinafter defined) during each Calendar Year exceed the Operating Expenses for the Base Year (the "Operating Expense Rental"). In the event that the Expiration Date is other than the last day of a Calendar Year, then the Operating Expenses for the Base Year and applicable Calendar Year shall be appropriately prorated.

6.2 Operating Expenses Defined. As used herein, the term "Operating Expenses" shall mean all expenses, costs and disbursements of every kind and nature, except as specifically excluded otherwise herein, which Landlord incurs because of or in connection with the ownership, maintenance, management and operation of the Project, including, if the Project is less than ninety-five percent (95%) occupied, all additional costs and expenses of operation, management and maintenance of the Project which Landlord reasonably determines that it would have paid or incurred during any Calendar Year, including the Base Year, if the Project had been ninety-five percent (95%) occupied. Subject to the restrictions and exclusions set forth below, Operating Expenses may include, without limitation, all costs, expenses and disbursements incurred or made in connection with the following:

(a) Wages and salaries of all employees, whether employed by Landlord or, if paid by Landlord, the Project's management company, engaged in the operation and maintenance of the Project, and all costs related to or associated with such employees or the carrying out of their duties, including uniforms

and their cleaning, taxes, auto allowances and insurance and benefits (including, without limitation, contributions to pension and/or profit sharing plans and vacation or other paid absences);

(b) All supplies, tools, equipment and materials. including janitorial and lighting supplies, used directly in the operation and maintenance of the Project, including any lease payments therefor; provided, however, any such equipment which under generally accepted accounting principles should be classified as capital items shall be amortized on a straight-line basis over their useful lives, not to exceed the Project's useful life, together with interest on the unamortized balance of such cost at the Interest Rate, or such higher rate as may have been paid by Landlord on funds borrowed for the purposes of purchasing such equipment;

(c) All utilities, including, without limitation, electricity, telephone, water, sewer, power, gas, heating, lighting and air conditioning for the Project, except to the extent such utilities are charged directly to, or paid directly by, a tenant of the Project other than as a part of the Operating Expenses;

(d) All maintenance, operation and service agreements for the Project, and any equipment related thereto, including, without limitation, service and/or maintenance agreements for the Parking Facilities, energy management, HVAC, plumbing and electrical systems, and for window cleaning, elevator maintenance, janitorial service, groundskeeping, interior and exterior landscaping and plant maintenance;

(e) All insurance purchased by Landlord or the Project's management company relating to the Project and any equipment or other property contained therein or located thereon including, without limitation, casualty, liability, earthquake, rental loss, sprinkler and water damage insurance. Notwithstanding the foregoing, in the event the cost of earthquake insurance is not included within Operating Expenses for the Base Year, but is included within Operating Expenses for one or more subsequent years, Operating Expenses for the Base Year shall be deemed increased by the amount Landlord would have incurred had such cost of earthquake insurance actually been included within Operating Expenses for the Base Year. Furthermore, in the case of any insurance premiums which may be paid in annual or other periodic installments throughout the year, Landlord shall calculate Operating Expenses hereunder as if such insurance premium were paid in the maximum number of installments permitted without incurring interest or penalties, regardless of whether such premiums are actually paid in annual or periodic installments;

(f) All repairs to the Project (excluding to the extent repairs are paid for by the proceeds of insurance or by Tenant or other third parties other than as a part of the Operating Expenses), including interior, exterior, structural or nonstructural repairs, and regardless of whether foreseen or unforeseen; provided, however, any such repairs which under generally accepted accounting principles should be classified as capital improvements shall be amortized on a straight-line basis over their useful lives, not to exceed the Projects useful life, together with interest on the unamortized balance of such cost at the Interest Rate, or such higher rate as may have been paid by Landlord on funds borrowed for the purposes of constructing such capital improvements. Notwithstanding the foregoing, (i) costs of replacement of any Building system (as opposed to costs of repair to the existing system or costs of replacing components of the existing system), which costs of replacement of the entire Building system exceeds Twenty-five Thousand and No/100 Dollars ($25,000.00) shall be specifically excluded from Operating Expenses unless otherwise permitted under subparagraph (1) below; and (ii) costs of replacement of any major structural component of the Building (excluding the roof) of a capital nature shall be specifically excluded unless otherwise permitted under subparagraph (1) below;

(g) All maintenance of the Project, including, without limitation, repainting, replacement of wall coverings and window coverings, replacement of carpeting, ice and snow removal, window washing, landscaping, groundskeeping trash removal and the patching, painting, resealing and complete resurfacing of roads, driveways and parking lots; provided, however, any such maintenance, repairs or replacements which under generally accepted accounting principles should be classified as capital improvements shall be amortized on a straight-line basis over their useful lives, not to exceed the Project's useful life,

together with interest on the unamortized balance of such cost at the Interest Rate, or such higher rate as may have been paid by Landlord on funds borrowed for the purposes of constructing such capital improvements;

(h) A management fee payable to Landlord or the company or companies managing the Project, if any; provided, however, the management fee for the initial Lease Term shall not exceed four percent (4%) of total rent (including Basic Rent and Additional Rent) collected for the Project during such Term;

(i) That part of office rent or rental value of space in the Project used or furnished by Landlord to manage, operate and maintain the Project to the extent such rent or rental value does not exceed then current rates being charged for comparable space within the Miracle Mile Area;

(j) Accounting and legal fees incurred in connection with the operation and maintenance of the Project, or related thereto;

(k) Any additional services not provided to the Project at the Commencement Date but thereafter provided by Landlord which Landlord reasonably deems necessary or desirable in connection with the management or operation of the Project;

(l) Any capital improvements made to the Project for the purpose of reducing Operating Expenses or which are required under any governmental law or regulation that was not applicable to the Project as of the Date of Lease (which are not a result of the nature of Tenant's specific use of the Premises, which capital improvements shall be the responsibility of Tenant), the cost of which shall be amortized on a straight-line basis over the improvement's useful life, not to exceed the Project's useful life, together with interest on the unamortized balance of such cost at the Interest Rate, or such higher rate as may have been paid by Landlord on funds borrowed for the purposes of constructing such capital improvements; and

(m) Other expenses and costs reasonably necessary for operating and maintaining the Project.

Notwithstanding the foregoing, Operating Expenses shall not include:

(i) ground rents or underlying lease rental, if any;

(ii) bad debt loss, rent loss or reserves for bad debts or rent loss;

(iii) interest, principal, points and fees or amortization on any mortgage or any other debt instrument encumbering the Project;

(iv) depreciation or amortization of the Project or any other improvements, fixtures or equipment within the Project, except as otherwise provided in subsections (b), (f), (g), and (1) above;

(v) capital items other than those referred to in subsections (b), (f), (g) and (1) above;

(vi) expenditures incurred by Landlord for the repair or damage to the Project resulting from fire or other casualty to the extent Landlord is reimbursed by insurance proceeds;

(vii) expenditures incurred by Landlord for the repair of damage to the Project resulting from the exercise of the right of eminent domain or voluntary conveyance in lieu thereof to the extent Landlord is reimbursed by the condemning authority;

(viii) expenditures which are reimbursed or compensated by warranties;

(ix) Landlord's advertising and promotional expenses, including the costs of acquiring and maintaining signs (other than directional or information signs) in or on the Building identifying the owner of the Building or other tenants;

(x) leasing and sales commissions and finders' fees;

(xi) attorneys' fees incurred by Landlord in connection with negotiations for leases with tenants or prospective tenants of the Project and in connection with disputes with and/or enforcement of any leases with tenants or prospective tenants of the Project; provided, however, Operating Expenses shall include those reasonable attorneys' fees and other costs and expenses incurred in connection with Landlord's successful negotiations of disputes or claims related to enforcement of Rules and Regulations for the Project;

(xii) costs of tenant improvements, including architectural and engineering costs, "tenant allowances" and "tenant concessions", permit, license and inspection fees, clean-up costs and other costs and expenses incurred in renovating leased space for the exclusive use of a particular tenant of the Project;

(xiii) costs of tenant services not offered on a regular basis to all tenants of the Building;

(xiv) items and services for which a tenant or any third party specifically reimburses Landlord or for which a tenant pays third persons;

(xv) wages, salaries, fees and benefits paid to administrative or executive personnel of Landlord above the level of property manager for the Project and below such level for any personnel to the extent not involved in the direct management of the Building or Project;

(xvi) any cost representing an amount paid as interest or for services or materials to a person, firm or entity related to Landlord or any general partner of Landlord, to the extent such amount exceeds the amount that would be paid as interest or for such services or materials of

comparable quality at the then existing market rates to an unrelated person, firm or corporation:

(xvii) costs associated with the operation of the business of the partnership which constitutes the Landlord, as the same are distinguished from the cost of operation of the Project;

(xviii) any compensation paid to persons, including clerks and attendants, in connection with Landlord's operating food or retail concessions, excluding any operation of the Parking Facilities;

(xix) costs incurred due to Landlord's violation of laws in effect as of the Date of Lease;

(xx) costs of litigation when a judgment of negligence is rendered against Landlord;

(xxi) Landlord's cost and expense of cleaning up, removing, remediating or repairing any soil or groundwater contamination or other damage or contamination caused by the presence or any release of Hazardous Materials in, on, from, under or about the Premises or Project, except to the extent of Tenant's obligations pursuant to Section 9.3 below;

(xxii) Landlord's charitable or political contributions;

(xxiii) costs associated with the repair or correction of latent defects in the initial design or construction of the Project;

(xxiv) costs for paintings, sculpture or other works of art, unless decorative and non-investment grade in terms of quality and utilized for cosmetic enhancement of the Common Areas only; and

(xxv) all interest, late charges, penalties and attorneys' fees incurred as a result of Landlord's violation of laws (including environmental laws) promulgated after the Date of Lease, except to the extent resulting from the failure of Tenant to pay Rent in a timely manner;

(xxvi) Impositions (as defined in Article VII hereof);

(xxvii) costs of compliance with the ADA to the extent Landlord is responsible for such costs pursuant to Section 9.4(a) herein or pursuant to Section 2.1 of the Work Agreement; and

(xxviii) costs incurred in connection with the development of one or more additional buildings on the Project, which development is intended for the purpose of increasing the leasable area of the Project.

6.3 Adjustments to Operating Expense Rental. Landlord shall submit to Tenant, before the expiration of the Base Year and the beginning of each Calendar Year thereafter or as soon thereafter as reasonably possible, a statement of Landlord's reasonable estimate of Tenant's Proportionate Share of the increase in Operating Expenses over Operating Expenses for the Base Year payable by Tenant during such Calendar Year. Commencing upon expiration of the Base Year and in addition to the Basic Rent, Tenant shall

pay to Landlord on or before the first day of each month during such Calendar Year an amount equal to one-twelfth (1/12) of Tenant's Proportionate Share of the estimated increase in Operating Expenses over Operating Expenses for the Base Year payable by Tenant for such Calendar Year as set forth in Landlord's statement. If Landlord fails to give Tenant notice of its estimated payments due under this section for any Calendar Year, then Tenant shall continue making monthly estimated payments in accordance with the estimate for the previous Calendar Year until a new estimate is provided. If Landlord determines that, because of unexpected increases in Operating Expenses or other reasons, Landlord's estimate of the Operating Expenses was too low, then Landlord shall have the right to give a new statement of the estimated Operating Expenses due from Tenant for such Calendar Year or the balance thereof accompanied by an explanation of the necessity for such new statement and to bill Tenant for any deficiency which may have accrued during such Calendar Year, and Tenant shall thereafter pay monthly estimated payments based on such new statement.

Within ninety (90) days after the expiration of each Calendar Year following expiration of the Base Year, or as soon thereafter as is practicable, Landlord shall submit a statement to Tenant showing in reasonable detail the actual Operating Expenses for such Calendar Year and the Base Year, each broken down by component expenses, and Tenant's Proportionate Share of the amount by which such Operating Expenses exceed the Operating Expenses for the Base Year. If for any Calendar Year, Tenant's estimated monthly payments exceed Tenant's Proportionate Share of the amount by which the actual Operating Expenses for such Calendar Year exceed the Operating Expenses for the Base Year, then Landlord shall give Tenant a credit in the amount of the overpayment toward Tenant's next monthly payments of estimated Operating Expenses or, in the event

no monthly estimated Operating Expenses are being paid, Landlord shall credit Basic Rent. In the event the Lease has expired, any such overpayment shall be paid directly to the Tenant. If for any Calendar Year Tenant's estimated monthly payments are less than Tenant's Proportionate Share of the amount by which the actual Operating Expenses for such Calendar Year exceed the Operating Expenses for the Base Year, then Tenant shall pay the total amount of such deficiency to Landlord within fifteen (15) days after receipt of the statement from Landlord. Landlord's and Tenant's obligations with respect to any overpayment or underpayment of Operating Expenses shall survive the expiration or termination of this Lease.

6.4 Right to Audit. Provided that no Event of Default shall exist under this Lease at the time Tenant exercises any audit right hereunder, Tenant shall have one hundred eighty (180) days after delivery of the Operating Expense Rental reconciliation statement within which to complete an audit of Landlord's books and records concerning the Operating Expenses for the Project for such previous Calendar Year, at Tenant's sole cost and expense. Tenant, or an independent certified public accountant designated by Tenant shall have the right to inspect Landlord's books and records concerning the Operating Expenses for the Project for such previous Calendar Year during Landlord's Normal Business Hours (as defined in Exhibit C) and at Landlord's local office upon at least thirty (30) days prior written notice. Such notice shall be accompanied by a Confidentiality Agreement, substantially in the form attached hereto as Exhibit H executed by Tenant and any other person which may perform such audit for Tenant. Tenant shall be entitled to only one audit per Calendar Year during the Term and in no event shall any audit extend beyond thirty (30) days, nor shall any auditor be compensated on a contingency fee basis. In the event of an assignment, Tenant and any assignee shall together be entitled to one audit per Calendar Year. No subtenant shall have any right to conduct an audit and no assignee shall conduct an audit for any period during which such assignee was not in possession of the Premises. Tenant shall deliver to Landlord a copy of the results of such audit within ten (10) days of receipt by Tenant. In the event that Tenant's review of Landlord's books and records results in a determination that Tenant's payment of Tenant's Proportionate Share of the Operating Expenses exceeded Tenant's Proportionate

Share of the actual Operating Expenses which should have been passed through to Tenant, as substantiated, at Landlord's option, by an independent certified public accountant, then a credit in the amount of the overpayment shall be applied towards Tenant's next monthly payments of Operating Expenses or, in the event no monthly estimated Operating Expenses are being paid, Landlord shall credit Basic Rent. In the event the Lease has expired, any overpayment shall be paid directly to the Tenant. Furthermore, in the event that Tenant's review of Landlord's books and records results in a determination that Tenant's payment of Tenant's Proportionate Share of Operating Expenses exceeded Tenant's

Proportionate Share of the actual Operating Expenses which should have been passed through to Tenant by more than ten percent (10%), as substantiated, at Landlord's option, by an independent certified public accountant using generally accepted accounting principles, then, in addition to a credit to Operating Expense Rental as described above, Landlord shall also credit Tenant against Tenant's payments of future Operating Expense Rental (or, in the event no monthly estimated Operating Expenses are being paid, Landlord shall credit Basic Rent), all out-of-pocket reasonable third party expenses incurred by Tenant in conducting the review. In the event the Lease has expired, such payment shall be made directly to the Tenant. In the event that Tenant's review of Landlord's books and records results in a determination that Tenant's payment of Tenant's Proportionate Share of the Operating Expenses was less than Tenant's Proportionate Share of the actual Operating Expenses which should have been passed through to Tenant, as substantiated at Landlord's option by a certified public accountant, then Tenant shall pay the total amount of such deficiency to Landlord within thirty (30) days after delivery of an invoice from Landlord.

ARTICLE VII
IMPOSITIONS RENTAL

7.1 Impositions Rental. Commencing upon expiration of the Base Year, Tenant shall pay to Landlord, throughout the remainder of the Term as Additional Rent, Tenant's Proportionate Share (as defined in Section 1.15) of the amount by which the Impositions (as hereinafter defined) during each Calendar Year exceed the Impositions for the Base Year ("Impositions Rental"). In the event that the Expiration Date is other than the last day of a Calendar Year, then Impositions for the Base Year and applicable Calendar Year shall be appropriately prorated.

7.2 Impositions Defined. Subject to the qualifications and limitations set forth below, Impositions shall be defined as all real property taxes and assessments levied against the Project and the various estates therein and the underlying Land, all personal property taxes levied on personal property of Landlord used in the management, operation, maintenance and repair of the Project, all taxes, assessments and reassessments of every kind and nature whatsoever levied or assessed in lieu of or in substitution for existing or additional real or personal property taxes and assessments on the Project or the sale, conveyance, assignment, ground lease or other transfer thereof, service payments in lieu of taxes, excises, transit charges and fees, housing, park and child care assessments, development and other assessments, reassessments, levies, fees or charges, general and special, ordinary and extraordinary, unforeseen as well as foreseen, of any kind which are assessed, levied, charged, confirmed or imposed by any public authority upon the Project, its operations or the Rent provided for in this Lease, or amounts necessary to be expended because of governmental orders, whether general or special, ordinary or extraordinary, unforeseen as well as foreseen, of any kind and nature for public improvements, services, benefits or any other purposes which are assessed, levied, confirmed, imposed or become a lien upon the Premises or Project or become payable during the Term. Further, for the purposes of this Article, Impositions shall include the reasonable expenses (including, without limitation, attorneys' fees)

incurred by Landlord in challenging or obtaining or attempting to obtain a reduction of such Impositions for a Calendar Year occurring during the Term, regardless of the outcome of such challenge. Notwithstanding the foregoing, Landlord shall have no obligation to challenge Impositions. If as a result of any such challenge, a tax refund is made to Landlord, then provided no uncured Event of Default exists under this Lease, the amount of such refund less the expenses of the challenge shall be deducted from Impositions due in the Lease Year such refund is received. In the case of any Impositions which may be evidenced by improvement or other bonds or which may be paid in annual or other periodic installments, Landlord shall elect to cause such bonds to be issued or cause such assessment to be paid in installments over the maximum period permitted by law. Nothing contained in this Lease shall require Tenant to pay any franchise, estate, inheritance or succession transfer tax of Landlord, or any income, profits or revenue tax or charge, upon the net income of Landlord from all sources; provided, however, that if at any time during the Term under the laws of the United States Government or the state, or any political subdivision thereof, a tax (including, but not limited to any sales tax) or excise on Rent or other amounts payable by Tenant to Landlord, or any other tax however described, is levied or assessed by any such political body against Landlord on account of Rent, or a portion thereof, Tenant shall pay one hundred percent (100%) of any such tax or excise as Additional Rent as provided in Section 4.5 above. Furthermore, nothing contained in this Lease shall require Tenant to pay any real property taxes or assessments attributable to the development of one or more additional buildings on the Project, which development is intended for the purpose of increasing the leasable area of the Project. Nothing contained in this Lease shall require Tenant to pay any penalties incurred as a result of Landlord's negligence, inability or unwillingness to make payments of and/or to file any tax or informational returns with respect to any Impositions, when due.

7.3 Adjustments to Impositions Rental. Landlord shall submit to Tenant, before the expiration of the Base Year and the beginning of each Calendar Year thereafter or as soon thereafter as reasonably possible, a statement of Landlord's estimate of Tenant's Proportionate Share of the increase in Impositions over Impositions for the Base Year payable by Tenant during such Calendar Year. Commencing upon expiration of the Base Year and in addition to the Basic Rent, Tenant shall pay to Landlord on or before the first day of each month during such Calendar Year an amount equal to one-twelfth (1/12) of Tenant's Proportionate Share of the estimated increase in Impositions over Impositions for the Base Year payable by Tenant for such Calendar Year as set forth in Landlord's statement. If Landlord fails to give Tenant notice of its estimated payments due under this section for any Calendar Year, then Tenant shall continue making monthly estimated payments in accordance with the estimate for the previous Calendar Year until a new estimate is provided. If Landlord determines that, because of unexpected increases in Impositions or other

reasons, Landlord's estimate of the Impositions was too low, then Landlord shall have the right to give a new statement of the Impositions due from Tenant for such Calendar Year or the balance thereof accompanied by an explanation of the necessity for such new statement and to bill Tenant for any deficiency which may have accrued during such Calendar Year, and Tenant shall thereafter pay monthly estimated payments based on such new statement.

Within ninety (90) days after the expiration of each Calendar Year following expiration of the Base Year, or as soon thereafter as is practicable, Landlord shall submit a statement to Tenant showing the actual Impositions for such Calendar Year and Tenant's Proportionate Share of the amount by which such Impositions exceed the Impositions for the Base Year. If for any Calendar Year, Tenant's estimated monthly payments exceed Tenant's Proportionate Share of the amount by which the actual Impositions for such Calendar Year exceed the Impositions for the Base Year, then Landlord shall give Tenant a credit in the amount of the overpayment toward Tenant's next monthly payments of estimated Impositions or, in the event no monthly

estimated Impositions are being paid, Landlord shall credit Basic Rent. In the event the Lease has expired, any such overpayment shall be paid directly to the Tenant. If for any Calendar Year Tenant's estimated monthly payments are less than Tenant's Proportionate Share of the amount by which the actual Impositions for such Calendar Year exceed the Impositions for the Base Year, then Tenant shall pay the total amount of such deficiency to Landlord within fifteen (15) days after receipt of the statement from Landlord. Landlord's and Tenant's obligations with respect to any overpayment or underpayment of Impositions shall survive the expiration or termination of this Lease.

7.4 Tenant's Payment of Certain Tax Expenses. Notwithstanding anything to the contrary contained in this Lease, in the event that, at any time during the first three (3) Lease Years, any sale, refinancing or change in ownership of the Project is consummated, and, as a result thereof, and to the extent that in connection therewith, the Project is reassessed (the "Reassessment") for real estate tax purposes by the appropriate governmental authority pursuant to the terms of California Constitution Article XIIIA (commonly known as "Proposition 13"), then the terms of this Section 7.4 shall apply to such Reassessment of the Project, pursuant to Proposition 13.

(a) The Tax Increase. For purposes of this Section 7.4, the term "Tax Increase" shall mean that portion of the Impositions, as calculated immediately following the Reassessment, which is attributable solely to the Reassessment of the Project, pursuant to Proposition 13. Accordingly, the term Tax Increase shall not include any portion of the Impositions, as calculated immediately following the Reassessment, which (i) is attributable to the initial Proposition

13 assessment of the value of the Project, the Land, the Building or the tenant improvements located in the Building; (ii) is attributable to assessments which were pending immediately prior to the Reassessment which assessments were conducted during and included in such reassessment, or which assessments were otherwise rendered unnecessary following the Reassessment; or (iii) is attributable to the annual inflationary increase of real estate taxes, but not in excess of two percent (2%) per annum.

(b) Protection. During the first three (3) Lease Years, Tenant shall not be obligated to pay any portion of the Tax Increase.

ARTICLE VIII
PARKING

(a) The Parking Facilities are available for the use of tenants of the Building and Project and their visitors and customers. All parking rights are subject to the reasonable rules, regulations, charges, rates, validation and identification systems set forth by Landlord from time to time. Subject to the provisions of Section 1.16, Landlord may restrict certain portions of the Parking Facilities for the exclusive use of one or more tenants of the Building and may designate other areas to be used at large only by customers and visitors of tenants of the Building. Landlord reserves the right to delegate the operation of the Parking Facilities to a parking operator which shall be entitled to all the obligations and benefits of Landlord under this Article VIII; provided, however, Landlord shall remain liable for all of its obligations under this Article VIII.

(b) During the Lease Term, Tenant shall have the right in common with other tenants in the Building to rent/use the number of reserved and unreserved spaces in the Parking Facilities specified in Section 1.16. Tenant shall pay to Landlord as Additional Rental on the first day of each calendar month during the Term the

parking space rental specified in Section 1.16, which amount is the initial charge in effect for the rent/use of such Parking Facilities. Notwithstanding the foregoing, Landlord reserves the right, from time to time, to make reasonable changes in, additions to and deletions from the Parking Facilities and the purposes to which the same may be devoted and to relocate Tenant's parking spaces within the Parking Facilities, provided that Landlord does not permanently reduce the number of Tenant's parking spaces specified in Section 1.16, except as specified in Section (c)(iv) below.

(c) Upon thirty (30) days written notice to Landlord, Tenant shall have the right to reduce its Parking Space Allocation, as set for in Section 1.16, upon the following terms and conditions:

(i) Tenant shall have the right to release up to seven (7) spaces in the parking garage. Tenant's notice to Landlord shall designate whether such released spaces are to be reserved or unreserved spaces in the parking garage.

(ii) Tenant shall have the right to release up to fourteen (14) spaces in the surface parking lot.

(iii) In the event Tenant chooses to reduce its Parking Space Allocation, Tenant's monthly parking fee shall be reduced accordingly based upon the monthly charge for the space released.

(iv) Tenant shall have the right upon thirty (30) days written notice to Landlord to reactivate any of the previously released parking spaces; provided, however, that Tenant shall not have the right to reactivate any of the parking spaces located in the parking garage which Tenant has released for a continuous six (6) month period of time.

(d) LANDLORD SHALL HAVE THE RIGHT TO CAUSE TO BE REMOVED ANY VEHICLES OF TENANT, ITS CUSTOMERS OR VISITORS THAT ARE PARKED IN VIOLATION OF THIS LEASE OR IN VIOLATION OF THE RULES AND REGULATIONS OF THE BUILDING, WITHOUT LIABILITY OF ANY KIND TO TENANT. TENANT ACKNOWLEDGES THAT, IN ORDER TO RECEIVE PARKING CARDS, IT MAY BE REQUIRED TO SUPPLY LANDLORD WITH A LIST OF LICENSE PLATE NUMBERS OF ALL AUTOMOBILES OWNED BY ITS EMPLOYEES GRANTED PARKING PRIVILEGES. LANDLORD SHALL NOT BE LIABLE FOR ANY CLAIMS, LOSSES, DAMAGES, EXPENSES OR DEMANDS WITH RESPECT TO ANY VEHICLES OF TENANT, ITS CUSTOMERS OR VISITORS THAT ARE PARKED IN THE PARKING FACILITIES, EXCEPT TO THE EXTENT CAUSED BY LANDLORD'S NEGLIGENCE OR WILLFUL MISCONDUCT AND NOT OTHERWISE COVERED BY INSURANCE REQUIRED TO BE OBTAINED AND MAINTAINED BY TENANT PURSUANT TO ARTICLE XVI HEREOF.

ARTICLE IX
USE AND REQUIREMENTS OF LAW

9.1 Use. The Premises will be used only for the Permitted Use (as defined in Section 1.7). Tenant will not: (i) do or permit to be done in or about the Premises, nor bring to, keep or permit to be brought or kept in the Premises, anything which is prohibited by or will in any way conflict with any law, statute, ordinance or governmental rule or regulation which is now in force or which may be enacted or promulgated after the Date of Lease; (ii) do or permit anything to be done in or about the Premises which will in any way obstruct

or interfere with the rights of other tenants of the Building or Project, or injure them; (iii) use or allow the Premises to be used for any unlawful purpose; (iv) cause, maintain or permit any nuisance in, on or about the

Premises or commit or allow to be committed any waste in, on or about the Premises; or (v) subject the Premises to any use which would increase the existing rate of any insurance on the Project or any portion thereof or cause any cancellation of any standard insurance policy covering the Project or any portion thereof.

9.2 Requirements of Law. At its sole cost and expense, Tenant will promptly comply with: (i) all laws, statutes, ordinances and governmental rules, regulations or requirements now in force or in force after the Commencement Date of the Lease; (ii) the requirements of any board of fire underwriters or other similar body constituted now or after the Commencement Date of the Lease; (iii) any direction or occupancy certificate issued pursuant to any law by any public officer or officers; and (iv) all Restrictions, insofar as (i) - (iv) above relate to the condition, use or occupancy of the Premises, excluding requirements of structural changes, changes to the HVAC, fire, life safety or other Building systems or changes outside the Premises unless related to (a) Tenant's acts, (b) Tenant's business, (c) Tenant's use of the Premises, including Tenant's associated density requirements, or (d) improvements made by or for Tenant.

9.3 (a) Hazardous Materials. Tenant shall not bring or permit to remain on the Premises or the Project, or allow any of Tenant's Agents to bring or permit to remain on the Premises or the Project, any asbestos, petroleum or petroleum products, used oil, explosives, toxic materials or substances defined as hazardous wastes, hazardous materials or hazardous substances under any federal, state or local law or regulation ("Hazardous Materials"), except for routine office and janitorial supplies used on the Premises and stored in the usual and customary manner and quantities, and in compliance with all applicable environmental laws and regulations. Tenant shall not install or operate any underground storage tanks on or under the Premises or the Project. Tenant's violation of the foregoing prohibitions shall constitute a material breach and default hereunder and Tenant shall indemnify, protect, hold harmless and defend (by counsel acceptable to Landlord) Landlord, and its Agents and each of their respective successors and assigns, from and against any and all claims, damages, penalties, fines, liabilities and cost (including reasonable attorneys' fees and court costs) caused by or arising out of (i) a violation of any of the foregoing prohibitions or (ii) the presence or release of any Hazardous Materials on, from, under or about the Premises, the Project or other properties as the result of Tenant's occupancy of the Premises. Tenant, at its sole cost and expense, shall clean up, remove, remediate and repair any soil or groundwater contamination or other damage or contamination in conformance with the requirements of applicable law caused by or arising out of (i) a violation of any of the foregoing prohibitions; or (ii) the presence or any release of any Hazardous Materials in, on, from, under or about the Premises or the Project as the result of Tenant's occupancy of the Premises. Neither the written consent of Landlord to the presence of the Hazardous Materials, nor Tenant's compliance with all laws applicable to such Hazardous Materials, shall relieve Tenant of its indemnification obligation under this Lease. Tenant shall immediately give Landlord written notice (i) of any suspected breach of this section, (ii) upon learning of the presence or any release of any Hazardous Materials, or (iii) upon receiving any notices from governmental agencies or other parties

pertaining to Hazardous Materials which may affect the Premises. Landlord shall have the right from time to time, but not the obligation, upon reasonable advance notice to Tenant (except in the case of an emergency), to enter upon the Premises to conduct such inspections and undertake such sampling and testing activities as Landlord deems necessary or desirable to determine whether Tenant is in compliance with this provision. The obligations of Tenant hereunder shall survive the expiration or earlier termination, for any reason, of this Lease.

(b) Landlord shall indemnify, defend and hold harmless the Tenant from and against any and all claims, damages, fines, judgments, penalties, costs, liabilities, losses and attorneys' fees to the sole extent caused by Landlord and (i) arising out of or in connection with the existence of Hazardous Materials on the Premises, Building or Project; or (ii) relating to any clean-up or remediation of the Premises, Building or Project required under any applicable Environmental Laws. The obligations of Landlord under this Section 9.3(b) shall survive the expiration or earlier termination, for any reason, of this Lease.

(c) If the existence of any Hazardous Materials in, on, from, under or about the Premises or the Project in violation of environmental law and from any cause other than as the result of Tenant's occupancy of the Premises renders the Premises unusable for the normal conduct of Tenant's business, and Tenant in fact ceases to use and occupy the Premises for the normal conduct of its business for a period of thirty (30) or more consecutive days after written notice from Tenant to Landlord, then Tenant shall have the ability to terminate this Lease upon thirty (30) days prior written notice to Landlord, whereupon this Lease shall terminate upon the expiration of the thirty (30) day period in the event Tenant is unable to reoccupy the Premises for the normal conduct of Tenant's business as a result of the continued existence of the Hazardous Materials in violation of environmental law.

9.4 ADA Compliance. Notwithstanding any other statement in this Lease, the following provisions shall govern the parties' compliance with the Americans With Disabilities Act of 1990, as amended from time to time, Public Law 101-336; 42 U.S.C. (S)(S)12101, et seq. (the "ADA"):

(a) To the extent governmentally required as of the Commencement Date of this Lease, Landlord shall be responsible for compliance with Title III of the ADA, at its expense, and such expense shall not be included as an Operating Expense of the Project, with respect to any repairs, replacements or alterations to the Common Area of the Project.

(b) To the extent governmentally required subsequent to the Commencement Date of this Lease as a result of an amendment to Title III of the ADA subsequent to the Commencement Date of this Lease, Landlord shall be

responsible for compliance with Title III of the ADA with respect to any repairs, replacements or alterations to the Common Area of the Project, and such expense shall be included as an Operating Expense of the Project.

(c) To the extent governmentally required as of the Commencement Date of this Lease, Landlord shall comply with Title III of the ADA with respect to the initial construction of the Tenant Work (as defined within the Work Agreement) within the Premises. The cost of compliance with Title III of the ADA with respect to the initial construction of the Tenant Work shall be allocated in accordance with the provisions of Section 2.1 of the Work Agreement.

(d) Subject to the limitations set forth in subparagraph (c) above, Landlord shall indemnify, defend and hold harmless Tenant and its Agents from all fines, suits, procedures, penalties, claims, liability, losses, expenses and actions of every kind, and all costs associated therewith (including, without limitation, reasonable attorneys' and consultants' fees) arising out of or in any way connected with Landlord's failure to comply with Title III of the ADA as required above.

(e) Except to the extent Landlord is responsible for compliance pursuant to subparagraph (c) above, to the extent governmentally required, Tenant shall be responsible for compliance, at its expense, with Titles I and III of the ADA with respect to the Premises.

(f) Tenant shall indemnify, defend and hold harmless Landlord and its Agents from all fines, suits, procedures, penalties, claims, liability, losses, expenses and actions of every kind, and all costs associated therewith (including, without limitation, reasonable attorneys' and consultants' fees) arising out of or in any way connected with Tenant's failure to comply with Titles I and III of the ADA as required in subparagraph (e) above.

ARTICLE X
ASSIGNMENT AND SUBLETTING

10.1 Landlord's Consent.

(a) Tenant shall not assign, transfer, mortgage or otherwise encumber this Lease or sublet or rent (or permit a third party to occupy or use) the Premises, or any part thereof, nor shall any assignment or transfer of this Lease or the right of occupancy hereunder be effected by operation of law or otherwise, without the prior written consent of Landlord, such consent not to be unreasonably withheld. Subject to the terms of Section 10.6 below, a transfer at any one time or from time to time of fifty percent (50%) or more of an interest in Tenant (whether stock, partnership interest or other form of ownership or

control) by any person(s) or entity(ties) having an interest in ownership or control of Tenant shall be deemed to be an assignment of this Lease. Within twenty (20) days following Landlord's receipt of Tenant's request for Landlord's consent to a proposed assignment, sublease, or other encumbrance, together with all information required to be delivered by Tenant pursuant to the provisions of Section 10.2 hereof, Landlord shall: (i) consent to such proposed transaction; (ii) reasonably refuse such consent (which refusal shall include an explanation therefor); or (iii) elect to terminate this Lease in the event of an assignment, or in the case of a sublease, terminate this Lease as to the portion of the Premises proposed to be sublet in accordance with the provisions of Section 10.4 below. In the event Landlord fails to timely respond within twenty (20) days following Landlord's receipt of Tenant's request together with all information required to be delivered pursuant to the provisions of Section 10.2 below, Landlord shall be deemed to have refused such consent. Any assignment, sublease or other encumbrance without Landlord's written consent shall be voidable by Landlord and, at Landlord's election, constitute an Event of Default hereunder.

(b) Without limiting other instances in which Landlord may reasonably withhold consert to an assignment or sublease, Landlord and Tenant acknowledge that Landlord may reasonably withhold consent in the following instances:

(i) If the proposed use of the Premises by the assignee or sublessee conflicts with Section 1.7, requires alterations that would materially decrease the value of the leasehold improvements in the Premises, requires substantially increased services by Landlord, or would result in more than a reasonable number of occupants per floor;

(ii) If the proposed assignee or sublessee is: a governmental entity; a person or entity with whom Landlord has negotiated for space in the Project during the prior six (6) months, provided

other space of a size required by such entity is available in the Building; a present tenant in the Project; a person or entity whose tenancy in the Project would violate any exclusivity arrangement which Landlord has with any other tenant; a person or entity of a character or reputation or engaged in a business which is not consistent with the quality of the Project; or not a party of reasonable financial worth and/or financial stability in light of the responsibilities involved under this Lease on the date consent is requested;

(iii) If the rent for any proposed assignee is less than the prevailing market rental rate for the Premises or comparable premises in the Project and other space of a size required by such entity is available in the Building, or if rent for any proposed sublessee is less than eighty percent (80%) of the prevailing market rate for the Premises or comparable premises

within the Project and other space of a size required by such entity is available in the Building;

(iv) If an Event of Default has occurred under this Lease or if an Event of Default would occur but for the pendency of any cure periods provided under Section 21.1.

(c) Notwithstanding that the prior express written permission of Landlord to any of the aforesaid transactions may have been obtained, the following shall apply:

(i) In the event of an assignment, contemporaneously with the granting of Landlord's aforesaid consent, Tenant shall cause the assignee to expressly assume in writing and agree to perform all of the covenants, duties, and obligations of Tenant hereunder and such assignee shall be jointly and severally liable therefore along with Tenant.

(ii) All terms and provisions of the Lease shall continue to apply after any such transaction.

(iii) In any case where Landlord consents to an assignment, transfer, encumbrance or subletting, the undersigned Tenant and any Guarantor shall nevertheless remain directly and primarily liable for the performance of all of the covenants, duties, and obligations of Tenant hereunder (including, without limitation, the obligation to pay all Rent and other sums herein provided to be paid), and Landlord shall be permitted to enforce the provisions of this instrument against the undersigned Tenant, any Guarantor and/or any assignee without demand upon or proceeding in any way against any other person. Neither the consent by Landlord to any assignment, transfer, encumbrance or subletting nor the collection or acceptance by Landlord of rent from any assignee, subtenant or occupant shall be construed as a waiver or release of the initial Tenant or any Guarantor from the terms and conditions of this Lease or relieve Tenant or any subtenant, assignee or other party from obtaining the consent in writing of Landlord to any further assignment, transfer, encumbrance or subletting.

(iv) Tenant hereby assigns to Landlord the rent and other sums due from any subtenant, assignee or other occupant of the Premises and hereby authorizes and directs each such subtenant, assignee or other occupant to pay such rent or other sums directly to Landlord; provided however, that until the occurrence of an Event of Default, Tenant shall have the license to continue collecting such rent and other sums. Notwithstanding the foregoing, in the event that the rent due and payable by a sublessee under any such permitted sublease (or a combination of the rent payable under such sublease plus any bonus or other consideration therefor or incident thereto) exceeds the hereinabove provided Rent payable under this Lease,

or if with respect to a permitted assignment, permitted license, or other transfer by Tenant permitted by Landlord, the consideration payable to Tenant by the assignee, licensee, or other transferee exceeds the Rent payable under this Lease, then Tenant shall be bound and obligated to pay Landlord a portion of Tenant's Net Profits as such term is defined in and in accordance with the provisions of Section 10.5 below within ten (10) days following receipt thereof by Tenant from such sublessee, assignee, licensee, or other transferee, as the case may be.

(v) Tenant shall pay Landlord a fee in the amount of SEVEN HUNDRED FIFTY AND NO/100 DOLLARS ($750.00) to reimburse Landlord for all its expenses including, without limitation, reasonable attorney fees associated with Tenant's request to assign, sublet or otherwise encumber the Premises under the terms of the Lease.

10.2 Submission of Information. If Tenant requests Landlord's consent to a specific assignment or subletting, Tenant will submit in writing to Landlord: (i) the name and address of the proposed assignee or subtenant; (ii) a counterpart of the proposed agreement of assignment or sublease; (iii) reasonable information as to the nature and character of the business of the proposed assignee or subtenant, and as to the nature of its proposed use of the space; (iv) banking, financial or other credit information reasonably sufficient to enable Landlord to determine the financial responsibility and character of the proposed assignee or subtenant; (v) executed estoppel certificates from Tenant containing such information as provided in Section 25.4 herein; and (vi) any other information reasonably requested by Landlord.

10.3 (Intentionally Deleted).

10.4 Landlord's Option to Recapture Premises. If Tenant proposes to assign this Lease, Landlord may, at its option, upon written notice to Tenant given within thirty (30) days after its receipt of Tenant's notice of proposed assignment, together with all other necessary information, elect to recapture the Premises and terminate this Lease. If Tenant proposes to sublease all or part of the Premises for the remainder of the Term, Landlord may, at its option upon written notice to Tenant given within thirty (30) days after its receipt of Tenant's notice of proposed subletting, together with all other necessary information, elect to recapture such portion of the Premises as Tenant proposes to sublease and upon such election by Landlord, this Lease shall terminate as to the portion of the Premises recaptured. If a portion of the Premises is recaptured, the Rent payable under this Lease shall be proportionately reduced based on the square footage of the rentable square feet retained by Tenant and the square footage of the rentable square feet leased by Tenant immediately prior to such recapture and termination, and Landlord and Tenant shall thereupon execute an amendment to this Lease in accordance therewith. Landlord may thereafter, without limitation, lease the recaptured portion of the Premises to the proposed assignee or subtenant without liability to Tenant. Upon any such termination, Landlord and Tenant shall have no further obligations or liabilities to each other under this Lease with respect to the recaptured portion of the Premises, except with respect to obligations or liabilities which

accrue or have accrued hereunder as of the date of such termination (in the same manner as if the date of such termination were the date originally fixed for the expiration of the term hereof).

10.5 Distribution of Net Profits. In the event that Tenant assigns this Lease or sublets all or any portion of the Premises during the Term to any entity, Landlord shall receive fifty percent (50%) of any "Net Profits" (as hereinafter defined) and Tenant shall receive fifty percent (50%) of any Net Profits received by Tenant from any such assignment or subletting. The term "Net Profits" as used herein shall mean such portion

of the Rent payable by such assignee or subtenant in excess of the Rent payable by Tenant under this Lease (or pro rata portion thereof in the event of a subletting) for the corresponding period, after deducting from such excess Rent the following:

(i) all of Tenant's documented third party costs associated with such assignment or subletting, including, without limitation, broker commissions and attorney fees;

(ii) any documented costs incurred by Tenant to prepare or alter the Premises, or portion thereof, for the assignee or sublessee;

(iii) any documented design, construction or moving allowances, rental concessions or other documented out of pocket concession or cost incurred by Tenant.

In the event of an assignment of this Lease whereby a lump sum consideration is received by Tenant for such assignment, the "Net Profits" shall mean the lump sum actually received by Tenant after deducting from such consideration Tenant's costs and expenses as set forth in Paragraphs (i) through (iii) above.

10.6 Transfers of Stock. Notwithstanding anything in this Article X to the contrary, transfers of Tenant's common stock on the New York Stock Exchange in the ordinary course of trading shall not be included in the calculation of the percentage of common stock which has transferred ownership, unless such transfers are pursuant to an agreement or agreements to which Tenant is a party. Furthermore, transfers of Tenant's stock by devise, inheritance, into trusts for the benefit of the transferors and/or the transferor's family or outright transfer to members of the transferor's family shall not be included in the calculation of the percentage of stock which has transferred ownership.

ARTICLE XI
MAINTENANCE AND REPAIR

11.1 Landlord's Obligation. Landlord will maintain, repair and restore in reasonably good order and condition (i) the Common Area (including lobbies, stairs, elevators, corridors, restrooms, walkways, driveways, grounds and Parking Facilities); (ii) the mechanical, plumbing, electrical and HVAC (as hereinafter defined) equipment serving the Building; and (iii) the structure of the Building (including roof, exterior walls, foundation, windows and Building standard lighting). The cost of such maintenance and repairs to the Building, the Common Area and said equipment shall be included in the Operating Expenses and paid by Tenant as provided but subject to the exclusions and limitations set forth in Article VI herein; provided, however, subject to the provisions of Section 16.5 below, Tenant shall bear the full cost, plus ten percent (10%) of such cost for Landlord's overhead, of any maintenance, repair or restoration necessitated by the negligence or willful misconduct of Tenant or its Agents. Tenant waives all rights to make repairs at the expense of Landlord, to deduct the cost of such repairs from any payment owed to Landlord under this Lease or to vacate the Premises. Tenant further waives the provisions of California Civil Code Section 1941 and 1942 with respect to Landlord's obligations under this Lease.

11.2 Tenant's Obligation. Subject to Landlord's express obligations set forth in Section 11.1 above, Tenant, at its expense, shall maintain the Premises (including Tenant's leasehold improvements, equipment, personal property and trade fixtures located in the Premises) in their condition at the time they were delivered

to Tenant, reasonable wear and tear and casualty (to the extent governed by the provisions of Article XX) excepted. Tenant's obligation shall include without limitation the obligation to maintain and repair all interior wall coverings, floor coverings, ceilings, interior doors, entrances to the Premises, supplemental HVAC systems within the Premises and plumbing systems and fixtures (e.g. sink, garbage disposal, dishwasher, refrigerator water line) installed within the Premises by or at the request of Tenant, whether as part of the initial Tenant Work (unless such constitutes a punch list item or latent defect, in which event Landlord shall be responsible for repair pursuant to the provisions of Paragraph 7 of the Work Agreement) or as a future Alteration. Tenant will immediately advise Landlord of any damage to the Premises. All damage or injury to the Premises (excluding Tenant's equipment, personal property and trade fixtures) for which Tenant is obligated to repair pursuant to the provisions of this Section 11.2, but which repairs may affect the structure of the Building's mechanical, electrical, plumbing, HVAC or fire/life/safety systems, may be repaired, restored or replaced by Landlord, at the expense of Tenant and such expense will be collectible as Additional Rent and will be paid by Tenant upon demand. Neither Tenant nor its Agents shall repair, restore or replace any damage or injury to the Premises or the Project without the prior written consent of Landlord. Tenant and Tenant's telecommunications companies,

including but not limited to, local exchange telecommunications companies and alternative access vendor services companies shall have no right of access to the Land, Building or the Project for the installation and operation of telecommunications systems, including but not limited to, voice, video, data, and any other telecommunications services provided over wire, fiber optic, microwave, wireless, and any other transmission systems, for part or all of Tenant's telecommunications within the Building without Landlord's prior written consent, such consent not to be unreasonably withheld.

11.3 Landlord's Right to Maintain or Repair. If Tenant fails to maintain the Premises or if Landlord agrees to allow Tenant to repair, restore or replace any damage or injury as provided in Section 11.2 and Tenant fails within ten (10) days following notice to Tenant, to commence to maintain or to repair, restore or replace any damage to the Premises or Project caused by Tenant or its Agents and diligently pursue to completion such maintenance or repair, restoration or replacement, Landlord may, at its option, cause all required maintenance or repairs, restorations or replacements to be made and Tenant shall pay Landlord pursuant to Section 11.2.

ARTICLE XII
INITIAL CONSTRUCTION; ALTERATIONS

12.1 Initial Construction. Landlord and Tenant agree that the construction of the Tenant Work (as defined in the Work Agreement) shall be performed in accordance with Exhibits B-1 and B-2. Subject to the construction of the Tenant Work, TENANT ACCEPTS THE PREMISES "AS IS", "WHERE IS" AND WITH ANY AND ALL FAULTS, LATENT DEFECTS DISCOVERED WITHIN THE FIRST LEASE YEAR EXCEPTED, AND LANDLORD NEITHER MAKES NOR HAS MADE ANY REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO THE QUALITY, SUITABILITY OR FITNESS THEREOF OF THE PREMISES, OR THE CONDITION OR REPAIR THEREOF. TENANT TAKING POSSESSION OF THE PREMISES SHALL BE CONCLUSIVE EVIDENCE FOR ALL PURPOSES OF TENANT'S ACCEPTANCE OF THE PREMISES IN GOOD ORDER AND SATISFACTORY CONDITION, AND IN A STATE AND CONDITION SATISFACTORY, ACCEPTABLE AND SUITABLE FOR THE TENANT'S USE PURSUANT TO THIS LEASE, LATENT DEFECTS DISCOVERED WITHIN THE FIRST LEASE YEAR EXCEPTED. TENANT HEREBY WAIVES THE BENEFIT OF CALIFORNIA CIVIL CODE SECTION 1941.

12.2 Alterations. Except for that Tenant Work which is governed by the provisions of Section 12.1 and the Work Agreement, Tenant shall not make or permit any additional alterations, decorations, additions or improvements of any kind or nature to the Premises or the Project, whether structural or nonstructural, interior, exterior or otherwise without the prior written consent of Landlord, said consent not to be unreasonably withheld (such additional alterations, decorations, additions and improvements collectively referred to as "Alterations"). Landlord may impose any reasonable conditions to its consent, including, without limitation: (i) delivery to Landlord of written and

unconditional waivers of mechanic's and materialmen's liens as to the Project for all work, labor and services to be performed and materials to be furnished, signed by all contractors, subcontractors, materialmen and laborers participating in the Alterations; (ii) prior approval of the plans and specifications and contractor(s) with respect to the Alterations and any other documents and information reasonably requested by Landlord; (iii) supervision of the Alterations by Landlord's representative, at Tenant's expense, at a cost not to exceed three percent (3%) of the cost of all Alterations in excess of Ten Thousand and No/100 Dollars ($10,000.00); and (iv) proof of worker's compensation insurance and commercial general liability insurance in such amounts and meeting such requirements as reasonably requested by Landlord. Anything to the contrary notwithstanding, Tenant shall have the right, without Landlord's consent, to perform in the Premises nonstructural Alterations provided such Alterations (i) do not affect the other tenants of the Building or the Building's mechanical, electrical, plumbing, HVAC or fire, life safety systems; (ii) do not require any other alteration, addition, or improvement to be performed in or made to any Building system or any portion of the Building or Project other than the Premises; (iii) such Alterations do not alter the architectural or structural integrity of the Building; (iv) such Alterations are not visible from the exterior of the Premises; (v) the cost of such Alterations do not exceed $10,000.00 in any one Calendar Year; and (vi) Tenant has provided Landlord with at least ten (10) business days prior written notice of such Alterations. All Alterations shall conform to the requirements of Landlord's and Tenant's insurers and of the federal, state and local governments having jurisdiction over the Premises, including, without limitation, the Americans with Disabilities Act of 1990 (42 U.S.C. Section 12101, et seq.), the OSHA General Industry Standard (29 C.F.R. Section 1910.1001, et seq.), and the OSHA Construction Standard (29 C.F.R. Section 1926.1001, et seq.) and shall be performed in accordance with the terms and provisions of this Lease and in a good and workmanlike manner befitting a first class office building. If the Alterations are not performed as herein required, Landlord shall have the right, at Landlord's option, to halt any further Alterations, or to require Tenant to perform the Alterations as herein required. Subject to Section 12.4 herein, all Alterations and fixtures, whether temporary or permanent in character, made in or upon the Premises either by Tenant or Landlord, will immediately become Landlord's property and, at the end of the Term will remain on the Premises without compensation to Tenant, except that Tenant may remove any furniture, equipment, personal property or trade fixtures that can be removed without material damage to the Premises, provided that no Event of Default exists pursuant to Section 21.1 below and Tenant repairs any damage to the Premises or the Project caused by such removal.

12.3 Mechanics' Liens. Tenant will pay or cause to be paid all costs and charges for: (i) work done by Tenant or caused to be done by Tenant, in or to the Premises; and (ii) materials furnished for or in connection with such work. Tenant will indemnify Landlord against and hold Landlord, the Premises, and the Project free, clear and harmless of and from all mechanics' liens and claims of liens, and all other liabilities, liens, claims, and demands on account of such work by or on behalf of Tenant. If any such lien, at any time, is filed against the Premises, or any part of the Project, Tenant will cause such lien to be discharged of record within ten (10) days after notice of the filing of such

lien, except that if Tenant desires to contest such lien, it will furnish Landlord, within such 10-day period, a sufficient bond or other security reasonably satisfactory to Landlord of at least 150% of the amount of the claim. If a final judgment

establishing the validity or existence of a lien for any amount is entered, Tenant will immediately pay and satisfy the same. If Tenant fails to pay any charge for which a mechanic's lien has been filed, and has not given Landlord security as described above, Landlord may, at its option, pay such charge and related costs and interest, and the amount so paid, together with attorneys' fees incurred in connection with such lien, will be immediately due from Tenant to Landlord as Additional Rent. Nothing contained in this Lease will be deemed the consent or agreement of Landlord to subject Landlord's interest in all or any portion of the Project to liability under any mechanics' lien or to other lien law. If Tenant receives notice that a lien has been or is about to be filed against the Premises or any part of the Project or any action affecting title to the Project has been commenced on account of work done by or for or materials furnished to or for Tenant, it will immediately give Landlord written notice of such notice. At least ten (10) days prior to the commencement of any work (including, but not limited to, any maintenance, repairs or Alteration) in or to the Premises, by or for Tenant, Tenant will give Landlord written notice of the proposed work and the names and addresses of the general contractor and parties directly contracting with Tenant for the labor and materials for the proposed work. Landlord will have the right to post notices of non-responsibility or similar notices, if applicable, on the Premises or in the public records in order to protect the Premises against such liens.

12.4 Removal of Alterations. All or any part of the Alterations (including, without limitation, wiring), whether made with or without the consent of Landlord, shall, at the election of Landlord, either be removed by Tenant at its expense before the expiration of the Term or shall remain upon the Premises and be surrendered therewith at the Expiration Date or earlier termination of this Lease as the property of Landlord without disturbance, molestation or injury. In the event Landlord's consent is requested to any Alterations, Landlord shall notify Tenant at the time such consent is given of any Alterations which will require removal before expiration of the Term. If Landlord requires the removal of all or part of the Alterations, Tenant, at its expense, shall repair any damage to the Premises or the Project caused by such removal and restore the Premises and the Project to its condition prior to the construction of such Alterations. If Tenant fails to remove the Alterations upon Landlord's request and repair and restore the Premises and Project, then Landlord may (but shall not be obligated to) remove, repair and restore the same and the cost of such removal, repair and restoration together with any and all damages which Landlord may suffer and sustain by reason of the failure of Tenant to remove, repair and restore the same, shall be charged to Tenant and paid upon

demand.

12.5 Landlord Alterations. Landlord shall have no obligation to make any Alterations in or to the Premises or the Project except as specifically provided in this Lease.

ARTICLE XIII
SIGNS

Except as provided below, no sign, advertisement or notice shall be inscribed, painted, affixed, placed or otherwise displayed by Tenant on any part of the Project or the outside or the inside (including, without limitation, the windows) of the Building or the Premises. Landlord shall provide, at Tenant's expense; provided, however, Tenant shall have access to the Tenant Improvement Allowance (as defined in the Work Agreement) for payment of same, a listing on the directory in the lobby of the Building listing all Building tenants, but shall have no obligation to list any assignees or subtenants. Landlord also shall, at Tenant's expense; provided, however, Tenant shall have access to the Tenant Improvement Allowance for payment of same, place the suite number and/or Tenant name on or in the immediate vicinity of the entry door to the Premises using Building standard sign material and lettering. Landlord shall have no obligation to provide any

entry door signage for the benefit of any assignee or subtenant and any such signage provided by another party identifying the suite number and/or assignee or subtenant name in the Building shall be consistent with Building standard sign material and lettering and located on or in the immediate vicinity of the entry door to the assigned or sublet portion of the Premises. If any prohibited sign, advertisement or notice is nevertheless exhibited by Tenant, Landlord shall have the right to remove the same, and Tenant shall pay upon demand any and all expenses incurred by Landlord in such removal, together with interest thereon at the Interest Rate from the demand date. Landlord agrees that it shall not permit signage to be placed on the roof or the exterior of the Building naming or referring to (i) "Penthouse" or "Hustler" magazines; (ii) the name of any directly competing gentlemen's magazine; or (iii) for the initial Lease term, the name of any gentlemen's magazine, unless such magazine is published by BPI Communications, Inc. ("BPI") or an affiliate or successor in interest to BPI, in which event the restriction shall not apply.

Notwithstanding the foregoing, so long as (i) no Event of Default exists under this Lease or would exist but for the pendency of any cure periods provided under Section 21.1; and (ii) Playboy Enterprises, Inc. occupies the entire Premises, Tenant shall, at Tenant's sole cost and expense, have the nonexclusive right to display its name and corporate logo on a free-standing monument sign of a size and at that location indicated on Exhibit I. All signage

shall be subject to the reasonable approval of Landlord as to location, lettering, design, material, size, lighting and color scheme prior to installation and shall conform to all applicable Restrictions, zoning and other governmental ordinances, laws and regulations, including the Project's design signage and graphics program, and Tenant shall obtain all required approvals of third parties, if any. Tenant shall, at Tenant's sole cost and expense, maintain its signage in good condition and repair and upon the expiration or earlier termination of the Lease, shall remove such signage and repair the monument sign to its original condition. If Tenant shall fail to maintain or remove its signage, Landlord may do so at Tenant's sole cost and expense and Tenant shall reimburse Landlord upon demand. Tenant's right to signage under this paragraph shall be personal to Playboy Enterprises, Inc. and contain only its name and/or corporate logo.

ARTICLE XIV
TENANT'S EQUIPMENT AND PROPERTY

14.1 Moving Tenant's Property. Any and all damage or injury to the Premises or the Project caused by moving the property of Tenant into or out of the Premises, or due to the same being on the Premises, shall be repaired by Landlord, at the expense of Tenant. No furniture, equipment or other bulky matter of any description shall be received into the Building or carried in the elevators except as may be approved in writing by Landlord, and the same shall be delivered only through the designated delivery entrance and freight elevator, if any, in the Building, at such times as shall be designated by Landlord. All moving of furniture, equipment, and other materials shall be subject to such reasonable rules and regulations as Landlord may promulgate from time to time; provided however, in no event shall Landlord be responsible for any damages to or charges for moving the same. Tenant shall promptly remove from the Common Area any of Tenant's furniture, equipment or other property there deposited. Tenant shall not be independently charged for the use of the elevators during Tenant's move into the Premises or at any other time except for costs otherwise appropriately included as Operating Expenses under Section 6.2 during the term of the Lease or for which Tenant bears responsibility pursuant to Section 11.1 of the Lease.

14.2 Installing and Operating Tenant's Equipment. Without first obtaining the written consent of Landlord, which consent shall not be unreasonably withheld, Tenant shall not install or operate in the Premises (i) any electrically operated equipment or other machinery, other than standard office equipment (including, without limitation, personal computers, fax machines and printers) that does not require wiring, cooling or other service in excess of Building standards, (ii) any equipment of any kind or nature whatsoever which will require any changes, replacements or additions to, or changes in the use

of, any water, heating, plumbing, air conditioning or electrical system of the Premises or the Project, or (iii) any equipment which exceeds the load capacity per square foot for the Building. Landlord's consent to such installation or operation may be conditioned upon the payment by Tenant of additional compensation for any excess consumption of utilities and any additional power, wiring, cooling or other service (as determined in the reasonable discretion of Landlord) that may result from such equipment. Machines and equipment which cause noise or vibration that may be transmitted to the structure of the Building or to any space therein so as to be objectionable to Landlord or any other Project tenant shall be installed and maintained by Tenant, at its expense, on vibration eliminators or other devices sufficient to eliminate such noise and vibration.

ARTICLE XV
RIGHT OF ENTRY

Tenant shall permit Landlord or its Agents, upon reasonable prior notice, to enter the Premises, without charge therefor to Landlord and without diminution of Rent: (i) to examine, inspect and protect the Premises and the Project; (ii) to make such alterations and repairs which in the reasonable judgment of Landlord may be deemed necessary or desirable; (iii) to exhibit the same to prospective purchaser(s) of the Building or the Project or to present or future Mortgagees; or (iv) to exhibit the same to prospective tenants during the last eighteen (18) months of the Term. Notwithstanding the foregoing, in the event of an apparent emergency condition arising within or affecting the Premises which endangers or threatens to endanger property or the safety of individuals, the requirement of reasonable prior notice is waived by Tenant.

ARTICLE XVI
INSURANCE

16.1 Certain Insurance Risks. Tenant will not do or permit to be done any act or thing upon the Premises or the Project which would: (i) jeopardize or be in conflict with standard fire insurance policies covering the Project, and fixtures and property in the Project; or (ii) increase the rate of fire insurance applicable to the Project to an amount higher than it otherwise would be for general office use of the Project; or (iii) subject Landlord to any unusual or excess liability or responsibility for injury to any person or persons or to property by reason of any business or operation being conducted upon the Premises.

16.2 Landlord's Insurance. At all times during the Term, Landlord will carry and maintain:

(a) fire and extended coverage insurance in commercially reasonable amounts covering the Building, its equipment and common area furnishings, and leasehold improvements in the Premises to the extent of any initial build out of the Premises by the Landlord;

(b) bodily injury and property damage insurance with a combined single occurrence limit of not less than $1,000,000;

(c) umbrella liability insurance in excess of the underlying coverages listed in paragraph (b) above with limits of not less than $4,000,000 per occurrence and $4,000,000 aggregate; and

(d) such other insurance as Landlord reasonably determines from time to time.

Except to the extent otherwise required above, the insurance coverages and amounts in this Section 16.2 will be determined by Landlord in an exercise of its reasonable discretion.

16.3 Tenant's Insurance. At all times during the Term, Tenant will carry and maintain, at Tenant's expense, the following insurance, in the amounts specified below or such other amounts as Landlord may from time to time reasonably request, with insurance companies and on forms reasonably satisfactory to Landlord:

(a) Bodily injury and property damage liability insurance, with a combined single occurrence limit of not less than $1,000,000. All such insurance will be on an occurrence commercial general liability form including without limitation, personal injury and contractual liability coverage for the performance by Tenant of the indemnity agreements set forth in Article XVIII of this Lease. Such insurance shall include waiver of subrogation rights in favor of Landlord and Landlord's management company;

(b) Insurance covering all of Tenant's furniture and fixtures, machinery, equipment, stock and any other personal property owned and used in Tenant's business and found in, on or about the Project, and any leasehold improvements to the Premises in excess of any initial buildout of the Premises by the Landlord, in an amount not less than the full replacement cost. Property forms will provide coverage on an open perils basis insuring against "all risks of direct physical loss." All policy proceeds will be used for the repair or replacement of the property damaged or destroyed, however, if this Lease ceases under the provisions of Article XX. Tenant will be entitled to any proceeds resulting from damage to Tenant's furniture and fixtures, machinery and equipment, stock and any other personal property;

(c) Worker's compensation insurance insuring against and satisfying Tenant's obligations and liabilities under the worker's compensation laws of the state in which the Premises are located, including employer's liability insurance in the limit of $1,000,000 aggregate. Such insurance shall include waiver of subrogation rights in favor of Landlord and Landlord's management company;

(d) If Tenant operates owned, hired, or nonowned vehicles on the Project, comprehensive automobile liability will be carried at a limit of liability not less than $1,000,000 combined bodily injury and property damage;

(e) Umbrella liability insurance in excess of the underlying coverage listed in paragraphs (a), (c) and (d) above, with limits of not less than $4,000,000 per occurrence/$4,000,000 aggregate; and

(f) All insurance required under this Article XVI shall be issued by such good and reputable insurance companies qualified to do and doing business in the state in which the Premises are located and having a rating not less than A:VIII as rated in the most current copy of Best's Insurance Report in the form customary to this locality.

16.4 Forms of the Policies. Landlord, Landlord's management company and such other parties as Landlord shall designate to Tenant who have an insurable interest in the Premises or Project shall be (i) named as additional insured with respect to the coverages provided for under Section 16.3 (a), (c), (d) and (e) (other than Worker's Compensation), and (ii) as loss payees as their interest may appear with respect to the coverage provided under Section 16.3 (b). Certificates of insurance together with copies of the policies and any endorsements naming Landlord, Landlord's management company, and any others specified by Landlord as additional insureds or loss payee (as the case may be) will be delivered to Landlord prior to Tenant's occupancy of the Premises and from time to time at least thirty (30) days prior to the expiration of the term or reduction in coverage of each such policy. All commercial general liability and property policies herein required to be maintained by Tenant will be written as primary policies, not contributing with and not supplemental to the coverage that Landlord may carry. Commercial general liability insurance required to be maintained by Tenant by this Article XVI will not be subject to a deductible in excess of $10,000.00. In the event Tenant fails to purchase and maintain any of the insurance required hereunder, Landlord reserves the right, but not the obligation, upon not less than ten (10) days prior notice to Tenant, to purchase such insurance on behalf of Tenant, and at Tenant's expense, with any expenses incurred by Landlord in connection therewith being reimbursed to Landlord by Tenant within thirty (30) days of written demand thereof.

16.5 Mutual Waiver of Subrogation. Landlord and Tenant each waive any and all rights to recover against the other or against the Agents of such other party for any loss or damage to such waiving party (including deductible amounts) arising from any cause covered by any property insurance required to be carried by such party pursuant to this Article XVI or any other property insurance actually carried by such party to the extent of the limits of such policy. Landlord and Tenant, from time to time, will cause its respective insurers to issue appropriate waiver of subrogation rights endorsements to all

property insurance policies carried in connection with the Project or the Premises or the contents of the Project or the Premises. Tenant agrees to cause all other occupants of the Premises claiming by, under or through Tenant, to execute and deliver to Landlord and Landlord's management company such a waiver of claims and to obtain such waiver of subrogation rights endorsements.

16.6 Adequacy of Coverage. Landlord and its Agents make no representation that the limits of liability specified to be carried by Tenant pursuant to this Article XVI are adequate to protect Tenant. If Tenant believes that any of such insurance coverage is inadequate, Tenant will obtain such additional insurance coverage as Tenant deems adequate, at Tenant's sole expense. Furthermore, in no way does the insurance required herein limit the liability of Tenant assumed elsewhere in the Lease.

ARTICLE XVII
LANDLORD SERVICES AND UTILITIES

17.1 Ordinary Services to the Premises. Landlord shall furnish to the Premises throughout the Term: (i) heating, ventilation, and air conditioning ("HVAC") appropriate for the Permitted Use during the hours of 7:00 A.M. and 6:00 P.M. Monday through Friday and between the hours of 9:00 A.M. and 1:00 P.M. Saturday, except for legal holidays observed by the federal government; (ii) janitorial service, including trash removal from the Premises Monday through Friday evenings; (iii) reasonable use of all existing basic intra-Building and/or Project telephone and network cabling; (iv) hot and cold water from points of supply; (v) restrooms; (vi) elevator service, provided that Landlord shall have the right to remove such elevators from service as may be required for moving freight or for servicing or maintaining the elevators or the Building;

provided, however, Landlord shall use commercially reasonable efforts to keep at least one elevator in service at all times; and (vii) proper facilities to furnish sufficient electrical power for Building standard lighting, typewriters, dictating equipment, calculating machines, personal computers, copiers, fax machines and other machines of similar low electrical consumption, but not including electricity and air conditioning units required for equipment of Tenant that is in excess of Building standard. The total demand load for Tenant's lighting and power (building system air conditioning and building system heating excluded) shall be equal to one and one-half (1-1/2) watts per usable square foot for lighting and six (6) watts per usable square foot for 120-volt power. The cost of all services provided by Landlord hereunder shall be included within Operating Expenses, unless charged directly (and not as a part of Operating Expenses) to Tenant or another tenant of the Project. Landlord may

establish reasonable measures to conserve energy and water subject to its foregoing obligations.

17.2 Additional Services. Should Tenant desire any additional services beyond those described in Section 17.1 hereof or a rendition of any of such services outside the normal times for providing such service, Landlord may (at Landlord's option), upon reasonable advance notice from Tenant to Landlord, furnish such services, and Tenant agrees to pay Landlord within thirty (30) days of demand Landlord's additional expenses resulting therefrom. Landlord may, from time to time during the Term, set a per hour charge for after-hours service which shall include the cost of the utility, service, labor costs, administrative costs and a cost for depreciation of the equipment used to provide such after-hours service. Should Landlord consent to a Tenant request for additional telecommunications services to the Project or the Building, which consent shall not be unreasonably withheld of delayed, Tenant shall pay as Additional Rent the actual installation, repair and maintenance charges for such use, including the cost of installing any necessary additional riser capacity, plus five percent (5%) of such expense for Landlord's overhead.

17.3 Interruption of Services. Landlord will not be liable to Tenant or any other person, for direct or consequential damage, or otherwise, and Tenant shall not be entitled to any abatement or reduction of rent, for any failure to supply any heat, air conditioning, elevator, cleaning, lighting or security or for any surges or interruptions of electricity, telecommunications or other service Landlord has agreed to supply during any period when Landlord uses reasonable diligence to supply such services. Landlord reserves the right temporarily to discontinue such services, or any of them, at such times as may be necessary by reason of accident, repairs, alterations or improvement, strikes, lockouts, riots, acts of God, governmental preemption in connection with a national or local emergency, any rule, order or regulation of any governmental agency, conditions of supply and demand which make any product unavailable, Landlord's compliance with any mandatory governmental energy conservation or environmental protection program, or any other happening beyond the control of Landlord. Landlord will not be liable to Tenant or any other person or entity for direct or consequential damages, and Tenant shall not be entitled to any abatement or reduction of rent, resulting from the admission to or exclusion from the Building or Project of any person. In the event of invasion, mob, riot, public excitement or other circumstances rendering such action advisable in Landlord's reasonable opinion, Landlord will have the right to prevent access to the Building or Project during the continuance of the same by such means as Landlord, in its reasonable discretion, may deem appropriate, including, without limitation, locking doors and closing Parking Facilities and the Common Area. Landlord will not be liable for damages to persons or property or for injury to, or interruption of, business for any discontinuance permitted under this Article XVII, nor will such discontinuance in any way be construed as an eviction of Tenant or cause an abatement of rent or operate to release Tenant from any of Tenant's obligations under this Lease. Notwithstanding the foregoing, if (i) any interruption of utilities or services shall continue for ten (10) days after written notice from Tenant to Landlord; (ii) such interruption of utilities or services shall render any

portion of the Premises unusable for the normal conduct of Tenant's business and Tenant, in fact, ceases to use and occupy such portion of the Premises for the normal conduct of its business; and (iii) such interruption of utilities or services is primarily due to the negligence or willful misconduct of Landlord; then all Rent payable hereunder with respect to such portion of the Premises rendered unusable for the normal conduct of Tenant's business in which Tenant, in fact, ceases to use and occupy, shall be abated after the expiration of such ten (10) day period, in the event such utilities or services are not restored, and continue until such time that the utilities or services are restored. Further notwithstanding the foregoing, (i) if any interruption of utilities or services shall continue for ten (10) consecutive business days after written notice from Tenant to Landlord, (ii) such interruption of utilities or services shall render any portion of the Premises unusable for the normal conduct of Tenant's business and Tenant, in fact, ceases to use and occupy such portion of the Premises for the normal conduct of its business; (iii) such interruption of utilities or services is due to an Event of Force Majeure (as defined in Section 25.11) or the negligence or willful misconduct of any third party; and (iv) the restoration of such interrupted utilities or services is reasonably within Landlord's direct control, then all Rent payable hereunder with respect to such portion of the Premises rendered unusable for the normal conduct of Tenant's business in which Tenant, in fact, ceases to use and occupy, shall be abated after the expiration of such thirty (30) day period, in the event such utilities or services are not restored, and continue until such time that the utilities or services are restored.

17.4 Meters. Landlord reserves the right to separately meter or monitor the utility services provided to the Premises (at Tenant's expense, in the event Tenant's electrical usage exceeds normal business office usage levels as reasonably determined by Landlord) and bill the charges directly to Tenant or to separately meter any other tenant and bill the charges directly to such tenant and to make appropriate adjustments to the Operating Expenses based on the meter charges.

17.5 Utility Charges. All telephone and other utility service not required to be furnished by Landlord pursuant to this Article XVII and used by Tenant in the Premises shall be paid for directly by Tenant.

17.6 Auxiliary and Supplemental HVAC System. Notwithstanding the provisions of Section 17.2 above, Tenant shall have sole use of the Building Supplemental Cooling Tower (the "Cooling Tower") located on the roof of the Building, which Cooling Tower shall condition the water returning from the water source heat pumps (the "Heat Pumps") to be installed, at Tenant's sole cost and expense (provided, however, Tenant shall have access to the Tenant Work Allowance for payment of same) within the plenum of the Premises for the purpose of providing auxiliary heating, ventilation and air conditioning to the Premises

after Normal Business Hours and for the purpose of providing supplemental heating, ventilation and air conditioning to portions of the Premises during Normal Business Hours. Landlord shall separately meter the Cooling Tower at Tenant's sole cost and expense (provided, however, Tenant shall have access to the Tenant Work Allowance for payment of same). Tenant shall be responsible for all electrical utility charges in connection with the operation of the Cooling Tower. Landlord shall, at Tenant's sole cost and expense, maintain and repair the Cooling Tower in good order and condition and Tenant shall additionally be responsible for the cost of any upgrades to or additional piping required to be installed between the Cooling Tower and Heat Pumps. Tenant shall separately meter the Heat Pumps to be installed within the Premises at Tenant's sole cost and expense (provided, however, Tenant shall have access to the Tenant Work Allowance for payment of same) and be responsible for all electrical utility charges in connection with the operation of the Heat Pumps. Tenant shall, at Tenant's sole cost and expense, maintain and repair the Heat Pumps in good order and condition. Landlord shall bill all charges in connection with the Cooling Tower and Heat Pumps directly to Tenant on a monthly

basis. Tenant shall reimburse Landlord in full within thirty (30) days of receipt of the bill. Tenant's obligations with respect to the Cooling Tower and Heat Pumps shall be in addition to and not in lieu of its obligation to pay its Proportionate Share of the HVAC costs for the Building in accordance with Article VI herein. Prior to the Commencement Date, Landlord shall retain the services of a heating and air conditioning contractor to determine if the Cooling Tower on the roof and existing ceiling mounted HVAC unit within the Premises are in good operating condition and repair. The contractor shall prepare a written report on the condition of the Cooling Tower and HVAC unit and Landlord shall, at Landlord's sole cost and expense, make any repairs to the Cooling Tower and HVAC unit as recommended in the report; provided, however, Tenant shall continue to be responsible for the cost of any upgrades to or additional piping required to be installed between the Cooling Tower and Heat Pumps.

ARTICLE XVIII
LIABILITY OF LANDLORD

18.1 Indemnification. Tenant will neither hold nor attempt to hold Landlord or its respective Agents liable for, and Tenant will indemnify and hold harmless Landlord, and its respective Agents, from and against, any and all demands, claims, causes of action, fines, penalties, damages, liabilities, judgments, and expenses (including, without limitation, attorneys' fees) incurred in connection with or arising from:

(a) The use or occupancy or manner of use or occupancy of the Premises by Tenant or any person claiming under Tenant or the Agents of Tenant

or any such person;

(b) Any activity, work or thing done, permitted or suffered by Tenant, any person claiming under Tenant or the Agents of Tenant or any such person in or about the Premises;

(c) Any acts, omissions or negligence of Tenant or any person claiming under Tenant, or the Agents of Tenant or any such person;

(d) Any breach, violation or nonperformance by Tenant or any person claiming under Tenant or the Agents of Tenant or any such person of any term, covenant or provision of this Lease; and

(e) Any injury or damage to the person, property or business of Tenant, or any person claiming under Tenant or the Agents of Tenant or any such person or any other person entering upon the Premises or the Project under the express or implied invitation of Tenant;

EXCEPT AS TO EACH OF THE INDEMNIFICATIONS SET FORTH ABOVE FOR ANY INJURY OR DAMAGE TO PERSONS OR PROPERTY TO THE EXTENT CAUSED BY THE NEGLIGENCE OR WILLFUL MISCONDUCT OF LANDLORD, ITS AGENTS, EMPLOYEES, REPRESENTATIVES AND CONTRACTORS UNLESS AND ONLY TO THE EXTENT COVERED BY INSURANCE REQUIRED TO BE OBTAINED AND MAINTAINED BY TENANT PURSUANT TO ARTICLE XVI HEREOF, IN WHICH EVENT AND TO SUCH EXTENT THE INDEMNIFICATIONS SET FORTH IN THIS SECTION 18.1 SHALL APPLY.

If any action or proceeding is brought against Landlord, or its respective Agents by reason of any such claim for which Tenant has indemnified Landlord, or its respective Agents, Tenant, upon notice from Landlord, shall defend the same at Tenant's expense with counsel reasonably satisfactory to Landlord, as appropriate.

18.2 Waiver and Release. TENANT, AS A MATERIAL PART OF THE CONSIDERATION TO LANDLORD FOR THIS LEASE, BY THIS SECTION 18.2 WAIVES AND RELEASES ALL CLAIMS AGAINST LANDLORD, AND ITS AGENTS, EMPLOYEES, REPRESENTATIVES AND CONTRACTORS WITH RESPECT TO ALL MATTERS FOR WHICH LANDLORD HAS DISCLAIMED LIABILITY PURSUANT TO THE PROVISIONS OF THIS LEASE. TENANT COVENANTS AND AGREES THAT LANDLORD AND ITS AGENTS, EMPLOYEES, REPRESENTATIVES AND CONTRACTORS WILL NOT AT ANY TIME OR TO ANY EXTENT WHATSOEVER BE LIABLE, RESPONSIBLE OR IN ANY WAY ACCOUNTABLE FOR ANY LOSS, INJURY, DEATH OR DAMAGE (INCLUDING CONSEQUENTIAL DAMAGES) TO PERSONS, PROPERTY OR TENANT'S BUSINESS OCCASIONED BY ANY ACTS OR OMISSIONS OF ANY OTHER TENANT, OCCUPANT OR VISITOR OF THE PROJECT, OR FROM ANY CAUSE, EITHER ORDINARY OR EXTRAORDINARY, BEYOND THE CONTROL OF LANDLORD, EXCEPT TO THE EXTENT CAUSED BY THE NEGLIGENCE OR WILLFUL MISCONDUCT OF LANDLORD, ITS AGENTS, EMPLOYEES, REPRESENTATIVES AND CONTRACTORS OR BREACH OF LANDLORD'S OBLIGATIONS UNDER THIS LEASE AND ONLY TO THE EXTENT NOT OTHERWISE COVERED BY INSURANCE REQUIRED TO BE

OBTAINED AND MAINTAINED BY TENANT PURSUANT TO ARTICLE XVI HEREOF.

ARTICLE XIX
RULES AND REGULATIONS

Tenant and its Agents shall at all times abide by and observe the Rules and Regulations set forth in Exhibit C and any reasonable amendments thereto that may be promulgated from time to time by Landlord which do not deprive Tenant of the material benefits of this Lease, including, without limitation, the use and enjoyment of the Premises for the Permitted use as reflected in Section 1.7 for the operation and maintenance of the Project and the Rules and Regulations shall be deemed to be covenants of the Lease to be performed and/or observed by Tenant. Nothing contained in this Lease shall be construed to impose upon Landlord any duty or obligation to enforce the Rules and Regulations, or the terms or provisions contained in any other lease, against any other tenant of the Project. Landlord shall not be liable to Tenant for any violation by any party of the Rules and Regulations or the terms of any other Project lease. If there is any inconsistency between this Lease (other than Exhibit C) and the then current Rules and Regulations, this Lease shall govern. Landlord reserves the right to amend and modify the Rules and Regulations as is reasonably necessary.

ARTICLE XX
DAMAGE; CONDEMNATION

20.1 Damage to the Premises. If the Premises or the Building shall be damaged by fire or other insured cause, Landlord shall diligently and as soon as practicable after such damage occurs (taking into account the time necessary to effect a satisfactory settlement with any insurance company involved) repair such damage at the expense of Landlord; provided, however, that Landlord's obligation to repair such damage shall

not exceed the proceeds of insurance available to Landlord (reduced by any proceeds retained pursuant to the rights of Mortgagee). Notwithstanding the foregoing, if the Premises or the Building are damaged by fire or other insured cause to such an extent that, in Landlord's sole judgment, the damage cannot be substantially repaired within two hundred forty (240) days after the date of such damage, or if the Premises are substantially damaged during the last Lease Year, then: (i) Landlord may terminate this Lease as of the date of such damage by written notice to Tenant; or (ii) Tenant may terminate this Lease as of the date of such damage by written notice to Landlord within ten (10) days after (a) Landlord's delivery of a notice that the repairs cannot be made within such 240-day period (Landlord shall use reasonable efforts to deliver to Tenant such notice within forty-five (45) days of the date of such damage or casualty); or

(b) the date of damage, in the event the damage occurs during the last year of the Lease. Rent shall be apportioned and paid to the date of such termination.

During the period that Tenant is deprived of the use of the damaged portion of the Premises, Basic Rent and Tenant's Proportionate Share shall be reduced by the ratio that the Rentable Square Footage of the Premises not reasonably usable by Tenant bears to the total Rentable Square Footage of the Premises before such damage. Notwithstanding anything herein to the contrary, Landlord shall not be required to rebuild, replace, or repair any of the following: (i) specialized Tenant improvements as reasonably determined by Landlord; (ii) Alterations; or (iii) any other personal property of Tenant.

Tenant, as a material inducement to Landlord entering into this Lease, irrevocably waives and releases Tenant's rights under California Civil code Sections 1932(2) and 1933(4) and agrees that in the event of any casualty, the terms of this lease shall govern.

20.2 Condemnation. If twenty percent (20%) or more of the Building or fifty percent (50%) or more of the Land shall be taken or condemned by any governmental or quasi-governmental authority for any public or quasi-public use or purpose (including, without limitation, sale under threat of such a taking), then the Term shall cease and terminate as of the date when title vests in such governmental or quasi-governmental authority, and Rent shall be prorated to the date when title vests in such governmental or quasi-governmental authority. If less than twenty percent (20%) of the Building or fifty percent (50%) of the Land is taken or condemned by any governmental or quasi-governmental authority for any public or quasi-public use or purpose (including, without limitation, sale under threat of such a taking), Basic Rent and Tenant's Proportionate Share shall be reduced by the ratio that the Rentable Square Footage of the portion of the Premises so taken bears to the Rentable Square Footage of the Premises before such taking, effective as of the date when title vests in such governmental or quasi-governmental authority, and this Lease shall otherwise continue in full force and effect. Tenant shall have no claim against Landlord (or otherwise) as a result of such taking, and Tenant hereby agrees to make no claim against the condemning authority for any portion of the amount that may be awarded as compensation or damages as a result of such taking; provided, however, that Tenant may, to the extent allowed by law, claim an award for moving expenses and for the taking of any of Tenant's property (other than its leasehold interest in the Premises) which does not, under the terms of this Lease, become the property of Landlord at the termination hereof, as long as such claim is separate and distinct from any claim of Landlord and does not diminish Landlord's award. Tenant hereby assigns to Landlord any right and interest it may have in any award for its leasehold interest in the Premises. This Section 20.2 shall be Tenant's sole and exclusive remedy in the event of a taking or condemnation. Tenant hereby waives the benefit of California Code of Civil Procedure Section 1265.130.

ARTICLE XXI
DEFAULT OF TENANT

21.1 Events of Default. Each of the following shall constitute an Event of Default: (i) Tenant fails to pay Rent within ten (10) days after notice from Landlord that the same was not paid when due; provided that no such notice shall be required if at least two such notices shall have been given during the previous twelve (12) months; (ii) Tenant fails to observe or perform any other term, condition or covenant herein binding upon or obligating Tenant within thirty (30) days after notice from Landlord; provided, however, that if Landlord reasonably determines that such failure cannot be cured within said 30-day period, then the period to cure the default shall be extended as reasonably necessary to cure the default, provided Tenant has commenced to cure the default within the 30-day period and diligently pursues such cure to completion; (iii) Tenant abandons the Premises or fails to take occupancy of the Premises within thirty (30) days of the Commencement Date; (iv) Tenant or any Guarantor makes or consents to a general assignment for the benefit of creditors or a common law composition of creditors, or a receiver of the Premises for all or substantially all of Tenant's or Guarantor's assets is appointed and not dismissed within thirty (30) days thereafter, (v) Tenant or Guarantor files a voluntary petition in any bankruptcy or insolvency proceeding, or an involuntary petition in any bankruptcy or insolvency proceeding is filed against Tenant or Guarantor and is not discharged by Tenant or Guarantor within sixty (60) days or; (vi) Tenant fails to immediately remedy or discontinue any hazardous conditions which Tenant has created or permitted in violation of law or of this Lease. Any such notices required under this Section 21.1 shall be in lieu of, and not in addition to, any notice required under Section 1161 of the California Code of Civil Procedure.

21-2 Landlord's Remedies. Upon the occurrence of an Event of Default, Landlord, at its option, without further notice or demand to Tenant, may, in addition to all other rights and remedies provided in this Lease, at law or in equity elect one or more of the following remedies:

(a) Terminate this Lease, in which event Tenant shall immediately surrender possession of the Premises to Landlord, and Landlord shall have all the rights and remedies of a landlord provided by California Civil Code Section 1951.2, or any successor statute, and in addition to any other rights and remedies Landlord may have, Landlord shall be entitled to recover from Tenant:

(i) the worth at the time of award of the unpaid Rent which had been earned at the time of such termination; plus

(ii) the worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iii) the worth at the time of award of the amount by which the unpaid Rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iv) Any other amount necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, the costs and expenses

(including attorneys' fees, whether in-house or outside counsel) of recovering possession of the property, expenses of reletting, including necessary repair, renovation and alteration of the Premises and brokerage commissions, and any other reasonable costs and expenses.

As used in Sections 21.2(a)(i) and (ii) above, the "worth at the time of award" is computed by allowing interest at the prime rate per annum announced by Wells Fargo Bank, N.A., San Francisco, California as its prime rate. As used in Section 21.2(a)(iii) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

(b) Terminate Tenant's right of possession of the Premises without terminating this Lease, in which event Landlord may, but shall not be obligated to except to the extent otherwise required by law, relet the Premises, or any part thereof, for the account of Tenant, for such rent and term and upon such other conditions as are acceptable to Landlord. For purposes of such reletting, Landlord is authorized to redecorate, repair, alter and improve the Premises to the extent necessary in Landlord's discretion. Until Landlord relets the Premises, Tenant shall remain obligated to pay Rent to Landlord as provided in this Lease. If and when the Premises are relet and if a sufficient sum is not realized from such reletting after payment of all of Landlord's expenses of reletting (including, without limitation, rental concessions to new tenants, repairs, Alterations, legal fees and brokerage commissions) to satisfy the payment of Rent due under this Lease for any month, Tenant shall pay Landlord any such deficiency upon demand. Tenant agrees that Landlord may file suit to recover any sums due Landlord under this Section from time to time and that such suit or recovery of any amount due Landlord shall not be any defense to any subsequent action brought for any amount not previously reduced to judgment in favor of Landlord;

(c) In accordance with California Civil Code Section 1951.4 (or any successor statute), Tenant acknowledges that in the event Tenant has breached this Lease and abandoned the Premises, this Lease shall continue in effect for so long as Landlord does not terminate Tenant's right to possession, and Landlord may enforce all its rights and remedies under this Lease, including the right to recover the Rent as it becomes due under this Lease. Acts of maintenance or preservation efforts to relet the Premises, or the appointment of a receiver upon initiative of Landlord to protect Landlord's interest under this Lease shall not constitute a termination of Tenant's right to possession.

21.3 Rights Upon Possession. If Landlord takes possession pursuant to this Article XXI, with or without terminating this Lease, Landlord may, at its option, remove Tenant's Alterations, signs, personal property, equipment and other evidences of tenancy, and store them at Tenant's risk and expense or dispose of them as Landlord may see fit, and take and hold possession of the Premises; provided, however, that if Landlord elects to take possession only without terminating this Lease, such entry and possession shall not terminate this Lease or release Tenant or any Guarantor, in whole or in part, from the obligation to pay the Rent reserved hereunder for the full Term or from any other obligation under this Lease or any guaranty thereof.

21.4 No Waiver. If Landlord shall institute proceedings against Tenant and a compromise or settlement thereof shall be made, the same shall not constitute a waiver of any other covenant, condition or agreement herein contained, nor of any of Landlord's rights hereunder. No waiver by Landlord of any breach shall operate as a waiver of such covenant, condition or agreement itself, or of any subsequent breach thereof.

No payment of Rent by Tenant or acceptance of Rent by Landlord shall operate as a waiver of any breach or default by Tenant under this Lease. No payment by Tenant or receipt by Landlord of a lesser amount than the monthly installment of Rent herein stipulated shall be deemed to be other than a payment on account of the earliest unpaid Rent, nor shall any endorsement or statement on any check or communication accompanying a check for the payment of Rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such Rent or to pursue any other remedy provided in this Lease. No re-entry by Landlord, and no acceptance by Landlord of keys from Tenant, shall be considered an acceptance of a surrender of the Lease.

21.5 Right of Landlord to Cure Tenant's Default. If an Event of Default shall occur, then Landlord may (but shall not be obligated to) make such payment

or do such act to cure the Event of Default, and charge the amount of the expense thereof to Tenant. Such payment shall be due and payable upon demand; however, the making of such payment or the taking of such action by Landlord shall not be deemed to cure the Event of Default or to stop Landlord from the pursuit of any remedy to which Landlord would otherwise be entitled. Any such payment made by Landlord on Tenant's behalf shall bear interest until paid at the Interest Rate.

21.6 Late Payment. If Tenant fails to pay any Rent within ten (10) days after such Rent becomes due and payable, Tenant shall pay to Landlord a late charge of six percent (6%) of the amount of such overdue Rent. In addition, any such late Rent payment shall bear interest from the date such Rent became due and payable to the date of payment thereof by Tenant at the Interest Rate. Such late charge and interest shall be due and payable within two (2) days after written demand from Landlord.

21.7 Waiver of Redemption. Tenant hereby waives, for itself and all persons claiming by and under Tenant, all rights and privileges which it might have under any present or future law to redeem the Premises or to continue this Lease after being dispossessed or ejected from the Premises.

ARTICLE XXII
MORTGAGES

22.1 Subordination. The form of Subordination, Non-Disturbance and Attornment Agreement to be executed by Tenant and Landlord's current Mortgagee simultaneously with the execution of this Lease is attached hereto as Exhibit J and incorporated by reference herein. This Lease is subject and subordinate to any future Mortgagee(s) which may hereafter affect the Land or Project and to all renewals, modifications, consolidations, replacements and extensions thereof, which subordination shall be self-operative; provided, however, Landlord shall use commercially reasonable efforts to obtain a subordination, non-disturbance and attornment agreement from such future Mortgagee in a form reasonably acceptable to Landlord, Tenant and such Mortgagee. Notwithstanding the foregoing, before any foreclosure sale under a Mortgage, the Mortgagee shall have the right to subordinate the Mortgage to this Lease, and, in the event of a foreclosure, this Lease may continue in full force and effect and Tenant shall attorn to and recognize as its landlord the purchaser of Landlord's interest under this Lease. Tenant shall, upon the request of a Mortgagee or purchaser at foreclosure whose name and address have been furnished to Tenant, execute, acknowledge and deliver any reasonable instrument that has for its purpose and effect the subordination of the lien of any Mortgage to this Lease or Tenant's attornment to such Purchaser.

22.2 Mortgagee Protection. Tenant agrees to give any Mortgagee by certified mail, return receipt requested, a copy of any notice of default served upon Landlord, provided that before such notice Tenant has

been notified in writing of the address of such Mortgagee. Tenant further agrees that if Landlord shall have failed to cure such default within the time provided for in this Lease, then Mortgagee shall have an additional thirty (30) days within which to cure such default; provided, however, that if such default cannot be reasonably cured within that time, then such Mortgagee shall have such additional time as may be necessary to cure such default so long as Mortgagee has commenced and is diligently pursuing the remedies necessary to cure such default (including, without limitation, the commencement of foreclosure proceedings, if necessary), in which event this Lease shall not be terminated or Rent abated while such remedies are being so diligently pursued. In the event of the sale of the Land, the Building or the Project by foreclosure or deed in lieu thereof, the Mortgagee or purchaser at such sale shall be responsible for the return of the Security Deposit only to the extent that such Mortgagee or purchaser actually received the Security Deposit.

ARTICLE XXIII
SURRENDER; HOLDING OVER

23.1 Surrender of the Premises. Tenant shall peaceably surrender the Premises to Landlord on the Expiration Date or earlier termination of this Lease, in broom-clean condition and in as good condition as when Tenant took possession, including, without limitation, the repair of any damage to the Premises caused by the removal of any of Tenant's personal property or trade fixtures from the Premises, except for reasonable wear and tear and loss by fire or other casualty (to the extent governed by the provisions of Article XX herein). All trade fixtures, equipment, furniture, inventory, effects, alterations, additions and improvements left on or in the Premises or the Project after the Expiration Date or earlier termination of this Lease will be deemed conclusively to have been abandoned and may be appropriated, sold, stored, destroyed or otherwise disposed of by Landlord without notice to Tenant or any other person and without obligation to account for them; and Tenant will pay Landlord for all expenses incurred in connection with the removal of such property, including, but not limited to, the costs of repairing any damage to the Premises or the Project caused by the removal of such property. Tenant's obligation to observe and perform this covenant will survive the expiration or other termination of this Lease.

23.2 Holding Over. In the event that Tenant shall not immediately surrender the Premises to Landlord on the Expiration Date or earlier termination of this Lease, Tenant shall be deemed to be a tenant-at-will pursuant to the terms and provisions of this Lease, except the daily Basic Rent shall be (i) one hundred twenty-five percent (125%) of the daily Basic Rent in effect on the Expiration Date or earlier termination of this Lease (computed on the basis of a thirty (30) day month) for the first thirty (30) days of any holdover period; (ii) one hundred fifty percent (150%) of the daily Basic Rent in effect on the

Expiration Date or earlier termination of this Lease (computed on the basis of a thirty (30) day month) for the next sixty (60) days of any holdover period and; (iii) thereafter, twice the daily Basic Rent in effect on the Expiration Date or earlier termination of this Lease (computed on the basis of a thirty (30) day month). Notwithstanding the foregoing, if Tenant shall hold over after the Expiration Date or earlier termination of this Lease, and Landlord shall desire to regain possession of the Premises, then Landlord may forthwith re-enter and take possession of the Premises without process, or by any legal process provided under applicable state law. Tenant shall indemnify Landlord against all liabilities and damages sustained by Landlord by reason of such retention of possession

ARTICLE XXIV
QUIET ENJOYMENT

Landlord covenants that if Tenant shall pay Rent and perform all of the terms and conditions of this Lease to be performed by Tenant, Tenant shall during the Term peaceably and quietly occupy and enjoy possession of the Premises without molestation or hindrance by Landlord or any party claiming through or under Landlord, subject to the provisions of this Lease, the Restrictions and any Mortgage to which this Lease is subordinate.

ARTICLE XXV
MISCELLANEOUS

25.1 No Representations by Landlord. Tenant acknowledges that neither Landlord nor its Agents nor any broker has made any representation or promise with respect to the Premises, the Project, the Land or the Common Area, except as herein expressly set forth, and no rights, privileges, easements or licenses are acquired by Tenant except as herein expressly set forth.

25.2 No Partnership. Nothing contained in this Lease shall be deemed or construed to create a partnership or joint venture of or between Landlord and Tenant, or to create any other relationship between Landlord and Tenant other than that of landlord and tenant.

25.3 Brokers. Landlord recognizes Broker(s) as the sole broker(s) procuring this Lease and shall pay Broker(s) a commission therefor pursuant to a separate agreement between Broker(s) and Landlord. Landlord and Tenant each represents and warrants to the other that it has dealt with no broker, agent finder or other person other than Broker(s) relating to this Lease. Landlord shall indemnify and hold Tenant harmless, and Tenant shall indemnify and hold

Landlord harmless, from and against any and all loss, costs, damages or expenses (including, without limitation, all attorneys fees and disbursements) by reason of any claim of liability to or from any broker or person arising from or out of any breach of the indemnitor's representation and warranty.

25.4 Estoppel Certificate. Tenant shall, without charge, at any time and from time to time, within fifteen (15) days after request therefor by Landlord, Mortgagee, any purchaser of all or any portion of the Project or any other interested person, execute, acknowledge and deliver to such requesting party a written estoppel certificate certifying, as of the date of such estoppel certificate, the following: (i) that this Lease is unmodified and in full force and effect (or if modified, that the Lease is in full force and effect as modified and setting forth such modifications); (ii) that the Term has commenced, if such is the case (and setting forth the Commencement Date and Expiration Date); (iii) that Tenant is presently occupying the Premises, if such is the case; (iv) the amounts of Basic Rent and Additional Rent currently payable by Tenant; (v) that any Alterations required by the Lease to have been made by Landlord have been made to the satisfaction of Tenant, if such is the case; (vi) that there are no existing set-offs, charges, liens, claims or defenses against the enforcement of any right hereunder, including, without limitation, Basic Rent or Additional Rent (or, if alleged, specifying the same in detail); (vii) that no Basic Rent (except the first installment thereof) has been paid more than thirty (30) days in advance of its due date; (viii) that Tenant has no knowledge of any then uncured default by Landlord of its obligations under this Lease (or, if Tenant has such knowledge, specifying the same in detail); (ix) that Tenant is not in default; (x) that the address to which notices to Tenant should

be sent is as set forth in the Lease (or, if not, specifying the correct address); and (xi) any other similar certifications reasonably requested by Landlord.

25.5 Waiver of Jury Trial. LANDLORD AND TENANT EACH WAIVE TRIAL BY JURY IN CONNECTION WITH PROCEEDINGS OR COUNTERCLAIMS BROUGHT BY EITHER OF THE PARTIES AGAINST THE OTHER WITH RESPECT TO ANY MATTER WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT HEREUNDER OR TENANT'S USE OR OCCUPANCY OF THE PREMISES.

25.6 Notices. All notices or other communications hereunder shall be in writing and shall be deemed duly given if addressed and delivered to the respective parties' addresses, as set forth in Article I: (i) in person; (ii) by Federal Express or similar overnight carrier service; or (iii) mailed by certified or registered mail, return receipt requested, postage prepaid. Such

notices shall be deemed received upon the earlier of receipt or, if mailed by certified or registered mail, three (3) days after such mailing. Landlord and Tenant may from time to time by written notice to the other designate another address for receipt of future notices.

25.7 Invalidity of Particular Provisions. If any provisions of this Lease or the application thereof to any person or circumstances shall to any extent be invalid or unenforceable, the remainder of this Lease, or the application of such provision to persons or circumstances other than those to which it is invalid or unenforceable, shall not be affected thereby, and each provision of this Lease shall be valid and be enforced to the full extent permitted by law.

25.8 Gender and Number. All terms and words used in this Lease, regardless of the number or gender in which they are used, shall be deemed to include any other number or gender as the context may require.

25.9 Benefit and Burden. Subject to the provisions of Article X and except as otherwise expressly provided, the provisions of this Lease shall be binding upon, and shall inure to the benefit of, the parties hereto and each of their respective representatives, heirs, successors and assigns. Landlord may freely and fully assign its interest hereunder.

25.10 Entire Agreement. This Lease (which includes the Exhibits attached hereto) contains and embodies the entire agreement of the parties hereto, and no representations, inducements or agreements, oral or otherwise, between the parties not contained in this Lease shall be of any force or effect. This Lease (other than the Rules and Regulations, which may be changed from time to time as provided herein) may not be modified, changed or terminated in whole or in part in any manner other than by an agreement in writing duly signed by Landlord and Tenant.

25.11 Authority.

(a) Tenant hereby represents and warrants that Tenant is a duly formed and validly existing corporation, in good standing, qualified to do business in the district in which the Project is located, that the corporation has full power and authority to enter into this Lease and the person executing the Lease on behalf of Tenant is authorized to execute this Lease on behalf of the corporation.

(b) If Tenant signs as a partnership, the person executing this Lease on behalf of Tenant hereby represents and warrants that Tenant is a duly formed, validly existing partnership qualified to do business in the applicable state,

that the partnership has full power and authority to enter into this Lease, and that he or she is authorized to execute this Lease on behalf of the partnership. Tenant further agrees that it shall provide Landlord with a partnership authorization certifying as to the above in a form acceptable to Landlord.

25.12 Attorneys' Fees. If either Landlord or Tenant commences, engages in, or threatens to commence or engage in any legal action or proceeding against the other party (including, without limitation, litigation or arbitration) arising out of or in connection with the Lease, the Premises, or the Project (including, without limitation (a) the enforcement or interpretation of either party's rights or obligations under this Lease (whether in contract, tort, or both) or (b) the declaration of any rights or obligations under this Lease), the prevailing party shall be entitled to recover from the losing party reasonable attorneys' fees, together with any costs and expenses, incurred in any such action or proceeding, including any attorneys' fees, costs, and expenses incurred on collection and on appeal.

25.13 Interpretation. This Lease is governed by the laws of the state in which the Project is located. Furthermore, this Lease shall not be construed against either party more or less favorably by reason of authorship or origin of language.

25.14 (Intentionally Deleted).

25.15 No Personal Liability; Sale. Neither Landlord nor its Agents, whether disclosed or undisclosed, shall have any personal liability under any provision of this Lease. If Landlord defaults in the performance of any of its obligations hereunder or otherwise, Tenant shall look solely to Landlord's equity, interest and rights in the Building for satisfaction of Tenant's remedies on account thereof. Landlord or any successor owner shall have the right to transfer and assign to a third party, in whole or part, all of its rights and obligations hereunder and in the Building and Land, and in such event, all liabilities and obligations on the part of the original Landlord, or such successor owner, under this Lease occurring thereafter shall terminate as of the day of such sale, and thereupon all such liabilities and obligations shall be binding on the new owner. Tenant agrees to attorn to such new owner. In the event of such transfer or assignment, Landlord shall transfer to such transferee or assignee the balance of the Security Deposit, if any, remaining after lawful deductions and, in accordance with California Civil Code Section 1950.7, after notice to Tenant, and Landlord shall thereupon be relieved of all liability with respect to the Security Deposit. Any successor to Landlord's interest shall not be bound by: (i) any payment of Basic Rent or Additional Rent for more than one (1) month in advance, except for the payment of the first installment of first year Basic Rent; or (ii) as to any Mortgagee or any purchaser at foreclosure, any amendment or modification of this Lease made without the consent of such Mortgagee.

25.16 Time of the Essence. Time is of the essence as to Tenant's obligations contained in this Lease.

25.17 Force Majeure. Landlord and Tenant (except with respect to the

payment of Rent) shall not be chargeable with, liable for, or responsible to the other for anything or in any amount for any failure to perform or delay caused by: fire; earthquake; explosion; flood; hurricane; the elements; acts of God or the public enemy; actions, restrictions, governmental authorities (permitting or inspection), governmental

regulation of the sale of materials or supplies or the transportation thereof, war; invasion; insurrection; rebellion; riots; strikes or lockouts, inability to obtain necessary materials, goods, equipment, services, utilities or labor; or any other cause whether similar or dissimilar to the foregoing which is beyond the reasonable control of such party (collectively, "Events of Force Majeure"); and any such failure or delay due to said causes or any of them shall not be deemed to be a breach of or default in the performance of this Lease.

25.18 Headings. Captions and headings are for convenience of reference only.

25.19 Memorandum of Lease. Tenant shall, at the request of Landlord, execute and deliver a memorandum of lease in recordable form. Tenant shall not record such a memorandum or this Lease without Landlord's consent. The party requesting recordation of a memorandum of this Lease shall be obligated to pay all costs, fees and taxes, if any, associated with such recordation.

25.20 (Intentionally Deleted).

25.21 Financial Reports. Within fifteen. (15) days after Landlord's request, Tenant will furnish Tenant's most recent audited financial statements (including any notes to them) to Landlord, or, if no such audited statements have been prepared, such other financial statements (and notes to them) as may have been prepared by an independent certified public accountant, or, failing those, Tenant's internally prepared financial statements, certified by Tenant. So long as Tenant remains a publicly traded corporation, Landlord shall accept Tenant's most recent annual report in satisfaction of Tenant's obligations under this Section 25.21.

25.22 Landlord's Fees. Whenever Tenant requests Landlord to take any action or give any consent required or permitted under this Lease, Tenant will reimburse Landlord for all of Landlord's actual out-of-pocket costs incurred in reviewing the proposed action or consent, including, without limitation, attorneys', engineers' or architects' fees, subject to the terms set forth below in this Section 25.22 and within ten (10) days after Landlord's delivery to Tenant of a statement of such costs. Landlord shall provide Tenant with a reasonable bid for any actual out-of-pocket costs to be in incurred by Landlord

in reviewing a proposed action or consent requested by Tenant. In the event Tenant is willing to pay the bid amount, Tenant shall notify Landlord, whereupon Landlord shall proceed to review the proposed action or consent. In no event shall Tenant be obligated to pay more than the bid amount without Tenant's prior consent thereto. Tenant acknowledges that Landlord shall not proceed with the evaluation of any request until Tenant has approved the bid amount. Tenant will be obligated to make such reimbursement without regard to whether Landlord consents to any such proposed action.

25.23 (Intentionally Deleted).

25.24 Effectiveness. The furnishing of the form of this Lease shall not constitute an offer and this Lease shall become effective upon and only upon its execution by and delivery to each party hereto.

25.25 Light, Air or View Rights. Any diminution or shutting off of light, air or view by any structure which may be erected on lands adjacent to or in the vicinity of the Building and Project shall not affect this Lease, abate any payment owed by Tenant hereunder or otherwise impose any liability on Landlord.

25.26 Special Damages. Under no circumstances whatsoever shall Landlord or Tenant ever be liable hereunder for consequential damages or special damages.

25.27 Remedies and Cumulative. The remedies of Landlord hereunder shall be deemed cumulative and no remedy of Landlord, whether exercised by Landlord or not, shall be deemed to be in exclusion of any other.

25.28 Independent Covenant. The obligation of Tenant to pay all Rent and other sums hereunder provided to be paid by Tenant and the obligation of Tenant to perform Tenant's other covenants and duties hereunder constitute independent, unconditional obligations to be performed at all times provided for hereunder, save and except only when an abatement thereof or reduction therein is hereinabove expressly provided for and not otherwise. Tenant waives and relinquishes all rights which Tenant might have to claim any nature of a prejudgment lien against or withhold, or deduct from, or offset against any rent and other sums provided hereunder to be paid Landlord by Tenant. Nothing contained herein shall prevent Tenant from claiming a constructive eviction under circumstances which constitute the same at law.

25.29 (Intentionally Deleted).

ARTICLE XXVI

26.1 General. If at any time within the Term any portion of the ninth (9th) floor as reflected on Exhibit F attached hereto and incorporated by reference herein (the "Right of First Offering Space") becomes or Landlord receives notice will become vacant, Landlord shall so notify Tenant in writing. Tenant shall then have a period of ten (10) days after receipt of such notice in which to elect either to lease all of the Right of First Offering Space described in Landlord's notice or refuse to lease the same ("Right of First Offering"). Failure of Tenant to respond shall be deemed refusal to lease such Right of First Offering Space. This Right of First Offering shall not apply to space which is currently vacant until such currently vacant space is leased and subsequently becomes vacant and is subject to the rights of existing tenants in any lease, option, right of extension (heretofore or hereafter granted) or expansion right heretofore granted. In the event Tenant refuses to lease such Right of First Offering Space, Tenant's Right of First Offering with respect to that portion of the Right of First Offering Space offered to Tenant shall automatically cease and forever terminate. If Tenant elects to lease the Right of First Offering Space, then Landlord and Tenant, within thirty (30) days after Tenant delivers to Landlord notice of the exercise of such option, shall execute an amendment to this Lease which shall (i) add the applicable Right of First Offering Space to the Premises under this Lease; (ii) increase the annual Basic Rent by an amount equal to the product of the then prevailing annual Market Rate (as determined in accordance with Section 26.2 below) multiplied by the total number of rentable square feet in the applicable Right of First Offering Space; and (iii) increase Tenant's Proportionate Share in direct proportion to the increase of rentable square footage in the Premises as a result of said amendment. Except as otherwise specifically indicated in this Article XXVI, all of the terms and conditions contained in this Lease shall apply to the Right of First Offering Space; provided, however, no improvement allowances shall be provided to Tenant. The commencement date for any Right of First Offering Space shall be sixty (60) days after the later of (i) notice of Tenant's election to lease said Right of First Offering Space or (ii) vacation of such Right of First Offering Space by the previous tenant; provided, however in the event Tenant actually occupies the Right of First Offering Space prior to such date for the conduct of its business, the

commencement date shall be the earlier date upon which such space is occupied. In the event Tenant exercises any Right of First Offering, the Term with respect to such Right of First Offering Space shall be coterminous with the current remaining Term with respect to the Premises as may be extended.

26.2 Market Rate. As used herein "Market Rate" shall mean the then

prevailing market rate for full service base rent and with charges for parking, which parking charges shall be in addition to base rent, for tenants of comparable quality for leases in buildings of comparable size, use and location in the Miracle Mile Area, taking into consideration the extent of the availability of space as large as the Premises in the marketplace and all other economic terms and concessions then customarily prevailing in such leases in said marketplace.

26.3 Condition of Premises. Tenant shall accept any Right of First Offering Space in "as is" condition as of the date of any election to lease such space hereunder.

26.4 Conditions Precedent. Tenant's Right of First Offering is expressly subject to the following conditions precedent: (i) this Lease is in full force and effect; (ii) no materially adverse change in Tenant's financial condition has occurred, and (iii) no Event of Default shall exist, either at the time of giving written notice of Tenant's election to Landlord or at the time possession of any such space is delivered to Tenant.

26.5 Holdover. Landlord shall not be liable for the failure to give possession of any Right of First Offering Space to Tenant by reason of the unauthorized holding over or retention of possession by any other tenant or occupant thereof, nor shall such failure impair the validity of this Lease nor extend the Term thereof.

26.6 Termination of Right of First Offering. This Right of First Offering shall terminate on the first to occur of (i) Tenant's subleasing or assignment of any portion of the Premises, or (ii) eighteen (18) months prior to the expiration of the initial Term.

26.7 Personal Right. This Right of First Offering is personal with respect to Playboy Enterprises, Inc. Any assignment or subletting shall automatically terminate Playboy Enterprises, Inc.'s rights hereunder.

ARTICLE XXVII
OPTION TO RENEW

27.1 Grant of Option and General Terms. Provided that (i) no material adverse change has occurred in Tenant's financial condition; (ii) this Lease is in full force and effect, and (iii) no Event of Default shall exist under this Lease, either on the date Tenant exercises its Renewal Option (as hereinafter defined) or as of the effective date of the Renewal Term (as hereinafter defined), Tenant shall have the option to extend the term of this Lease for one (1) additional period (the "Renewal Option") of three (3) years (the "Renewal Term"). The Renewal Option shall be subject to all of the terms and conditions contained in the Lease except that (i) the Renewal Rent (as hereinafter defined) shall be as set forth below; (ii) Landlord shall have no obligation to improve the Premises; and (iii) there shall be no further option to extend the Term of the Lease beyond the Renewal Term.

27.2 Renewal Rent. The Renewal Rent for the Renewal Term shall be an amount equal to the prevailing Market Rate. As used herein "Market Rate" shall. mean the then prevailing market rate for full

service base rent and (with charges for parking, which parking charges shall be in addition to base rent) for tenants of comparable quality for renewal leases in buildings of comparable size, age, use location and quality in the Miracle Mile Area, taking into consideration the extent of the availability of space as large as the Premises in the marketplace and all other economic terms and concessions then customarily prevailing in such renewal leases in said marketplace.

27.3 Determination of Market Rate. Tenant shall send Landlord a preliminary expression of Tenant's willingness to renew this Lease no earlier than two hundred seventy (270) days or later than two hundred forty (240) days prior to the expiration of the initial Term of this Lease ("Renewal Notice"). Tenant and Landlord shall negotiate in good faith to determine and mutually agree upon the Market Rate for the Renewal Term. If Landlord and Tenant are unable to agree upon the Market Rate for the Renewal Term, on or before one hundred eighty (180) days prior to the expiration of the initial Term of this Lease (the "Negotiation Period"), as evidenced by an amendment to the Lease executed by both Landlord and Tenant, then within five (5) days after the last day of the Negotiation Period, Tenant may, by written notice to Landlord (the "Notice of Exercise"), irrevocably elect to exercise such Renewal Option. In order for Tenant to exercise such Renewal Option, Tenant shall send the Notice of Exercise to Landlord stating (i) that Tenant is irrevocably exercising its right to extend the Term pursuant to Article XXVI; and (ii) Landlord and Tenant shall be irrevocably bound by the determination of Market Rate set forth hereinafter in this Section 27.3, and if applicable, Section 27.4. If Tenant shall fail to deliver the Notice of Exercise on or before five (5) days after the last day of the Negotiation Period, then Tenant shall have waived any right to exercise the Renewal Option. In the event any date referenced in this Section 27.3 falls on a day other than a business day, such date shall be deemed to be the next following business day.

In the event Tenant timely delivers the Notice of Exercise to Landlord, Landlord and Tenant shall each simultaneously present to the other party their final determinations of the Market Rate for the Renewal Term (the "Final Offers") within ten (10) days after the last day of the Negotiation Period. If the Market Rate as determined by the lower of the two (2) proposed Final Offers is not more than ten percent (10%) below the higher, then the Market Rate shall be determined by averaging the two (2) Final Offers.

If the difference between the lower of the two (2) proposed Final Offers is more than ten percent (10%) below the higher, then the Market Rate shall be determined by Baseball Arbitration (as hereinafter defined) in accordance with the procedure set forth in Section 27.4.

27.4 Baseball Arbitration. For all purposes of this Lease, Baseball Arbitration shall follow the following procedures:

(a) Within twenty (20) days after Landlord's receipt of Tenant's Notice of Exercise, Tenant and Landlord shall each select an arbitrator ("Tenant's Arbitrator" and "Landlord's Arbitrator", respectively) who shall be a qualified and impartial person licensed in the State of California as an MAI appraiser with at least five (5) years of experience in appraising the type of matters for which they are called on to appraise hereunder in the Miracle Mile Area.

(b) Landlord's Arbitrator and Tenant's Arbitrator shall name a third arbitrator, similarly qualified, within ten (10) days after the appointment of Landlord's Arbitrator and Tenant's Arbitrator.

(c) Said third arbitrator shall, after due consideration of the factors to be taken into account under the definition of Market Rate set forth in Section 26.2 and hearing whatever evidence the arbitrator deems appropriate from Landlord, Tenant and others, and obtaining any other information the arbitrator deems necessary, in good faith, make its own determination of the Market Rate for the Premises as of the commencement of the Renewal Term (the "Arbitrator's Initial Determination") and thereafter select either Landlord's Final Offer or the Tenant's Final Offer, but no other, whichever is closest to the Arbitrator's Initial Determination (the "Final Determination"), such determination to be made within thirty (30) days after the appointment of the third arbitrator. The Arbitrator's Initial Determination, Final Determination and the market information upon which such determinations are based shall be in writing and counterparts thereof shall be delivered to Landlord and Tenant within said thirty (30) day period. The arbitrator shall have no right or ability to determine the Market Rate in any other manner. The Final Determination shall be binding upon the parties hereto.

(d) The costs and fees of the third arbitrator shall be paid by Landlord if the Final Determination shall be Tenant's Final Offer or by Tenant if the Final Determination shall be Landlord's Final Offer.

(e) If Tenant fails to appoint Tenant's Arbitrator in the manner and within the time specified in Section 27.4, then the Market Rate for the Renewal

Term shall be the Market Rate contained in the Landlord's Final Offer. If Landlord fails to appoint Landlord's Arbitrator in the manner and within the time specified in Section 27.4 then the Market Rate for the Renewal Term shall be the Market Rate contained in the Tenant's Final Offer. If Tenant's Arbitrator and Landlord's Arbitrator fail to appoint the third arbitrator within the time and in the manner prescribed in Section 27.4, then Landlord and Tenant shall jointly and promptly apply to the local office of the American Arbitration Association for the appointment of the third arbitrator.

27.5 Personal Option. This Renewal Option is personal with respect to Playboy Enterprises, Inc. Any assignment or subletting shall automatically terminate Playboy Enterprises, Inc.'s rights hereunder.

27.6 Subordination of Renewal Option. Landlord and Tenant acknowledge that Tenant's Renewal Option is expressly subordinate and inferior to any interest expressed by BPI or an affiliate or successor-in-interest to BPI to renew its lease within the Building (whether or not pursuant to a renewal option contained within the Lease), and in connection with such renewal to expand into all or a portion of the Premises. If the Landlord has reason to believe that BPI will expand into all or a portion of the Premises, Landlord shall notify Tenant within thirty (30) days after receipt of Tenant's Renewal Notice, whereupon Tenant's Renewal Option shall be terminated, void and of no further force and effect.

ARTICLE XVIII
SATELLITE ANTENNAE

Tenant shall have the right to install a satellite antennae in accordance with the provisions of the License Agreement to Install a Satellite Antennae attached hereto as Exhibit G.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the Date of Lease.

ATTEST/WITNESS:

/s/ D. Y. Scharff

Name

LANDLORD:

5055 WILSHIRE LIMITED PARTNERSHIP,
a Texas limited partnership

By: L. A. WILSHIRE ONE, INC.,

/s/ Scott Syamken

Name

a Delaware corporation,
Its General Partner

By: /s/ Stanley R. Alterman

Name: Stanley R. Alterman

Title: ASST. VICE PRESIDENT

Date Executed by Landlord: 1/6/99

TENANT:

ATTEST/WITNESS:

/s/ Suzanne R. Shoemaker

Name: Suzanne R. Shoemaker

PLAYBOY ENTERPRISES, INC.,
a Delaware corporation

_____
Name:

By: /s/ Howard Shapiro

Name: Howard Shapiro

Title: Ex VP

Date Executed by Tenant: 12-29-98

PLAYBOY ENTERPRISES, INC. AND SUBSIDIARIES
EXHIBIT 21
SUBSIDIARIES

The accounts of all of the subsidiaries are included in the Company's Consolidated Financial Statements. Set forth below are the names of certain active corporate subsidiaries of the Company as of December 31, 1998. Certain subsidiaries are omitted because such subsidiaries considered individually or in the aggregate would not constitute a significant subsidiary.

Indented names are subsidiaries of the company under which they are indented:

<TABLE>
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Name of Company	Jurisdiction in which Incorporated or Organized	Percent Ownership By Immediate Parent
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Playboy Enterprises, Inc. (parent)	Delaware	
New Playboy, Inc.	Delaware	100%
Playboy Acquisition Corp.	Delaware	100%
Spice Acquisition Corp.	Delaware	100%
PEI Holdings, Inc.	Delaware	100%
Lake Shore Press, Inc.	Delaware	100%
Lifestyle Brands, Ltd.	Delaware	100%
Playboy Models, Inc.	Illinois	100%
Playboy Products and Services International, B.V.	The Netherlands	100%
Playboy Entertainment Group, Inc.	Delaware	100%
After Dark Video, Inc.	Delaware	100%
Alta Loma Distribution, Inc.	Delaware	100%
Alta Loma Entertainment, Inc.	California	100%
Cameo Films, Inc.	Illinois	100%
Impulse Productions, Inc.	Delaware	100%
Precious Films, Inc.	California	100%
AdulTVision Communications, Inc.	Delaware	100%
Mystique Films, Inc.	California	100%
Women Productions, Inc.	California	100%
Playboy Clubs International, Inc.	Delaware	100%
Playboy Preferred, Inc.	Illinois	100%
Critics' Choice Video, Inc.	Illinois	100%
Special Editions, Ltd.	Delaware	100%
Playboy Shows, Inc.	Delaware	100%
Telecom International, Inc.	Florida	100%
Playboy Gaming International, Ltd.	Delaware	100%
Playboy Gaming Greece, Ltd.	Delaware	100%
Playboy Gaming Nevada, Inc.	Nevada	100%
Playboy Properties, Inc.	Delaware	100%
VIPress Poland Sp. z o.o	Poland	84%
Playboy Online, Inc.	Delaware	100%

</TABLE>

PLAYBOY ENTERPRISES, INC. AND SUBSIDIARIES
EXHIBIT 23
CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in the registration statements on Form S-4 (File No. 333-68139) and Form S-8 (File Nos. 33-37666, 33-46113, 33-58145, 33-60631, 333-06843, 333-30185, 333-30201, 333-36737 and 333-74451) of our report dated February 9, 1999, on our audit of the consolidated financial statements and financial statement schedule of Playboy Enterprises, Inc. as of December 31, 1998 and 1997, and for the fiscal year ended December 31, 1998, the six-month transition period ended December 31, 1997, and the two fiscal years ended June 30, 1997 and 1996, which report is included in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

Chicago, Illinois
March 26, 1999

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