

PLAYBOY ENTERPRISES INC

Form DEF 14A

March 30, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant ☐

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- ☐ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to §240.14a-12

**Playboy Enterprises, Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☐ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

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

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***Notice of the 2009 Annual Meeting of Stockholders***

**May 13, 2009**

The Annual Meeting of Stockholders of Playboy Enterprises, Inc., or Playboy, will be held at 680 North Lake Shore Drive, 15th Floor, Chicago, Illinois 60611, on Wednesday, May 13, 2009, at 9:30 a.m., CDT, for the following purposes:

1. to elect seven directors, each for a one-year term;
2. to approve an amendment to our Third Amended and Restated 1995 Stock Incentive Plan;
3. to approve an amendment to our Second Amended and Restated 1997 Equity Plan for Non-Employee Directors;
4. to approve an amendment to our Employee Stock Purchase Plan;
5. to ratify our audit committee's appointment of Ernst & Young LLP as our independent registered public accounting firm for 2009; and
6. to transact any other business that properly comes before the meeting.

All holders of record of Playboy Class A common stock, or Class A stock, at the close of business on March 16, 2009, are entitled to notice of the Annual Meeting of Stockholders and to vote at the meeting. An alphabetical list of those stockholders, their addresses and the number of shares owned by each will be on display for all purposes germane to the meeting at Playboy's Chicago office during normal business hours from May 3, 2009 to May 13, 2009. This list will also be on display at the meeting. Holders of Playboy Class B common stock, or Class B stock, on the record date are also welcome to attend the meeting but are not entitled to vote.

**WE HOPE THAT YOU WILL BE PRESENT AT THE MEETING. IF YOU CANNOT ATTEND AND YOU ARE A HOLDER OF CLASS A STOCK, WE URGE YOU TO VOTE YOUR SHARES BY SUBMITTING YOUR PROXY OR VOTING INSTRUCTIONS BY TELEPHONE OR VIA THE INTERNET. YOU MAY ALSO REQUEST A PAPER PROXY CARD TO SUBMIT YOUR VOTE BY MAIL.**

**By Order of the Board of  
Directors**

**Howard Shapiro  
Secretary**

March 30, 2009  
Chicago, Illinois



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**PLAYBOY ENTERPRISES, INC.**

**680 North Lake Shore Drive  
Chicago, Illinois 60611**

***Proxy Statement***

**GENERAL INFORMATION**

**Annual Meeting Time, Location and Admission Procedure**

The Annual Meeting of Stockholders of Playboy Enterprises, Inc., or Annual Meeting, will be held on Wednesday, May 13, 2009, at 9:30 a.m., CDT, at 680 North Lake Shore Drive, 15th Floor, Chicago, Illinois 60611.

All stockholders of record on March 16, 2009, the record date for the Annual Meeting, are invited to attend the Annual Meeting. If you attend, you may be asked to present valid picture identification, such as a driver's license or passport. Cameras, recording devices and other electronic devices will not be permitted at the Annual Meeting. Please note that if you hold your shares in street name (i.e., through a bank, broker or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date and check in at the registration desk at the Annual Meeting.

**Securities Entitled to Be Voted at the Annual Meeting**

Only shares of our Class A stock held by stockholders of record on March 16, 2009, the record date for the Annual Meeting, are entitled to be voted at the Annual Meeting. Each share of Class A stock is entitled to one vote. On March 16, 2009, 4,864,102 shares of Class A stock were outstanding. Shares of our Class B stock are not entitled to be voted at the Annual Meeting. Holders of Class B stock are receiving a Notice of Internet Availability of Proxy Materials, or Notice, for informational purposes only and will not receive a proxy card.

**Information About the Notice Regarding the Internet Availability of Proxy Materials**

Under United States Securities and Exchange Commission, or SEC, rules that allow companies to furnish proxy materials to stockholders via the Internet, we have elected to provide access to our proxy materials via the Internet. Accordingly, we anticipate that on or about March 31, 2009, we will begin mailing the Notice to holders of record of our Class A stock and Class B stock, as of the close of business on March 16, 2009. The Notice provides you with instructions regarding how to:

view our proxy materials for the Annual Meeting on the Internet;

request a printed set of the proxy materials;

vote your shares by proxy; and

instruct us to send our future proxy materials to you electronically by e-mail.

If you choose to receive future proxy materials by e-mail, you will receive an e-mail next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by

e-mail will remain in effect until you terminate it.

### **Information About This Proxy Statement**

We are providing these proxy materials to you because our Board of Directors, or Board, is soliciting your proxy to vote your shares of Class A stock at the Annual Meeting. This proxy statement summarizes the information you need to vote at the Annual Meeting.



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**Information About Voting**

Holders of Class A stock can vote in person at the Annual Meeting or by proxy. If you want to vote by proxy, please submit your proxy by phone, via the Internet or by requesting, completing and submitting a paper proxy card, in each case, by following the instructions included in the Notice. If your shares of Class A stock are held in the name of a bank, broker or other holder of record, you will receive a Notice from that holder of record that will include instructions you must follow in order for your shares to be voted at the Annual Meeting.

If you plan to attend the meeting and vote in person, we will give you a ballot when you arrive. If your shares of Class A stock are not registered in your own name, and you plan to attend the Annual Meeting and vote your shares in person, you will need to contact the broker or agent in whose name your shares are registered to obtain a broker's proxy card and bring it with you to the Annual Meeting.

If you vote by proxy, the individuals named on the proxy card (your proxies) will vote your shares in the manner you indicate. You may specify whether your shares should be voted for or withheld with respect to all, some or none of the nominees for director and whether your shares should be voted for, against or abstain with respect to the ratification of the appointment of our independent registered public accounting firm. If you (i) indicate when voting via the Internet or by telephone that you wish to vote as recommended by our Board or (ii) sign, date and return the card without indicating your instructions on how to vote your shares, they will be voted as follows:

**FOR** the election of the seven nominees for director;

**FOR** the approval of the amendment to our Third Amended and Restated 1995 Stock Incentive Plan, or 1995 Stock Incentive Plan;

**FOR** the approval of the amendment to our Second Amended and Restated 1997 Equity Plan for Non-Employee Directors, or 1997 Equity Plan;

**FOR** the approval of the amendment to our Employee Stock Purchase Plan; and

**FOR** the ratification of our audit committee's appointment of Ernst & Young LLP as our independent registered public accounting firm for 2009.

Your vote is important. Whether or not you plan to attend the Annual Meeting, we urge you to vote your shares by submitting your proxy by telephone, via the Internet, or by requesting, completing and submitting a paper proxy card, in each case, by following the instructions included in the Notice. Voting by proxy will not affect your right to attend the Annual Meeting and vote your shares in person.

Stockholders of record may revoke or change a proxy at any time before it is exercised by any of the following methods:

sending a written revocation to Playboy's Secretary, Howard Shapiro;

executing and delivering by mail, Internet or telephone a later dated proxy; or

voting in person at the Annual Meeting.

Your most current vote is the one that is counted.

## **Quorum Requirement**

A quorum is necessary to hold a valid Annual Meeting. A majority of the shares of our Class A stock, present in person or represented by proxy, shall constitute a quorum at the Annual Meeting. Proxies marked withheld or abstain and broker non-votes are counted as present for establishing a quorum. A broker non-vote occurs when a broker does not vote on some matter on the proxy card because the broker does not have discretionary voting power for that particular item under the rules of the New York Stock Exchange, or NYSE, and has not received instructions from the beneficial owner.

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**Information About Votes Necessary for Action to Be Taken**

All matters to be considered at the Annual Meeting require an affirmative vote of the majority of all shares of Class A stock present in person or represented by proxy (provided, in the case of approval of the amendments to our 1995 Stock Incentive Plan, our 1997 Equity Plan and our Employee Stock Purchase Plan, that the total vote cast on each such proposal represents over 50% in interest of our outstanding Class A shares (being the only shares entitled to vote on the proposal), as required by the NYSE stockholder approval requirements). Proxies marked withheld or abstain will have the same effect as a vote against the proposals described in this proxy statement. If your shares are held through a broker or bank, your broker or bank will have the authority to vote your shares on the election of directors and the ratification of Ernst & Young LLP as our independent registered public accounting firm, even if the broker or bank does not receive instructions from you. Your broker is not permitted to vote your shares on the proposals to approve the amendments to our 1995 Stock Incentive Plan, our 1997 Equity Plan or our Employee Stock Purchase Plan without receiving instructions from you. A broker non-vote will have the effect of a vote against the proposals to approve the amendments to our 1995 Stock Incentive Plan, our 1997 Equity Plan and our Employee Stock Purchase Plan, unless holders of more than 50% in interest of our outstanding Class A shares cast votes on the proposal, in which event broker non-votes will have no effect on the result of the vote. We believe these compensation plans align the interests of our employees with our stockholders. We urge you to vote your shares or provide your bank or broker with instructions to vote your shares FOR these proposals.

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**PROPOSAL NO. 1**

**ELECTION OF DIRECTORS**

Our directors are elected by the Class A stockholders each year at our Annual Meeting. Our directors are elected to serve one-year terms. Our bylaws provide that the number of directors comprising the whole Board shall be such number, not less than five and not more than 10, as may from time to time be fixed by resolution of the Board. Our Board currently consists of eight members. Our Board has nominated seven individuals for election at the Annual Meeting. Each of the director nominees presented in this proxy statement is currently a director. If reelected, each director's term will last until the 2010 Annual Meeting or until he or she is succeeded by another qualified director who has been elected or appointed by the Board, or until his or her earlier death, resignation or removal.

Your proxy will vote for each of the nominees unless you specifically withhold authority to vote for a particular nominee. If a nominee is unavailable for election, the holders of your proxy may vote for another nominee proposed by our Board, or our Board may reduce the number of directors to be elected at the Annual Meeting. Your proxy may not be voted for more than seven nominees.

On December 8, 2008, Christie Hefner resigned as our Chairman and, effective January 31, 2009, as our Chief Executive Officer. Ms. Hefner will not stand for reelection at the Annual Meeting. When a successor Chief Executive Officer is named, we expect to appoint such person to our Board.

**THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR ALL OF THE NOMINEES.**

The following information is provided with respect to each nominee for election as a director. The ages of the nominees are as of March 27, 2009.

**DENNIS S. BOOKSHESTER**

Director since 1990

Age 70

Mr. Bookshester is currently a private investor and advisor. He joined America's PowerSports, Inc., a motorcycle dealer network, as Chairman in March 2006. Prior to that, he was the Chief Executive Officer of Turtle Wax, Inc., a company specializing in car care products, from January 2004 to May 2005. He has been Chairman of the Board of Cutanix Corporation, a company principally engaged in scientific skin research, since 1997. Concurrently, Mr. Bookshester was the Chief Executive Officer of Fruit of the Loom, Inc. from June 1999 to May 2002. From 1990 to 1991, he served as Chief Executive Officer of Zale Corporation, a company principally involved in the retail sale of jewelry. Mr. Bookshester was Corporate Vice Chairman, Chairman and Chief Executive Officer of the Retail Group of Carson Pirie Scott & Co., positions he held from 1984 to 1989. In addition, Mr. Bookshester is the Commissioner of the Illinois Racing Board and a member of the Board of Directors of Northwestern Memorial Foundation. He is a lifetime member of the Visiting Committee of The University of Chicago Graduate School of Business. Mr. Bookshester is a member of our audit committee.

**DAVID I. CHEMEROW**

Director since 1996

Age 57

Mr. Chemerow joined Olympus Media LLC, a firm specializing in the sale of outdoor advertising, as Senior Vice President and Chief Financial Officer in June 2005. Prior to that, he was the Chief Operating Officer for TravelCLICK, Inc., a leading provider of solutions that help hotels maximize profit from electronic distribution channels, from December 2003 through August 2004. He was also the Chief Operating Officer of ADcom Information Services, Inc., which provided ratings for viewership of TV programs to cable operators, from July 2002 through December 2003. He served as President and Chief Executive Officer of Soldout.com, Inc. in 2000 and was President and Chief Operating Officer from 1999 through 2000. Soldout.com, Inc. was a premium event and entertainment resource, specializing in sold-out and hard-to-obtain tickets and personalized entertainment packages for sports, theater, cultural and other events. Mr. Chemerow was President and Chief Operating Officer of GT Interactive Software Corp., a company principally engaged in publishing computer games, from 1998 to 1999, and

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he served as Executive Vice President and Chief Operating Officer from 1997 to 1998. From 1996 to 1997, he was Executive Vice President and Chief Financial Officer of ENTEX Information Services, Inc., a company principally engaged in providing distributed computing management solutions. Beginning in 1990 and prior to joining ENTEX, he was Executive Vice President, Finance and Operations and Chief Financial Officer of Playboy. Mr. Chemerow is also a member of the Board of Directors of Dunham's Athleisure Corporation, a sporting goods retailer. Mr. Chemerow is the Chairman of our audit committee.

**CHARLES HIRSCHHORN**

Director since 2006

Age 51

Mr. Hirschhorn is Chief Creative Officer of Retirement Living TV, the only TV network programmed for adults 50+. In addition, he is the Founder of Fountain Productions, an independent production company that produces theatrical motion pictures, television movies and direct-to-video films. He founded and was Chief Executive Officer of G4 Media, Inc., the world's first videogame television network, from 2000 to 2005. Mr. Hirschhorn also worked for 10 years at The Walt Disney Company, including as President of Walt Disney Television and Television Animation, from 1989 to 1999. Prior to The Walt Disney Company, he served as Vice President of Development for Fox Broadcasting Company, from 1986 to 1989, where he managed the network's primetime programming. A graduate of Harvard College with a Bachelor of Arts in economics, Mr. Hirschhorn served as an Arts Management Fellow for the National Endowment for the Arts. He serves on the Boards for the Harvard College Office for the Arts and for the Berklee College of Music. Mr. Hirschhorn is a member of our compensation committee and audit committee.

**JEROME H. KERN**

Director since 2002

Age 71

Mr. Kern was appointed to serve as our interim Chairman on December 8, 2008 and as our interim Chief Executive Officer on February 1, 2009. Mr. Kern has been a partner in Enki Strategic Advisors, consultants to the broadband industry, since 2007. He is also the President of Kern Consulting, LLC since 2001. Prior to that, Mr. Kern was Chairman and Chief Executive Officer of On Command Corporation. Prior to his position at On Command, he served as Vice Chairman and a member of the Board of Directors of Tele-Communications, Inc., or TCI. For more than 20 years, Mr. Kern was the principal outside legal counsel to TCI and Liberty Media Corporation, including from 1992 to 1998, when he served as senior partner of Baker Botts L.L.P.

**RUSS PILLAR**

Director since 2003

Age 43

Mr. Pillar is Managing Director of The 5850 Group, an investor in consumer branded media-based businesses, and has served in that capacity there and at its predecessor companies since 1991. He also currently serves as President of the Los Angeles Marathon, an acquisition he initiated and an asset he manages for Frank McCourt, the owner of the Los Angeles Dodgers. From January 2000 until February 2006, he was Viacom Inc. and CBS's chief digital media strategy and execution executive, serving in a variety of positions including Senior Advisor, Viacom Inc., President, Viacom Digital Media Group, and President and Chief Executive Officer, CBS Internet Group. He also has served as President and Chief Executive Officer of Richard Branson's Virgin Entertainment Group, online service provider Prodigy Internet, and telecom solutions provider Precision Systems. Over the past two decades, he has served as a board member of more than a dozen public and private consumer-branded businesses. A Crown Fellow at the Aspen Institute, Mr. Pillar graduated Phi Beta Kappa, cum laude with an A.B. in East Asian Studies from Brown University. Mr. Pillar is a member of our compensation committee.



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**SOL ROSENTHAL**

Director since 1985

Age 74

Mr. Rosenthal has been Of Counsel to the Los Angeles office of the law firm of Arnold & Porter LLP since 2000. Prior to that, he was Of Counsel to the Los Angeles law firm of Blanc Williams Johnston & Kronstadt, L.L.P. from 1996 through 2000. Prior to that, he was a senior partner in the law firm of Buchalter Nemer from 1974 through April 1996. He has served as an arbitrator in entertainment industry disputes since 1977 and as the Writers Guild-Association of Talent Agents Negotiator since 1978. Mr. Rosenthal is a former member of the Board of Governors, Academy of Television Arts & Sciences, on which he served from 1990 to 1992, and he is a former President of the Beverly Hills Bar Association and a former President of the Los Angeles Copyright Society. Mr. Rosenthal is the Chairman of our compensation committee.

**RICHARD S. ROSENZWEIG**

Director since 1973

Age 73

Mr. Rosenzweig has been Executive Vice President of Playboy since 1988. From 1982 to 1988, he was Executive Vice President, Office of the Chairman, and from 1980 to 1982, he was Executive Vice President, Corporate Affairs. Before that, from 1977 to 1980, he had been Executive Vice President, West Coast Operations. His other positions with Playboy have included Executive Vice President, Publications Group; Associate Publisher, *Playboy* magazine; Chairman, Alta Loma Entertainment and President, Playboy Jazz Festivals. He has been with Playboy since 1958.

**MEETINGS AND COMMITTEES OF THE BOARD**

Our Board held seven meetings during 2008. In addition to meetings of the full Board, directors also attend meetings of Board committees on which they serve. Each of our directors attended at least 75% of all the meetings of the Board and of the Board committees on which he or she served during 2008, except for Mr. Pillar who attended five of the seven Board meetings and two of the three compensation committee meetings. The non-employee directors also meet periodically in executive sessions without management. The non-employee director designated to preside at such executive sessions rotates among such non-employee directors. Information with respect to our policy for communication with directors, including the non-employee directors, is described in the section of this proxy statement titled *Stockholder Communications with Directors*. Our Board has a standing audit committee and a standing compensation committee, which are described below. Our Board does not have a standing nominating committee.

Our Board is composed of eight individuals. Our Board has affirmatively determined that all directors, other than Ms. Hefner, Mr. Kern and Mr. Rosenzweig, are independent directors under the listing requirements of the NYSE. Specifically, these five directors have no material relationship with us, either directly or as a partner, shareholder or officer of an organization that has a relationship with us. In making these determinations, our Board considered the fact that none of these directors had any relationships with us of the types set forth in the listing requirements of the NYSE nor any other relationships that in the Board's judgment would interfere with the director's independence.

Ms. Hefner served as our Chief Executive Officer until January 31, 2009, and Messrs. Kern and Mr. Rosenzweig are both executive officers of Playboy. Therefore, none of those individuals are independent directors.

Mr. Kern is currently serving as interim Chairman of the Board and interim Chief Executive Officer until we appoint a successor Chief Executive Officer.



## **Audit Committee**

Our audit committee is currently comprised of three directors, Messrs. Chemerow (who serves as Chairman), Bookshester and Hirschhorn. The key functions of our audit committee and certain of its activities during 2008 are described in the section of this proxy statement titled Report of the Audit Committee.

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During 2008, the Board examined the composition of our audit committee and confirmed that all members of our audit committee are independent and financially literate and that Mr. Chemerow qualifies as an audit committee financial expert, in each case under the applicable NYSE listed company rules and SEC regulations governing audit committees. Mr. Chemerow acquired his financial expert attributes principally through years of experience as chief financial officer or controller of several companies as well as president and chief operating officer of several companies where he actively supervised principal financial officers and actively oversaw the preparation and evaluation of financial statements. Mr. Chemerow's experience is described in the section of this proxy statement titled PROPOSAL NO. 1 ELECTION OF DIRECTORS.

Our audit committee met eight times during 2008.

## **Compensation Committee**

Our compensation committee is currently comprised of three directors, Messrs. Rosenthal (who serves as Chairman), Hirschhorn and Pillar. The key functions of our compensation committee include reviewing and approving our goals and objectives concerning compensation of corporate officers and certain other key employees, evaluating the performance of our Chief Executive Officer in light of these goals and objectives and determining, approving and recommending to our Board for approval his or her compensation level based on this evaluation. The committee also evaluates the performance of other corporate officers in light of these goals and objectives, reviews the competitiveness of our compensation practices and determines and approves salary and termination arrangements for, and all proposed contracts and transactions with, all of our employees whose salaries and bonuses are more than \$350,000 but less than \$500,000 per year, excluding corporate officers.

Other key responsibilities of the compensation committee include reviewing and making recommendations to the Board concerning our employee benefit programs, making recommendations to our Board concerning compensation, salary or termination arrangements for, and all proposed contracts and transactions with, corporate officers and any employee of Playboy (including Hugh M. Hefner, our Editor-In-Chief and Chief Creative Officer, or Mr. Hefner) whose salary and bonus equals or exceeds \$500,000 per year, administering our stock incentive plans for key employees and non-employee directors and determining which of our employees are eligible to participate in those plans and administering our employee stock purchase plan.

Our compensation committee met three times during 2008.

## **Board Nominations**

We are committed to having a Board comprised of individuals who are accomplished in their fields, have the ability to make meaningful contributions to the Board's oversight of the business and affairs of Playboy and have an impeccable record and reputation for honest and ethical conduct. Our Board is composed of eight individuals, five of whom our Board has affirmatively determined to be independent directors under the listing requirements of the NYSE. Because more than 50% of our voting shares are owned by a single individual, the NYSE listing requirements do not require us to have a separate nominating committee composed solely of independent directors to identify and select individuals to serve on our Board. However, we believe the independent composition of our Board enables us to achieve the purposes of an independent nominating committee by using the full Board. Accordingly, each member of the Board participates in the consideration of director nominees.

Our Board will consider director candidates recommended by stockholders. In considering candidates submitted by stockholders, the Board will take into consideration its needs and the qualifications of the candidate. To have a candidate considered by the Board, a stockholder must submit the recommendation in writing and must include the following information:

the name of the stockholder and evidence of the person's ownership of Playboy stock, including the number and class of shares owned and the length of time of ownership; and

the name of the candidate, the candidate's résumé or a listing of his or her qualifications to be a director of Playboy and the person's consent to be named as a director if nominated by the Board.

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The stockholder recommendation and information described above must be sent to our Secretary at Playboy Enterprises, Inc., 680 North Lake Shore Drive, Chicago, Illinois 60611 and must be received by the Secretary not less than 120 days prior to the anniversary date of Playboy's most recent annual meeting of stockholders.

In addition to the factors described above, the Board examines a candidate's specific experiences and skills, time availability in light of other commitments, potential conflicts of interest and independence from management, Playboy and its principal stockholder. The Board also seeks to have its members represent a diversity of backgrounds and experience.

The Board identifies potential nominees by asking current directors and executive officers to identify people meeting the criteria described above that are available to serve on the Board. As described above, the Board will also consider candidates recommended by stockholders.

Once a person has been identified as a potential candidate, the Board may collect and review publicly available information regarding the person to assess whether the person should be considered further. If the Board determines that the candidate warrants further consideration, the Chairman of the Board or another member of the Board contacts the person. Generally, if the person expresses a willingness to be considered and to serve on the Board, the Board requests information from the candidate, reviews the person's accomplishments and qualifications, including any other candidates that the Board might be considering, and conducts one or more interviews with the candidate. In certain instances, the Chairman of the Board or another member of the Board may contact one or more references provided by the candidate or may contact other members of the business community or other persons that may have greater firsthand knowledge of the candidate's accomplishments. The Board's evaluation process does not vary based on whether or not a candidate is recommended by a stockholder, although, as stated above, the Board may take into consideration the number and class of shares held by the recommending stockholder and the length of time that such shares have been held and the needs of the Board at the time.

## **STOCKHOLDER COMMUNICATIONS WITH DIRECTORS**

The Board has established a process to receive communications from stockholders and any interested persons. Stockholders and interested persons may contact any member (or all members) of the Board, any Board committee or any chair of any such committee by mail. To communicate with the Board, any individual director or any group or committee of directors, correspondence should be addressed to the Board or any such individual director or group or committee of directors by either name or title. All such correspondence should be sent c/o Secretary at Playboy Enterprises, Inc., 680 North Lake Shore Drive, Chicago, Illinois 60611.

All communications received as set forth in the preceding paragraph will be opened by the office of our General Counsel for the sole purpose of determining whether the contents represent a message to our directors. Any contents that are not in the nature of advertising, promotions of a product or service, or patently offensive material will be forwarded promptly to the addressee. In the case of communications to the Board or any group or committee of directors, the General Counsel's office will make sufficient copies of the contents to send to each director who is a member of the group or committee to which the envelope is addressed.

We also have a 24-hour toll-free telephone number (1-866-376-4117) and a dedicated e-mail address (PLA@openboard.info) for receiving complaints or concerns regarding accounting and auditing matters. There is also a secure web page at [openboard.info/pla](http://openboard.info/pla) providing the ability to access an Internet-based message interface that will deliver a secure message. In addition, we have a secure post office box (P.O. Box 11177, Chicago, Illinois 60611) for the same purpose. Complaints or concerns regarding accounting and auditing matters will be handled in accordance with procedures adopted by the audit committee.

It is Playboy's policy that each of our directors should attend the Annual Meeting, absent circumstances that make attendance impossible. All of our then serving directors were in attendance at the 2008 Annual Meeting.

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**AVAILABILITY OF CERTAIN DOCUMENTS**

Posted on our website *PlayboyEnterprises.com* in the Investor Relations corporate governance section are the charters of the audit committee and compensation committee, our Code of Conduct and our Corporate Governance Guidelines. Copies of these documents are also available free of charge by sending a request to Investor Relations, Playboy Enterprises, Inc., 680 North Lake Shore Drive, Chicago, Illinois 60611. Information made available on our website does not constitute a part of this document.

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The members of the compensation committee during 2008 were Messrs. Rosenthal (Chairman), Hirschhorn and Pillar, none of whom has (i) served at any time as an officer or employee of Playboy or our subsidiaries, (ii) any relationship with Playboy or our subsidiaries other than service as a director or (iii) received any compensation from Playboy or our subsidiaries other than in his capacity as a member of the Board or a committee thereof. None of our executive officers served as a director or member of the compensation committee of another entity, one of whose executive officers served on the compensation committee of Playboy.

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**EXECUTIVE OFFICERS**

The following information is provided with respect to Playboy's executive officers, except for Mr. Rosenzweig and Mr. Kern, whose information is provided in the section of this proxy statement titled PROPOSAL NO. 1 ELECTION OF DIRECTORS. Each of Playboy's executive officers holds his or her office until he or she is succeeded by another qualified individual, or until his or her earlier death, resignation or removal. The ages of the executive officers are as of March 27, 2009.

**LINDA G. HAVARD**

Executive Vice President and Chief Financial Officer

Age 54

Ms. Havard was appointed to her present position in 1997. From 1982 to 1997, she held various financial and management positions at Atlantic Richfield Company, or ARCO. From 1996 to 1997, Ms. Havard served as ARCO's Senior Vice President in the Global Energy Ventures division. She also served as ARCO's Vice President of Corporate Planning from 1994 to 1996. Her other positions with ARCO included: Vice President, Finance, Planning and Control, ARCO Transportation Co.; and President, ARCO Pipe Line Co. Ms. Havard serves on the Executive Committee and Chairs the Finance, Audit and Investment Committee of the Board of Trustees of The Chicago School of Professional Psychology; and as President of the Board of the Chicago Finance Exchange.

**HUGH M. HEFNER**

Editor-in-Chief and Chief Creative Officer

Age 82

Mr. Hefner founded Playboy in 1953. He assumed his present position in 1988. From 1976 to 1988, Mr. Hefner served as Chairman of the Board and Chief Executive Officer, and before that, he served as Chairman, President and Chief Executive Officer.

**MARTHA O. LINDEMAN**

Senior Vice President, Corporate Communications  
and Investor Relations

Age 58

Ms. Lindeman was appointed to her present position in 1998. From 1992 to 1998, she served as Vice President, Corporate Communications and Investor Relations. From 1986 to 1992, she served as Manager of Communications at the Tribune Company, a leading information and entertainment company.

**ROBERT MEYERS**

Executive Vice President and President, Media

Age 53

Mr. Meyers was appointed to his present position in 2006 and is responsible for managing Playboy's Entertainment and Publishing Groups. He has spent his entire career in the media industry, most recently before Playboy serving as Executive Vice President of Digital Media, Data and Video at Westwood One, Inc. Mr. Meyers previously spent nine years at NBC Universal, where he held a number of positions with CNBC, Inc. and NBC Interactive, including Chief Operating Officer of CNBC.com, Senior Vice President of Primetime Programming at CNBC and, most recently, General Manager of CNBC Enterprises. Prior to that, he spent eight years with Viacom Inc., primarily in planning and

development roles for the company's television and cable businesses. On March 18, 2009, Mr. Meyers announced his resignation effective April 16, 2009.



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**HOWARD SHAPIRO**

Executive Vice President, Law and Administration,  
General Counsel and Secretary  
Age 61

Mr. Shapiro was appointed to his present position in 1996. From 1989 to 1996, he served as Executive Vice President, Law and Administration, and General Counsel. From 1985 to 1989, Mr. Shapiro served as Senior Vice President, Law and Administration, and General Counsel. From 1984 to 1985, he served as Senior Vice President and General Counsel. From 1983 to 1984, he served as Vice President and General Counsel. From 1981 to 1983, he served as Corporate Counsel. From 1978 to 1981, he served as Division Counsel. From 1973 to 1978, he served as Staff Counsel.

**ALEX VAICKUS**

Executive Vice President and President,  
Global Licensing  
Age 49

Mr. Vaickus was appointed to his present position in 2002. From 2000 to 2002, Mr. Vaickus served as Senior Vice President and President of the Licensing Group. Mr. Vaickus previously served as Playboy's Senior Vice President of Strategy, Planning and Operations and was responsible for managing the strategic planning process and all corporate level business development activities, including the evaluation of acquisitions and new business opportunities. Prior to joining Playboy in 1998, Mr. Vaickus was Vice President of Business Development with ConAgra Refrigerated Prepared Foods, a division of ConAgra Foods, Inc. and Vice President of Business Planning and Finance for Sara Lee/DE, a division of Sara Lee Corporation. He spent 12 years at Sara Lee, where he held various positions, including Executive Director of U.S. Foods and Director of Business Planning.

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**COMPENSATION DISCUSSION AND ANALYSIS**

**Overview**

This compensation discussion and analysis describes the material elements of compensation of our Chief Executive Officer and our Chief Financial Officer as well as of the other executive officers required to be included in the Summary Compensation Table on page 17 (collectively referred to as our named executive officers). It also provides information on our compensation philosophy and describes how our compensation policies and programs are designed to achieve our compensation objectives.

**Compensation Philosophy and Objectives**

The overall goal of our compensation program is to attract and retain the talented executives and employees needed to achieve our business objectives at an appropriate cost to our stockholders, as well as to ensure that an appropriate relationship exists between pay, our financial performance and the creation of long-term stockholder value.

The principal components of our compensation program consist of base salary, an annual bonus plan, long-term equity incentive compensation and other benefits. We determine and combine the compensation elements for each executive in a manner that we believe optimizes the executive's contribution to the Company and that results in total compensation levels that are linked to the Company's performance.

**Setting Executive Compensation**

Our executive compensation program is designed to help us achieve our business objectives by:

setting levels of compensation designed to attract and retain superior executives in a marketplace that is both highly competitive and well-known for its individually tailored compensation packages;

providing incentive compensation that is tied to both Playboy's financial performance and the individual executive's contribution to that performance; and

linking compensation to elements that affect share performance.

To help the compensation committee meet these objectives, it periodically evaluates the competitiveness of our executive compensation program using information drawn from a variety of sources, such as published survey data, financial documents, information supplied by consultants and its own experience in recruiting and retaining executives.

**Compensation Peer Group**

In addition to survey data, our compensation committee also compares total compensation and each element of total compensation against the median pay levels of a peer group of publicly-traded entertainment companies (collectively referred to as the Compensation Peer Group). The Compensation Peer Group, which is periodically reviewed and updated by our compensation committee, consists of companies in our industry against which our compensation committee believes we compete for talent. The companies comprising the Compensation Peer Group are:

|                                  |                               |                                       |
|----------------------------------|-------------------------------|---------------------------------------|
| Belo Corp.                       | Liberty Media Corporation     | The E.W. Scripps Company              |
| Emmis Communications Corporation | Media General, Inc.           | The New York Times Company            |
| Gannett Co., Inc.                | Meredith Corporation          | The Reader's Digest Association, Inc. |
| Gray Television, Inc.            | News Corporation              | The Washington Post Company           |
| Hearst-Argyle Television, Inc.   | PRIMEDIA Inc.                 | Time Warner Inc.                      |
| John Wiley & Sons                | Sinclair Broadcast Group, Inc | The Walt Disney Company               |
| Journal Communications, Inc.     |                               |                                       |

For comparison purposes, our annual revenues are below the median revenues of the Compensation Peer Group. Because of the large variance in size among the companies comprising the Compensation Peer Group, regression analysis is used to adjust the compensation data for differences in company revenues. This adjusted value

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is used as the basis of comparison of compensation between Playboy and the companies in the Compensation Peer Group and, in combination with the published survey data, is referred to when setting executive compensation.

### **Description of Each Element of Compensation**

#### *Base Salary*

Our compensation committee reviews salary ranges once a year and adjusts them as necessary, considering a number of factors, including our financial performance and market data. The compensation committee also reviews executives' individual salaries once a year and determines any adjustments based upon an evaluation of relevant factors, including each executive's performance, experience in the position, duties and responsibilities and impact on Company performance, as well as external market data. We set the base salaries for executives based primarily on competitive market data, the executive's performance and our annual merit increase budget, which is based on market practice. As a general approach, we attempt to place executives' salaries consistent with the median of the market data reported in relevant compensation surveys, Compensation Peer Group data and other information considered. In general, we believe that the market median represents pay for employees who are fully competent in their positions. Our overall philosophy is to pay below the median levels for employees who are new to their role or newly promoted. Similarly, we typically pay our highest performers and our most critical and experienced employees at levels above the market median. The base salary earned by each of our named executive officers in 2008 is set forth in the Summary Compensation Table on page 17.

#### *Annual Bonus Plan*

Our executives are eligible for annual incentives under our Management Incentive Compensation Plan, or MIP. The MIP provides guidelines for the calculation of annual bonuses, subject to compensation committee oversight and modification.

At the beginning of each year, the compensation committee considers whether a MIP should be established for the current year and, if so, approves the MIP, including its participants, weightings and structure. The total bonus amount each executive earns is calculated based on pre-established objective financial goals and, in some cases, a portion of the bonus is based on the achievement of non-financial goals specific to the participant's duties and supportive of the Company's strategic plan, such as the consummation of an acquisition transaction or the successful completion of specified projects. Our Board determined not to establish a MIP in 2008 in light of the Company's recent financial performance.

#### *Equity Incentives*

We provide equity incentive awards through our 1995 Stock Incentive Plan. Subject to the terms of that plan, the compensation committee determines the key employees to whom options and other awards may be granted, the number of shares of our Class B stock covered by each option or other stock award, the time or times at which the options may be exercised, the vesting of options and other awards and other administrative functions. Since the inception of the 1995 Stock Incentive Plan, the compensation committee has granted incentive stock options, non-qualified stock options, restricted stock awards and performance awards. In 2008, the compensation committee granted a combination of non-qualified stock options, restricted stock and stock payments. In addition, in 2009, the compensation committee replaced the performance criteria for the vesting of restricted stock units granted in 2008 with a time-based vesting schedule. These grants are designed to further our growth, development and financial success by providing key employees with strong additional incentives to maximize long-term stockholder value by assisting them to become owners of our stock, which aligns their interests with our interests. As stockholders, key employees benefit directly from our growth, development and financial success. Finally, stock option grants and

restricted stock awards also enable us to attract and retain the services of those executives whom we consider essential to our long-range success.

Award levels are determined based on a number of factors including level of responsibilities and market data. In 2008, we also considered the financial impact of granting equity awards pursuant to Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, or

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FAS 123(R). Awards are typically granted at the compensation committee's first regularly scheduled meeting of the year. We do not time equity awards grants in coordination with the release of information.

Stock option grants are typically subject to a three-year vesting schedule with one-third vesting upon each one-year anniversary of the grant, subject to continued employment. Pursuant to our equity plans, prior to August 2006, options were granted with an exercise price equal to the closing price of the prior business day for each grant date. Effective August 2006, the closing price of the Class B stock on the date of grant is used as the exercise price for option awards.

Other than Mr. Hefner, each of the named executives received grants of stock option and restricted awards in 2008, which are reflected in the Summary Compensation Table on page 17 and the Grants of Plan-Based Awards Table on page 18.

We also provide our executive officers and all other full-time and part-time employees with the ability to purchase shares of our common stock through payroll deductions at a price per share that is equal to 85% of the closing price on the date of purchase in accordance with the terms of our Employee Stock Purchase Plan.

### *Other Benefits*

All eligible employees, including named executive officers, participate in our benefit programs. We provide health and welfare benefits, including medical and dental coverage, short-term and long-term disability insurance benefits and life insurance benefits based on one times base pay.

Employees, including named executive officers, are eligible to participate in our Employees Investment Savings Plan. Our Employees Investment Savings Plan is a defined contribution plan consisting of two components: a profit sharing plan and a 401(k) plan. The profit sharing plan covers all employees who have completed 12 months of service of at least 1,000 hours. Our discretionary contribution to the profit sharing plan is distributed to each eligible employee's account in an amount equal to the ratio of each eligible employee's compensation, subject to Internal Revenue Service limitations, to the total compensation paid to all such employees. Eligible employees may participate in our 401(k) plan upon their date of hire. We make matching contributions to our 401(k) plan based on each participating employee's contributions and eligible compensation.

In addition to the qualified retirement plan, we had two non-qualified deferred compensation plans, which permitted certain employees, including named executive officers, and all non-employee directors to elect to annually defer a portion of their compensation. A match was provided to employees who participated in the deferred compensation plan, at a certain specified minimum level, and whose annual eligible earnings exceeded the salary limitation contained in the 401(k) plan. In December 2008, all participants chose, in accordance with transition rules in effect in connection with a change to the tax laws governing deferred compensation, to receive their account balances in full in 2009. Assets from both plans will be fully distributed in 2009. For more information on our deferred compensation plans, see the discussion under the headings *Non-Qualified Deferred Compensation Plan* on page 20 and *Director Compensation* on page 23.

We currently maintain a practice of paying a separation allowance under our salary continuation policy (which is not funded) to employees with at least five years of continuous service who voluntarily terminate employment with us and are at age 60 or thereafter.

### **Role of the Compensation Committee and Executive Officers in Compensation Decisions**

Our compensation committee has primary responsibility for overseeing the design, development and implementation of the compensation program for the named executive officers. Our compensation committee evaluates the

performance of the Chief Executive Officer and approves and recommends to the Board for approval the compensation of our Chief Executive Officer in light of the goals and objectives of the compensation program. The Chief Executive Officer and the compensation committee together assess the performance of the other named executives and determine their compensation.

Our Chief Executive Officer and Human Resources department assist our compensation committee in reaching compensation decisions with respect to the named executive officers other than the Chief Executive Officer. The

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other named executive officers do not play a role in their own compensation determination, other than discussing individual performance objectives with the Chief Executive Officer and the compensation committee.

### **Role of Compensation Consultants**

Neither the Company nor the compensation committee has any contractual arrangement with any compensation consultant who has a role in determining or recommending the amount or form of senior executive or director compensation. Periodically, we, through our Human Resources department and the compensation committee have engaged compensation consultants to review our executive salaries and salary ranges and the design of programs that affect senior executive officer compensation. Our named executive officers have not participated in the selection of any particular compensation consultant. These consultants provide market intelligence on compensation trends along with general views on specific compensation programs designed by our Human Resources personnel and management, with the oversight of the compensation committee. In the future, either we or the compensation committee may engage or seek the advice of other compensation consultants.

### **Stock Ownership Guidelines**

We have a stock retention policy for certain members of our executive management, the purpose of which is to promote the accumulation of our stock among executive management in order to ensure and demonstrate to our stockholders that the interests of our top managers are aligned with those of our other stockholders. As of December 31, 2008, each of our named executive officers was subject to the requirements of the stock retention policy. The stock retention thresholds are set at approximately two times average base salary for each officer subject to the policy, except for our Chief Executive Officer, whose threshold is set at approximately five times his or her average base salary. We review each officer's status with these requirements annually. If an officer has not achieved the stock ownership requirement at the end of the year, a portion of that officer's compensation under the MIP may be paid in the form of shares of Class B stock.

Our named executive officers' stock ownership is shown under the heading "Playboy Stock Ownership" on page 26.

### **Employment and Severance Agreements**

Our philosophy is to enter into employment agreements only if warranted based on the particular facts and circumstances. Except as described below, our named executive officers do not have employment agreements. This is consistent with our performance-based employment and compensation philosophy. We currently have severance agreements with Linda Havard, our Executive Vice President and Chief Financial Officer, and Alex Vaickus, our Executive Vice President and President, Global Licensing and employment and severance agreements with Robert Meyers, our Executive Vice President and President, Media. A description of these agreements with Ms. Havard, Mr. Vaickus and Mr. Meyers is set forth below in the section entitled "Employment and Severance Agreements" beginning on page 22.

### **Change in Control Agreements**

To help us retain our most senior executive officers, our Board has approved our entering into agreements with certain officers that provide for the payment of specified benefits if their employment terminates after a change in control of Playboy. Each of our named executive officers (other than Mr. Hefner) is currently party to such an agreement. Information regarding applicable payments under such agreements for the named executive officers is provided under the heading "Potential Payments Upon Termination or Change in Control" on page 21.

### **Tax and Accounting Implications**



*Deductibility of Compensation*

The federal corporate income tax laws limit our ability to deduct compensation in excess of \$1.0 million paid annually to certain of our most highly compensated executive officers. There are exemptions from this limit, including compensation that is based on the attainment of performance goals established by the compensation

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committee and approved by the stockholders. The committee's policy is to seek to qualify all executive compensation for deductibility to the extent that this policy is consistent with our overall objectives in attracting, motivating and retaining its executives. However, we may make nonconforming grants or awards from time to time.

### *Accounting for Stock-Based Compensation*

On January 1, 2006, we adopted the provisions of FAS 123(R) under the modified prospective method. We estimate the value of stock options on the date of grant using the Lattice Binomial model. We measure stock-based compensation cost at the grant date based on the value of the award and recognize the expense over the vesting period.

## **Executive Resignations**

On December 8, 2008, we announced that Ms. Hefner would resign from her position as Chief Executive Officer effective January 31, 2009. In connection with her resignation, we entered into an agreement with Ms. Hefner that provides her with, among other things, a severance payment of \$2.0 million and a one-time grant of 30,000 shares of the Company's Class B stock. Pursuant to the agreement, Ms. Hefner also agreed to a 12 month noncompetition and nonsolicitation covenant and to provide transition and other assistance.

On March 18, 2009, we announced that Mr. Meyers would resign from his position as Executive Vice President and President, Media, effective April 16, 2009. Pursuant to the terms of his employment agreement, Mr. Meyers will be entitled to receive a severance payment in an amount equal to his current annual base salary in connection with his resignation.

## **COMPENSATION COMMITTEE REPORT**

The compensation committee of our Board has reviewed and discussed the Compensation Discussion and Analysis with our management. Based on such review and discussions, the compensation committee recommended to our Board that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference into our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC.

Submitted by the compensation committee:

Sol Rosenthal, Chairman  
Charles Hirschhorn  
Russ Pillar

## **Equity Compensation Plan Information**

The following table sets forth information regarding outstanding options and shares reserved for future issuance as of December 31, 2008.

|  | <b>Class B Stock</b> | <b>Number of Securities<br/>Remaining Available<br/>for<br/>Future Issuance<br/>Under</b> |
|--|----------------------|---|
| <b>Number<br/>of<br/>Securities<br/>to</b> |                      |   |

| <b>Plan Category(1)</b>                            | <b>be Issued<br/>Upon<br/>Exercise of<br/>Outstanding<br/>Options<br/>(a)</b> | <b>Weighted Average<br/>Exercise Price of<br/>Outstanding<br/>Options<br/>(b)</b> | <b>Equity Compensation<br/>Plans (Excluding<br/>Securities Reflected<br/>in Column (a))<br/>(c)</b> |
|--|---|---|---|
| Equity Compensation plans approved by stockholders | 3,578,584   | \$ 15.22  | 2,826,120   |

(1) Playboy has no equity compensation plans that have not been approved by stockholders.

Table of Contents**Summary Compensation Table**

The following table provides information regarding the compensation earned during the year ended December 31, 2008 by our named executive officers. In 2008, Salary accounted for approximately 79% of the total compensation of our named executive officers and non-equity incentive plan compensation accounted for approximately 0.01% of total compensation.

| Principal Position   | Year | Salary     | Bonus      | Stock Awards(1) | Option Awards(1) | Change in Pension Value and Non-Equity Incentive Plan Compensation |    | Non-Qualified Deferred Compensation(2) | All Other Compensation(3) |
|--|------|------------|------------|-----------------|------------------|--|----|--|---------------------------|
|  |      |            |            |                 |                  |  |    |  |                           |
| Chairman and CEO   | 2008 | \$ 545,900 | \$         | \$ (24,555)     | \$ 69,608        | \$   | \$ | \$                                     | \$ 26,636                 |
| Vice Chairman  | 2007 | 530,000    | 447(6)     | 30,895          | 98,931           | 210,138(7)   |    |  | 10,192                    |
| Chief Financial Officer  | 2006 | 515,000    |            |                 | 147,299          | 71,688(7)  |    |  | 8,933                     |
| Chief Operating Officer  | 2008 | 825,000    |            | (73,666)        | 271,869          |  |    |  | 48,402                    |
| Chairman of the Board  | 2007 | 725,000    |            | 92,684          | 409,528          | 231,291  |    |  | 62,391                    |
| Chief Executive Officer  | 2006 | 700,000    |            |                 | 594,785          |  |    |  | 56,587                    |
| Chief Marketing Officer  | 2008 | 1,000,000  | 8,623(6)   |                 |                  |  |    |  | 408,050                   |
| Chief and Managing Director of International Operations                | 2007 | 1,000,000  |            |                 |                  | 159,511  |    |  | 290,192                   |
| Vice President and Managing Director of North America                  | 2006 | 1,000,000  |            |                 |                  |  |    |  | 8,933                     |
| Chief Financial Officer  | 2008 | 721,000    |            | (49,110)        | 215,729          |  |    |  | 8,050                     |
| Vice President and Managing Director of Europe, Middle East and Africa | 2007 | 700,000    |            | 61,790          | 188,245          | 243,457(7)   |    |  | 26,817                    |
| Chief Financial Officer of Media(9)                                    | 2006 | 201,923    | 50,000(10) | 283,500(11)     | 50,920           |  |    |  | 51,943                    |
| Chief Financial Officer of Consumer Products                           | 2008 | 700,000    |            | (26,930)        | 95,588           |  |    |  | 38,268                    |
| Vice President and Managing Director of Asia Pacific                   | 2007 | 600,000    |            | 37,074          | 118,769          | 393,364(7)   |    |  | 10,192                    |
| Chief Financial Officer, Global  | 2006 | 550,000    |            |                 | 145,645          | 169,852(7)   |    |  | 8,933                     |

- (1) The amounts reflected in the Stock Awards and Option Awards columns reflect the amount recognized for financial statement reporting purposes for the year ended December 31, 2008, in accordance with FAS 123(R) for awards granted pursuant to our 1995 Stock Incentive Plan and thus include amounts for awards granted in and prior to 2008. Amounts recorded in 2007 for Stock Awards were reversed in 2008 as the Company determined that it was unlikely that the performance criteria for vesting would be met. Assumptions used in the calculation of these amounts are included in Note (S), Stock-Based Compensation, to the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC, disregarding forfeiture estimates.

(2) There were no above market earnings on deferred compensation balances in 2008.

(3) Amounts included in the All Other Compensation column are as follows:

| <b>Payment Type</b>                                   | <b>Year</b> | <b>Linda G.<br/>Havard</b> | <b>Christie<br/>Hefner</b> | <b>Hugh M.<br/>Hefner</b> | <b>Robert<br/>Meyers</b> | <b>Alex<br/>Vaickus</b> |
|---|-------------|----------------------------|----------------------------|---------------------------|--------------------------|-------------------------|
| 401(k) Contributions                                  | 2008        | \$ 8,050                   | \$ 8,050                   | \$ 8,050                  | \$ 8,050                 | \$ 8,050                |
| Deferred Compensation                                 |             |                            |                            |                           |                          |                         |
| Contributions   | 2008        | 18,411                     | 28,290                     |                           |                          | 30,128                  |
| Talent Fees Related to <i>The Girls Next Door</i> (4) | 2008        |                            |                            | 400,000                   |                          |                         |
| Executive Protection Services(5)                      | 2008        | 175                        | 11,432                     |                           |                          |                         |
| <b>Total</b>  |             | <b>\$ 26,636</b>           | <b>\$ 48,402</b>           | <b>\$ 408,050</b>         | <b>\$ 8,050</b>          | <b>\$ 38,268</b>        |

(4) Reflects talent fees made to Mr. Hefner for providing services related to *The Girls Next Door* on E! Entertainment Television.

(5) Reflects the Company's cost for security protection services provided to Ms. Havard and Ms. Hefner.

(6) The amounts reported for Ms. Havard and Mr. Hefner reflect a service award that is available to all eligible employees.

(7) 20% of the Non-Equity Incentive Plan Compensation was awarded in equivalent value in our Class B stock.

(8) Ms. Hefner resigned from her position as Chief Executive Officer effective January 31, 2009.

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- (9) We hired Mr. Meyers effective September 18, 2006. Mr. Meyers resigned from his position as Executive Vice President and President, Media, effective April 16, 2009.
- (10) Mr. Meyers received a signing bonus of \$50,000 upon his employment with us.
- (11) Mr. Meyers received a grant of 30,000 shares of Class B stock that vested immediately upon hire.

**Grants of Plan-Based Awards**

The following table shows the awards made to our named executive officers in 2008 under our 1995 Stock Incentive Plan. For additional information on our equity and bonus programs, see the section of this proxy statement entitled Compensation Discussion and Analysis beginning on page 12.

| Name            | Date      | Estimated Future Payouts Under Non-Equity Incentive Plan Awards |        |         |           | Estimated Future Payouts Under Equity Incentive Plan Awards(1) |         | All Other Stock Awards:       |  | All Other Option Awards: of | Aggregate Grant Date Fair Value | Exercise or Base Price of |
|-----------------|-----------|---|--------|---------|-----------|--|---------|-------------------------------|--|-----------------------------|---------------------------------|---------------------------|
|                 |           | Grant Threshold   | Target | Maximum | Threshold | Target   | Maximum | Number of Shares or Units (#) | Number of Securities or Underlying Stock or Option (#) |                             |                                 |                           |
|                 |           | (\$)  | (\$)   | (\$)    | (#)       | (#)  | (#)     |                               |  |                             | (\$)(2)                         | (\$)                      |
| Linda G. Havard | 5/21/2008 |   |        |         |           |  |         |                               | 10,000   |                             | \$ 24,510                       | \$ 5.72                   |
| Christie Hefner | 5/21/2008 |   |        |         |           | 10,000   | 12,500  |                               |  |                             | 27,000                          | 2.16                      |
|                 | 5/21/2008 |   |        |         |           |  |         |                               | 30,000   |                             | 73,530                          | 5.72                      |
|                 | 5/21/2008 |   |        |         |           | 30,000   | 37,500  |                               |  |                             | 81,000                          | 2.16                      |
| Hugh M. Hefner  |           |   |        |         |           |  |         |                               |  |                             |                                 |                           |
| Robert Meyers   | 5/21/2008 |   |        |         |           |  |         |                               | 20,000   |                             | 49,020                          | 5.72                      |
|                 | 5/21/2008 |   |        |         |           | 20,000   | 25,000  |                               |  |                             | 54,000                          | 2.16                      |
| Alex Vaickus    | 5/21/2008 |   |        |         |           |  |         |                               | 15,000   |                             | 36,765                          | 5.72                      |
|                 | 5/21/2008 |   |        |         |           | 16,000   | 20,000  |                               |  |                             | 43,200                          | 2.16                      |

- (1) Equity Incentive Plan Awards are paid out in restricted stock units. We did not define a specific threshold award of restricted stock units, only a target and a maximum. Restricted stock units were to vest one year following the achievement of cumulative two-year performance goals. The maximum grant opportunity was to be awarded at the end of the three-year period if 100% of the target was achieved. If 80% to 100% of the performance target was reached, a pro-rated portion of the granted opportunity was to be awarded to the named executive officer. If less than 80% of the performance target was reached, no restricted stock units vest and the grant opportunity was to be canceled. In 2009, the compensation committee replaced the performance criteria for the vesting of restricted stock units granted in 2008 with time-based vesting.
- (2) Aggregate grant date fair values for option grants are based on a Lattice Binomial value of \$2.45 per option; aggregate grant date fair values reported for restricted stock unit grants are based on the maximum payout value and the base price on the grant date reported in the Exercise or Base Price of Option Awards column. The fair value of stock options on the grant date is estimated using a Lattice Binomial option pricing model, which requires assumptions such as dividend yield, expected volatility, risk-free rate, expected life and forfeiture rate. These assumptions are included in Note (S), Stock-Based Compensation, to the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC.

Table of Contents**Outstanding Equity Awards at Fiscal Year End**

The following table sets forth the number of outstanding plan awards for each named executive officer as of December 31, 2008.

|                  |            | Option Awards(1)                                    |   |   | Option   | Stock Awards(2)(3)                                      |                                 |  | Equity Incentive Awards: Market or Payout |
|------------------|------------|---|---|---|----------|---|---------------------------------|--|---|
|                  |            | Number of Securities Underlying Unexercised Options | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options |          | Number of Shares or Units of Stock That Have Not Vested | Market Value of Shares or Units | Shares, Units or Rights That Have Not Vested |   |
| Name             | Grant Date | (Exercisable)                                       | (Unexercisable)   | Options   | Price    | Date  | Vested                          | Vested                                       | (4)                                       |
| Linda G. Harvard | 1/19/1999  | 15,000  |   |   | \$ 21.00 | 1/19/2009   |                                 |  | \$  |
|                  | 1/4/2000   | 20,000  |   |   | 24.13    | 1/4/2010  |                                 |  |   |
|                  | 6/19/2000  | 10,000  |   |   | 12.13    | 6/19/2010   |                                 |  |   |
|                  | 1/26/2001  | 20,000  |   |   | 11.38    | 1/26/2011   |                                 |  |   |
|                  | 1/22/2002  | 30,000  |   |   | 15.85    | 1/22/2012   |                                 |  |   |
|                  | 1/8/2003   | 50,000  |   |   | 10.00    | 1/8/2013  |                                 |  |   |
|                  | 2/4/2004   | 24,000  |   |   | 14.48    | 2/4/2014  |                                 |  |   |
|                  | 1/21/2005  | 21,000  |   |   | 11.86    | 1/21/2015   |                                 |  |   |
|                  | 2/9/2006   | 14,000  | 7,000   |   | 14.50    | 2/9/2016  |                                 |  |   |
|                  | 2/9/2006   |   |   |   |          |   |                                 | 10,000                                       | 21,600                                    |
|                  | 5/23/2007  | 3,334   | 6,666   |   | 10.61    | 5/23/2017   |                                 |  |   |
|                  | 5/23/2007  |   |   |   |          |   |                                 | 12,500                                       | 27,000                                    |
|                  | 5/21/2008  |   | 10,000  |   | 5.72     | 5/21/2018   |                                 |  |   |
|                  | 5/21/2008  |   |   |   |          |   |                                 | 12,500                                       | 27,000                                    |
|                  | Total      | 207,334   | 23,666  |   |          |   |                                 | 35,000                                       | 75,600                                    |



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|                 |           |           |        |       |           |         |         |
|-----------------|-----------|-----------|--------|-------|-----------|---------|---------|
| Christie Hefner | 1/19/1999 | 308,000   |        | 21.00 | 1/19/2009 |         |         |
|                 | 1/19/1999 | 170,000   |        | 26.25 | 1/19/2009 |         |         |
|                 | 1/19/1999 | 172,000   |        | 31.50 | 1/19/2009 |         |         |
|                 | 2/12/2002 | 150,000   |        | 15.70 | 2/12/2012 |         |         |
|                 | 1/8/2003  | 150,000   |        | 10.00 | 1/8/2013  |         |         |
|                 | 2/4/2004  | 90,000    |        | 14.48 | 2/4/2014  |         |         |
|                 | 1/21/2005 | 90,000    |        | 11.86 | 1/21/2015 |         |         |
|                 | 2/9/2006  | 60,000    | 30,000 | 14.50 | 2/9/2016  |         |         |
|                 | 2/9/2006  |           |        |       |           | 30,000  | 64,800  |
|                 | 5/23/2007 | 10,000    | 20,000 | 10.61 | 5/23/2017 |         |         |
|                 | 5/23/2007 |           |        |       |           | 37,500  | 81,000  |
|                 | 5/21/2008 |           | 30,000 | 5.72  | 5/21/2018 |         |         |
|                 | 5/21/2008 |           |        |       |           | 37,500  | 81,000  |
|                 | Total     | 1,200,000 | 80,000 |       |           | 105,500 | 226,600 |
| Hugh M. Hefner  | Total     |           |        |       |           |         |         |
| Robert Meyers   | 9/18/2006 | 33,334    | 16,666 | 9.33  | 9/18/2016 |         |         |
|                 | 9/18/2006 | 50,000    | 25,000 | 9.33  | 9/18/2016 |         |         |
|                 | 9/18/2006 |           |        |       |           | 25,000  | 54,000  |
|                 | 9/18/2006 |           |        |       |           | 20,000  | 43,200  |
|                 | 5/23/2007 | 6,667     | 13,333 | 10.61 | 5/23/2017 |         |         |
|                 | 5/23/2007 |           |        |       |           | 25,000  | 54,000  |
|                 | 5/21/2008 |           | 20,000 | 5.72  | 5/21/2018 |         |         |
|                 | 5/21/2008 |           |        |       |           | 25,000  | 54,000  |
|                 | Total     | 90,001    | 74,999 |       |           | 95,000  | 205,200 |

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| Name         | Grant Date    | Option Awards(1)                                    |   |  | Option Price | Option Date | Stock Awards(2)(3)   |  |  |
|--------------|---------------|---|---|--|--------------|-------------|--|--|--|
|              |               | Number of Securities Underlying Unexercised Options | Number of Securities Underlying Unexercised Options | Equity Incentive Plan Awards: Number of Unearned |              |             | Number of Market Shares, Units or Other That Have Not Vested | Equity Incentive Plan Awards: Number of Unearned | Equity Incentive Plan Awards: Market or Payout Value of Unearned |
|              | (Exercisable) | (Unexercisable)                                     | (Options)   |  |              |             | (Vested)   |  | (4)  |
| Alex Vaickus | 1/19/1999     | 4,000   |   |  | \$ 21.00     | 1/19/2009   |  |  | \$   |
|              | 1/4/2000      | 7,500   |   |  | 24.13        | 1/4/2010    |  |  |  |
|              | 5/30/2000     | 500   |   |  | 12.94        | 5/30/2010   |  |  |  |
|              | 1/26/2001     | 10,000  |   |  | 11.38        | 1/26/2011   |  |  |  |
|              | 1/22/2002     | 15,000  |   |  | 15.85        | 1/22/2012   |  |  |  |
|              | 1/8/2003      | 50,000  |   |  | 10.00        | 1/8/2013    |  |  |  |
|              | 2/4/2004      | 18,000  |   |  | 14.48        | 2/4/2014    |  |  |  |
|              | 1/21/2005     | 21,000  |   |  | 11.86        | 1/21/2015   |  |  |  |
|              | 2/9/2006      | 20,000  | 10,000  |  | 14.50        | 2/9/2016    |  |  |  |
|              | 2/9/2006      |   |   |  |              |             |  | 10,000   | 21,600   |
|              | 5/23/2007     | 4,167   | 8,333   |  | 10.61        | 5/23/2017   |  |  |  |
|              | 5/23/2007     |   |   |  |              |             |  | 15,000   | 32,400   |
|              | 5/21/2008     |   | 15,000  |  | 5.72         | 5/21/2018   |  |  |  |
|              | 5/21/2008     |   |   |  |              |             |  | 20,000   | 43,200   |
|              | Total         | 150,167   | 33,333  |  |              |             |  | 45,000   | \$ 97,200  |

(1) 7,500 stock options granted to Alex Vaickus on September 9, 1998 at an exercise price of \$12.38 expired on September 9, 2008.

(2) Performance-based restricted stock units granted in 2006 and 2007 were canceled pursuant to their terms in 2009 because performance criteria were not met.

- (3) All stock awards are paid in restricted stock units.
- (4) The values shown are based on the number of restricted stock units outstanding multiplied by the \$2.16 closing price of our Class B stock on December 31, 2008.

#### **OPTION EXERCISES AND STOCK VESTED**

No options were exercised by named executive officers in 2008, and no restricted stock units held by named executive officers vested in 2008.

#### **NON-QUALIFIED DEFERRED COMPENSATION PLAN**

Pursuant to our Amended and Restated Deferred Compensation Plan, or DCP, certain employees, including our named executive officers, were eligible to defer a portion of their salary, sales commissions and awards granted under the MIP. Participants in the DCP could elect to defer between 6% and 25% of their salary and between 10% and 100% of their sales commissions and awards granted under the MIP. In December 2008, all participants chose, in accordance with transition rules in effect in connection with a change to the tax laws governing deferred compensation, to receive their account balances in full in 2009. Assets from this plan will be fully distributed in 2009.

We provided a match to employees who participate in the DCP, at a certain specified minimum level, and whose annual eligible earnings exceed the salary limitation contained in our 401(k) plan. Deferrals could be invested in one or more investments offered by the DCP from time to time at the choice of the participant. We did not provide any guaranteed rate of return. Participants were able to change investments subject to the procedures provided by DCP and the compensation committee. All deferred amounts that consisted of salary, sales commissions and awards granted under the MIP, as well as investment gains or losses on those amounts, were 100% vested

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immediately. Amounts that consisted of company matches and the investment gains and losses on those amounts were subject to a five-year vesting schedule with one-fifth vesting upon the completion of each year of service.

| Name            | Executive<br>Contributions<br>in<br>Last Fiscal<br>Year | Registrant<br>Contributions<br>in Last<br>Fiscal<br>Year(1)(2) | Aggregate<br>Earnings in<br>Last Fiscal<br>Year | Aggregate<br>Withdrawals/<br>Distributions | Aggregate<br>Balance at<br>12/31/08 |
|-----------------|---|--|---|--|-------------------------------------|
|                 |   |  |   |  |                                     |
| Linda G. Havard | \$ 32,754   | \$ 18,411  | \$ (149,626)                                    | \$ (57,015)                                | \$ 424,964                          |
| Christie Hefner | 82,500  | 28,920   | (634,204)                                       |  | 1,675,647                           |
| Hugh M. Hefner  |   |  |   |  |                                     |
| Robert Meyers   | 97,383  |  | (51,048)  |  | 154,147                             |
| Alex Vaickus    | 70,000  | 30,218   | (19,026)  |  | 50,974                              |

- (1) Company contributions vest over a five-year period. After an executive has completed five years of service, all current and future contributions are 100% vested.
- (2) Amounts reflect Company contributions that were earned in 2008 and paid in 2009; these amounts are not reflected in the aggregate balance at fiscal year end.

## **POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL**

### **Change in Control Agreements**

To help us retain our most senior executive officers, the Board has approved Playboy entering into agreements with certain officers that provide for the payment of specified benefits if their employment terminates under certain circumstances after a change in control of Playboy. Each of our named executive officers (other than Mr. Hefner) is a party to such an agreement. Each agreement provides that:

payments become due and benefits are provided if, within 18 months after a change in control, the officer is involuntarily terminated for reasons other than death, disability or cause, or voluntarily terminates his or her employment for a limited number of permitted reasons described in the agreement;

lump-sum cash payments will be made within 10 days following termination in the following amounts:

- (i) three times the sum of (A) the officer's annual base salary in effect immediately prior to the occurrence of the change in control and (B) the greater of (x) the average bonus earned by the officer for the three fiscal years prior to the year in which the change in control occurs and (y) the targeted bonus for the officer's position as set forth under our MIP for the applicable year (with the greater of (x) and (y) referred to as the highest bonus); and
- (ii) the sum of (A) any unpaid incentive compensation which has been allocated or awarded to the officer for a completed fiscal year or other measuring period preceding the termination and is contingent only upon the continued employment of the officer to a subsequent date and (B) a pro rata portion of the highest bonus for the year in which termination of employment occurs;

if an agreement becomes operative, the amount of the lump-sum cash payments, as well as any other payments owed to officers by us or our affiliates, would be grossed-up, if necessary, to compensate the executive for the imposition of any golden parachute excise tax imposed thereon;

any restricted stock held by the officer will become fully vested and free from restrictions;

the officer will be allowed to continue his or her participation in then existing welfare benefit plans, such as medical insurance, for up to three years from the effective date of termination; and

the agreement will have an initial five-year term, automatically extended on each anniversary of its execution unless Playboy or the officer gives notice that it or the officer does not wish to extend the agreement.

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These change-in-control agreements provide that a change in control takes place whenever any of the following events occur:

we liquidate or dissolve;

we sell *Playboy* magazine;

any occurrence by which Mr. Hefner, Ms. Hefner, the Hugh M. Hefner 1991 Trust or any trust established by Mr. Hefner for estate planning or similar purposes cease, collectively, to hold, directly or indirectly, at least 50% of the stock entitled to vote generally in the election of our directors; or

we merge, consolidate or reorganize the Company, unless we initiate the transaction and, as a result of the transaction, our stockholders immediately prior to the transaction become the majority stockholders of a successor or ultimate parent corporation of the company resulting from such transaction.

Under the agreements, *cause* is defined as conviction of a crime involving dishonesty, fraud or breach of trust, or willful engagement in conduct materially injurious to Playboy.

## **Employment and Severance Agreements**

*Linda G. Havard and Alex Vaickus.* We have agreed to severance arrangements with Ms. Havard and Mr. Vaickus, which agreements we amended and restated on September 1, 2008 to comply with Section 409A of the Internal Revenue Code. In the event that Ms. Havard or Mr. Vaickus is terminated at any time not for cause, the terminated executive will be entitled to receive 12 months of severance pay based on the executive's salary at that time. In the event of such termination, the terminated executive will have no duty to mitigate damages and will be free to accept other employment at the executive's discretion.

*Robert Meyers.* Effective September 18, 2006, we entered into an employment agreement with Mr. Meyers, our Executive Vice President and President, Media, reporting to our Chief Executive Officer, which agreement we amended and restated on September 1, 2008 to comply with Section 409A of the Internal Revenue Code. The employment agreement entitles Mr. Meyers to an annual base salary of \$721,000. Under the employment agreement, Mr. Meyers is eligible to participate in the MIP at a maximum level of 100% of his base salary and, in each of 2008 and 2009, to receive awards under the 1995 Stock Incentive Plan, as determined by the compensation committee, which will be consistent with the terms and conditions of grants and awards made to our other executive officers.

Pursuant to the terms of his employment agreement, Mr. Meyers will be entitled to receive a severance payment in an amount equal to his current annual base salary in connection with his resignation.

*Christie Hefner.* In connection with her resignation, we entered into an agreement with Ms. Hefner that provides her with, among other things, a severance payment of \$2.0 million and a one-time grant of 30,000 shares of the Company's Class B stock. Pursuant to the agreement, Ms. Hefner also agreed to a 12 month noncompetition and nonsolicitation covenant and to provide transition and other assistance.

## **1995 Stock Incentive Plan**

Our 1995 Stock Incentive Plan contains a change of control provision. In the event of a change of control of Playboy, options and restricted stock that are unvested on the effective date of the change of control will become immediately exercisable. For purposes of the 1995 Stock Incentive Plan, *change of control* has generally the same meaning

described above with respect to the change-in-control agreements.

#### **Other Practices**

We currently maintain a practice of paying a separation allowance under our salary continuation policy (which is not funded) to employees with at least five years of continuous service who voluntarily terminate employment with us and are at age 60 or thereafter.

We currently provide all exempt employees, if terminated in connection with a disability as defined by the policy, a benefit equal to the employee's base salary in effect as of the date of disability for the first six months and a

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benefit equal to 60% of the employee's base salary up to a maximum of \$16,000 per month thereafter. Total plan benefits are capped based on the employee's age when disability payments begin.

The following table shows potential payouts upon various termination scenarios for our named executive officers, assuming termination as of December 31, 2008:

| Name               | Termination         |                 | Termination          |                                      | Termination                        |   |
|--------------------|---------------------|-----------------|----------------------|--------------------------------------|------------------------------------|---|
|                    | for Cause<br>(1)(7) | Death<br>(2)(7) | Disability<br>(3)(7) | w/o Cause<br>by<br>Playboy<br>(4)(7) | Voluntary<br>Termination<br>(5)(7) | Following a<br>Change of<br>Control<br>(6)(7) |
| Linda G. Havard    | \$ 445,960          | \$ 445,960      | \$ 814,910           | \$ 991,860                           | \$ 487,952                         | \$ 2,694,600                                  |
| Christie Hefner(8) | n/a                 | n/a             | n/a                  | n/a                                  | n/a                                | n/a   |
| Hugh M. Hefner     |                     |                 | 596,000              |                                      | 2,000,000                          |   |
| Robert Meyers(9)   | n/a                 | n/a             | n/a                  | n/a                                  | n/a                                | n/a   |
| Alex Vaickus       | 77,897              | 77,897          | 523,898              | 777,898                              | 131,743                            | 4,223,929                                     |

- (1) Payments made to the named executive officers upon a termination for cause reflect amounts related to their vested balance in the DCP and accrued and unpaid vacation time as of the termination date.
- (2) Amounts reported include the executives' vested balances in the DCP and accrued and unpaid vacation payable upon termination.
- (3) Amounts reported include the executives' vested balances in the DCP, accrued and unpaid vacation payable upon termination and disability payments per our policy.
- (4) Amounts reported include the executives' vested balances in the DCP and accrued and unpaid vacation payable upon termination. For Ms. Havard and Mr. Vaickus, the amounts also include severance payments in an amount equal to one year base salary.
- (5) With the exception of Mr. Hefner, payments made to the named executive officers for voluntary termination reflect amounts related to their vested balance in the DCP and accrued and unpaid vacation time. The amount reported for Mr. Hefner reflects a separation bonus allowance that would be paid under our general termination policy for employees over 60 years of age with at least five years of service.
- (6) Amounts reported include the executives' vested balances in the DCP, accrued and unpaid vacation payable upon termination, accelerated vesting of restricted stock units, plus severance in an amount equal to three years base salary, target bonus, health and welfare benefits continuance, and a gross-up payment to cover 100% of any tax liabilities for Section 280G excess payments.
- (7) Effective December 2008, the DCP was terminated. Accordingly, all balances under the DCP are vested as of December 31, 2008. The payment of balances is not contingent upon a future terminating event and is provided for information purposes only.
- (8)



Effective January 31, 2009, Ms. Hefner resigned as Chief Executive Officer of the Company. For a description of the actual payments made to Ms. Hefner upon separation from the Company, see the section of this proxy statement entitled Executive Resignations on page 16.

- (9) Effective April 16, 2009, Mr. Meyers will resign as Executive Vice President and President, Media. For a description of the actual payments to be made to Mr. Meyers upon separation from the Company, see the section of this proxy statement entitled Executive Resignations on page 16.

### **DIRECTOR COMPENSATION**

We use a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve on our Board. In setting director compensation, we consider the significant amount of time that directors expend in fulfilling their duties to us as well as the skill level required by the Company of members of our Board. Similar to executive officers, directors are subject to a minimum share ownership requirement. Each director is expected to acquire, within two years of becoming a director, not less than 15,000 shares of our Class B stock and to maintain that level of investment throughout his or her term. We review directors' status with these requirements annually. As of December 31, 2008, all of our directors have achieved the stock ownership requirements, except for Mr. Hirschhorn, who joined our Board in August of 2006.

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Directors who are Playboy employees receive no compensation for their services as directors. During 2008, non-employee directors earned an annual retainer of \$45,000. The annual retainer is payable in quarterly installments and at least half is payable in shares of Class B stock. The Chairman of our compensation committee earns an additional fee of \$10,000 per year and the Chairman of our audit committee earns an additional fee of \$20,000 per year. Each member of our audit committee other than the Chairman earns an additional fee of \$10,000 per year. Each member of our compensation committee other than the Chairman earns an additional fee of \$5,000 per year. At least half of these additional fees to the Chairman and members of our compensation committee and the Chairman and members of our audit committee are paid in shares of our Class B stock. In addition, each non-employee director earned a fee of \$1,000, payable in shares of Class B stock, for each Board meeting in which he participated, except that no fee was paid in connection with telephonic-only Board meetings. All of the compensation that is paid in the form of shares of Class B stock is paid under our 1997 Equity Plan.

After Ms. Hefner tendered her resignation in December 2008, we began to pay Messrs. Chemerow and Rosenthal an additional fee of \$5,000 per month, which fee increased to \$10,000 per month as of January 1, 2009, to lead the search for a successor Chief Executive Officer and to facilitate a successful transition to a new Chief Executive Officer. In addition, we began to pay Mr. Kern an additional fee of \$50,000 per month for his work as interim Chairman of the Board. Mr. Kern's compensation did not increase as a result of his appointment as interim Chief Executive Officer. While he is serving as interim Chief Executive Officer, Mr. Kern will not be eligible to receive the director fees the Company pays to non-employee directors, including Board meeting fees, committee fees and the annual retainer.

The 1997 Equity Plan also permits us to issue to non-employee directors (i) options to purchase shares of Class B stock, (ii) restricted stock and (iii) awards of Class B stock. Options granted under the 1997 Equity Plan are generally exercisable in four equal annual installments, beginning on the first anniversary of the date that the option was initially granted, unless accelerated according to the terms of the 1997 Equity Plan. Options granted under the 1997 Equity Plan generally expire 10 years after the date of grant, although they may expire earlier. The 1997 Equity Plan is the successor to our 1991 Non-Qualified Plan for Non-Employee Directors, or the 1991 Plan. All future equity grants to non-employee directors will be made from the 1997 Equity Plan. As of December 31, 2008, Messrs. Hirschhorn and Kern each had 10,000 options outstanding under the 1991 Plan. Each option grant is exercisable in four equal installments, beginning on the first anniversary of the date that the option was initially granted.

Since October 1992, non-employee directors have also been eligible to participate in our Deferred Compensation Plan for Non-Employee Directors, under which they were able to defer receipt of part or all of their annual retainers, committee fees and per-meeting payments. All amounts deferred and earnings credited were 100% vested immediately and were general unsecured obligations of Playboy. In December 2008, all participants chose, in accordance with transition rules in effect in connection with a change to the tax laws governing deferred compensation, to receive their account balances in full. Assets from this plan will be fully distributed in 2009.

Table of Contents**DIRECTOR SUMMARY COMPENSATION TABLE**

The following table provides information regarding the compensation paid to non-employee directors for the fiscal year ended December 31, 2008:

| Name(1)               | Fees<br>Earned or<br>Paid in<br>Cash(2) | Stock<br>Awards | Option<br>Awards(3) | Non-Equity<br>Incentive<br>Plan Compensation(4) | Change<br>in<br>Pension<br>Value<br>and<br>Non-<br>qualified<br>Deferred<br>Earnings(4) | All Other<br>Compensation(5) | Total     |
|-----------------------|---|-----------------|---------------------|---|---|------------------------------|-----------|
|                       |   |                 |                     |   |   |                              |           |
| Dennis S. Bookshester | \$ 60,000                               | \$              | \$ 29,300           | \$  | \$  | \$                           | \$ 89,300 |
| David I. Chemerow     | 70,000                                  |                 | 29,300              |   |   | 5,000                        | 104,300   |
| Charles Hirschhorn    | 55,833                                  |                 | 9,675               |   |   |                              | 65,508    |
| Jerome H. Kern        | 59,167                                  |                 | 29,300              |   |   | 50,000                       | 138,467   |
| Russ Pillar           | 54,000                                  |                 | 29,300              |   |   |                              | 83,300    |
| Sol Rosenthal         | 60,000                                  |                 | 29,300              |   |   | 5,000                        | 94,300    |

- (1) As of December 31, 2008, options outstanding were as follows: Mr. Bookshester, 37,500; Mr. Chemerow, 37,500; Mr. Hirschhorn, 10,000; Mr. Kern, 30,000; Mr. Pillar, 30,000 and Mr. Rosenthal, 37,500.
- (2) Portions of these fees were paid in an equivalent value of our Class B stock. The value of the Class B stock issued to directors during 2008 was as follows: Mr. Bookshester, \$32,478, Mr. Chemerow, \$37,480, Mr. Hirschhorn, \$30,810; Mr. Kern, \$31,664; Mr. Pillar, \$28,979 and Mr. Rosenthal, \$32,478.
- (3) The amounts reflected in the Option Awards column reflect the amount recognized for financial statement reporting purposes for the year ended December 31, 2007, in accordance with FAS 123(R) for awards granted pursuant to our 1997 Equity Plan and our 1991 Directors Stock Option Plan and thus include amounts for awards granted in and prior to 2008. Assumptions used in the calculation of these amounts are included in Note (S), Stock-Based Compensation, to the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC, disregarding future estimates.
- (4) There were no above-market earnings on deferred compensation balances in 2008.
- (5) The amounts reported for Mr. Kern reflect payments for his service as interim Chairman of the Board in December 2008. The amounts reported for Mr. Chemerow and Mr. Rosenthal reflect payments for their work leading the search for a successor Chief Executive Officer in December 2008.

**Table of Contents****PLAYBOY STOCK OWNERSHIP**

The following table provides information about each person who we believe, based on a review of filings with the SEC, as of February 27, 2009, beneficially owns more than 5% of our outstanding Class A stock.

| <b>Name and Address</b>   | <b>Number of Shares<br/>of Class A Stock</b> | <b>Percent<br/>of Class</b> |
|---|--|-----------------------------|
| Hugh M. Hefner, Trustee(1)<br>The HMM Playboy Stock Trust<br>2706 Media Center Drive<br>Los Angeles, California 90065 | 3,381,836                                    | 69.53%                      |
| Plainfield Asset Management LLC(2)<br>55 Railroad Avenue<br>Third Floor<br>Greenwich, Connecticut 06830               | 926,700                                      | 19.05%                      |

- (1) Mr. Hefner, founder of Playboy and Editor-in-Chief and Chief Creative Officer, owns these shares through The HMM Playboy Stock Trust. Mr. Hefner has sole investment and voting power over these shares. Mr. Hefner has indicated his intent to vote his shares on the matters specified in this proxy statement in accordance with the recommendations made in this proxy statement by the Board.
- (2) Information as to Plainfield Asset Management LLC is based upon an amended report on Schedule 13G filed with the SEC on November 5, 2008. Such report was filed by Plainfield Asset Management LLC and indicates that the stockholder shared voting and dispositive power with Plainfield Special Situations Master Fund Limited, Plainfield Capital Limited and Max Holmes with respect to 926,700 shares.

**Playboy Stock Ownership by Directors and Executive Officers**

The following table shows, as of February 27, 2009, the amount of common stock beneficially owned by each of our directors and by each of our named executive officers, and by all directors and executive officers as a group. In general, beneficial ownership includes those shares over which a person has the power to vote, or the power to transfer, and stock options that are currently exercisable or will become exercisable within 60 days of February 27, 2009. Except as otherwise noted, the persons named in the table below have sole voting and investment power with respect to all shares shown as beneficially owned by them.

| <b>Name(1)</b>           | <b>Shares of<br/>Class A<br/>Stock</b> | <b>Percent<br/>of<br/>Class A<br/>Stock</b> | <b>Shares of<br/>Class B<br/>Stock</b> | <b>Percent<br/>of<br/>Class B<br/>Stock</b> |
|--------------------------|--|---|--|---|
| Dennis S. Bookshester(2) | 3,000                                  | *   | 67,304                                 | *   |
| David I. Chemerow(2)     | 800                                    | *   | 92,878                                 | *   |
| Linda G. Havard(2)       |  | *   | 227,545                                | *   |

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|   |           |        |            |        |
|---|-----------|--------|------------|--------|
| Christie Hefner   | 72,274    | 1.49%  | 775,125    | 2.66%  |
| Hugh M. Hefner  | 3,381,836 | 69.53% | 7,935,596  | 27.81% |
| Charles Hirschhorn  |           | *      | 15,830     | *      |
| Jerome H. Kern(2)   |           | *      | 50,807     | *      |
| Robert Meyers   |           | *      | 114,991    | *      |
| Russ Pillar(2)  |           | *      | 56,974     | *      |
| Sol Rosenthal(2)  | 250       | *      | 72,691     | *      |
| Alex Vaickus(2)   |           | *      | 188,675    | *      |
| All Directors and Executive<br>Officers as a group<br>(14 persons)(2) | 3,458,540 | 71.10% | 10,311,277 | 34.05% |

\* Less than 1% of the total shares outstanding.

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- (1) In each case, beneficial ownership consists of sole voting and investment power, with the exception of Mr. Pillar, who owns 31,974 shares of Class B stock through Pillar Living Trust and shares voting and investment power with his wife.
- (2) Includes the following shares of our Class B stock that are subject to installments of stock option grants made under the 1995 Stock Incentive Plan, the 1991 Directors Stock Option Plan and the 1997 Equity Plan, which were either exercisable on February 27, 2009, or are exercisable within 60 days of February 27, 2009:

| <b>Name</b>  | <b>Class B<br/>Common Stock</b> |
|--|---------------------------------|
| Dennis S. Bookshester  | 32,500                          |
| David I. Chemerow  | 32,500                          |
| Linda G. Havard  | 199,334                         |
| Christie Hefner  | 580,000                         |
| Charles Hirschhorn   | 5,000                           |
| Jerome H. Kern   | 25,000                          |
| Robert Meyers  | 90,001                          |
| Russ Pillar  | 25,000                          |
| Sol Rosenthal  | 32,500                          |
| Alex Vaickus   | 156,167                         |
| All Directors and Executive Officers as a group (14 persons) | 1,745,837                       |

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**PROPOSAL NO. 2**

**APPROVAL OF AN AMENDMENT TO OUR THIRD AMENDED AND RESTATED 1995 STOCK INCENTIVE PLAN**

Through the 1995 Stock Incentive Plan, we have utilized stock options and restricted stock awards as a key part of our overall compensation strategy for employees, including executive officers. Awards under the 1995 Stock Incentive Plan may be granted only to employees of Playboy and our subsidiaries and may not be granted to non-employee members of our Board of Directors.

On March 3, 2009, our Board of Directors amended the 1995 Stock Incentive Plan to increase the number of shares of Class B stock that may be issued pursuant to awards granted under or funded through the 1995 Stock Incentive Plan by 2,000,000 shares (from 7,703,000 shares to 9,703,000 shares) subject to stockholder approval. The amendment is necessary in order to permit us to continue utilizing stock options and other equity awards as part of our compensation strategy for all employees, including executive officers. The amendment will enable us to continue the purposes of the 1995 Stock Incentive Plan by providing additional incentives to attract and retain qualified and competent employees. This would be in keeping with our overall compensation philosophy, which attempts to place equity in the hands of our employees in an effort to further instill stockholder considerations and values in the actions of such employees. If stockholders do not approve the amendment, we will not be able to make grants to employees under the 1995 Stock Incentive Plan in excess of the currently authorized number of shares.

**Grants under the 1995 Stock Incentive Plan**

Since the compensation committee determines whether to grant stock options or other awards from time to time to a number of employees and officers, it is not possible at this time to determine or indicate the number, names or positions of employees who will receive future stock options or other awards or the number of shares of Class B stock for which stock options or other awards will be granted to any employee under the 1995 Stock Incentive Plan. During 2008, awards were granted under the 1995 Stock Incentive Plan to our named executive officers as set forth in the table captioned "Grants of Plan-Based Awards" on page 18.

**Description of the 1995 Stock Incentive Plan**

The following is a summary of the principal provisions of the 1995 Stock Incentive Plan. The summary does not purport to be a complete description of all the provisions of the 1995 Stock Incentive Plan and is qualified in its entirety by the terms of the 1995 Stock Incentive Plan. A copy of the 1995 Stock Incentive Plan, as amended and restated, was filed with the SEC in electronic format as an appendix to the proxy statement and is available free of charge from the SEC's website, *sec.gov*, or by sending a request to Investor Relations, Playboy Enterprises, Inc., 680 North Lake Shore Drive, Chicago, Illinois 60611.

*General Description of the 1995 Stock Incentive Plan*

The principal purposes of the 1995 Stock Incentive Plan are to provide incentives for key employees of Playboy and our subsidiaries through the grant or issuance of options, restricted stock and other awards, thereby giving them incentives to enhance Playboy's growth, development and financial success, and to remain in Playboy's employ. Under the current 1995 Stock Incentive Plan, not more than 7,703,000 shares of Class B stock are authorized for issuance upon exercise of options and other awards, or upon issuance of restricted or deferred stock awards; and the maximum number of shares which may be subject to options, rights or other awards granted to any individual in any calendar year cannot exceed 650,000. Under the proposed amendment to the 1995 Stock Incentive Plan, not more than

9,703,000 shares of Class B stock would be authorized for issuance and the maximum numbers of shares that may be granted to any individual in any calendar year would be 650,000. If any portion of an option, restricted stock grant or other award terminates or lapses unexercised or unvested, or is canceled, the shares which were subject to the unexercised portion of option, restricted stock or other award, will again be available for issuance under the 1995 Stock Incentive Plan. The 1995 Stock Incentive Plan also provides that an employee may not be granted during any calendar year Section 162(m) Performance Awards, as described below, in an amount in excess of \$1.0 million if those Section 162(m) Performance Awards are cash bonuses or other types of performance or incentive awards expressed as cash awards.



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The shares available under the 1995 Stock Incentive Plan upon exercise of options, and other awards, and for issuance as restricted or deferred stock, may be either previously authorized but unissued shares or treasury shares. The 1995 Stock Incentive Plan provides that the compensation committee shall make appropriate and equitable adjustments, in the number and kind of shares subject to the 1995 Stock Incentive Plan, to maximum share amounts included in the 1995 Stock Incentive Plan and to outstanding grants under the 1995 Stock Incentive Plan in the event of a stock split, stock dividend or certain other types of recapitalizations or reclassifications.

### *Eligibility*

Options, restricted stock and other awards under the 1995 Stock Incentive Plan may be granted to individuals who are then officers or other employees of Playboy or any of its present or future subsidiaries and who are determined by the compensation committee to be key employees. Notwithstanding the foregoing, Mr. Hefner is not eligible to receive options under the 1995 Stock Incentive Plan. As of March 3, 2009, there were approximately 70 full-time employees of Playboy and our subsidiaries eligible to participate in the 1995 Stock Incentive Plan. More than one option, restricted stock grant or other award may be granted to a key employee.

### *Administration*

The 1995 Stock Incentive Plan is administered by the compensation committee, which is comprised of persons who are both non-employee directors within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and outside directors within the meaning of Section 162(m) of the Internal Revenue Code. The compensation committee is authorized to determine which employees are key employees to whom options, restricted stock and other awards are to be granted and to determine the number of shares to be subject to those options, restricted stock and other awards and the related terms and conditions, consistent with the terms of the 1995 Stock Incentive Plan. The compensation committee is also authorized to adopt, amend and revoke rules relating to the administration of the 1995 Stock Incentive Plan.

### *Awards under the 1995 Stock Incentive Plan*

The 1995 Stock Incentive Plan provides that the compensation committee may grant or issue stock options, restricted stock, deferred stock, performance awards and stock payments, or any combination of them. Each grant or issuance will be set forth in a separate agreement with the person receiving the award and will indicate the type, amount, terms and conditions of the award. As a condition to the grant of an option, the compensation committee may require a key employee to surrender for cancellation another award previously granted to the employee.

Non-qualified stock options provide for the right to purchase Class B stock at a specified price which equals the closing price of the Class B stock on the date of grant, and usually will become exercisable (in the discretion of the compensation committee) in one or more installments after the grant date. Non-qualified stock options may be granted for any term specified by the compensation committee, provided that the term of any non-qualified stock options cannot exceed 10 years.

Incentive stock options are designed to comply with the provisions of the Internal Revenue Code, and will be subject to restrictions contained in the Internal Revenue Code, including exercise prices equal to at least 100% of fair market value of the Class B stock on the grant date and a 10-year restriction on their term. Incentive stock options granted to holders of 10% or more of Playboy's voting capital stock must have an exercise price equal to at least 110% of fair market value of the Class B stock on the grant date and cannot extend beyond five years. Incentive stock options that first become exercisable in any year may not exceed \$100,000 in value of underlying stock, measured at the grant date, and any grant in excess of such amount will be treated as a non-qualified stock option.

Restricted stock may be granted to participants subject to restrictions as may be determined by the compensation committee. Restricted stock may not be sold, or otherwise transferred or pledged, until restrictions are removed or expire. Restrictions may be based on duration of employment, Playboy's performance, individual performance or other factors. Recipients of restricted stock awards, unlike recipients of options, may have voting rights and receive dividends prior to the time when the restrictions lapse. Unless provided otherwise by the compensation committee, if no consideration (other than services) was paid by the restricted stockholder upon issuance, a restricted stockholder's rights in unvested restricted stock shall lapse upon termination of employment

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for any reason at any time or prior to any date the compensation committee may establish. If a participant gives consideration other than services for restricted stock, Playboy will generally have a right to repurchase the shares of restricted stock upon termination of employment at a price equal to the participant's purchase price.

Deferred stock may be awarded to participants, typically without payment of consideration, but subject to vesting conditions based on continued employment or on performance criteria established by the compensation committee. Like restricted stock, deferred stock may not be sold, or otherwise transferred or hypothecated, until vesting conditions are removed or expire. Unlike restricted stock, deferred stock will not be issued until the deferred stock award has vested, and recipients of deferred stock generally will have no voting or dividend rights prior to the time when vesting conditions are satisfied.

Performance awards may be granted by the compensation committee to participants. These awards may be paid in cash or in Class B stock or in a combination of cash and Class B stock. Performance awards may include phantom stock awards that provide for payments based upon increases in the price of the Class B stock over a predetermined period. Performance awards may also include bonuses which may be granted by the compensation committee and which may be payable in cash or in Class B stock or in a combination of cash and Class B stock.

Stock payments may be granted by the compensation committee in the form of shares of Class B stock or an option or other right to purchase shares of Class B stock as part of a deferred compensation arrangement in lieu of all or any part of compensation, including salary, bonuses and commissions, that would otherwise be payable to a key employee in cash.

The following four categories of awards may also be granted under the 1995 Stock Incentive Plan: Section 162(m) Restricted Stock, Section 162(m) Deferred Stock, Section 162(m) Performance Awards and Section 162(m) Stock Payments. Each of these awards is similar to its generic category described above except that none of these awards may vest unless one or more specified performance criteria established by the compensation committee has been achieved.

### *Acceleration of Vesting and Expiration of Options*

Options granted under the 1995 Stock Incentive Plan, unless otherwise provided under the terms of a stock option agreement, will generally expire on the first to occur of (i) 10 years from the date the option was granted or (ii) three months from the employee's termination of employment as a result of the employee's retirement or the employee's being discharged not for cause unless the employee dies within the three-month period; or (iii) the effective date of (x) a termination of employment for cause, (y) the employee's resignation, or (z) a change of control specified in clause (iii) of the definition of that term; or (iv) one year from the employee's termination of employment as a result of the employee's disability, unless the optionee dies within the one-year period; or (v) one year from the date of the optionee's death. The compensation committee may provide for different expiration terms for any option.

In the event of a change of control of Playboy, options that are unvested on the effective date of the change of control will become immediately exercisable. For purposes of the 1995 Stock Incentive Plan, a change of control means the occurrence of any of the following events: (i) except in a transaction described in clause (iii) below, Mr. Hefner, Ms. Hefner, the Hugh M. Hefner 1991 Trust (for so long as Mr. Hefner and Ms. Hefner are joint trustees or one of them is sole trustee), and the Hugh M. Hefner Foundation (for so long as Mr. Hefner and Ms. Hefner are joint trustees or one of them is sole trustee) cease collectively to own a majority of the total number of votes that may be cast for the election of directors of Playboy; or (ii) a sale of *Playboy* magazine by Playboy; or (iii) the liquidation or dissolution of Playboy, or any merger, consolidation or other reorganization of Playboy unless (x) such transaction is initiated by Playboy, and (y) is one in which the stockholders of Playboy immediately prior to the reorganization become the majority stockholders of a successor or ultimate parent corporation of Playboy resulting from the transaction and (z) in

connection with the event, provision is made for an assumption of outstanding options and rights or a substitution for them of a new option or right in the successor or ultimate parent of substantially equivalent value.

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### *Amendment and Termination*

The 1995 Stock Incentive Plan may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Board, subject to any required stockholder approval. Neither the amendment, suspension nor termination of the 1995 Stock Incentive Plan shall, without consent of the holder of an option, restricted stock or award, alter or impair any rights or obligations under any option, restricted stock or award. No option, restricted stock or other award may be granted during any period of suspension nor after termination of the 1995 Stock Incentive Plan, and in no event may any option be granted under the 1995 Stock Incentive Plan after May 23, 2017.

### **Federal Income Tax Consequences**

The following is a brief summary of certain of the federal income tax consequences of certain transactions under the 1995 Stock Incentive Plan based on federal income tax laws currently in effect. This summary is not intended to be exhaustive and does not describe state or local tax consequences.

#### *Tax Consequence to Participants*

*Non-qualified Stock Options.* In general: (i) no income will be recognized by an optionee at the time a non-qualified stock option is granted; (ii) at the time of exercise of a non-qualified stock option, ordinary income will be recognized by the optionee in an amount equal to the difference between the option price paid for the shares and the fair market value of the shares on the date of exercise; and (iii) at the time of sale of shares acquired upon an exercise of a non-qualified stock option, any appreciation (or depreciation) in the value of the shares after the date of exercise will be treated as either short-term or long-term capital gain (or loss) depending on how long the shares have been held.

*Incentive Stock Options.* No income generally will be recognized by an optionee upon the grant or exercise of an incentive stock option. If shares of Class B stock are issued to an optionee upon the exercise of an incentive stock option and no disqualifying disposition of the shares (as described below) is made by the optionee within two years after the date of grant or within one year after the transfer of the shares to the optionee, then upon the sale of the shares any amount realized in excess of the option price will be taxed to the optionee as long-term capital gain and any loss sustained will be a long-term capital loss. If shares acquired upon the exercise of an incentive stock option are disposed of prior to the expiration of either holding period described above (a disqualifying disposition), the optionee generally will recognize ordinary income in the year of disposition in an amount equal to any excess of the fair market value of the shares at the time of exercise (or, if less, the amount realized on the disposition of the shares if a sale or exchange) over the option price paid for the shares. Any further gain (or loss) realized by the optionee generally will be taxed as short-term or long-term capital gain (or loss), depending on the holding period.

*Restricted Stock.* A recipient of restricted stock generally will be subject to tax at ordinary income rates on the fair market value of the shares of restricted stock (reduced by any amount paid by the recipient for the shares) at the time as the shares are no longer subject to a risk of forfeiture or restrictions on transfer for purposes of Section 83 of the Internal Revenue Code. A recipient who elects under Section 83(b) of the Internal Revenue Code within 30 days of the date of transfer of the shares will recognize ordinary income at the time in an amount equal to the excess of the fair market value of the shares (determined without regard to the risk of forfeiture or restrictions on transfer) over any purchase price paid for the shares. If a Section 83(b) election has not been made, any dividends received with respect to shares of restricted stock that are subject at that time to a risk of forfeiture or restrictions on transfer generally will be treated as compensation that is taxable as ordinary income to the recipient.

*Deferred Stock.* No income generally will be recognized upon the grant of deferred stock. The recipient of a deferred stock grant generally will be subject to tax at ordinary income rates on the fair market value of nonrestricted shares of

Class B stock on the date that the shares are transferred to the participant under the grant, reduced by any amount paid by the participant, and the capital gains/loss holding period for the shares will also commence on that date.

*Performance Awards.* No income generally will be recognized upon the grant of deferred stock. Upon payment in respect of the earn-out of performance awards, the recipient generally will be required to include as taxable

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ordinary income in the year of receipt an amount equal to the amount of cash received or the fair market value of any nonrestricted shares of Class B stock received.

*Stock Payment.* A participant who elects to receive shares of Class B stock in lieu of other compensation generally will recognize ordinary income at the time the shares are received in an amount equal to the fair market value of the shares.

*Tax Consequences to Playboy or our Subsidiary*

To the extent that an employee recognizes ordinary income in the circumstances described above, Playboy or our subsidiary for which the employee performs services will be entitled to a corresponding deduction to the extent that such a deduction is allowed under Section 162 of the Internal Revenue Code.

**THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR APPROVAL OF AN  
AMENDMENT TO OUR THIRD AMENDED AND RESTATED 1995 STOCK INCENTIVE PLAN**

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**PROPOSAL NO. 3**

**APPROVAL OF AN AMENDMENT TO OUR SECOND AMENDED AND RESTATED 1997 EQUITY PLAN  
FOR NON-EMPLOYEE DIRECTORS**

The principal purposes of the 1997 Equity Plan are (i) to promote the growth and long-term success of Playboy by offering non-employee directors the ability to acquire Class B stock of Playboy, (ii) to enable Playboy to attract and retain qualified persons to serve as non-employee directors, whose services are considered essential to the long-term success of Playboy, by offering them an opportunity to own Class B stock of Playboy and (iii) to more closely align the interests of non-employee directors with the interests of Playboy's stockholders by paying certain amounts of compensation for services as a director in the form of shares of Class B stock.

On March 3, 2009, our Board amended the 1997 Equity Plan to increase the number of shares of Class B stock reserved under the 1997 Equity Plan by 300,000 shares (from 600,000 shares to 900,000 shares) subject to stockholder approval. The amendment will enable us to continue the purposes of the 1997 Equity Plan by providing additional incentives to attract and retain qualified and competent non-employee directors. If stockholders do not approve the amendment, we will not be able to make further grants to non-employee directors under the 1997 Equity Plan in excess of the currently authorized number of shares.

**Grants under the 1997 Equity Plan**

Under the 1997 Equity Plan, each participating non-employee director is entitled to receive as Mandatory Shares (as described below) the number of shares of Class B stock with a value equal to \$1,000 for each meeting of the Board attended and the number of shares of Class B stock with a value equal to at least 50% of such director's annual retainer and committee fees (as applicable) as described under the heading "Director Compensation" on page 23. Other than such Mandatory Shares, future benefits under the 1997 Equity Plan are not currently determinable. During 2008, grants were made to non-employee directors under the 1997 Equity Plan, as set forth in the table captioned "Director Summary Compensation Table" above. Our executive officers, including our named executive officers, and employees are not eligible to participate in the 1997 Equity Plan.

**Description of the 1997 Equity Plan**

The following is a summary of the principal provisions of the 1997 Equity Plan. The summary does not purport to be a complete description of all the provisions of the 1997 Equity Plan and is qualified in its entirety by the terms of the 1997 Equity Plan. A copy of the 1997 Equity Plan, as amended and restated, was filed with the SEC in electronic format as an appendix to the proxy statement and is available free of charge from the SEC's website, *sec.gov*, or by sending a request to Investor Relations, Playboy Enterprises, Inc., 680 North Lake Shore Drive, Chicago, Illinois 60611.

*Available Shares and Adjustment*

Subject to adjustment as described below, the number of shares of Class B stock which may be issued or transferred under the 1997 Equity Plan, plus the number of shares of Class B stock covered by outstanding awards and not forfeited under the 1997 Equity Plan, may not in the aggregate exceed 900,000 shares (giving effect to the amendment described above), which may be shares of original issuance or shares held in treasury or a combination thereof. If an option granted under the 1997 Equity Plan lapses or terminates before such option is exercised or if shares of restricted stock or Class B stock granted under the 1997 Equity Plan are forfeited, for any reason, the shares covered thereby may again be made available under the 1997 Equity Plan.



The number, price and kinds of shares available under the 1997 Equity Plan are subject to adjustment by the Board in the event of a stock split, stock dividend, recapitalization, reorganization, merger or other similar event. Playboy is not required to issue any fractional shares of Class B stock pursuant to the 1997 Equity Plan. The Board may provide for the elimination of fractions, for the settlement thereof in cash or for such other adjustments as contemplated by the 1997 Equity Plan.

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### *Termination and Amendment*

No further awards may be made under the 1997 Equity Plan after May 23, 2017. The Board may amend the 1997 Equity Plan at any time except that, without the approval of the stockholders of Playboy, no amendment may, among other things, increase the number of shares of Class B stock available under the 1997 Equity Plan except pursuant to the Board's adjustment authority described above. No amendment may impair the rights of a holder of an outstanding award under the 1997 Equity Plan without the consent of such holder, unless the award itself expressly provides otherwise.

### *Administration*

The 1997 Equity Plan is administered by the Board. Subject to the terms of the 1997 Equity Plan, the Board has the authority to prescribe, interpret and revoke rules and regulations for administering the 1997 Equity Plan and to decide questions of interpretation or application of any provision of the 1997 Equity Plan or any agreements pursuant to which awards are granted under such Plan. Awards granted under the 1997 Equity Plan need not be the same with respect to each holder of such awards. The Board has the authority to delegate all or any part of its authority under the 1997 Equity Plan to any committee or subcommittee of not less than two directors appointed by the Board who are non-employee directors within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934. The majority of any such committee or subcommittee will constitute a quorum, and the action of a majority of its members present at any meeting at which a quorum is present, or acts unanimously approved in writing, will be deemed the acts of such committee or subcommittee.

### *Awards under the 1997 Equity Plan*

*Mandatory Shares.* The 1997 Equity Plan provides for the payment to each non-employee director of (i) 50% of the value of his or her annual retainer, (ii) 50% of the value of his or her committee fees and (iii) all of his or her compensation payable with regard to number of Board meetings attended, or Meeting Fees, in the form of shares of Class B stock of Playboy, or Mandatory Shares.

The number of Mandatory Shares paid to each non-employee director will be the number of shares of Class B stock of Playboy equal to (a) the amount of such director's Meeting Fees and 50% of such director's annual retainer and committee fees (as applicable), divided by (b) the market value per share of Class B stock on the applicable date. To the extent that application of the foregoing formula would result in the issuance of fractional shares of Class B stock, such fractional shares will be disregarded and the remaining amount of compensation will be paid in cash. Playboy will pay any and all fees and commissions incurred in connection with the payment of Mandatory Shares to a non-employee director.

*Voluntary Shares.* Each non-employee director may elect, by filing a participation agreement with the Secretary of Playboy, to have the remaining 50% of his or her annual retainer and/or committee fees otherwise payable in cash paid by Playboy in the form of shares of Class B stock in lieu of a cash payment, or Voluntary Shares.

*Stock Options.* The 1997 Equity Plan permits the Board to authorize awards of options to purchase shares of Class B stock to non-employee directors. Each option award will be set forth in an agreement with the non-employee director receiving the award and will indicate the terms and conditions of the option award, consistent with the terms of the 1997 Equity Plan. The Board may determine the terms and conditions of such awards in accordance with the following provisions: (i) each award must specify the number of shares of Class B stock to which the option rights pertain, (ii) each award must specify an option price per share of Class B stock, which price must be equal to or greater than the market value per share on the date of award, (iii) any award of option rights may provide for the deferred payment of the option price from the proceeds of a sale through a broker of some or all of the shares of

Class B stock to which the exercise relates and (iv) each award must specify the form of consideration to be paid in satisfaction of the option price and the manner of payment of such consideration, which may include (a) cash, (b) nonforfeitable, nonrestricted shares of Class B stock, which are already owned by the non-employee director and have a value at the time of exercise that is equal to the option price, (c) any other legal consideration that the Board may deem appropriate, including, under certain circumstances, shares of restricted stock which are already owned by the non-employee director (with the understanding that all of the shares received by such non-

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employee director upon exercise of the option rights that are paid for by such restricted stock will be subject to the same restrictions as such restricted stock), and (d) any combination of the foregoing. Non-qualified stock options may be granted for any term specified by the compensation committee, provided that the term of any non-qualified stock options cannot exceed 10 years.

Each option award shall provide conditions that must be achieved before the option rights or installments thereof become exercisable, such as a certain period of continuous service as a non-employee director or specified operating income objectives, and any award may provide for the earlier exercise of the option rights in the event of a change in control of Playboy or other transaction or event.

Successive awards of option rights may be made to the same non-employee director regardless of whether any option rights previously awarded to the same director remain unexercised. The term of an option right will be set by the Board, but no option right may have a term of more than 10 years from the date of award.

*Class B Stock Grants and Restricted Stock.* The 1997 Equity Plan authorizes the Board to award shares of Class B stock of Playboy to a non-employee director in consideration and as additional compensation for services performed for Playboy, which we call a Class B stock grant. The 1997 Equity Plan also authorizes the Board to award shares of restricted stock to non-employee directors. Each Class B stock grant and award of restricted stock will be set forth in an agreement with the non-employee director receiving the award and will indicate the terms and conditions of the award, consistent with the terms of the 1997 Equity Plan. The Board may determine the terms and conditions of such awards subject to the following provisions: (i) each Class B stock grant and award of restricted stock will constitute an immediate transfer of the ownership of shares of Class B stock to the non-employee director in consideration of the performance of services, entitling the holder thereof to dividend, voting and other ownership rights, subject to, in the case of awards of restricted stock, the substantial risk of forfeiture and restrictions on transfer hereinafter referred to, (ii) each award of restricted stock must provide that the shares of restricted stock covered thereby are subject to a substantial risk of forfeiture within the meaning of Section 83 of the Internal Revenue Code for a period to be determined by the Board on the date of award, and may provide for the termination of such risk of forfeiture upon the achievement of specified operating income objectives, in the event of a change in control of Playboy, or upon any other transaction or event, (iii) any Class B stock grant and award of restricted stock may be made in consideration of payment by the non-employee director of an amount that is less than the market value per share on the date of award, (iv) any award of restricted stock may require that any or all dividends or other distributions paid on the shares of restricted stock during the period of such restrictions be automatically sequestered and reinvested on an immediate or deferred basis in additional shares of Class B stock, which may be subject to the same restrictions as the underlying award or such other restrictions as the Board may determine, and (v) each award of restricted stock must provide that, during the period for which such substantial risk of forfeiture is to continue, and any Class B stock grant may provide, that the transferability of the shares of Class B stock subject to such awards is prohibited or restricted in the manner and to the extent prescribed by the Board on the date of award. Such restrictions may include, without limitation, rights of repurchase or first refusal in Playboy or provisions subjecting the shares of restricted stock to a continuing substantial risk of forfeiture in the hands of any transferee.

On or after the date of any Class B stock grant or award of restricted stock under the 1997 Equity Plan, the Board may provide for the payment of a cash award intended to offset the amount of tax that the non-employee director may incur in connection with such Class B stock grant or restricted stock, including, without limitation, tax on the receipt of such cash award. The Board may also provide in any individual stock grant agreement or restricted stock agreement that Playboy has the right to repurchase the restricted stock then subject to restrictions under the restricted stock agreement, or the Class B stock subject to the Class B stock grant, immediately upon a termination in directorship for any reason at a cash price per share equal to the cash price paid by the stockholder for such restricted stock or Class B stock. In the discretion of the Board, provision may be made that no such right of repurchase will exist in the event of a termination of directorship without cause or because of the director's retirement, death or permanent and total

disability.

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### *Transfer Restrictions*

Except as may be otherwise determined by the Board, (i) awards, Mandatory Shares and Voluntary Shares issued or granted under the 1997 Equity Plan may be issued only to a participating non-employee director, (ii) option rights and restricted stock issued or granted under the 1997 Equity Plan may be transferred by a participating non-employee director only by will or the laws of descent and distribution and (iii) option rights may not be exercised during a director's lifetime except by the director or, in the event of the director's legal incapacity, by his guardian or legal representative acting in a fiduciary capacity on behalf of the director under state law and court supervision. The terms of any award made under the 1997 Equity Plan may provide for further transfer restrictions on the shares of Class B stock subject to the award.

To the extent required to satisfy any condition to exemption available pursuant to Rule 16b-3 of the Securities Exchange Act of 1934, any shares of Class B stock that a non-employee director elects to receive as Voluntary Shares must be held by such non-employee director for at least six months following the date of such receipt.

### *Effect of Termination of Directorships*

Notwithstanding any contrary provision of the 1997 Equity Plan, in the event of a termination of directorship by reason of death, disability, hardship or other special circumstances of a non-employee director who participates in the 1997 Equity Plan and who holds (i) an option right that is not immediately and fully exercisable or (ii) any award as to which the substantial risk of forfeiture or the prohibition or restriction on transfer has not lapsed, the Board may, in its sole discretion, take any action that it deems equitable under the circumstances or in the best interests of Playboy, including, without limitation, waiving or modifying any limitation or requirement with respect to any award under the 1997 Equity Plan.

If a non-employee director becomes an employee of Playboy while continuing to serve as a director, that fact will not impair the rights such director may have had under the 1997 Equity Plan, including, without limitation, the rights such director may have under any award outstanding under the 1997 Equity Plan. Such director will not, however, be eligible to receive any further awards under the 1997 Equity Plan.

## **Federal Income Tax Consequences**

The following is a brief overview of the U.S. federal income tax consequences generally arising with respect to awards under the 1997 Equity Plan based on federal income tax laws currently in effect. This summary is not intended to be exhaustive and does not describe state or local tax consequences.

### *Tax Consequences to Participants*

**Non-qualified Stock Options.** In general: (i) no income will be recognized by an optionee at the time a non-qualified stock option is granted; (ii) at the time of exercise of a non-qualified stock option, ordinary income will be recognized by the optionee in an amount equal to the difference between the option price paid for the shares and the fair market value of the shares; and (iii) at the time of sale of shares acquired upon an exercise of a non-qualified stock option, any appreciation (or depreciation) in the value of the shares after the date of exercise will be treated as either short-term or long-term capital gain (or loss) depending on how long the shares have been held.

**Restricted Stock.** A non-employee director receiving restricted stock will not recognize taxable income at the time of the grant unless the non-employee director makes an election to be taxed at the time restricted stock is granted. If such election is not made, the non-employee director will recognize taxable income at the time the restrictions lapse in an amount equal to the excess of the fair market value of the shares at such time over the amount, if any, paid for the

shares. In addition, a non-employee director receiving dividends with respect to restricted stock for which the above-described election has not been made and prior to the time the restrictions lapse will recognize taxable compensation, rather than dividend income, in an amount equal to the dividends paid. Upon disposition of such shares, any appreciation (or depreciation) in the value of the shares after the date the restrictions lapsed will be taxed as either short-term or long-term capital gain (or loss) depending on the holding period. If a non-employee director properly makes an election to be taxed at the time the restricted stock is granted, the non-employee director will recognize taxable income on the date of grant equal to the excess of the fair market value of the shares at such

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time over the amount, if any, paid for such shares. The non-employee director will not recognize any income at the time the restrictions lapse. Upon disposition of such shares, any appreciation (or depreciation) in the value of the stock after the date the restricted shares were granted will be taxed as either short-term or long-term capital gain (or loss) depending on the holding period.

*Class B stock grants, Mandatory Shares and Voluntary Shares.* A non-employee Director receiving (i) a Class B stock grant, (ii) Mandatory Shares or (iii) Voluntary Shares will recognize taxable income upon the grant of such shares in an amount equal to the fair market value of any such shares delivered by Playboy less the amount, if any, paid for such shares. Upon disposition of such shares, any appreciation (or depreciation) in the value of the shares after the date of grant will be taxed as either short-term or long-term capital gain (or loss) depending on the holding period.

*Tax Consequences to Playboy*

To the extent that a participant recognizes ordinary income in the circumstances described above, Playboy will be entitled to a corresponding deduction to the extent that such a deduction is allowed under Section 162 of the Internal Revenue Code.

**THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR APPROVAL OF AN  
AMENDMENT TO OUR SECOND AMENDED AND RESTATED 1997 EQUITY PLAN FOR  
NON-EMPLOYEE DIRECTORS.**



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**PROPOSAL NO. 4**

**APPROVAL OF AN AMENDMENT TO OUR EMPLOYEE STOCK PURCHASE PLAN**

Our stockholders are being asked to approve an amendment of the Employee Stock Purchase Plan, to increase the number of shares of common stock reserved for purchase under the Employee Stock Purchase Plan by 200,000 shares (from 230,000 shares to 430,000 shares). On March 3, 2009, the Board approved this amendment, subject to stockholder approval at the Annual Meeting.

The proposed amendment will assure that a sufficient reserve of common stock is available for purchase under the Employee Stock Purchase Plan in order to allow us to continue to provide our eligible employees with the opportunity to acquire our common stock through participating in a payroll deduction-based employee stock purchase program designed to operate in compliance with Section 423 of the Internal Revenue Code.

**Description of the Employee Stock Purchase Plan**

The following is a summary of the principal provisions of the Employee Stock Purchase Plan. The summary does not purport to be a complete description of all the provisions of the Employee Stock Purchase Plan and is qualified in its entirety by the terms of the Employee Stock Purchase Plan. A copy of the Employee Stock Purchase Plan, as amended and restated, was filed with the SEC in electronic format as an appendix to the proxy statement and is available free of charge from the SEC's website, *sec.gov*, or by sending a request to Investor Relations, Playboy Enterprises, Inc., 680 North Lake Shore Drive, Chicago, Illinois 60611.

*Administration*

The Employee Stock Purchase Plan is administered by the compensation committee. The compensation committee, as Plan Administrator, has full authority to adopt such rules and procedures as it may deem necessary for the proper plan administration and to interpret the provisions of the Employee Stock Purchase Plan or any subscription to purchase shares under the Employee Stock Purchase Plan.

*Share Reserve*

A total of 430,000 shares of our Class B stock are authorized for purchase over the remaining term of the Employee Stock Purchase Plan. The foregoing share reserve includes the additional increase of 200,000 shares for which stockholder approval is sought under this Proposal. Stockholder approval is required for any increase in the number of shares authorized for purchase under the Employee Stock Purchase Plan.

*Eligibility*

Each employee of the Company or of a participating subsidiary who customarily works for more than 20 hours per week, except that no employee may subscribe to purchase shares on the day immediately following the last business day of the fiscal quarter in which the related Subscription Date (defined as the first business day of each fiscal quarter or, if the participant is not an employee on the Subscription Date, the date participant became an employee) occurs (the Purchase Date) if, immediately after the preceding Subscription Date, such employee would own stock possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or any subsidiary of the Company.

As of March 3, 2009, 661 full-time and part-time employees were eligible to participate in the Employee Stock Purchase Plan.

*Purchase Provisions*

Each participant in the Employee Stock Purchase Plan may authorize periodic payroll deductions up to a maximum of 10% of his or her annual compensation to purchase shares of common stock on the next Purchase Date. A participant can purchase up to 1,000 shares of Class B stock on any Purchase Date.

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### *Purchase Price*

The purchase price per share at which the Class B stock is purchased on the participant's behalf for each offering period is equal to 85% of the fair market value of such stock on the Purchase Date. The fair market value per share of Class B stock on the Purchase Date will be the closing selling price per share on such date on the NYSE. On March 3, 2009, the fair market value per share determined on such basis was \$1.25.

### *Special Limitations*

The Employee Stock Purchase Plan imposes certain limitations upon a participant's rights to acquire common stock, including the following limitations:

No purchase right may be granted to any individual who owns stock possessing 5% or more of the total combined voting power or value of all classes of stock of Playboy or any of its subsidiaries;

No purchase right granted to a participant may permit such individual to purchase common stock (under all employee stock purchase plans) at a rate greater than \$25,000 worth of such common stock (valued at the time of subscription) for each calendar year; and

No participant may purchase more than 1,000 shares of common stock on any one purchase date.

### *Termination of Purchase Rights*

A participant's purchase right immediately terminates upon such participant's loss of eligible employee status, and his or her accumulated payroll deductions for the offering period in which the purchase right terminates are promptly refunded. A participant may withdraw from an offering period at any time prior to the end of that period and elect to have his or her accumulated payroll deductions for the offering period in which such withdrawal occurs either refunded or applied to the purchase of shares of common stock on the next purchase date.

### *Stockholder Rights*

No participant has any stockholder rights with respect to any Class B stock covered by his or her subscription until the Purchase Date following payment in full. No adjustment will be made for dividends, distributions or other rights for which the record date is prior to the date of such purchase, except that the compensation committee may make or provide for adjustments required to prevent dilution or enlargement of the rights of employees that would otherwise result from (i) any stock dividend, stock split, combination of shares, recapitalization, or other change in our capital structure, (ii) any merger, consolidation, spin-off, split-off, spin-out, split-up, separation, reorganization, partial or complete liquidation, or other distribution of assets, issuance of rights or warrants to purchase stock, or (iii) any other corporate transaction or event having an effect similar to any of the foregoing.

### *Transferability*

Neither payments credited to an employee's account nor any purchase rights may be transferred by the employee except by the laws of descent and distribution.

### *Amendment and Term of Employee Stock Purchase Plan*

Eligible employees may subscribe for shares under the Employee Stock Purchase Plan until April 25, 2016. However, the Compensation Committee may terminate or suspend the Employee Stock Purchase Plan if at any time there are

less than 5% of the eligible employees participating in the Employee Stock Purchase Plan.

The Compensation Committee may amend the Employee Stock Purchase Plan. However, the Board may not, without stockholder approval, (i) increase the number of shares issuable under the Employee Stock Purchase Plan, except in connection with the adjustments to stockholder rights described above, or (ii) materially modify the requirements for eligibility to participate in the Employee Stock Purchase Plan.

**Table of Contents***Stock Purchases*

Future benefits under the Employee Stock Purchase Plan as proposed to be amended and restated are not currently determinable, as they will depend on the actual purchase price of shares of Class B stock in future offering periods, the market value of the Class B stock on various future dates, the amount of contributions eligible employees elect to make under the Employee Stock Purchase Plan, and other similar factors. The table below shows, as to each of our named executive officers and the various indicated individuals and groups, the number of shares of common stock purchased by such individuals in 2008 under the Employee Stock Purchase Plan, together with the weighted average purchase price per share.

**Stock Purchase Transactions**

| Name and Position  | Number of<br>Shares | Weighted<br>Average<br>Purchase Price<br><br>Per Share |
|--|---------------------|--|
| Linda G. Havard<br>Christie Hefner<br>Hugh M. Hefner<br>Robert Meyers                    | 341                 | \$ 4.69  |
| Alex Vaickus   | 6,488               | 3.21   |
| All current executive officers as a group  | 7,234               | 3.28   |
| All employees, including all current officers who are not executive officers, as a group | 26,695              | 3.60   |

**Federal Income Tax Consequences**

The Employee Stock Purchase Plan is intended to be an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code. Under a plan which so qualifies, no taxable income will be recognized by a participant, and no deductions will be allowable to us in connection with the grant or exercise of an outstanding purchase right.

Taxable income will not be recognized until there is a sale or other disposition of the shares acquired under the Employee Stock Purchase Plan or in the event the participant should die while still owning the purchased shares.

If the participant sells or otherwise disposes of the purchased shares within two years after the start date of the offering period in which such shares were acquired or within one year after the actual purchase date of those shares, then the participant will recognize ordinary income in the year of sale or disposition equal to the amount by which the fair market value of the shares on the purchase date exceeded the purchase price paid for those shares, and we will be entitled to an income tax deduction for the taxable year in which such sale or disposition occurs equal in amount to such excess.

If the participant sells or disposes of the purchased shares more than two years after the start date of the offering period in which such shares were acquired and more than one year after the actual purchase date of those shares, then the participant will recognize ordinary income in the year of sale or disposition equal to the lesser of (i) the amount by which the fair market value of the shares on the sale or disposition date exceeded the purchase price paid for those

shares or (ii) 15% of the fair market value of the shares on the start date of the offering period, and any additional gain upon the disposition will be taxed as long-term capital gain. We will not be entitled to any income tax deduction with respect to such sale or disposition.

If the participant still owns the purchased shares at the time of his death, the lesser of (i) the amount by which the fair market value of the shares on the date of death exceeds the purchase price or (ii) 15% of the fair market value of the shares on his or her entry date into the offering period in which those shares were acquired will constitute ordinary income in the year of death.

**THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THE  
AMENDMENT TO OUR EMPLOYEE STOCK PURCHASE PLAN.**

**Table of Contents****PROPOSAL NO. 5****APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The audit committee has appointed Ernst & Young LLP to serve as our independent registered public accounting firm for 2009. The Board is recommending that stockholders ratify that appointment at the Annual Meeting. Ernst & Young LLP has served as our independent registered public accounting firm since 2000. Representatives of Ernst & Young LLP will be present at the Annual Meeting and will be available to respond to appropriate questions from stockholders and to make a statement should they wish to do so. Although we are not required to seek stockholder approval of the appointment of our independent registered public accounting firm, we believe it to be sound corporate governance to do so. If the appointment of Ernst & Young LLP is not ratified by the stockholders, our audit committee will investigate the reasons for the stockholder rejection and will consider appointing a different independent registered public accounting firm.

For 2008 and 2007, our engagement agreements with Ernst & Young LLP set forth the terms by which Ernst & Young LLP was to perform audit services for us. These agreements contained alternative dispute resolution procedures and an exclusion of punitive damages. We expect to enter into a comparable engagement agreement with Ernst & Young LLP in connection with its performance of audit services for us in 2009.

**THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR  
RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS OUR  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2009**

**AUDIT COMMITTEE DISCLOSURE****Principal Accountant Fees and Services**

The following table sets forth in more detail the fees incurred for the professional services of Ernst & Young LLP in 2008 and 2007:

|                       | <b>2008</b>  | <b>2007</b>  |
|-----------------------|--------------|--------------|
| Audit Fees(1)         | \$ 1,250,000 | \$ 1,182,000 |
| Audit-Related Fees(2) | 25,000       | 28,000       |
| Tax Fees(3)           | 68,000       | 43,000       |
| All Other Fees(4)     |              |              |

- (1) Audit fees include fees for professional services rendered for the audit of our annual consolidated financial statements and review of our financial statements included in our Quarterly Reports on Form 10-Q, for an audit of our internal control over financial reporting in connection with Section 404 of the Sarbanes-Oxley Act of 2002 and for other services that are normally provided by our independent registered public accounting firm in connection with statutory and regulatory filings or engagements.
- (2) Audit-related fees include fees for assurance and related services that are reasonably related to the performance of the audit and review of our financial statements, other than those services described under Audit Fees. These fees are primarily for services provided in connection with employee benefit audits.

- (3) Tax fees consist of services performed by our independent registered public accounting firm's tax division, except those related to the audit, and include fees for tax compliance, including foreign subsidiary tax return preparation, tax planning and tax advice.
- (4) There were no fees billed for other services rendered by our independent registered public accounting firm that would be included in "All Other Fees" for the years ended December 31, 2008 or December 31, 2007.

**Audit Committee Policy for Approval of Audit and Permitted Non-Audit Services**

The audit committee is responsible for the appointment, retention, compensation and oversight of our independent registered public accounting firm. The audit committee has adopted policies and procedures for preapproving services (audit and non-audit) performed by the independent registered public accounting firm. In accordance with such policies and procedures, the audit committee is required to preapprove the audit and non-audit services performed by the



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independent registered public accounting firm in order to assure that the provision of such services does not impair the firm's independence. These services may include audit services, audit-related services, tax services and other services. Unless a type of service to be provided by our independent registered public accounting firm has received general preapproval, it will require specific preapproval by the audit committee. Any proposed services exceeding preapproved cost levels will require specific preapproval by the audit committee. The audit committee has delegated to the Chairman of the audit committee specific preapproval authority provided that the estimated fee for any such engagement is de minimis. The Chairman of the audit committee must report, for information purposes only, any preapproval decisions to the audit committee at its next scheduled meeting. Requests or applications to provide services that require separate approval by the audit committee shall be submitted to the audit committee by both the independent registered public accounting firm and our Chief Financial Officer and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC's rules on independence.

With respect to each proposed preapproved service, our independent registered public accounting firm must provide detailed back-up documentation regarding the specific services to be provided. Periodically, but not less than quarterly, our Chief Financial Officer will provide the audit committee with a report of audit and non-audit services provided and expected to be provided by our independent registered public accounting firm. All of the services of Ernst & Young LLP in 2008 described above were preapproved by our audit committee in accordance with our Audit and Non-Audit Permitted Services Policy.

### **Report of the Audit Committee**

The audit committee of the Board is currently made up of Messrs. Chemerow (who is the Chairman), Bookshester and Hirschhorn. As set forth in more detail in the audit committee's charter, the primary responsibilities of Playboy's audit committee fall into three broad categories:

- to serve as an independent and objective party to monitor Playboy's financial reporting process and internal control system;

- to review and appraise the audit efforts of Playboy's independent registered public accounting firm and internal auditing function; and

- to provide an open avenue of communication among the independent registered public accounting firm, financial and senior management, the internal auditing function, and the Board.

The audit committee has implemented procedures to ensure that during the course of each fiscal year it devotes the attention that it deems necessary or appropriate to each of the matters assigned to it under the audit committee's charter. To carry out its responsibilities, the audit committee met eight times during 2008.

In connection with the financial statements for the fiscal year ended December 31, 2008, the audit committee has:

- reviewed and discussed the audited financial statements with management;

- discussed with Ernst & Young LLP, Playboy's independent registered public accounting firm, or Auditors, the matters required to be discussed by the Auditing Standards Board Statement on Auditing Standards No. 114, The Auditor's Communication With Those Charged With Governance;

- received the written disclosure and letter from the Auditors required by the applicable requirements of the Public Company Accounting Oversight Board regarding the Auditors' communications with the audit committee concerning independence and discussed with the Auditors the firm's independence; and

considered whether the provision of services by the Auditors that are not related to the audit of the financial statements referred to above is compatible with maintaining the Auditor's independence.

Based upon these reviews and discussions, the audit committee recommended to the Board that Playboy's audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC. The Board has approved this inclusion.

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Management is responsible for the financial reporting process, including the system of internal controls, and for the preparation of consolidated financial statements in accordance with generally accepted accounting principles. Playboy's independent registered public accounting firm is responsible for auditing those financial statements.

Members of the committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent registered public accounting firm.

Submitted by the audit committee:

David I. Chemerow (Chairman)

Dennis S. Bookshester

Charles Hirschhorn

**TRANSACTIONS WITH MANAGEMENT**

We review all relationships and transactions in which the Company and our directors and executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest. Our legal staff is primarily responsible for the development and implementation of processes and controls to obtain information from the directors and executive officers with respect to related person transactions and for then determining, based on the facts and circumstances, whether the Company or a related person has a direct or indirect material interest in the transaction. As required under SEC rules, transactions that are determined to be directly or indirectly material to the Company or a related person are disclosed in the Company's proxy statement. In addition, the audit committee and compensation committee review and approve or ratify any related person transaction that is required to be disclosed.

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

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

Mr. Hefner's usage of Playboy Mansion services and benefits is recorded through a system initially developed by the professional services firm of PricewaterhouseCoopers LLP, and now administered by us, with appropriate modifications approved by our audit and compensation committees. The lease dated June 1, 1979, as amended, between Mr. Hefner and us renews automatically at December 31<sup>st</sup> each year and will continue to renew unless either

Mr. Hefner or we terminate it. The rent charged to Mr. Hefner during 2008 included the appraised rent and the appraised per-unit value of other benefits, as described above. Within 120 days after the end of our fiscal year, the actual charge for all benefits for that year is finally determined. Mr. Hefner pays or receives credit for any difference between the amount finally determined and the amount he paid over the course of the year. We estimated the sum of the rent and other benefits payable for 2008 to be \$0.7 million, and Mr. Hefner paid that amount during 2008. The actual rent and other benefits paid for 2007 and 2006 were \$0.7 million and \$0.8 million, respectively.

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We purchased the Playboy Mansion in 1971 for \$1.1 million and in the intervening years have made substantial capital improvements at a cost of \$14.3 million through 2008 (including \$2.7 million to bring the Hefner residence accommodations to a standard similar to the Playboy Mansion's common areas). The Playboy Mansion is included in our Consolidated Balance Sheets at December 31, 2008 and 2007, at a net book value of \$1.3 million and \$1.4 million, respectively, including all improvements and after accumulated depreciation. We incur all operating expenses of the Playboy Mansion, including depreciation and taxes, which were \$1.9 million, \$2.8 million and \$2.1 million for 2008, 2007 and 2006, respectively, net of rent received from Mr. Hefner.

Holly Madison, Bridget Marquardt and Kendra Wilkinson, the stars of *The Girls Next Door* on E! Entertainment Television, resided in the mansion with Mr. Hefner in 2008. The value of rent, food and beverage and other personal benefits for the use of the Playboy Mansion by Ms. Madison, Ms. Marquardt and Ms. Wilkinson was charged to Alta Loma Entertainment, our production company. The aggregate amount of these charges in 2008 was \$0.4 million. In addition, Ms. Madison, Ms. Marquardt and Ms. Wilkinson each receive payments for services rendered on our behalf, including appearance fees.

## **OTHER INFORMATION**

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our officers and directors and persons who own more than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than 10% beneficial owners are required by SEC regulations to furnish us with copies of all Section 16(a) forms that they file. Based solely on our review of the copies of the forms we have received and on written representations from certain reporting persons that no other reports were required during 2008, all of our officers, directors and greater than 10% beneficial owners complied with their Section 16(a) filing requirements, except that Messrs. Hefner, Rosenzweig and Shapiro each filed a late report on Form 4 reporting one transaction.

### **Stockholder Proposals for the 2009 Annual Meeting**

If you wish to submit a proposal for us to consider for inclusion in our 2010 proxy materials and for presentation at our 2010 Annual Meeting of Stockholders, you must send the proposal so that we receive it no later than November 30, 2009, unless the 2010 Annual Meeting will be held on a date that is more than 30 days before or after May 13, 2010, the anniversary of the date of the 2009 Annual Meeting, in which case we must receive your proposal within a reasonable time before we distribute the proxy materials for the 2010 Annual Meeting. Stockholder proposals to be presented at our 2010 Annual Meeting of Stockholders that are not intended to be considered for inclusion in our 2010 proxy materials must be received by us no later than February 12, 2010 and must otherwise comply with the applicable requirements set forth in our bylaws. Stockholder proposals received after that date will be considered untimely. Proposals should be addressed c/o Secretary, Playboy Enterprises, Inc., 680 North Lake Shore Drive, Chicago, Illinois 60611. We recommend that you send your stockholder proposals via certified mail, return receipt requested, so that you will have confirmation of the date we received your proposal.

### **Expenses of Solicitation**

We are soliciting proxies primarily over the Internet and by mail, but we may also solicit proxies personally and by telephone calls placed by our officers and employees (without additional compensation). We will bear the expenses of all solicitations, which may also include the reimbursement of brokerage firms, nominees, custodians and fiduciaries for their out-of-pocket expenses incurred in forwarding proxy materials to beneficial owners of our common stock and seeking instruction from those beneficial owners with respect to the proxy materials.

## Other Business

As of the date of these proxy materials, management knows of no other business that will be presented for consideration at the Annual Meeting.

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## Appendix A

### **THIRD AMENDED AND RESTATED PLAYBOY ENTERPRISES, INC. 1995 STOCK INCENTIVE PLAN (as amended through May 13, 2009)**

Playboy Enterprises, Inc., a corporation organized under the laws of the State of Delaware (the Company), hereby adopts this Third Amended and Restated Playboy Enterprises, Inc. 1995 Stock Incentive Plan.

The purposes of this Plan are as follows:

- (1) To further the growth, development and financial success of the Company by providing additional incentives to certain of its key employees through the ownership of Company stock and/or rights which recognize such growth, development and financial success.
- (2) To enable the Company to obtain and retain the services of key employees considered essential to the long-range success of the Company by providing and offering them an opportunity to own stock in the Company and/or rights which will reflect the growth, development and financial success of the Company.

### **ARTICLE I DEFINITIONS**

Whenever the following terms are used in this Plan they shall have the meaning specified below, unless the context clearly indicates otherwise.

Section 1.1 Board. Board shall mean the Board of Directors of the Company.

Section 1.2 Change of Control. Change of Control shall mean the occurrence of any of the following events: (i) except in a transaction described in clause (iii) below, Hugh M. Hefner, Christie Hefner, the Hugh M. Hefner 1991 Trust (for so long as Hugh M. Hefner and Christie Hefner are joint trustees or one of them is sole trustee), and the Hugh M. Hefner Foundation (for so long as Hugh M. Hefner and Christie Hefner are joint trustees or one of them is sole trustee) cease collectively to own a majority of the total number of votes that may be cast for the election of directors of the Company; or (ii) a sale of Playboy magazine by the Company; or (iii) the liquidation or dissolution of the Company, or any merger, consolidation or other reorganization involving the Company unless (x) the merger, consolidation or other reorganization is initiated by the Company, and (y) is one in which the stockholders of the Company immediately prior to such reorganization become the majority stockholders of a successor or ultimate parent corporation of the Company resulting from such reorganization and (z) in connection with such event, provision is made for an assumption of outstanding Options and rights or a substitution thereof of a new Option or right in such successor or ultimate parent of substantially equivalent value.

Section 1.3 Code. Code shall mean the Internal Revenue Code of 1986, as amended.

Section 1.4 Committee. Committee shall mean a committee of the Board of Directors comprised of persons who are both non-employee directors within the meaning of Rule 16b-3 which has been adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, as such rule or its equivalent is then in effect ( Rule 16b-3 ) and outside directors within the meaning of Section 162(m) of the Code.

Section 1.5 Common Stock. Common Stock shall mean Class B Common Stock, par value \$.01 per share, of the Company.

Section 1.6 Company. Company shall mean Playboy Enterprises, Inc., a Delaware corporation.

Section 1.7 Deferred Stock. Deferred Stock shall mean Common Stock awarded under Article VIII of the Plan.

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Section 1.8 Director. Director shall mean a member of the Board.

Section 1.9 Employee. Employee shall mean any officer or other employee (as defined in accordance with the Regulations and Revenue Rulings then applicable under Section 3401(c) of the Code) of the Company or any Subsidiary.

Section 1.10 ERISA. ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended.

Section 1.11 Exchange Act. Exchange Act shall mean the Securities Exchange Act of 1934, as amended.

Section 1.12 Grantee. Grantee shall mean an Employee granted a Performance Award, Stock Payment, Section 162(m) Performance Award, Section 162(m) Stock Payment, or an award of Deferred Stock or Section 162(m) Deferred Stock, under this Plan.

Section 1.13 Incentive Stock Option. Incentive Stock Option shall mean an Option which conforms to the applicable provisions of Section 422 of the Code and which is designated as an Incentive Stock Option by the Committee.

Section 1.14 Non-Qualified Option. Non-Qualified Option shall mean an Option which is not designated as an Incentive Stock Option by the Committee.

Section 1.15 Officer. Officer shall mean an officer of the Company.

Section 1.16 Option. Option shall mean a stock option granted under Article III of this Plan. An Option granted under this Plan shall, as determined by the Committee, be either a Non-Qualified Stock Option or an Incentive Stock Option.

Section 1.17 Optionee. Optionee shall mean an Employee to whom an Option is granted under the Plan.

Section 1.18 Performance Award. Performance Award shall mean a cash bonus, stock bonus or other performance or incentive award that is paid in cash, Common Stock or a combination of both, awarded under Article VIII of this Plan.

Section 1.19 Performance Criteria. Performance Criteria shall mean objective performance criteria established pursuant to this Plan with respect to awards of Section 162(m) Restricted Stock, Section 162(m) Performance Awards, Section 162(m) Stock Payments and Section 162(m) Deferred Stock. Performance Criteria shall be measured in terms of one or more of the following objectives, described as such objectives relate to corporation-wide objectives or objectives that are related to the performance of the individual Employee or of the Subsidiary, division, department or function with the Company or Subsidiary in which the participant is employed:

- (i) market value;
- (ii) book value;
- (iii) earnings per share;
- (iv) market share;
- (v) operating profit;
- (vi) net income;
- (vii) cash flow;
- (viii) return on capital;

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- (ix) return on assets;
- (x) return on equity;
- (xi) margins;
- (xii) shareholder return;
- (xiii) sales or product volume growth;
- (xiv) productivity improvement; or
- (xv) costs or expenses.

Each grant of Section 162(m) Restricted Stock, Section 162(m) Performance Awards, Section 162(m) Stock Payments, and Section 162(m) Deferred Stock shall specify the Performance Criteria to be achieved, a minimum acceptable level of achievement below which no payment or award will be made, and a formula for determining the amount of any payment or award to be made if performance is at or above the minimum acceptable level but fall short of full achievement of the specified Performance Criteria.

If the Committee determines that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances render the Performance Criteria to be unsuitable, the Committee may modify such Performance Criteria or the related minimum acceptable level of achievement, in whole or in part, as the Committee deems appropriate and equitable; provided, however, that no such modification shall be made if the effect would be to cause the award to fail to qualify for the performance-based compensation exception to Section 162(m) of the Code. In addition, at the time the award subject to Performance Criteria is made and performance goals established, the Committee is authorized to determine the manner in which the Performance Criteria will be calculated or measured to take into account certain factors over which the Employees have no or limited control including market related changes in inventory value, changes in industry margins, changes in accounting principles, and extraordinary changes to income.

Section 1.20 Plan. Plan shall mean the Third Amended and Restated Playboy Enterprises, Inc. 1995 Stock Incentive Plan.

Section 1.21 Restricted Stock. Restricted Stock shall mean Common Stock awarded under Article VII of this Plan.

Section 1.22 Restricted Stockholder. Restricted Stockholder shall mean an Employee granted an award of Restricted Stock under Article VI of this Plan.

Section 1.23 Secretary. Secretary shall mean the Secretary of the Company.

Section 1.24 Section 162(m) Deferred Stock. Section 162(m) Deferred Stock shall mean Common Stock awarded under Article IX of this Plan.

Section 1.25 Section 162(m) Performance Award. Section 162(m) Performance Award shall mean a cash bonus, stock bonus, or other performance or incentive award that is paid in cash, Common Stock or a combination of both, awarded under Article IX of this Plan.

Section 1.26 Section 162(m) Restricted Stock. Section 162(m) Restricted Stock shall mean Common Stock awarded under Section VII of this Plan.

Section 1.27 Section 162(m) Restricted Stockholder. Section 162(m) Restricted Stockholder shall mean an Employee granted an award of Section 162(m) Restricted Stock under Article VII of this Plan.

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**Section 1.28 Section 162(m) Stock Payment.** Section 162(m) Stock Payment shall mean (i) a payment in the form of Common Stock, or (ii) an option or other right to purchase shares of Common Stock, as part of a deferred compensation arrangement, made in lieu of all or any portion of the compensation, including without limitation, salary, bonuses and commissions, that would otherwise become payable to a Key Employee (as defined in Section 3.3(i)) in cash, awarded under Article IX of this Plan.

**Section 1.29 Securities Act.** Securities Act shall mean the Securities Act of 1933, as amended.

**Section 1.30 Stock Payment.** Stock Payment shall mean (i) a payment in the form of shares of Common Stock, or (ii) an option or other right to purchase shares of Common Stock, as part of a deferred compensation arrangement, made in lieu of all or any portion of the compensation, including without limitation, salary, bonuses and commissions, that would otherwise become payable to a Key Employee (as defined in Section 3.3(i)) in cash, awarded under Article VIII of this Plan.

**Section 1.31 Subsidiary.** Subsidiary shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

**Section 1.32 Termination of Employment.** Termination of Employment shall mean the time when the employee-employer relationship between the Optionee, Grantee, Restricted Stockholder, or Section 162(m) Restricted Stockholder and the Company or any Subsidiary is terminated, voluntarily or involuntarily, for any reason, with or without Cause (as defined below), including, but not by way of limitation, a termination by resignation, discharge, death, disability or retirement, but excluding any termination where there is a simultaneous reemployment by the Company or a Subsidiary. The Committee, subject to the definition of Cause below, shall determine the effect of all other matters and questions relating to Termination of Employment, including, but not by way of limitation, the question of whether particular leaves of absence constitute Terminations of Employment; provided, however, that, with respect to Incentive Stock Options, a leave of absence shall constitute a Termination of Employment if, and to the extent that, such leave of absence interrupts employment for the purposes of Section 422(a)(2) of the Code and the then applicable regulations and revenue rulings under said Section. For purposes of the Plan, Cause shall mean an Employee's (a) gross negligence in the performance of the responsibilities of such Employee's office or position; (b) any act of dishonesty or moral turpitude materially adversely affecting the Company or the Company's reputation; (c) commission of any other willful or intentional act that could reasonably be expected to injure materially the reputation, business or business relationships of the Company or any Subsidiary; or (d) conviction of a felony or of any crime involving moral turpitude, fraud or misrepresentation.

## **ARTICLE II**

### **SHARES SUBJECT TO PLAN**

**Section 2.1 Shares Subject to Plan.** (a) The shares of stock subject to Options, or awards of Restricted Stock, Section 162(m) Restricted Stock, Performance Awards, Section 162(m) Performance Awards, Deferred Stock, Section 162(m) Deferred Stock, Stock Payments, or Section 162(m) Stock Payments shall be Common Stock. The aggregate number of shares which may be issued upon exercise of such Options or rights or upon any such awards under the Plan shall not exceed 9,703,000 shares of Common Stock.

(b) The maximum number of shares of Common Stock which may be subject to Options, rights or other awards granted under the Plan to any Employee in any calendar year shall not exceed 650,000, and the method of counting such shares shall conform to any requirements applicable to performance-based compensation under Section 162(m) of the Code. The shares of Common Stock issuable upon exercise of such Options or rights or upon any such awards may be either previously authorized but unissued shares or treasury shares.

(c) With regard to Section 162(m) Performance Awards that are cash bonuses or other performance or incentive awards expressed as cash awards (without regard to whether such bonuses or awards are ultimately paid in the form of cash, stock, or a combination of both as described in Section 7.7A), an Employee may not be granted during any calendar year such Section 162(m) Performance Awards in an amount in excess of \$1,000,000.

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Section 2.2 Unexercised Options and Awards. If any Option, or other right to acquire shares of Common Stock under any other award under this Plan, expires or is cancelled without having been fully exercised (including Restricted Stock, Section 162(m) Restricted Stock or any other award that is forfeited before applicable vesting requirements are met or transfer restrictions have lapsed), the number of shares subject to such Option or other right but as to which such Option or other right was not exercised (or vested or delivered without restriction, as the case may be) prior to its expiration or cancellation may again be optioned, granted or awarded hereunder, subject to the limitations of Section 2.1.

Section 2.3 Adjustments in Outstanding Options or Rights. Subject to Section 4.2(c), in the event that the outstanding shares of the Common Stock subject to Options or other rights are changed into or exchanged for a different number or kind of shares of the Company or other securities of the Company by reason of a recapitalization, reclassification, stock split, stock dividend or combination of shares or similar transaction, the Committee shall make an appropriate and equitable adjustment in the number and kind of shares as to which all outstanding Options or rights, or portions thereof then unexercised, shall be exercisable, so that the Optionee s, Grantee s, Restricted Stockholder s or Section 162(m) Restricted Stockholder s proportionate interest shall be maintained. Such adjustment shall be made without change in the total price applicable to the unexercised portion of the Option or right (except for any change in the aggregate price resulting from rounding-off of share quantities or prices) and with any necessary corresponding adjustment in price per share; provided, however, that, pursuant to Treasury Regulation Section 1.409A-1(b)(5)(v)(D), no such adjustment shall cause an existing Option to be treated as a new Option, and, in the case of Incentive Stock Options, each such adjustment shall be made in such manner as not to constitute a modification within the meaning of Code Section 424(h)(3). Any such adjustment made by the Committee shall be final and binding upon all Optionees, Grantees, Restricted Stockholders, Section 162(m) Restricted Stockholders, the Company or any Subsidiary, their representatives and all other interested persons. Such adjustments will also be made in determining Section 2.1 limitations on maximum number and kind of shares which may be issued on exercise of Options, Restricted Stock, Section 162(m) Restricted Stock or other awards. The shares of Class B Common Stock reserved under this Plan will be reduced as Options, Restricted Stock, Section 162(m) Restricted Stock or other awards are granted or issued so that the aggregate number of any single Class of Stock will never exceed the total amount of shares authorized under the Plan.

## **ARTICLE III GRANTING OF OPTIONS**

Section 3.1 Eligibility. Any Key Employee (as defined in Section 3.3(i)) of the Company or a Subsidiary except Hugh M. Hefner shall be eligible to be granted Options.

Section 3.2 Qualification of Incentive Stock Options. No Incentive Stock Option shall be granted unless such Option, when granted, qualifies as an incentive stock option under Section 422 of the Code. Without limitation of the foregoing, no person shall be granted an Incentive Stock Option under this Plan if such person, at the time the Incentive Stock Option is granted, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company unless such Incentive Stock Option conforms to the applicable provisions of Section 422 of the Code.

Section 3.3 Granting of Options. (a) The Committee shall from time to time, in its absolute discretion:

- (i) Determine which Employees are Key Employees and select from among the Key Employees (including those to whom Options and/or rights have been previously granted under the Plan or any other stock option or other plan of the Company) such of them as in its opinion should be granted Options; and
- (ii) Determine for each Employee the number of shares to be subject to such Options; and
- (iii) Determine whether such Options are to be Incentive Stock Options or Non-Qualified Options; and
- (iv) Determine the terms and conditions of such Options, consistent with the Plan.

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(b) Upon the selection of a Key Employee (as defined in Section 3.3(i)) to be granted an Option, the Committee shall instruct the Secretary or other authorized officer to execute and deliver a Stock Option Agreement, and may impose such conditions on the grant of such Option as it deems appropriate, not inconsistent with this Plan. Without limiting the generality of the preceding sentence, the Committee may, in its discretion and on such terms as it deems appropriate, require as a condition on the grant of an Option to an Employee that the Employee surrender for cancellation some or all of the unexercised Options, awards of Restricted Stock, Section 162(m) Restricted Stock, Deferred Stock or Section 162(m) Deferred Stock, Performance Awards, Section 162(m) Performance Awards, Stock Payments or Section 162(m) Stock Payments or other rights which have been previously granted to him. An Option, the grant of which is conditioned upon such surrender, may have an Option price lower (or higher) than the Option price of the surrendered Option, may cover the same (or a lesser or greater) number of shares as the surrendered Option, may contain such other terms as the Committee deems appropriate and be exercised in accordance with its terms, without regard to the number of shares, price, option period or any other term or condition of such surrendered Option or award.

(c) Stock Option Agreements evidencing Incentive Stock Options shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 422 of the Code. Any Incentive Stock Option granted under this Plan may be modified by the Committee to disqualify such option from treatment as an incentive stock option under Section 422 of the Code.

(d) Options granted hereunder shall be consideration for the future performance of services by the Optionee to the Company or a Subsidiary, as applicable.

## **ARTICLE IV TERMS OF OPTIONS**

Section 4.1 Option Price. (a) The price of the shares subject to each Non-Qualified Option shall not be less than 100% of the fair market value of such shares at the end of the business day upon which such Option is granted.

(b) For purposes of the Plan, the fair market value ( Fair Market Value ) of a share of the Company's Common Stock as of a given date shall be: (i) the closing price of a share of such class of the Company's Common Stock on the principal exchange on which shares of the Company's Common Stock are then trading, if any, on such date, or, if shares were not traded on such date, then on the next subsequent trading day during which a sale occurs; or (ii) if such Common Stock is not traded on an exchange but is quoted on NASDAQ or a successor quotation system, (1) the last sales price (if the Company's Common Stock is then listed as a National Market Issue under the NASD National Market System) or (2) the mean between the closing representative bid and asked prices (in all other cases) for the Company's Common Stock on such date as reported by NASDAQ or such successor quotation system; or (iii) if such Common Stock is not publicly traded on an exchange and not quoted on NASDAQ or a successor quotation system, the mean between the closing bid and asked prices for the Company's Common Stock, on such date, as determined in good faith by the Committee; or (iv) if the Company's Common Stock is not publicly traded, the fair market value established by the Committee acting in good faith and, in all instances, established pursuant to Treasury Regulation Section 1.409A-1(b)(5)(iv)(B).

(c) The price of the shares subject to Incentive Stock Options shall not be less than the greater of (i) 100% of the Fair Market Value of a share of Common Stock on the date the Incentive Stock Option is granted, or (ii) 110% of the Fair Market Value of a share of Common Stock on the date such Incentive Stock Option is granted in the case of an individual then owning (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary.

Section 4.2 Commencement of Exercisability; Change of Control. (a) Subject to the provisions of Sections 4.2(b) and 11.3, Options shall become exercisable at such times and in such installments (which may be cumulative) as the Committee shall provide in the terms of each individual Option; provided, however, that by a resolution adopted after an Option is granted the Committee may, on such terms and conditions as it may determine to be appropriate and subject to Sections 4.2 and 11.3, accelerate the time at which such Option or any portion thereof may be exercised; provided further, however, that all outstanding Options shall become fully vested and exercisable as of immediately prior to a Change of Control.



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(b) No portion of an Option which is unexercisable at Termination of Employment shall thereafter become exercisable, except as may be otherwise provided by the Committee either in the Stock Option Agreement or in a resolution adopted following the grant of the Option. Except as limited by requirements of Section 422 of the Code and regulations and rulings thereunder applicable to Incentive Stock Options, the Committee may extend the term of any outstanding Option in connection with any Termination of Employment of the Optionee, or amend any other term or condition of such Option relating to such a termination.

(c) To the extent that the aggregate Fair Market Value of stock with respect to which incentive stock options (within the meaning of Section 422 of the Code, but without regard to Section 422(d) of the Code) are exercisable for the first time by an Optionee during any calendar year (under the Plan and all other incentive stock option plans of the Company and any subsidiary) exceeds \$100,000, such Options shall be treated as Non-Qualified Options to the extent required by Section 422 of the Code. The rule set forth in the preceding sentence shall be applied by taking Options into account in the order in which they were granted. For purposes of this Section 4.2(c), the Fair Market Value of stock shall be determined as of the time the Option with respect to such stock is granted.

Section 4.3 Expiration of Options. (a) Unless an Option expires earlier or later pursuant to the terms of a Stock Option Agreement, each Option may be exercised any time until the first of the following events, after which such Option will become unexercisable:

- (i) The expiration of ten (10) years from the date the Option was granted if the Employee is still employed by the Company or any Subsidiary; or
- (ii) The expiration of three (3) months from the Employee's Termination of Employment if such Termination of Employment results from such Employee's retirement or such Employee's being discharged not for Cause, unless the Employee dies within said three-month period; or
- (iii) The effective date of (i) a Termination of Employment for Cause, (ii) the Employee's resignation, or (iii) a Change of Control specified in clause (iii) of the definition of such term; or
- (iv) In the case of an Optionee who is disabled (within the meaning of Section 22(e)(3) of the Code), the expiration of one (1) year from the date of the Optionee's Termination of Employment; provided, however, that subsection (iv) shall not apply if the Optionee dies within said one-year period; or
- (v) One (1) year from the date of the Optionee's death.

(b) Subject to the provisions of Section 4.3(a), the Committee shall provide, in the terms of each individual Option, when such Option expires and becomes unexercisable; and (without limiting the generality of the foregoing) the Committee may provide in the terms of individual Options that said Options expire immediately upon a Termination of Employment for any reason.

(c) The term of any Incentive Stock Option shall not be more than five (5) years from such date if the Incentive Stock Option is granted to an individual then owning (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of capital stock of the Company or any Subsidiary.

Section 4.4 No Right to Continued Employment. Nothing in this Plan or in any Stock Option Agreement hereunder shall confer upon any Optionee any right to continue in the employ of the Company or any Subsidiary or as a director of the Company, or shall interfere with or restrict in any way the rights of the Company and any of its Subsidiaries, which are hereby expressly reserved, to discharge any Optionee at any time for any reason whatsoever, with or without Cause.

Section 4.5 Reload Options. Options may, in the discretion of the Committee, be granted under the Plan to permit a participant to reacquire any shares such participant delivered to the Company as payment of the exercise price (as described in Section 5.3) in connection with the exercise of an Option hereunder or to reacquire any shares retained by the Company to satisfy the participant's withholding obligation in connection with the exercise of an Option hereunder (a Reload Option). The terms of a Reload Option shall be identical in all material respects to the terms

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of the Option as to which such Reload Option was granted, provided however, that the exercise price for each share granted under the Reload Option shall be the Fair Market Value of a share at the time such Reload Option is granted.

**ARTICLE V**

**EXERCISE OF OPTIONS**

Section 5.1 Person Eligible to Exercise. (a) Subject to 5.1(b), during the lifetime of an Optionee, only such Optionee may exercise an Option (or any portion thereof) granted to such Optionee. After the death of the Optionee, any exercisable portion of an Option may, within the time frame allowed, be exercised by his personal representative or by any person empowered to do so under the deceased Optionee's will or under the then applicable laws of descent and distribution. To the extent Rule 16b-3 as then in effect permits transfers of Options, the Committee may approve such transfers in its discretion.

(b) Should the Optionee be determined under applicable law to have become a disabled person or the equivalent thereof, the then-vested portion of the Option may, prior to the time when such Option becomes unexercisable pursuant to the Plan or the applicable Stock Option Agreement, be exercised by the Optionee's guardian or by any other person empowered to do so under the then applicable laws of guardianship. For purposes of this section 5.1(b), disabled person shall mean a person who (i) because of mental deterioration or physical incapacity is not fully able to manage such person's person or estate or (ii) is mentally ill and who because of such person's mental illness is not fully able to manage such person's person or estate.

Section 5.2 Partial Exercise. An exercisable Option may be exercised in whole or in part. However, an Option shall not be exercisable with respect to fractional shares and the Committee may require that, by terms of the Option, a partial exercise be with respect to a number of shares.

Section 5.3 Manner of Exercise. All or a portion of an exercisable Option shall be deemed exercised upon delivery of all of the following to the Secretary of the Company or the Secretary's office:

(a) A written notice signed by the Optionee (or other person then entitled to exercise such Option or portion), stating that such Option or portion thereof is being exercised and such notice complies with all applicable rules established by the Committee; and

(b) Payment in full for the exercised shares:

(i) In cash or by certified or cashier's check; or

(ii) In shares of the same class of the Company's Common Stock owned by the Optionee; provided, however, that the Optionee may use Common Stock in payment of the exercise price only if the shares so used are considered mature for purposes of generally accepted accounting principles, i.e., (x) they have been held by the Optionee free and clear for at least six months prior to the use thereof to pay part of an Option exercise price, (y) they have been purchased by the Optionee in other than a compensatory transaction, or (z) they meet any other requirements for mature shares as may exist on the date of the use thereof to pay part of an Option exercise price, as determined by the Committee; further provided, however, that the Optionee may use Common Stock in payment of the exercise price by means of attestation to the Company of his ownership of sufficient shares in a manner reasonably acceptable to the Committee. Shares actually delivered to the Company (i.e., shares for which the attestation mechanism is not used) must be duly endorsed for transfer to the Company. Shares used to pay all or part of the Option exercise price pursuant to this provision will be credited at their Fair Market Value on the date of delivery; or

(iii) With the consent of the Committee and at the sole discretion of the Company, by a full recourse promissory note bearing interest (at no less than such rate as shall then preclude the imputation of interest under the Code or successor provision) and payable upon such terms as may be prescribed by the Committee. The Committee may also prescribe the form of such note and the security to be given for such note. No Option may, however, be exercised by

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delivery of a promissory note or by a loan from the Company when or where such loan or other extension of credit is prohibited by law; or

(iv) With the consent of the Committee and at the sole discretion of the Company, by a net exercise via the forfeiture to the Company of a portion of the Option pertaining to shares with a value (based on the Fair Market Value of such underlying Option shares on the date of forfeiture) equal to the exercise price of the portion of the Option being exercised plus the applicable tax withholding amount; or

(v) Any combination of the consideration provided in the foregoing subsections (i), (ii), (iii) and (iv); or

(vi) To the extent permitted by law (including then existing interpretations of Rule 16b-3) a cashless exercise procedure satisfactory to the Committee which permits the Optionee to deliver an exercise notice to a broker-dealer, who then sells the Option shares, delivers the exercise price and withholding taxes to the Company and delivers the excess funds less commission and withholding taxes to the Optionee; and

(c) Such representations and documents as the Committee, in its absolute discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act and any other federal or state securities laws or regulations. The Committee may, in its absolute discretion, also take whatever additional actions it deems appropriate to effect such compliance including, without limitation, placing legends on share certificates and issuing stop-transfer orders to transfer agents and registrars; and

(d) Appropriate proof of the right of such person or persons to exercise the option or portion thereof in the event that the Option or portion thereof shall be exercised pursuant to Section 5.1 by any person or persons other than the Optionee; and

(e) Full payment of all amounts which, under federal, state or local law, it is required to withhold upon exercise of the Option. With the consent of the Committee, shares of the Company's Common Stock owned by the Employee duly endorsed for transfer or shares of the Company's Common Stock issuable to the Employee upon exercise of the Option, valued in accordance with Section 4.1(b) of the Plan at the date of Option exercise, may be used to make all or part of such payment.

**Section 5.4 [RESERVED]**

**Section 5.5 Additional Conditions to Issuance of Stock Certificates.** The shares of Common Stock deliverable upon the exercise of an Option shall be fully paid and non-assessable. In addition to satisfaction of the conditions specified in Section 5.3, the Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of any Option or portion thereof prior to fulfillment of all of the following conditions:

(a) The completion of any registration or other qualification of such shares under any state or federal law or under the rulings or regulations of the Securities and Exchange Commission or of any other governmental regulatory body, which the Committee shall, in its absolute discretion, deem necessary or advisable; and

(b) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee shall, in its absolute discretion, determine to be necessary or advisable; and

(c) The lapse of such reasonable period of time following the exercise of the Option as the Committee or Board may establish from time to time for reasons of administrative convenience.

**Section 5.6 Rights as Stockholders.** The holders of Options shall not be, nor have any of the rights or privileges of, stockholders of the Company in respect of any shares purchasable upon the exercise of any part of an Option unless and until certificates representing such shares have been issued by the Company to such holders or the Company's stock record books reflect the Optionee as a stockholder pursuant to any book entry procedure approved by the Secretary.

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The Committee, in its absolute discretion, may impose such other restrictions on the transferability of the shares purchasable upon the exercise of an Option as it deems appropriate. Any such other restriction shall be set forth in the respective Stock Option Agreement and may be referred to on the certificates evidencing such shares. The Committee may require the Employee to give the Company prompt notice of any disposition of shares of Common Stock, acquired by exercise of an Incentive Stock Option, within (i) two years from the date of granting such Option or (ii) one year after the transfer of such shares to such Employee. The Committee may direct that the certificates evidencing shares acquired by exercise of an Option refer to such requirement to give prompt notice of disposition.

**ARTICLE VI**

**AWARD OF RESTRICTED STOCK**

Section 6.1 Award of Restricted Stock. (a) The Committee shall from time to time, in its absolute discretion:

(i) Select from among the Key Employees (as defined in Section 3.3(i)) (including Employees who have previously received other awards under this Plan or any other stock option plan of the Company) such of them as in its opinion should be awarded Restricted Stock; and

(ii) Determine the purchase price, if any, and other terms and conditions applicable to such Restricted Stock, consistent with this Plan.

(b) In all cases, legal consideration meeting the requirements of Delaware law shall be required for each issuance of Restricted Stock.

(c) Upon the selection of a Key Employee (as defined in Section 3.3(i)) to be awarded Restricted Stock, the Committee shall instruct the Secretary of the Company to issue such Restricted Stock and may impose such conditions on the issuance of such Restricted Stock as it deems appropriate.

Section 6.2 Restricted Stock Agreement. Restricted Stock shall be issued only pursuant to a written Restricted Stock Agreement, which shall be executed by the selected Key Employee (as defined in Section 3.3(i)) and an authorized officer of the Company and which shall contain such terms and conditions as the Committee shall determine, consistent with this Plan.

Section 6.3 No Right to Continued Employment. Nothing in this Plan or in any Restricted Stock Agreement hereunder shall confer on any Restricted Stockholder any right to continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and any Subsidiary, which are hereby expressly reserved, to discharge any Restricted Stockholder at any time for any reason whatsoever, with or without good cause.

Section 6.4 Rights as Stockholders. Upon delivery of any shares of Restricted Stock that are certificated to the escrow holder pursuant to Section 6.7, and upon issuance thereof, if uncertificated, the Restricted Stockholder shall have, unless otherwise provided by the Committee, all the rights of a stockholder with respect to said shares, subject to the restrictions in the Restricted Stock Agreement, including the right to receive all dividends and other distributions paid or made with respect to the shares; provided, however, that in the discretion of the Committee, any extraordinary distribution with respect to the Common Stock shall be subject to the restrictions set forth in Section 6.5.

Section 6.5 Restrictions. All shares of Restricted Stock issued under this Plan (including any shares received by holders thereof with respect to shares of Restricted Stock as a result of stock dividends, stock splits or any other form of recapitalization) shall, in the terms of each individual Restricted Stock Agreement, be subject to such restrictions as the Committee shall provide, which restrictions may include, without limitation, restrictions concerning voting rights and transferability and restrictions based on duration of employment with the Company or a Subsidiary, Company performance, individual performance, or a change of control; provided, however, that by a resolution adopted after the Restricted Stock is issued, the Committee may, on such terms and conditions as it may determine to be appropriate, remove any or all of the restrictions imposed by the terms of the Restricted Stock Agreement. Restricted Stock may not be sold or encumbered until all restrictions are terminated or expire. Unless



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provided otherwise by the Committee, if no consideration (other than services) was paid by the Restricted Stockholder upon issuance, a Restricted Stockholder's rights in unvested Restricted Stock shall lapse upon Termination of Employment for any reason at any time or prior to any date the Committee may establish.

Section 6.6 Repurchase of Restricted Stock. If consideration (other than services) was paid for Restricted Stock, the Committee shall provide in the terms of each individual Restricted Stock Agreement that the Company shall have the right to repurchase from the Restricted Stockholder the Restricted Stock then subject to restrictions under the Restricted Stock Agreement immediately upon a Termination of Employment at a cash price per share equal to the price paid by the Restricted Stockholder for such Restricted Stock or such other price as may be specified in the Restricted Stock Agreement; provided, however, that provision may be made in the Restricted Stock Agreement in the Committee's discretion that no such right of repurchase shall exist in the event of a Termination of Employment without Cause, or following a Change in Control of the Company or because of the Restricted Stockholder's retirement, death or disability, or otherwise.

Section 6.7 Escrow. The Secretary of the Company or such other escrow holder as the Committee may appoint shall retain physical custody of each certificate representing Restricted Stock until all of the restrictions imposed under the Restricted Stock Agreement with respect to the shares evidenced by such certificate expire or shall have been removed (or the Secretary shall establish book entry procedures sufficient to prevent unauthorized transfers of the Restricted Stock).

Section 6.8 Legend. In order to enforce the restrictions imposed upon shares of Restricted Stock hereunder, the Committee shall cause a legend or legends to be placed on certificates representing all certificated shares of Restricted Stock that are still subject to restrictions under Restricted Stock Agreements, or stop transfer instructions with respect to book entry procedures, which legend, legends or instructions shall make appropriate reference to the conditions imposed hereby.

**ARTICLE VII**

**AWARD OF SECTION 162(m) RESTRICTED STOCK**

Section 7.1 Award of Section 162(m) Restricted Stock. (a) The Committee shall from time to time, in its absolute discretion:

(i) Select from among the Key Employees (as defined in Section 3.3(i)) (including Employees who have previously received other awards under this Plan or any other stock option plan of the Company) such of them as in its opinion should be awarded Section 162(m) Restricted Stock; and

(ii) Determine the purchase price, if any, and other terms and conditions applicable to such Section 162(m) Restricted Stock, consistent with this Plan.

(b) In all cases, legal consideration meeting the requirements of Delaware law shall be required for each issuance of Section 162(m) Restricted Stock.

(c) Upon the selection of a Key Employee (as defined in Section 3.3(i)) to be awarded Section 162(m) Restricted Stock, the Committee shall instruct the Secretary of the Company to issue such Section 162(m) Restricted Stock and may impose such conditions on the issuance of such Section 162(m) Restricted Stock as it deems appropriate.

Section 7.2 Section 162(m) Restricted Agreement. Section 162(m) Restricted Stock shall be issued only pursuant to a written Section 162(m) Restricted Stock Agreement, which shall be executed by the selected Key Employee (as defined in Section 3.3(i)) and an authorized officer of the Company and which shall contain such terms and conditions as the Committee shall determine, consistent with this Plan.

Section 7.3 No Right to Continued Employment. Nothing in this Plan or in any Section 162(m) Restricted Stock Agreement hereunder shall confer on any Section 162(m) Restricted Stockholder any right to continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and any

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Subsidiary, which are hereby expressly reserved, to discharge any Section 162(m) Restricted Stockholder at any time for any reason whatsoever, with or without good cause.

Section 7.4 Rights as Stockholders. Upon delivery of any shares of Section 162(m) Restricted Stock that are certificated to the escrow holder pursuant to Section 7.7, and upon issuance thereof, if uncertificated, the Section 162(m) Restricted Stockholder shall have, unless otherwise provided by the Committee, all the rights of a stockholder with respect to said shares, subject to the restrictions in the Section 162(m) Restricted Stock Agreement, including the right to receive all dividends and other distributions paid or made with respect to the shares; provided, however, that in the discretion of the Committee, any extraordinary distribution with respect to the Common Stock shall be subject to the restrictions set forth in Section 7.5.

Section 7.5 Restrictions. All shares of Section 162(m) Restricted Stock issued under this Plan (including any shares received by holders thereof with respect to shares of Section 162(m) Restricted Stock as a result of stock dividends, stock splits or any other form of recapitalization) shall, in the terms of each individual Section 162(m) Restricted Stock Agreement, be subject to such restrictions as the Committee shall provide, which restrictions may include, without limitation, restrictions concerning voting rights and transferability. The Section 162(m) Restricted Stock Agreement shall provide that a Section 162(m) Restricted Stockholder's rights in Section 162(m) Restricted Stock shall not vest unless one or more specified Performance Criteria established by the Committee shall have been achieved. Section 162(m) Restricted Stock may not be sold or encumbered until all restrictions are terminated or expire. Unless provided otherwise by the Committee, if no consideration (other than services) was paid by the Section 162(m) Restricted Stockholder upon issuance, a Section 162(m) Restricted Stockholder's rights in unvested Section 162(m) Restricted Stock shall lapse upon Termination of Employment for any reason at any time or prior to any date the Committee may establish.

Section 7.6 Repurchase of Section 162(m) Restricted Stock. If consideration (other than services) was paid for Section 162(m) Restricted Stock, the Committee shall provide in the terms of each individual Section 162(m) Restricted Stock Agreement that the Company shall have the right to repurchase from the Section 162(m) Restricted Stockholder the Section 162(m) Restricted Stock then subject to restrictions under the Section 162(m) Restricted Stock Agreement immediately upon a Termination of Employment at a cash price per share equal to the price paid by the Section 162(m) Restricted Stockholder for such Section 162(m) Restricted Stock or such other price as may be specified in the Section 162(m) Restricted Stock Agreement; provided, however, that provision may be made in the Section 162(m) Restricted Stock Agreement in the Committee's discretion that no such right of repurchase shall exist in the event of a Termination of Employment without Cause, or following a Change in Control of the Company or because of the Section 162(m) Restricted Stockholder's retirement, death or disability, or otherwise.

Section 7.7 Escrow. The Secretary of the Company or such other escrow holder as the Committee may appoint shall retain physical custody of each certificate representing Section 162(m) Restricted Stock until all of the restrictions imposed under the Section 162(m) Restricted Stock Agreement with respect to the shares evidenced by such certificate expire or shall have been removed (or the Secretary shall establish book entry procedures sufficient to prevent unauthorized transfers of the Section 162(m) Restricted Stock).

Section 7.8 Legend. In order to enforce the restrictions imposed upon shares of Section 162(m) Restricted Stock hereunder, the Committee shall cause a legend or legends to be placed on certificates representing all certificated shares of Section 162(m) Restricted Stock that are still subject to restrictions under Section 162(m) Restricted Stock Agreements, or stop transfer instructions with respect to book entry procedures, which legend, legends or instructions shall make appropriate reference to the conditions imposed hereby.

**ARTICLE VIII**

**PERFORMANCE AWARDS, DEFERRED STOCK, STOCK PAYMENTS**

Section 8.1 Performance Award. Any Key Employee (as defined in Section 3.3(i)) selected by the Committee may be granted one or more Performance Awards. The value of such Performance Awards may be linked to the market value, book value, net profits or other measure of the value of Common Stock or other specific Performance Criteria determined to be appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee, or may be based upon the appreciation in the market value, book value, net



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profits or other measure of the value of a specified number of shares of Common Stock over a fixed period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular Key Employee (as defined in Section 3.3(i)).

Section 8.2 Stock Payments. Any Key Employee (as defined in Section 3.3(i)) selected by the Committee may receive Stock Payments in the manner determined from time to time by the Committee. In particular, any person designated by the Committee as a participant in the Company's Key Executive Incentive Bonus Plan (the "Bonus Plan") or under the Company Service Award Program (the "Service Award Program") in accordance with the terms thereof, and whose bonus or service award thereunder is comprised wholly or partially in shares of Common Stock, shall be deemed to have been selected to participate in this Plan, and shall receive such Common Stock denominated bonus as a Stock Payment in accordance with and under the provisions of this Section 8.2. The number of shares shall be determined by the Committee and may be based upon the Fair Market Value, book value, net profits or other measure of the value of Common Stock or other specific Performance Criteria determined appropriate by the Committee, determined on the date such Stock Payment is made or on any date thereafter.

Section 8.3 Deferred Stock. Any Key Employee (as defined in Section 3.3(i)) selected by the Committee may be granted an award of Deferred Stock in the manner determined from time to time by the Committee. The number of shares of Deferred Stock shall be determined by the Committee and may be linked to the market value, book value, net profits or other measure of the value of Common Stock or other specific Performance Criteria, in each case on a specified date or dates or over any period or periods determined by the Committee. Common Stock underlying a Deferred Stock award will not be issued until the Deferred Stock award has vested, pursuant to a vesting schedule or Performance Criteria set by the Committee. Unless otherwise provided by the Committee, a Grantee of Deferred Stock shall have no rights as a Company stockholder with respect to such Deferred Stock until such time as the award has vested and the Common Stock underlying the award has been issued.

Section 8.4 Performance Award Agreement, Deferred Stock Agreement, Stock Payment Agreement. Each Performance Award, Deferred Stock Award and/or Stock Payment shall be evidenced by a written agreement, which shall be executed by the Grantee and an authorized Officer of the Company and which shall contain such terms and conditions as the Committee shall determine, consistent with this Plan.

Section 8.5 Term. The term of a Performance Award Agreement, Deferred Stock Award and/or Stock Payment shall be set by the Committee in its discretion.

Section 8.6 Exercise Upon Termination of Employment. A Performance Award, Deferred Stock Award and/or Stock Payment is payable only while the Grantee is an Employee; provided that the Committee may determine that the Performance Award, Deferred Stock Award and/or Stock Payment will vest immediately upon a Termination of Employment without cause, Change of Control of the Company, or the Grantee's death or disability. In all instances, a Performance Award, Deferred Stock Award and/or Stock Payment shall be paid to the Employee in a lump sum (whether in cash or Common Stock) no later than March 15 of the calendar year following the calendar year in which such award vests.

Section 8.7 Payment. Payment of the amount determined under Section 8.1 above shall be in cash, in Common Stock or a combination of both, as determined by the Committee. To the extent any payment under this Article VIII is effected in Common Stock, it shall be made subject to satisfaction of all provisions of Section 5.5.

Section 8.8 No Right to Continued Employment. Nothing in this Plan or in any agreement hereunder shall confer on any Grantee any right to continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and any Subsidiary, which are hereby expressly reserved, to discharge any Grantee at any time for any reason whatsoever, with or without good cause.

## **ARTICLE IX**

**SECTION 162(m) PERFORMANCE AWARDS, SECTION 162(m) DEFERRED STOCK, SECTION 162(m) STOCK PAYMENTS**

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Section 9.1 Section 162(m) Performance Awards. Any Key Employee (as defined in Section 3.3(i)) selected by the Committee may be granted one or more Section 162(m) Performance Awards. The right to a Section 162(m) Performance Award shall not vest unless one or more specified Performance Criteria established by the Committee shall have been achieved.

Section 9.2 Section 162(m) Stock Payments. Any Key Employee (as defined in Section 3.3(i)) selected by the Committee may be granted one or more Section 162(m) Stock Payments. The right to a Section 162(m) Stock Payment shall not vest unless one or more specified Performance Criteria established by the Committee shall have been achieved.

Section 9.3 Section 162(m) Deferred Stock. Any Key Employee (as defined in Section 3.3(i)) selected by the Committee may be granted an award of Section 162(m) Deferred Stock. An award of Section 162(m) Deferred Stock shall not vest unless one or more specified Performance Criteria established by the Committee shall have been achieved. Common Stock underlying a Section 162(m) Deferred Stock award will not be issued until the Section 162(m) Deferred Stock award has vested. Unless otherwise provided by the Committee, a Grantee of Section 162(m) Deferred Stock shall have no rights as a Company stockholder with respect to such Section 162(m) Deferred Stock until such time as the award has vested and the Common Stock underlying the award has been issued.

Section 9.4 Section 162(m) Performance Award Agreement, Section 162(m) Deferred Stock Agreement, Section 162(m) Stock Payment Agreement. Each Section 162(m) Performance Award, Section 162(m) Deferred Stock Award and/or Section 162(m) Stock Payment shall be evidenced by a written agreement, which shall be executed by the Grantee and an authorized Officer of the Company and which shall contain such terms and conditions as the Committee shall determine, consistent with this Plan.

Section 9.5 Term. The term of a Section 162(m) Performance Award Agreement, Section 162(m) Deferred Stock Award and/or Section 162(m) Stock Payment shall be set by the Committee in its discretion.

Section 9.6 Exercise Upon Termination of Employment. A Section 162(m) Performance Award, Section 162(m) Deferred Stock Award and/or Section 162(m) Stock Payment is exercisable or payable only while the Grantee is an Employee; provided that the Committee may determine that the Section 162(m) Performance Award, Section 162(m) Deferred Stock Award and/or Section 162(m) Stock Payment will vest immediately upon a Change of Control of the Company, or the Grantee's death or disability. In all instances, a Section 162(m) Performance Award, Section 162(m) Deferred Stock Award and/or Section 162(m) Stock Payment shall be paid to the Employee in a lump sum (whether in cash or Common Stock) no later than March 15 of the calendar year following the calendar year in which such award vests.

Section 9.7 Payment. Payment of the amount determined under Section 9.1 above shall be in cash, in Common Stock or a combination of both, as determined by the Committee. To the extent any payment under this Article IX is effected in Common Stock, it shall be made subject to satisfaction of all provisions of Section 5.5.

Section 9.8 No Right to Continued Employment. Nothing in this Plan or in any agreement hereunder shall confer on any Grantee any right to continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and any Subsidiary, which are hereby expressly reserved, to discharge any Grantee at any time for any reason whatsoever, with or without good cause.

## **ARTICLE X ADMINISTRATION**

Section 10.1 Duties and Powers of Committee. It shall be the duty of the Committee to conduct the general administration of the Plan in accordance with its provisions. The Committee shall have the power to interpret the Plan and the agreements pursuant to which Options, awards of Restricted Stock, Deferred Stock, Section 162(m) Restricted Stock or Section 162(m) Deferred Stock, Performance Awards, Stock Payments, Section 162(m) Performance Awards, or Section 162(m) Stock Payments are granted and awarded and to adopt such rules for the administration, interpretation and application of the Plan as are consistent herewith and to interpret, amend or revoke any such rules. Options, awards of Section 162(m) Restricted Stock, Section 162(m) Deferred Stock, Section 162(m)

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Performance Awards and Section 162(m) Stock Payments are intended to qualify as performance-based compensation under Section 162(m) of the Code, and the Committee shall grant or award such Options, rights or other awards in a manner consistent with the rules governing performance-based compensation under Section 162(m) of the Code. Any such interpretations and rules in regard to Incentive Stock Options shall be consistent with the basic purpose of the Plan to grant incentive stock options within the meaning of Section 422 of the Code. In its absolute discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under this Plan except with respect to matters which under Rule 16b-3 or Section 162(m) of the Code, or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Committee.

Section 10.2 Majority Rule. The Committee shall act by a majority of its members in attendance at a meeting at which a quorum is present or by a memorandum or other written instrument signed by all members of the Committee.

Section 10.3 Compensation; Professional Assistance; Good Faith Action. Members of the Committee shall receive such compensation for their services as members as may be determined by the Board. All expenses and liabilities incurred by members of the Committee in connection with the administration of the Plan shall be borne by the Company. The Committee may employ attorneys, consultants, accountants, appraisers, brokers or other persons. The Committee, the Company and its officers and directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon all Optionees, Grantees, Restricted Stockholders, Section 162(m) Restricted Stockholders, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination, or interpretation made in good faith with respect to the Plan or the Options or other awards, and all members of the Committee shall be fully protected by the Company in respect to any such action, determination or interpretation.

## **ARTICLE XI OTHER PROVISIONS**

Section 11.1 Period for Making Award Grants. Awards are permitted to be granted under this Plan for a period ending ten years from the date of stockholder approval which was secured on May 23, 2007.

Section 11.2 Options and Other Rights Are Not Transferable. No Options, Performance Awards, Stock Payments, Section 162(m) Performance Awards, Section 162(m) Stock Payments, Restricted Stock, Section 162(m) Restricted Stock, Deferred Stock Awards or Section 162(m) Deferred Stock Awards or interest under this Plan or part thereof shall be liable for the debts, contracts or engagements of any Optionee, Grantee, Restricted Stockholder or their respective successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect; provided, however, that nothing in this Section 9.1 shall prevent transfers by will, by the applicable laws of descent and distribution or by the approval of the Committee as described in Section 5.1(a) of the Plan.

Section 11.3 Amendment, Suspension or Termination of the Plan; Modification of Options. The Board may at any time terminate the Plan. With the express written consent of an individual participant, the Board or the Committee may cancel or reduce or otherwise alter outstanding Options or other awards. The Board or the Committee may, at any time, or from time to time, amend or suspend and, if suspended, reinstate, the Plan in whole or in part; provided that any such amendment shall be contingent on obtaining the approval of the shareholders of the Company if the Committee determines that such approval is necessary to comply with any requirement of law or any rule of any stock exchange on which the Company's equity securities are traded, or in order for Options or other awards to qualify for an exception from Section 162(m) of the Code (to the extent they would so qualify but for the absence of shareholder approval). Neither the amendment, suspension nor termination of the Plan shall, without the consent of the holder of an Option, Restricted Stock, Section 162(m) Restricted Stock or award, alter or impair any rights or obligations under any such Option, Restricted Stock, Section 162(m) Restricted Stock or award. No Option, Restricted Stock, Section 162(m) Restricted Stock or award may be granted during any period of suspension nor after termination of the Plan, and in no event may any Option be granted under this Plan after the expiration of ten



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years from the date the Plan, as amended on November 29, 2006, is approved by the Company's stockholders under Section 11.4. An Option, Restricted Stock, Section 162(m) Restricted Stock or award shall be subject in all events to the condition that, if at any time the Board shall determine, in its discretion, that the listing, registration or qualification of any of the Company's securities upon any securities exchange or under any law, regulation or other requirement of any governmental authority is necessary or desirable, or that any consent or approval from any governmental authority is necessary or desirable, then the Board may modify the terms of any Option, Restricted Stock, Section 162(m) Restricted Stock or other award granted under the Plan, without the consent of the Optionee, Grantee, Restricted Stockholder or Section 162(m) Restricted Stockholder in any manner which the Board deems necessary or desirable in order to improve the Company's ability to obtain such listing, registration, qualifications, consent or approval.

Section 11.4 Approval of Plan by Stockholders. The Plan shall become effective as of the date of Board approval (the Effective Date), subject to the approval of the Company's stockholders within 12 months after the Effective Date; provided, however, that notwithstanding anything herein or in any award agreement to the contrary, all Section 162(m) Performance Awards, Section 162(m) Stock Payments, Section 162(m) Restricted Stock, and Section 162(m) Deferred Stock awarded prior to such stockholder approval shall be void if such approval has not been obtained at the end of said 12-month period.

Section 11.5 Effect of Plan Upon Other Option and Compensation Plans. The adoption of this Plan shall not affect any other compensation or incentive plans in effect for the Company or any Subsidiary. Nothing in this Plan shall be construed to limit the right of the Company or any Subsidiary (a) to establish any other forms of incentives or compensation for employees of the Company or any Subsidiary or (b) to grant or assume options otherwise than under this Plan in connection with any proper corporate purpose, including, but not by way of limitation, the grant or assumption of options in connection with the acquisition by purchase, lease, merger, consolidation or otherwise, of the business, stock or assets of any corporation, firm or association.

Section 11.6 No Obligation to Register. The Company shall not be deemed, by reason of the granting of any Option or any other award hereunder, to have any obligation to register the shares of Common Stock subject to such Option or award under the Securities Act or to maintain in effect any registration of such shares which may be made at any time under the Securities Act subject to such Option or award under the Securities Act or to maintain in effect any registration of such shares which may be made at any time under the Securities Act.

Section 11.7 Tax Withholding. The Company shall be entitled to require payment in cash or deduction from other compensation payable to each Optionee, Grantee, Restricted Stockholder or Section 162(m) Restricted Stockholder of any sums required by federal, state or local tax law to be withheld with respect to the issuance, vesting or exercise of any Option, Restricted Stock, Deferred Stock, Performance Award, Stock Payment, Section 162(m) Restricted Stock, Section 162(m) Deferred Stock, Section 162(m) Performance Award, or Section 162(m) Stock Payment.

Section 11.8 Limitations Applicable to Section 16 Persons and Performance-Based Compensation. Notwithstanding any other provision of this Plan, any Option, Performance Award, Stock Payment, Section 162(m) Performance Award, or Section 162(m) Stock Payment granted, or Restricted Stock, Deferred Stock, Section 162(m) Restricted Stock, or Section 162(m) Deferred Stock awarded, to a Key Employee (as defined in 3.3(i)) who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule, and this Plan shall be deemed amended to the extent necessary to conform to such limitations. Furthermore, notwithstanding any other provision of this Plan, any Option, right or award intended to qualify as performance-based compensation as described in Section 162(m)(4)(C) of the Code shall be subject to any additional limitations set forth in Section 162(m) of the Code (including any amendment to Section 162(m) of the Code) or any regulations or rulings issued thereunder that are requirements for qualification as performance-based compensation as described in Section 162(m)(4)(C) of the Code, and this Plan shall be deemed amended to the extent necessary to conform to such requirements.

Section 11.9 Compliance with Laws. This Plan, the granting and vesting of Options, Restricted Stock awards, Deferred Stock awards, Performance Awards, Stock Payments, Section 162(m) Restricted Stock awards, Section 162(m) Deferred Stock awards, Section 162(m) Performance Awards, or Section 162(m) Stock Payments under this



Plan and the issuance and delivery of shares of Common Stock and the payment of money under this Plan or under  
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Options, Performance Awards, Stock Payments, Section 162(m) Performance Awards, or Section 162(m) Stock Payments granted or Restricted Stock, Deferred Stock, Section 162(m) Restricted Stock, or Section 162(m) Deferred Stock awarded hereunder are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities laws and federal requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. Any securities delivered under this Plan shall be subject to such restrictions, and the person acquiring such securities shall, if requested by the Company, provide such assurances and representations to the Company as the Company may deem necessary or desirable to assure compliance with all applicable legal requirements. To the extent permitted by applicable law, the Plan, Options, Restricted Stock awards, Deferred Stock awards, Performance Awards, Stock Payments, Section 162(m) Restricted Stock awards, Section 162(m) Deferred Stock awards, Section 162(m) Performance Awards, or Section 162(m) Stock Payments granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

Section 11.10 Noncompetition Provisions. The Committee, as a condition of issuing any award under the Plan, may include in any agreement evidencing such award such noncompetition and/or nonsolicitation provisions as it may deem appropriate, in its sole discretion, and any award containing such provisions shall not be effective until and unless the grantee thereof acknowledges by written consent his or her obligation to be bound thereby.

Section 11.11 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of the Plan.

Section 11.12 Governing Law. The laws of the State of Delaware shall govern the interpretation, validity, administration, enforcement and performance of the terms of this Agreement regardless of the law that might be applied under principles of conflicts of laws.

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**Appendix B**

**SECOND AMENDED AND RESTATED  
1997 EQUITY PLAN FOR NON-EMPLOYEE  
DIRECTORS OF PLAYBOY ENTERPRISES, INC.**

(as amended through May 13, 2009)

1. Purpose. The purposes of the Plan are:

(a) to promote the growth and long-term success of Playboy Enterprises, Inc., a Delaware corporation (the Company), by offering Non-Employee Directors the ability to acquire Common Stock of the Company;

(b) to enable the Company to attract and retain qualified persons to serve as Non-Employee Directors, which services are considered essential to the long-term success of the Company, by offering them an opportunity to own Common Stock of the Company; and

(c) to more closely align the interests of Non-Employee Directors with the interests of the Company's stockholders by paying certain amounts of compensation for services as a Director in the form of shares of Common Stock.

Notwithstanding anything to the contrary, Awards, Mandatory Meeting Fee Shares, Mandatory Committee Fee Shares, Mandatory Retainer Shares and Voluntary Shares issued or granted under this Plan shall be issued only to a Participant.

2. Definitions. In addition to the other terms defined elsewhere herein, wherever the following terms are used in this Plan with initial capital letters, they have the meanings specified below, unless the context clearly indicates otherwise.

(a) Accounting Period means each calendar quarter of the Company, such quarters beginning on January 1, April 1, July 1 and October 1 of each year.

(b) Award means an award of an Option Right, Restricted Stock or Common Stock Grant under this Plan.

(c) Award Agreement means either:

(i) a written agreement entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award granted under this Plan: or

(ii) a written or electronic statement issued by the Company to a Participant describing the terms and provisions of such Award, including in each case any amendment or modification thereof.

The Company may provide for the use of electronic, Internet, or other non-paper Award Agreements, and the use of electronic, Internet, or other non-paper means for the acceptance thereof and actions thereunder by a Participant.

(d) Board means the Board of Directors of the Company.

(e) Calendar Year means the period beginning on January 1 of each year and ending on December 31 of each year.

(f) Code means the Internal Revenue Code of 1986, as amended from time to time.

(g) Committee Fees means the portion of the Non-Employee Director's annual compensation that is payable based on his or her assignment to, and service on, one or more committees of the Board, as determined by the Board from time to time, but, for purposes of Section 7 of this Plan, shall not include any such compensation

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issued to a Non-Employee Director as Mandatory Committee Fee Shares pursuant to Section 6(b) hereof.

(h) **Common Stock** means the Class B Common Stock, par value \$0.01 per share, of the Company, and any security into which such Common Stock may be converted or for which such Common Stock may be exchanged by reason of any transaction or event of the type described in Section 9 of this Plan.

(i) **Common Stock Grant** means Common Stock, other than Restricted Stock, awarded pursuant to Section 5 of this Plan.

(j) **Company** has the meaning set forth in Section 1, and includes its successors.

(k) **Date of Award** means the date specified by the Board on which an Award becomes effective, which shall not be earlier than the date on which the Board takes action with respect thereto.

(l) **Deferred Compensation Plan** means the Playboy Enterprises, Inc. Board of Directors' Deferred Compensation Plan, Amended and Restated as of January 1, 2005, as it may be further amended from time to time.

(m) **Employee** means any officer or other employee of the Company or of any corporation which is then a Subsidiary.

(n) **Issuance Date** has the meaning set forth in Section 6.

(o) **Mandatory Committee Fee Shares** means Common Stock awarded pursuant to Section 6(b) with an aggregate Market Value per Share generally equal to fifty percent (50%) of the Non-Employee Director's total Committee Fees for the given year.

(p) **Mandatory Meeting Fee Shares** means Common Stock awarded pursuant to Section 6(a) with an aggregate Market Value per Share generally equal to a Non-Employee Director's Meeting Fees for the given year.

(q) **Mandatory Retainer Shares** means Common Stock awarded pursuant to Section 6(c) with an aggregate Market Value per Share generally equal to fifty percent (50%) of the Non-Employee Director's total Retainer for the given year.

(r) **Meeting Fees** means the compensation payable to a Non-Employee Director with regard to meetings of the Board, convening as a whole, that he or she attends during a Plan Year, as determined by the Board from time to time.

(s) **Market Value per Share** means either:

(i) the closing price of a share of Common Stock as reported on the New York Stock Exchange (the "NYSE") on the date as of which such value is being determined, or, if there are no reported transactions for such date, on the next preceding date for which transactions were reported, as published in the Midwest Edition of The Wall Street Journal, or

(ii) if there is no reporting of transactions on the NYSE, the fair market value of a share of Common Stock as determined by the Board from time to time acting in good faith and, in all instances, established pursuant to Treasury Regulation Section 1.409A-1(b)(5)(iv)(B).

(t) **Non-Employee Director** means a member of the Board who is not an Employee.

(u) **Optionee** means a Non-Employee Director to whom an Option Right is awarded under this Plan.

(v) **Option Price** means the purchase price payable upon the exercise of an Option Right.

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- (w) **Option Right** means the right to purchase shares of Common Stock from the Company upon the exercise of an option awarded hereunder.
- (x) **Participant** means a Non-Employee Director (or a person who has agreed to commence serving in such capacity) who:
- (i) is selected by the Board to receive Awards under this Plan;
  - (ii) is entitled to receive Mandatory Meeting Fee Shares, Mandatory Committee Fee Shares and/or Mandatory Retainer Shares; or
  - (iii) has elected to receive Voluntary Shares.
- (y) **Participation Agreement** means the agreement submitted by a Non-Employee Director to the Secretary of the Company pursuant to which a Non-Employee Director may elect to receive all or any portion of his or her Committee Fees and/or Retainer in the form of Voluntary Shares for a specified period in the future.
- (z) **Performance Objectives** means the performance objectives that may be established by the Board pursuant to this Plan for Participants who have received Awards.
- (aa) **Plan** means this Second Amended and Restated 1997 Equity Plan for Non-Employee Directors of Playboy Enterprises, Inc. as set forth herein, as the same may be amended or restated from time to time.
- (bb) **Restricted Stock** means Common Stock awarded pursuant to Section 5 of this Plan as to which neither the substantial risk of forfeiture nor the restrictions on transfer referred to in Section 5 hereof have expired.
- (cc) **Restricted Stockholder** means a Non-Employee Director to whom Restricted Stock has been awarded under this Plan.
- (dd) **Retainer** means the portion of a Non-Employee Director's annual compensation that is payable without regard to the number of board or committee meetings attended or committee positions held, as determined by the Board from time to time, but, for purposes of Section 7 of this Plan, shall not include any such compensation issued to a Non-Employee Directors as Mandatory Retainer Shares pursuant to Section 6(c) hereof.
- (ee) **Rule 16b-3** means Rule 16b-3 under the Securities Exchange Act of 1934, as amended or any successor rule.
- (ff) **Subsidiary** means any corporation, partnership, joint venture, limited liability company, unincorporated association or other entity (each, an **Entity**) in an unbroken chain of Entities beginning with the Company if each of the Entities other than the last Entity in the unbroken chain then owns stock or other interests possessing 50 percent or more of the total combined voting power of all classes of stock or other interests in one of the other Entities in such chain.
- (gg) **Termination of Directorship** means the time when a Participant ceases to be a Director for any reason, including, without limitation, a termination by resignation, removal, failure to be elected or reelected, death or retirement.
- (hh) **Valuation Date** has the meaning set forth in Section 6.
- (ii) **Voluntary Shares** has the meaning set forth in Section 7(a).
3. **Shares Available under the Plan.** Subject to adjustment as provided in Section 9 of this Plan, the number of shares of Common Stock issued or transferred, plus the number of shares of Common Stock covered by outstanding Awards and not forfeited under this Plan, shall not in the aggregate exceed 900,000 shares, which may be shares of

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original issuance or shares held in treasury or a combination thereof. If an Option Right lapses or terminates before such Option Right is exercised or shares of Restricted Stock or Common Stock Grants are forfeited, for any reason, the shares covered thereby may again be made subject to Awards or issued as Mandatory Committee Fee Shares, Mandatory Meeting Fee Shares, Mandatory Retainer Shares, or Voluntary Shares under this Plan.

4. Option Rights. The Board may from time to time authorize Awards to Participants of options to purchase shares of Common Stock upon such terms and conditions as the Board may determine in accordance with the following provisions:

(a) Each Award shall specify the number of shares of Common Stock to which the Option Rights pertain.

(b) Each Award of Option Rights shall specify an Option Price per share of Common Stock, which shall be equal to or greater than the Market Value per Share on the Date of Award.

(c) Each Award of Option Rights shall specify the form of consideration to be paid in satisfaction of the Option Price and the manner of payment of such consideration, which may include:

(i) cash in the form of currency or check or other cash equivalent acceptable to the Company;

(ii) nonforfeitable, nonrestricted shares of Common Stock, which are already owned by the Optionee and have a value at the time of exercise that is equal to the Option Price;

(iii) any other legal consideration that the Board may deem appropriate, including, without limitation, any form of consideration authorized under Section 4(d) below, on such basis as the Board may determine in accordance with this Plan; and

(iv) any combination of the foregoing.

In addition, the Board may, in its discretion and whether or not specified in an Award of Option Rights, permit payment of the Option Price by a net exercise via the forfeiture to the Company of a portion of the Option Rights pertaining to shares of Common Stock with a value (based on the Market Value per Share on the date of such forfeiture) equal to the exercise price of the portion of the Option Rights being exercised plus the applicable tax withholding amount.

(d) On or after the Date of Award of any Option Right, the Board may determine that payment of the Option Price may also be made in whole or in part in the form of shares of Restricted Stock or other shares of Common Stock that are subject to risk of forfeiture or restrictions on transfer. Unless otherwise determined by the Board on or after the Date of Award, whenever any Option Price is paid in whole or in part by means of any of the forms of consideration specified in this Section 4(d), the shares of Common Stock received by the Optionee upon the exercise of the Option Right shall be subject to the same risks of forfeiture or restrictions on transfer as those that applied to the consideration surrendered by the Optionee; provided, however, that such risks of forfeiture and restrictions on transfer shall apply only to the same number of shares of Common Stock received by the Optionee as applied to the forfeitable or restricted shares of Common Stock surrendered by the Optionee.

(e) Any Award of Option Rights may provide for the deferred payment of the Option Price from the proceeds of sale through a broker of some or all of the shares of Common Stock to which the exercise relates.

(f) Successive Awards may be made to the same Participant regardless of whether any Option Rights previously awarded to the Participant remain unexercised.

(g) Each Award shall specify the period or periods of continuous service as a Non-Employee Director by the Optionee that are necessary or Performance Objectives that must be achieved before the Option Rights or installments thereof shall become exercisable, and any Award may provide for the earlier exercise of the Option Rights in the event of a change in control of the Company or other transaction or event.

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(h) The term of an Option Right shall be set by the Board; provided, however, that no Option Right awarded pursuant to this Section 4 may have a term of more than 10 years from the Date of Award.

(i) Each Award of an Option Right shall be evidenced by a written Award Agreement, which shall be executed on behalf of the Company by any officer thereof and delivered to and accepted by the Optionee and shall contain such terms and provisions as the Board may determine consistent with this Plan.

5. Common Stock Grants and Restricted Stock. The Board may also authorize Awards to Participants of Common Stock Grants and Restricted Stock upon such terms and conditions as the Board may determine in accordance with the following provisions:

(a) A Common Stock Grant consists of the transfer by the Company to a Participant of shares of Common Stock in consideration and as additional compensation for services performed for the Company. Each Award of Common Stock Grants and Restricted Stock shall constitute an immediate transfer of the ownership of shares of Common Stock to the Participant in consideration of the performance of services, entitling such Participant to dividend, voting and other ownership rights, subject to, in the case of Awards of Restricted Stock, the substantial risk of forfeiture and restrictions on transfer hereinafter referred to.

(b) Each Award of Restricted Stock shall provide that the shares of Restricted Stock covered thereby shall be subject to a substantial risk of forfeiture within the meaning of Section 83 of the Code for a period to be determined by the Board on the Date of Award, and may provide for the termination of such risk of forfeiture upon the achievement of certain Performance Objectives, in the event of a change in control of the Company, or upon any other transaction or event.

(c) Each Award of Restricted Stock shall provide during the period for which such substantial risk of forfeiture is to continue, and any Award of Common Stock Grants may provide, that the transferability of the shares of Common Stock subject to such Awards shall be prohibited or restricted in the manner and to the extent prescribed by the Board on the Date of Award. Such restrictions may include, without limitation, rights of repurchase or first refusal in the Company or provisions subjecting the shares of Restricted Stock to a continuing substantial risk of forfeiture in the hands of any transferee.

(d) In all instances, all shares of Common Stock attributable to any such Award of a Common Stock Grant or Restricted Stock shall be paid to a Participant in a lump sum (whether in cash or Common Stock) no later than March 15 of the calendar year following the calendar year in which such Award vests.

(e) Any Award of Restricted Stock may require that any or all dividends or other distributions paid on the shares of Restricted Stock during the period of such restrictions be automatically sequestered and reinvested on an immediate or deferred basis in additional shares of Common Stock, which may be subject to the same restrictions as the underlying award or such other restrictions as the Board may determine.

(f) Each Award of a Common Stock Grant and Restricted Stock shall be evidenced by an Award Agreement, which shall be executed on behalf of the Company by any officer thereof and delivered to and accepted by the Participant and shall contain such terms and provisions as the Board may determine consistent with this Plan. Unless otherwise directed by the Board, Restricted Stock will be held in book-entry form by the Company as custodian for the Participant. Any certificates representing shares of Restricted Stock, together with a stock power endorsed in blank by the Participant with respect to the shares of Restricted Stock, shall be held in custody by the Company until all restrictions thereon lapse.

(g) The Board may provide, at or after the Date of Award of any Common Stock Grant or Restricted Stock, for the payment of a cash award intended to offset the amount of tax that the Participant may incur in connection with such Common Stock Grant or Restricted Stock, including, without limitation, tax on the receipt of such cash award.

(h) The Board may provide in any individual Award Agreement that the Company shall have the right to repurchase the Restricted Stock then subject to restrictions under the Award Agreement, or the Common Stock subject to the Common Stock Grant, immediately upon a Termination of Directorship for any reason at a cash

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price per share equal to the cash price paid by the Participants for such Restricted Stock or Common Stock. In the discretion of the Board, provision may be made that no such right of repurchase shall exist in the event of a Termination of Directorship without cause or because of the Participant's retirement, death or permanent and total disability.

6. Mandatory Meeting Fee, Committee Fee and Retainer Shares.

(a) Mandatory Meeting Fee Shares. All Meeting Fees shall be payable in the form of Mandatory Meeting Fee Shares. No later than ten (10) days following the end of an Accounting Period (the Issuance Date), the Company shall issue to each Non-Employee Director a number of Mandatory Meeting Fee Shares equal to:

- (i) the amount of such Director's Meeting Fees for such Accounting Period, divided by
- (ii) the Market Value per Share on the last day of each Accounting Period (the Valuation Date) with respect to which such Meeting Fees are payable.

To the extent that the application of the foregoing formula would result in the issuance of fractional shares of Common Stock, any such fractional shares shall be disregarded, and the remaining amount of Meeting Fees shall be paid in cash. The Company shall pay any and all fees and commissions incurred in connection with the payment of Mandatory Meeting Fee Shares to a Director. Anything in this Section 6 to the contrary notwithstanding, any Mandatory Meeting Fee Shares that become subject to deferral under the Deferred Compensation Plan shall be issued in such form (including book-entry form), at such times and with such rights and restrictions as shall be specified in the Deferred Compensation Plan; provided, however, notwithstanding anything to the contrary, effective January 1, 2009, no new Mandatory Meeting Fee Shares may be deferred into the Deferred Compensation Plan on or after January 1, 2009. On and after January 1, 2009, all Mandatory Meeting Fee Shares shall be paid by the respective Issuance Date.

(b) Mandatory Committee Fee Shares. Notwithstanding anything to the contrary, fifty percent (50%) of each Non-Employee Director's Committee Fees shall be payable in the form of Mandatory Committee Fee Shares. Upon the Issuance Date, the Company shall issue to each Non-Employee Director a number of Mandatory Committee Fee Shares equal to:

- (i) 50% of the amount of such Director's Committee Fees for such accounting period, divided by
- (ii) the Market Value per Share on the applicable Valuation Date.

To the extent that the application of the foregoing formula would result in the issuance of fractional shares of Common Stock, any such fractional shares shall be disregarded, and the remaining amount of Committee Fees shall be paid in cash. The Company shall pay any and all fees and commissions incurred in connection with the payment of Mandatory Committee Fee Shares to a Director. Anything in this Section 6 to the contrary notwithstanding, any Mandatory Committee Fee Shares that become subject to deferral under the Deferred Compensation Plan shall be issued in such form (including book-entry form), at such times and with such rights and restrictions as shall be specified in the Deferred Compensation Plan; provided, however, notwithstanding anything to the contrary, effective January 1, 2009, no new Mandatory Committee Fee Shares may be deferred into the Deferred Compensation Plan on or after January 1, 2009. On and after January 1, 2009, all Mandatory Committee Fee Shares shall be paid by the respective Issuance Date.

(c) Mandatory Retainer Shares. Notwithstanding anything to the contrary, fifty percent (50%) of each Non-Employee Director's Retainer shall be payable in the form of Mandatory Retainer Shares. Upon the Issuance Date, the Company shall issue to each Non-Employee Director a number of Mandatory Retainer Shares equal to:

- (i) 50% of the amount of such Director's Retainer for such accounting period, divided by
- (ii) the Market Value per Share on the applicable Valuation Date.



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To the extent that the application of the foregoing formula would result in the issuance of fractional shares of Common Stock, any such fractions shares shall be disregarded, and the remaining amount of such portion of the Non-Employee Director's Retainer shall be paid in cash. The Company shall pay any and all fees and commissions incurred in connection with the payment of Mandatory Retainer Shares to a Director. Anything in this Section 6 to the contrary notwithstanding, any Mandatory Retainer Shares that become subject to deferral under the Deferred Compensation Plan shall be issued in such form (including book-entry form), at such times and with such rights and restrictions as shall be specified in the Deferred Compensation Plan; provided, however, notwithstanding anything to the contrary, effective January 1, 2009, no new Mandatory Retainer Shares may be deferred into the Deferred Compensation Plan on or after January 1, 2009. On and after January 1, 2009, all Mandatory Retainer Shares shall be paid by the respective Issuance Date.

7. Voluntary Shares. Each Non-Employee Director shall be eligible to elect to receive shares of Common Stock in accordance with the following provisions:

(a) Prior to the commencement of the Company's Calendar Year (or by such other date as may be specified by the Board), a Participant may elect, by the filing of a Participation Agreement, to receive payment of the remaining fifty percent (50%) of his or her Committee Fees and/or Retainer not payable pursuant to Section 6 in the form of shares of Common Stock in lieu of a cash payment (the Voluntary Shares). Such Participation Agreement must, except as the Board may otherwise provide, be filed as a one-time election for the applicable Calendar Year. Unless the Non-Employee Director revokes or changes such election by filing a new Participation Agreement by the due date therefor specified in this Section 7(a), such election shall apply to a Participant's Committee Fees and Retainer for each subsequent Calendar Year. Once an election has been terminated, another election may not be made effective until the commencement of the next subsequent full Calendar Year.

(b) No later than the Issuance Date, the Company shall issue to each Participant who has made an election under Section 7(a), a number of Voluntary Shares for the prior Accounting Period equal to:

- (i) the amount of such Non-Employee Director's Committee Fees and Retainer for such Accounting Period that such Non-Employee Director has elected to receive as Voluntary Shares, divided by
- (ii) the Market Value per Share on the Valuation Date.

To the extent that the application of the foregoing formula would result in the issuance of fractional shares of Common Stock, any such fractional shares shall be disregarded, and the remaining amount of the Committee Fees and/or Retainer shall be paid in cash. The Company shall pay any and all fees and commissions incurred in connection with the payment of the Voluntary Shares to a Non-Employee Director. Anything in this Section 7 to the contrary notwithstanding, any Voluntary Shares that become subject to deferral under the Deferred Compensation Plan shall be issued in such form (including book-entry form), at such times and with such rights and restrictions as shall be specified in the Deferred Compensation Plan; provided, however, notwithstanding anything to the contrary, effective January 1, 2009, no new Voluntary Shares may be deferred into the Deferred Compensation Plan on or after January 1, 2009. On and after January 1, 2009, all Voluntary Shares shall be paid by the respective Issuance Date.

8. Transferability.

(a) Except as may be otherwise determined by the Board:

(i) Option Rights and Restricted Stock may be transferred by a Participant only by will or the laws of descent and distribution; and

(ii) Option Rights may not be exercised during a Participant's lifetime except by the Participant or, in the event of the Participant's legal incapacity, by his guardian or legal representative acting in a fiduciary capacity on behalf of the Participant under state law and court supervision.

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(b) Any Award made under this Plan may provide that all or any part of the shares of Common Stock that are to be issued or transferred by the Company upon the exercise of Option Rights, or are no longer subject to the substantial risk of forfeiture and restrictions on transfer referred to in Section 5 of this Plan, shall be subject to further restrictions upon transfer.

(c) To the extent required to satisfy any condition to exemption available pursuant to Rule 16b-3, Mandatory Meeting Fee Shares, Mandatory Committee Fee Shares, Mandatory Retainer Shares and Voluntary Shares acquired by a Participant shall be held by the Participant for a period of at least six months following the date of such acquisition.

9. Adjustments. The Board shall make or provide for such adjustments in the:

(a) number of shares of Common Stock covered by outstanding Awards payable as Mandatory Meeting Fee Shares, Mandatory Committee Fee Shares or Mandatory Retainer Shares or subject to elections to receive Voluntary Shares;

(b) prices per share applicable to Option Rights; and

(c) kind of shares (including, without limitation, shares of another issuer) covered thereby, as the Board in its sole discretion may in good faith determine to be equitably required in order to prevent dilution or enlargement of the rights of Participants that otherwise would result from:

(i) any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company;

(ii) any merger, consolidation, spin-off, split-off, split-up, reorganization, partial or complete liquidation or other distribution of assets, or issuance of rights or warrants to purchase securities; or

(iii) any other corporate transaction or event having an effect similar to any of the foregoing.

In the event of any such transaction or event, the Board may provide in substitution for any or all outstanding Awards, Mandatory Meeting Fee Shares, Mandatory Committee Fee Shares, Mandatory Retainer Shares or Voluntary Shares to be issued under this Plan such alternative consideration as it may in good faith determine to be equitable under the circumstances and may require in connection therewith the surrender of all Awards, Mandatory Meeting Fee Shares, Mandatory Committee Fee Shares, Mandatory Retainer Shares or Voluntary Shares so replaced. The Board shall also make or provide for such adjustments in the numbers and kind of shares specified in Section 3 of this Plan as the Board may in good faith determine to be appropriate in order to reflect any transaction or event described in this Section 9.

10. Fractional Shares. The Company shall not be required to issue any fractional shares of Common Stock pursuant to this Plan. The Board may provide for the elimination of fractions, for the settlement thereof in cash or for such other adjustments as the Board may deem appropriate under this Plan.

11. Withholding Taxes. To the extent, if any, that the Company is required to withhold federal, state, local or foreign taxes in connection with any payment made or benefit realized by a Participant or other person under this Plan, and the amounts available to the Company for the withholding are insufficient, it shall be a condition to the receipt of any such payment or the realization of any such benefit that the Participant or such other person make arrangements satisfactory to the Company for payment of the balance of any taxes required to be withheld. At the discretion of the Board, any such arrangements may include relinquishment of a portion of any such payment or benefit. The Company and any Participant or such other person may also make similar arrangements with respect to the payment of any taxes with respect to which withholding is not required.

12. Certain Terminations of Directorships.

(a) Notwithstanding any other provision of this Plan to the contrary, in the event of a Termination of Directorship by reason of death or disability, or in the event of hardship or other special circumstances, of a

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Participant who holds an Option Right that is not immediately and fully exercisable or any Award as to which the substantial risk of forfeiture or the prohibition or restriction on transfer has not lapsed, the Board may in its sole discretion take any action that it deems to be equitable under the circumstances or in the best interests of the Company, including, without limitation, waiving or modifying any limitation or requirement with respect to any Award under this Plan. In all instances, an Award as to which the Board has either immediately lapsed the substantial risk of forfeiture or immediately lapsed the prohibition on restriction on transfer shall be paid to the Participant in a lump sum (whether in cash or Common Stock) no later than March 15 of the calendar year following the calendar year in which such Award vests.

(b) If a Non-Employee Director becomes an Employee while continuing to serve as a Director, that fact alone shall not result in a Termination of Directorship or otherwise impair the rights such Director may have under this Plan, including, without limitation, the rights such Director may have under any Award outstanding under this Plan, but such Director shall no longer be eligible to receive any further Awards, Mandatory Meeting Fee Shares, Mandatory Committee Fee Shares, Mandatory Retainer Shares or Voluntary Shares under this Plan.

### **13. Administration.**

(a) Administration by the Board; Delegation. This Plan shall be administered by the Board, which may from time to time delegate all or any part of its authority under this Plan to a committee or subcommittee of not less than two Directors appointed by the Board who are non-employee directors within the meaning of that term as defined in Rule 16b-3. To the extent of any delegation by the Board under this Plan, references in this Plan to the Board shall also refer to the applicable committee or subcommittee. The majority of any such committee or subcommittee shall constitute a quorum, and the action of a majority of its members present at any meeting at which a quorum is present, or acts unanimously approved in writing, shall be the acts of such committee or subcommittee.

(b) Administrative Powers. The Board shall have the power to interpret this Plan, the Option Rights, the Common Stock Grants, the Restricted Stock, the procedures for issuance of Mandatory Meeting Fee Shares, Mandatory Committee Fee Shares or Mandatory Retainer Shares and elections to receive Voluntary Shares, and the agreements pursuant to which the Option Rights, the Common Stock Grants, the Restricted Stock, the Mandatory Meeting Fee Shares, Mandatory Committee Fee Shares, Mandatory Retainer Shares and the Voluntary Shares are awarded and issued (including Award Agreements and Participation Agreements), and to adopt such rules for the administration, interpretation and application of this Plan (including the administration of this Plan in conjunction with the Deferred Compensation Plan), and such agreements as are consistent therewith and to interpret, amend or revoke any such rules. Any Award under this Plan need not be the same with respect to each Optionee or Restricted Stockholder.

(c) Professional Assistance; Good Faith Actions. An expenses and liabilities which members of the Board incur in connection with the administration of this Plan shall be borne by the Company. The Board may employ attorneys, consultants, accountants, appraisers, brokers or other persons. The Board, the Company and the Company's officers and Directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Board in good faith shall be final and binding upon all Participants, the Company and all other interested persons. No members of the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to this Plan, or any Option Right, Common Stock Grant, Restricted Stock, Mandatory Meeting Fee Shares, Mandatory Committee Fee Shares, Mandatory Retainer Shares or Voluntary Shares, and all members of the Board shall be fully protected by the Company in respect of any such action, determination or interpretation.

### **14. Amendment, Suspension, Termination and Other Matters.**

(a) This Plan may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Board. However, without further approval of the stockholders of the Company, no action of the Board may, except as provided in Section 9 of this Plan, increase the limits imposed in Section 3 on the maximum number of shares of Common Stock which may be issued under this Plan, and no action of the Board may be taken that would otherwise require stockholder approval as a matter of applicable law or the rules of any U.S. stock exchange, including the NYSE, on which the Common Stock may be listed for trading

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or authorized for quotation. No amendment, suspension or termination of this Plan shall, without the consent of the holder of an Award, alter or impair any rights or obligations under any Award theretofore granted, unless the Award itself otherwise expressly so provides.

(b) The Board may make under this Plan any Award or combination of Awards authorized under this Plan in exchange for the cancellation of an Award that was not made under this Plan.

(c) Except as provided in Section 14(b) of this Plan, the making of one or more Awards to a Non-Employee Director under this Plan shall not preclude the making of Awards to such Non-Employee Director under any other stock option or incentive plan previously or subsequently adopted by the Board, nor shall the fact that a Non-Employee Director has received one or more awards under any other stock option or incentive plan of the Company preclude such Non-Employee Director from receiving awards under this Plan.

15. Termination of the Plan. The Plan was most recently approved and extended by shareholder action on May 23, 2007. Pursuant to that stockholder action, no further awards shall be made under this Plan after the passage of 10 years from May 23, 2007.

16. Effective Date. The effective date of this Plan shall be the date of its adoption by the Board of Directors. This Plan and all Awards granted, Mandatory Meeting Fee Shares, Mandatory Committee Fee Shares and Mandatory Retainer Shares issued, and any elections to receive Voluntary Shares effected prior to the stockholder approval hereinafter mentioned, shall be void and of no further force and effect unless this Plan shall have been approved at a meeting of stockholders of the Company called for such purpose by the affirmative vote of a majority of the shares of Class A Common Stock of the Company represented in person or by proxy.

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**Appendix C**

**PLAYBOY ENTERPRISES, INC.  
EMPLOYEE STOCK PURCHASE PLAN**

(as amended through May 13, 2009)

**SECTION 1. PURPOSE.**

This Employee Stock Purchase Plan (the "Plan") is intended to advance the interests of Playboy Enterprises, Inc. (the "Company") and its stockholders by allowing employees of the Company and those subsidiaries of the Company that participate in the Plan the opportunity to purchase shares of the Company's Class B Common Stock ("Class B Common Stock"). It is intended that the Plan will constitute an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended from time to time (the "Code").

**SECTION 2. ADMINISTRATION.**

The Plan shall be administered by the Compensation Committee (the "Committee") of the Board of Directors, comprised of persons who are both non-employee directors within the meaning of Rule 16b-3 which has been adopted by the Securities Exchange Commission under the Securities Exchange Act of 1934, as amended, as such rule or its equivalent is then in effect ("Rule 16b-3") and outside directors within the meaning of Section 162(m) of the Code. The majority of the Committee shall constitute a quorum, and the action of (a) a majority of the members of the Committee present at any meeting at which a quorum is present or (b) all members acting unanimously by written consent, shall be the acts of the Committee.

The interpretation and construction by the Committee of any provision of the Plan or of any subscription to purchase shares under it shall be final. The Committee may establish any policies or procedures which in the discretion of the Committee are relevant to the operation and administration of the Plan and may adopt rules for the administration of the Plan. The Committee will, from time to time, designate the subsidiaries (as defined below) of the Company whose employees will be eligible to participate in the Plan. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any subscription to purchase shares under it. For purposes of this Plan, the term "subsidiary" means any corporation in which the Company directly or indirectly owns or controls more than 50 percent of the total combined voting power of all classes of stock issued by the corporation.

**SECTION 3. ELIGIBILITY.**

Each employee of the Company or of a participating subsidiary of the Company whose customary employment is a minimum of 20 hours per week may subscribe to purchase shares of Class B Common Stock under the terms of the Plan, except that no employee may subscribe to purchase shares on the immediately following Purchase Date (as defined below) if, immediately after the immediately preceding Subscription Date (as defined below), such employee would own stock possessing 5 percent or more of the total combined voting power or value of all classes of stock of the Company or of any subsidiary of the Company. For purposes of this paragraph, stock ownership of an individual shall be determined under the rules of Section 424(d) of the Code.

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For purposes of the Plan:

(a) The term **Subscription Date** means the first business day of each fiscal quarter of the Company during which the Plan is effective or, in the case of a participant who is not an employee of the Company or a participating subsidiary of the Company as of a particular Subscription Date, the date thereafter on which such participant became an employee of the Company or a participating subsidiary of the Company. The first Subscription Date under the Plan will be July 1, 1996.

(b) The term **Purchase Date** means the last business day of the fiscal quarter in which the related Subscription Date occurs.

**SECTION 4. PARTICIPATION.**

(a) An eligible employee shall evidence his or her agreement to subscribe for shares by completing a written agreement (the **Subscription and Authorization Form** ) provided by the Committee and filing it as directed by the Committee. A Subscription and Authorization Form will take effect within a reasonable time after it has been filed with the Company. Once an employee provides the Committee with the Subscription and Authorization Form, he or she continues as a participant in the Plan on the terms provided in such form until he or she provides a new form or withdraws from the Plan.

(b) In the Subscription and Authorization Form, an eligible employee shall designate any whole dollar amount to be withheld from such employee's compensation in each pay period and used to purchase shares of Common Stock on the next Purchase Date, subject to the following limitations: (i) the whole dollar amount (on an annualized basis) shall not exceed 10 percent of his or her compensation (as defined below) on an annualized basis; (ii) the maximum number of shares of Class B Common Stock which can be purchased by any one employee on any Purchase Date shall not exceed 1,000 shares of the Class B Common Stock; and (iii) the Committee may establish from time to time minimum payroll deductions. For purposes of this Plan, the term **compensation** means an eligible employee's bi-weekly base salary.

**SECTION 5. STOCK.**

The stock purchased under the Plan shall be shares of authorized but unissued or reacquired Class B Common Stock. Subject to the provisions of Section 6(h), the aggregate number of shares which may be purchased under the Plan shall not exceed 430,000 shares of Class B Common Stock. In the event that the dollar amount of shares subscribed for in any quarter exceeds the number of shares available to be purchased under the Plan, the shares available to be purchased shall be allocated on a pro rata basis among the subscriptions.

**SECTION 6. TERMS AND CONDITIONS OF SUBSCRIPTIONS.**

Subscriptions shall be evidenced by a Subscription and Authorization Form in such form as the Committee shall from time to time approve, provided that all employees subscribing to purchase shares shall have the same rights and privileges (except as otherwise provided in Section 4(b) and subparagraph (d) below), and provided further that such subscriptions shall comply with and be subject to the following terms and conditions:

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(a) Purchase Price. The purchase price shall be an amount equal to 85 percent of the fair market value of such stock on the Purchase Date. During such time as the Class B Common Stock is traded on the New York Stock Exchange, the fair market value per share shall be the closing price of the Class B Common Stock (as reported in the record of Composite Transactions for New York Stock Exchange listed securities and printed in The Wall Street Journal) on such Purchase Date (or on the next regular business date on which shares of the Class B Common Stock of the Company shall be traded in the event that no shares of the Class B Common Stock shall have been traded on the Purchase Date). Subject to the foregoing, the Committee shall have full authority and discretion in fixing the purchase price.

(b) Medium and Time of Payment. The purchase price shall be payable in full in United States dollars, pursuant to uniform policies and procedures established by the Committee. The funds required for such payment will be derived by withholding from an employee's compensation. An employee shall have the right at any time to terminate the withholding from his or her compensation of amounts to be paid toward the purchase price. An employee shall have the right, one time in each quarter, to change the amount so withheld, by submitting a written request to the Company at least 15 business days before any Purchase Date. An employee shall have the right to cancel his or her subscription in whole and to obtain a refund of amounts withheld from his or her compensation by submitting a written request to the Company at least 15 business days before any Purchase Date. Any cancellation of a subscription in whole will constitute a withdrawal under Section 4(a) of the Plan. Such amounts shall thereafter be paid to the employee within a reasonable period of time.

(c) No Interest on Employee Funds. No interest shall accrue on any amounts withheld from an employee's compensation.

(d) Accrual Limitation. No subscription shall permit the rights of an employee to purchase stock under all employee stock purchase plans (as defined in the Code) of the Company to accrue, under the rules set forth in Section 423(b)(8) of the Code, at a rate which exceeds \$25,000 of fair market value of such stock (determined at the time of subscription) for each calendar year.

(e) Termination of Employment. If an employee who has subscribed for shares ceases to be employed by the Company or a participating subsidiary before any applicable Purchase Date:

i. Because of retirement or disability, he or she may elect to continue making payments equal to the rate of payroll deductions made before retirement or disability until the first Purchase Date following retirement or disability; or otherwise the accumulated payment in his or her account at the time of retirement or disability will be applied to purchase shares at the applicable purchase price on the first Purchase Date following such retirement or disability, unless the Company is otherwise notified in writing.

ii. For any other reason, he or she may elect to have the accumulated payment in his or her account at the time of termination applied to purchase shares at the applicable purchase price on the first Purchase Date following such termination; or otherwise the total unused payments credited to his or her account on the date of termination will be refunded within a reasonable time without interest, unless the Company is otherwise notified in writing.

(f) Transferability. Neither payments credited to an employee's account nor any rights to subscribe to purchase shares of Class B Common Stock under the Plan may be transferred by an employee except by the laws of descent and distribution. Any such attempted transfer will be without effect, except that the

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Company may treat such act as an election by the employee to withdraw in accordance with Section 6(b). Shares of Class B Common Stock may be purchased under the Plan only by subscribing employees who have legal capacity as determined under applicable state law or, in the event of the employee's legal incapacity, by his or her guardian or legal representative acting in a fiduciary capacity on behalf of the employee under state law or court supervision.

(g) Death and Designation of Beneficiary. An employee may file with the Company a written designation of beneficiary and may change such designation of beneficiary at any time by written notice to the Company. On the death of an employee, the elections provided on termination of employment for retirement or disability may be exercised by the employee's beneficiary, executor, administrator, or other legal representative.

(h) Adjustments. The Committee may make or provide for such adjustments in the purchase price and in the number or kind of shares of the Class B Common Stock or other securities covered by outstanding subscriptions, or specified in the second sentence of Section 5 of the Plan, as the Committee in its sole discretion, exercised in good faith, may determine is equitably required to prevent dilution or enlargement of the rights of employees that would otherwise result from (i) any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company; (ii) any merger, consolidation, spin-off, split-off, spin-out, split-up, separation, reorganization, partial or complete liquidation, or other distribution of assets, issuance of rights or warrants to purchase stock; or (iii) any other corporate transaction or event having an effect similar to any of the foregoing. Moreover, in the event of any such transaction or event, the Committee, in its discretion, may provide in substitution for any or all outstanding subscriptions under this Plan such alternative consideration as it, in good faith, may determine to be equitable in the circumstances.

(i) Rights as a Stockholder. An employee shall have no rights as a stockholder with respect to any Class B Common Stock covered by his or her subscription until the Purchase Date following payment in full. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date of such purchase, except as provided in Section 6(h) of the Plan.

(j) Fractional Shares. Fractional shares may be purchased under the Plan and credited to an account for the employee. The Company, however, shall have the right to pay cash in lieu of any fractional shares of Class B Common Stock to be distributed from an employee's account under the Plan.

(k) Other Provisions. The Subscription and Authorization Form authorized under the Plan shall contain such other provisions as the Committee may deem advisable, provided that no such provisions may in any way be in conflict with the terms of the Plan.

**SECTION 7. TERM OF PLAN.**

Eligible employees may subscribe for shares under the Plan until April 25, 2016; provided, however, that the Committee may terminate or suspend the Plan if at any time there are less than 5 percent of the eligible employees participating in the Plan.

**SECTION 8. AMENDMENT OF THE PLAN.**

The Plan may be amended from time to time by the Committee, but without further approval of the stockholders, no such amendment shall (a) increase the aggregate number of shares of Class B Common Stock



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that may be issued and sold under the Plan (except that adjustments authorized by Section 6(h) of the Plan shall not be limited by this provision) or (b) materially modify the requirements as to eligibility for participation in the Plan.

**SECTION 9. APPROVAL OF STOCKHOLDERS.**

The Plan shall take effect upon adoption by the Board of Directors; provided, however, that any subscriptions and purchases under the Plan shall be null and void unless the Plan is approved by a vote of the holders of a majority of the total number of outstanding shares of voting stock of the Company present in person or by proxy at a meeting at which a quorum is present in person or by proxy, which approval must occur within the period of 12 months after the date the Plan is adopted by the Board of Directors.

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VOTE BY INTERNET    arym.proxyyole.tom Use the Internet to transmit your voting instructions and for  
*pi avRnvBWTPPOOicBC iur* electronic delivery of information up until 11:59 P.M. Eastern Time \*«  
 «. «J5-C««5^«.,;«- thg daV b8fore tne cu>-off «"\*\* or mee.in9 date. Have your proxy *C/Q AMERICAN STOCK*  
*TRANSFER & card* in hand when you access the web site and follow the *TRUST COMPANY, LLC*  
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*BROOKLYN, NY 11219* ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS If you would  
 like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving  
 all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To  
 sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when  
 prompted, indicate that you agree to receive or access proxy materials electronically in future years.  
 VOTE BY PHONE    1-800-690-6903 Use any touch-tone telephone to transmit your voting instructions  
 up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in  
 hand when you call and then follow the instructions. VOTE BY MAIL Mark, sign and date your proxy  
 card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o  
 Broadridge, 51 Mercedes Way, Edgewood. NY 11717.  
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 RECORDS. THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND OATED. DETACH AND  
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 write he THE BOARD OF DIRECTORS RECOMMENDS A A A fcX£0pt number(s) of the nominee(s) or l  
 the line below.    I VOTE FOR THE ELECTION OF THE FOLLOWING I NOMINEES. 0 0 0 Vote on  
 Directors I 1. Election of Directors Nominees: D. Bookshester 05) R. Pillar D. Chemerow 06) S.  
 Rosenthal C. Hirschhorn 07) R. Rosenzweig J. Kern Vote on Proposals THE BOARD OF DIRECTORS  
 RECOMMENDS A VOTE FOR PROPOSAL NUMBERS 2, 3, 4 AND 5. For Against Abstain TO  
 APPROVE AN AMENDMENT TO THE THIRD AMENDED AND RESTATED 1995 STOCK  
 INCENTIVE PLAN OF PLAYBOY f, n n ENTERPRISES, INC. U U U TO APPROVE AN  
 AMENDMENT TO THE SECOND AMENDED AND RESTATED 1997 EQUITY PLAN FOR  
 NON-EMPLOYEE DIRECTORS 0 0 0 OF PLAYBOY ENTERPRISES, INC. TO APPROVE AN  
 AMENDMENT TO THE PLAYBOY ENTERPRISES. INC. EMPLOYEE STOCK PURCHASE PLAN.  
 0 0 0 TO RATIFY THE SELECTION OF ERNST & YOUNG LLP AS PLAYBOY ENTERPRISES,  
 INC. S INDEPENDENT REGISTERED PUBLIC H ( 1 fl ACCOUNTING FIRM FOR 2009. l j u u The  
 Proxies are authorized to vote in their discretion upon such other matters as may properly come before the  
 meeting. Signature [PLEASE SIGN WITHIN BOX) Date Signature (Joint Owners) Oate

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PLAYBOY ENTERPRISES, INC. ANNUAL MEETING TO BE HELD ON MAY 13, 2009 AT 9:30 A.M., CDT, FOR HOLDERS AS OF MARCH 16, 2009 Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Notice and Proxy Statement and Annual Report are available at [www.proxyvote.com](http://www.proxyvote.com). \* FOLD AND DETACH HERE \* PROXY PROXY PLAYBOY ENTERPRISES, INC. THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS FOR THE 2009 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 13, 2009 The undersigned hereby constitutes and appoints JEROME KERN and HOWARD SHAPIRO, and each of them, as Proxies, each with full power of substitution, and hereby authorizes each of them to represent and to vote, as designated on the reverse side, all of the shares of Class A Common Stock of PLAYBOY ENTERPRISES, INC. registered in the name of the undersigned, as of March 16, 2009, at the 2009 Annual Meeting of Stockholders of Playboy Enterprises, Inc. to be held May 13, 2009 and at any and all adjournments or postponements of that meeting. The undersigned hereby further authorizes such Proxies to vote in their discretion upon such other matters as may properly come before such Annual Meeting and at any and all adjournments or postponements thereof. Receipt of the Notice of the 2009 Annual Meeting of Stockholders and Proxy Statement is hereby acknowledged. The right to revoke this proxy at any time before it is voted is reserved. When properly executed, this proxy will be voted or withheld in accordance with the specifications made in this proxy. IF NOT OTHERWISE SPECIFIED, THIS PROXY WILL BE VOTED FOR ALL OF THE NOMINEES FOR DIRECTOR IN PROPOSAL 1; FOR PROPOSALS 2, 3, 4 AND 5; AND IN THE DISCRETION OF THE PROXIES UPON SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE ANNUAL MEETING. (Continued, and to be marked, signed and dated, on other side)