

Attorney Code 34944

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION

RAYMOND MALKIEWCZ, Individually and)
on Behalf of All Others Similarly Situated,)

Plaintiff,)

vs.)

PLAYBOY ENTERPRISES, INC., RIZVI)
TRAVERSE MANAGEMENT LLC,)
HUGH M. HEFNER, DAVID I.)
CHEMEROW, DENNIS S. BOOKSHESTER,)
SCOTT N. FLANDERS, CHARLES)
HIRSCHHORN, RUSS PILLAR, SOL)
ROSENTHAL, RICHARD S. ROSENZWEIG)
and KAI-SHING TAO,)

Defendants.)

Case No

10CH30197

CLASS ACTION

COMPLAINT FOR BREACH OF
FIDUCIARY DUTY

2010 JUN 11 PM 3:37

Plaintiff, by his attorney, alleges as follows:

INTRODUCTION

1. This is a stockholder class action brought by plaintiff on behalf of the public shareholders of Playboy Enterprises, Inc. ("PEI" or the "Company") against Hugh M. Hefner ("Hefner"), Rizvi Traverse Management LLC ("Rizvi Traverse"), PEI, and the Company's Board of Directors (the "Board") arising out of Hefner's and Rizvi Traverse's attempt to acquire 100% of PEI's outstanding Class A and Class B common stock (the "Proposed Acquisition") for inadequate and unfair consideration and to the detriment of the public shareholders, all in breach of defendants' fiduciary duties.

2. PEI is a media and lifestyle company that markets the "Playboy" brand through a wide range of media properties and licensing initiatives. The Company publishes Playboy magazine in the United States and abroad and creates content for distribution via television networks, websites, mobile platforms and radio. Through licensing agreements, the Playboy brand appears on a wide range of consumer products in more than 150 countries as well as on retail stores and entertainment venues. The Company's three business groups are Entertainment, Print/Digital and Licensing.

3. The Company was founded in 1953 by defendant Hefner. Joined in 1958 by current Board member and defendant Richard S. Rosenzweig ("Rosenzweig") as his then "executive assistant," Hefner ushered the Company to the iconic status that it enjoys today. But in 1971, PEI went public and with that transition came minority shareholders, to whom Hefner and the Board owed, and continue to owe, unflinching fiduciary duties of loyalty. Hefner, now a controlling shareholder, holds the titles "Editor in Chief" and "Chief Creative Officer" at PEI.

4. Despite his 84 years, Hefner remains the primary thrust behind PEI's operations. According to PEI's website, Hefner currently plays "a key role in determining the path of [the Company] and directing other areas of the corporation including cable television, video production,

licensing, and digital content.” PEI even retains one Board member, Rosenzweig, whose job is to “coordinat[e] and integrat[e] the efforts of senior officers toward achieving goals established by Founder and Editor-in-Chief Hugh M. Hefner.”¹ As PEI admits, the Company has been “truly an empire ruled by one man.”

5. Until recently, PEI had fallen upon hard times, positioned as a magazine-driven company in an Internet age. But after Hefner’s daughter, Christie Hefner, stepped down as CEO in 2008, the Company embarked on a plan to restructure PEI by transitioning it to a brand management company.

6. Thus far, the transition plan has been working. On May 6, 2010, for example, PEI announced improved results in all three business groups and saw a net loss for the first quarter ended March 31, 2010 of just \$1.0 million, as compared to a net loss of \$13.7 million in the same period in 2009. The Company’s CEO, Scott N. Flanders, stated in the accompanying press release that PEI is “clearly making progress in our efforts to more effectively monetize the Playboy brand and return the company to sustained profitability. The extensive cost-reduction initiatives implemented over the last 18 months were responsible for the improved first quarter results and contributed to the significant narrowing of losses in our domestic magazine, the increase in Entertainment Group operating margins and the Licensing Group returning to its highest level of profitability since mid-2008. All of these improvements occurred against a backdrop of lingering economic weakness globally and continuing secular challenges, particularly in the print and TV industries.”

7. Flanders also outlined the Company’s restructuring and transitioning plan as follows: “Our goal is to transition Playboy to a brand management company, and our first priority is to outsource, partner or license those of our operations that can be more efficiently handled by other

¹ Defendant and Board member Rosenzweig is also responsible for “direct[ing] Mr. Hefner’s staff [and overseeing] Playboy Mansion West operations.”

companies. Already we have completed two major deals, and we are pleased with what we are seeing from our partners thus far. The outsourcing model not only streamlines our organization, it also allows us to reduce our focus to strengthening our core competencies and to growing the high-margin, high-potential businesses that we will continue to operate. We believe that 2010 will be a transitional year and that the true benefits of our strategy will be more fully evident next year. Revenues are expected to decline this year, primarily due to changes at *Playboy* magazine, but segment income and operating margins should improve. We believe that Licensing, our most profitable business, will record solid revenue and profit growth, although the media businesses will remain challenged, showing only marginal improvement over last year”

8. As PEI’s results began improving in 2009, potential acquirers came knocking. However, despite his duties owed to minority shareholders, Hefner has stated his intention to use his controlling shares to block any non-Hefner driven acquisition of PEI. Indeed, in late 2009, according to the *Chicago Tribune*, “after a protracted period of negotiation, [Hefner] blocked competing bids from a brand management company called Iconix Brand Group Inc. and a former *Playboy* executive [Jim Griffiths and private equity firm Golden Gate Capital] that might have fetched as much as **\$300 million.**” Having removed all other bidders from competition, Hefner now seeks to take the company private at a significant discount to the thwarted \$300 million deals.

9. On July 12, 2010, PEI announced that Hefner – now a 69.5% owner of PEI’s Class A common (voting) stock and 27.7% owner of PEI’s Class B (non-voting) common stock – proposed to acquire all outstanding shares of Class A and Class B common stock not already owned by Hefner for just \$5.50 per share.

10. The \$5.50 per share price proposed by Hefner reflects a value of just **\$185 million** for the Company. Not surprisingly, it has been poorly received in the marketplace. Penthouse owner FriendFinder Networks (“FriendFinder”) accused Hefner of lowballing PEI shareholders.

FriendFinder CEO Mark Bell recently stated, "We think the price is low and there's a lot of value there." Consequently, FriendFinder indicated that it is now working on a competing bid for the Company.

11. In complete disregard of the fiduciary duties owed to PEI's minority shareholders, Hefner stated in a July 8, 2010 letter to the Board that "out of my concerns for amongst other matters the Playboy brand, the editorial direction of the magazine and our company's legacy, *I am not interested in any sale or merger of the Company, selling my shares to any third party or entering into discussions with any other financial sponsor* for a transaction of the nature proposed in this letter." In other words, Hefner will use his controlling shares and influence over the Board to, once again, block all offers by all other bidders, no matter the price and no matter the detriment to minority shareholders. If Hefner and the Board are allowed to continue on the present path, Hefner's individualized and personal concerns regarding "editorial direction" and "legacy" will trump the minority shareholders' concerns in maximizing value for their stock.

12. In the same letter, Hefner also offered incentives to the Board and current management for accepting his Proposed Acquisition. After explaining that he would block all other competing bids, Hefner noted that "I expect continuity of senior management through and following the transactions contemplated by my proposal. I am open to participation by continuing members of senior management in the new entity I and Rizvi Traverse to form to complete the acquisitions" Thus, senior management and the Board, already conflicted from Hefner's undeniable influence over the Company, are even further conflicted by his promises of continued employment in the new Hefner-driven entity.

13. Lastly, Hefner also explained that, in light of his overwhelming influence as "founder, editor-in-chief, creative officer, holder of 69.5% of the outstanding voting Class A common stock and 33.7% of the total outstanding shares of capital stock," he expects to "work[] with the Special

Committee to move this transaction forward *as expeditiously as possible.*” Thus, time is of the essence as Hefner and the Board work towards consummating the Proposed Acquisition at a firesale price while blocking all other competing non-Hefner driven bids.

14. In pursuing the unlawful plan to cash out the Company’s public shareholders for grossly inadequate consideration, each of the defendants is violating applicable law by directly breaching and/or aiding the other defendants’ breaches of their fiduciary duties of loyalty, candor, due care, independence, good faith and fair dealing.

15. In essence, the Proposed Acquisition is solely designed to ensure that PEI’s largest shareholder completes the Proposed Acquisition despite the fact that the offer price called for in the Proposed Acquisition is highly unfair to the minority shareholders of the Company.

JURISDICTION AND VENUE

16. This Court has jurisdiction over PEI, Rizvi Traverse, and the Individual Defendants in part because PEI conducts business in Illinois and has at all relevant times been headquartered at 680 North Lake Shore Drive, Chicago, IL. This action is not removable.

17. Venue is proper in this Court because the conduct at issue took place and had an effect in this County.

PARTIES

18. Plaintiff Raymond Malkiewicz is, and at all times relevant hereto, a PEI shareholder.

19. Defendant PEI is a Delaware corporation with headquarters at 680 North Lake Shore Drive, Chicago, IL. As of February 26, 2010, PEI had 4,864,102 shares of Class A (voting) and 28,645,185 shares of Class B (non-voting) common stock outstanding. The Company’s stock trades under the symbols “PLA.A” for Class A and “PLA” for Class B on the NYSE.

20. Defendant Rizvi Traverse is a Delaware LLC that claims offices in Michigan, New York, California, and Connecticut, with whom, according to PEI’s July 12, 2010 press release, “Hefner expresses an intention to partner in connection with the transaction. . . . Rizvi Traverse

[has] contacted major lenders regarding potential financing and that Rizvi Traverse is highly confident ample financial resources will be available to complete the transaction.”

21. Defendant Hefner currently owns 69.5% of PEI’s Class A common stock and 27.7% of PEI’s Class B common stock. Hefner is the founder, Editor in Chief, and Chief Creative Officer of PEI and is its dominant and controlling shareholder. According to PEI’s website, Hefner currently plays “a key role in determining the path of [the Company] and directing other areas of the corporation including cable television, video production, licensing, and digital content.”

22. Defendant Rosenzweig is Executive Vice President of PEI and has been on the Board since 1973. Rosenzweig has been affiliated with the Company since 1958 and became Hefner’s executive assistant in 1963. According to the PEI website, Rosenzweig “is responsible for coordinating and integrating the efforts of senior officers toward achieving goals established by Founder and Editor-in-Chief Hugh M. Hefner. Rosenzweig is also responsible for advising Mr. Hefner on all major policy decisions, including the Company’s involvement in publishing, marketing, product licensing, television and video entertainment, online and gaming. He directs Mr. Hefner’s staff, Playboy Mansion West operations, and is president of the Playboy Jazz Festival.”

23. Defendant David I. Chemerow (“Chemerow”) is the “non-executive chairman of the Board” of PEI and has been a member of the Board since 1996. Prior to joining the Board, Chemerow served as Executive Vice President, Finance and Operations and Chief Financial Officer of PEI for approximately six years.

24. Defendant Dennis S. Bookshester (“Bookshester”) is a member of the Board’s Audit Committee and has been on the Board since 1990.

25. Defendant Scott N. Flanders (“Flanders”) is the current CEO of PEI and has been on the Board since July 1, 2009.

26. Defendant Charles Hirschhorn ("Hirschhorn") is a member of the Audit Committee and the Compensation Committee and has been on the Board since 2006.

27. Defendant Russ Pillar ("Pillar") is a member of the Compensation Committee and has been on the Board since 2003.

28. Defendant Sol Rosenthal ("Rosenthal") is the Chairman of the Compensation Committee and has been on the Board since 1985.

29. Defendant Kai-Shing Tao has been on the Board since May 19, 2010.

30. The defendants named above in ¶¶21-29 are sometimes collectively referred to herein as the "Individual Defendants."

31. Plaintiff alleges that defendants, separately and together, in connection with the Proposed Acquisition, have violated their fiduciary duties owed to plaintiff and the other public shareholders of PEI, including their duties of loyalty, good faith and fair dealing insofar as they stand on both sides of the transaction and have engaged in self-dealing to obtain for Hefner financial benefits not shared by the Class. Plaintiff also alleges that defendants placed an artificial lid on the price of the stock by announcing the Proposed Acquisition at an inadequate price. As a result of defendants' self dealing and divided loyalties, neither plaintiff nor the shareholder class will receive adequate or fair value for their PEI common stock in the Proposed Acquisition.

32. Because defendants have breached their duties of candor, loyalty, good faith and fair dealing in connection with the Proposed Acquisition, the burden of proving the inherent or entire fairness of the Proposed Acquisition, including all aspects of its negotiation, structure, price and terms, is placed upon defendants as a matter of law.

CLASS ACTION ALLEGATIONS

33. Plaintiff brings this action on his own behalf and as a class action pursuant to §735 ILCS 5/2-801 on behalf of all holders of PEI stock who are being and will be harmed by defendants'

actions described below (the "Class"). Excluded from the Class are defendants herein and any person, firm, trust, corporation or other entity related to or affiliated with any defendants.

34. This action is properly maintainable as a class action for, *inter alia*, the following reasons:

(a) As of February 26, 2010, PEI had 4,864,102 shares of Class A (voting) and 28,645,185 shares of Class B (non-voting) common stock outstanding.

(b) There are questions of law and fact which are common to the Class and which predominate over questions affecting any individual Class member. The common questions include, *inter alia*, the following:

(i) whether defendants have breached their fiduciary duties of undivided loyalty and good faith with respect to plaintiff and the other members of the Class in connection with the Proposed Acquisition;

(ii) whether the Individual Defendants and Hefner are unjustly enriching themselves and other insiders or affiliates of Hefner;

(iii) whether Hefner, as the controlling and dominating shareholder of PEI, has breached and is breaching his fiduciary duties to the Company's shareholders by making an unfair and inadequate offer to take the Company private and in failing to disclose material information to the Company's minority shareholders;

(iv) whether defendants have breached any of their other fiduciary duties to plaintiff and the other members of the Class in connection with the Proposed Acquisition, including the duties of candor, good faith, honesty and fair dealing; and

(v) whether plaintiff and the other members of the Class would suffer irreparable injury were the transaction complained of herein consummated.

35. Plaintiff is committed to prosecuting this action and has retained competent counsel experienced in litigation of this nature. Plaintiff is an adequate representative of the Class.

36. A class action is superior to any other method available for the fair and efficient adjudication of this controversy since it would be impracticable and undesirable for each member of the Class, who has suffered or will suffer damages, to bring separate actions.

37. Moreover, defendants have acted and will continue to act on grounds generally applicable to the Class, thereby making appropriate final injunctive or corresponding declaratory relief with respect to the Class as a whole.

DEFENDANTS' FIDUCIARY DUTIES AND THE ENTIRE FAIRNESS STANDARD

38. In any situation where the directors of a publicly traded corporation undertake a transaction that will result in either (i) a change in corporate control or (ii) a break-up of the corporation's assets, the directors have an affirmative fiduciary obligation to obtain the highest value reasonably available for the corporation's shareholders, and if such transaction will result in a change of corporate control, the shareholders are entitled to receive a significant premium. To diligently comply with these duties, the directors may not take any action that:

- (a) adversely affects the value provided to the corporation's shareholders;
- (b) will discourage or inhibit alternative offers to purchase control of the corporation or its assets;
- (c) contractually prohibits them from complying with their fiduciary duties;
- (d) will otherwise adversely affect their duty to search and secure the best value reasonably available under the circumstances for the corporation's shareholders; and/or
- (e) will provide the directors with preferential treatment at the expense of, or separate from, the public shareholders.

39. In accordance with their duties of loyalty and good faith, the Individual Defendants, as directors and/or officers of PEI, are obligated to refrain from:

(a) participating in any transaction where the directors' or officers' loyalties are divided;

(b) participating in any transaction where the directors or officers receive or are entitled to receive a personal financial benefit not equally shared by the public shareholders of the corporation; and/or

(c) unjustly enriching themselves at the expense or to the detriment of the public shareholders.

40. Specifically, in any situation where a majority or controlling shareholder stands on both sides of a challenged transaction, the entire fairness standard is implicated, and the defendants, at least initially, bear the burden of demonstrating the two basic aspects of *fair dealing* and *fair price*.

41. The concept of fair dealing embraces questions of when the transaction was timed, how it was initiated, structured, negotiated, disclosed to the directors, and how the approvals of the directors and the stockholders were obtained. The concept of fair price relates to the economic and financial considerations of the proposed merger, including all relevant factors: assets, market value, earnings, future prospects, and any other elements that affect the intrinsic or inherent value of a company's stock.

42. The test for fairness is not a bifurcated one as between fair dealing and price. All aspects of the issue must be examined as a whole since the question is one of entire fairness.

43. To demonstrate entire fairness, the defendants must present evidence of the cumulative manner by which they discharged all of their fiduciary duties. An entire fairness analysis then requires the Court to consider carefully how the board of directors discharged all of its fiduciary

duties with regard to each aspect of the non-bifurcated components of entire fairness: fair dealing and fair price.

44. Because Hefner does, in fact, stand on both sides of the Proposed Acquisition, the burden to prove the entire fairness of the Proposed Acquisition will remain with defendants.

FACTUAL ALLEGATIONS

45. PEI is a media and lifestyle company that markets the "Playboy" brand through a wide range of media properties and licensing initiatives. The Company publishes Playboy magazine in the United States and abroad and creates content for distribution via television networks, websites, mobile platforms and radio. Through licensing agreements, the Playboy brand appears on a wide range of consumer products in more than 150 countries as well as on retail stores and entertainment venues. The Company's three business groups are Entertainment, Print/Digital and Licensing.

46. The Company was founded in 1953 by defendant Hefner. Joined in 1958 by current Board member and defendant Rosenzweig as his then "executive assistant," Hefner ushered the Company to the iconic status that it enjoys today. But in 1971, PEI went public and with that transition came minority shareholders, to whom Hefner and the Board owed, and continue to owe, unflinching fiduciary duties of loyalty. Hefner now a controlling shareholder, holds the titles "Editor in Chief" and "Chief Creative Officer" at PEI. According to PEI's website, Hefner currently plays "a key role in determining the path of [the Company] and directing other areas of the corporation including cable television, video production, licensing, and digital content." PEI even retains one Board member, Rosenzweig, whose job is to "coordinat[e] and integrat[e] the efforts of senior officers toward achieving goals established by Founder and Editor-in-Chief [Hefner]." As PEI admits, the Company has been "truly an empire ruled by one man."

47. Until recently, PEI had fallen upon hard times, positioned as a magazine-driven company in an Internet age. But after Hefner's daughter, Christie Hefner, stepped down as CEO in

2008, the Company embarked on a plan to restructure PEI by transitioning it to a brand management company. Thus far, the transition plan has been working. On May 6, 2010, for example, PEI announced improved results in all three business groups and saw a net loss for the first quarter ended March 31, 2010 of just \$1.0 million, as compared to a net loss of \$13.7 million in the same period in 2009. The Company issued the following statement in the accompanying press release:

Playboy Enterprises, Inc. (PEI) today announced a net loss for the first quarter ended March 31, 2010, of \$1.0 million, or \$0.03 per basic and diluted share, which compares to a net loss of \$13.7 million, or \$0.41 per basic and diluted share, in the same period last year. The 2010 first quarter included restructuring and impairment charges of \$1.1 million, or \$0.03 per basic and diluted share, versus restructuring and impairment charges that totaled \$8.7 million, or \$0.26 per basic and diluted share, in the same period last year.

First quarter segment income was \$3.2 million, a \$4.5 million improvement from the \$1.3 million segment loss reported in the 2009 first quarter. Improved results in all three business groups as well as lower Corporate expense contributed to the year-over-year improvement. Revenues declined to \$52.1 million from the \$61.6 million in the same time periods, as anticipated, primarily reflecting changes implemented to improve the profitability of *Playboy* magazine.

PEI Chief Executive Officer Scott Flanders said: "We are clearly making progress in our efforts to more effectively monetize the Playboy brand and return the company to sustained profitability. The extensive cost-reduction initiatives implemented over the last 18 months were responsible for the improved first quarter results and contributed to the significant narrowing of losses in our domestic magazine, the increase in Entertainment Group operating margins and the Licensing Group returning to its highest level of profitability since mid-2008. All of these improvements occurred against a backdrop of lingering economic weakness globally and continuing secular challenges, particularly in the print and TV industries.

"With expenses better under control, we are focusing our energies on effectively executing our business strategy," Flanders said. "Our goal is to transition Playboy to a brand management company, and our first priority is to outsource, partner or license those of our operations that can be more efficiently handled by other companies. Already we have completed two major deals, and we are pleased with what we are seeing from our partners thus far. The outsourcing model not only streamlines our organization, it also allows us to reduce our focus to strengthening our core competencies and to growing the high-margin, high-potential businesses that we will continue to operate.

"We believe that 2010 will be a transitional year and that the true benefits of our strategy will be more fully evident next year. Revenues are expected to decline this year, primarily due to changes at *Playboy* magazine, but segment income and operating margins should improve. We believe that Licensing, our most profitable

business, will record solid revenue and profit growth, although the media businesses will remain challenged, showing only marginal improvement over last year,” Flanders said.

48. As PEI’s results began improving in 2009, potential acquirers came knocking. However, despite his duties owed to minority shareholders, Hefner has stated his intention to use his controlling shares to block any non-Hefner driven acquisition of PEI. Indeed, in late 2009, according to the *Chicago Tribune*, “after a protracted period of negotiation, [Hefner] blocked competing bids from a brand management company called Iconix Brand Group Inc. and a former Playboy executive [Jim Griffiths and private equity firm Golden Gate Capital] that might have fetched as much as **\$300 million**.” Having removed all other bidders from competition, Hefner now seeks to take the Company private at a significant discount to the thwarted \$300 million deal.

49. On July 12, 2010, PEI announced that Hefner – now a 69.5% owner of PEI’s Class A common (voting) stock and 27.7% owner of PEI’s Class B (non-voting) common stock – proposed to acquire all outstanding shares of Class A and Class B common stock not already owned by Hefner for just \$5.50 per share. The Company’s press release, titled “Playboy Enterprises, Inc. Announces Receipt of ‘Going Private’ Proposal at \$5.50 Per Share,” stated:

Playboy Enterprises, Inc. (“PEI”) today announced that its board of directors has received a proposal from Hugh M. Hefner (“Hefner”) to acquire all of the outstanding shares of Class A and Class B common stock of PEI not currently owned by Hefner for \$5.50 per share in cash. Hefner owns 69.5% of PEI’s Class A common stock and 27.7% of PEI’s Class B common stock. According to the proposal letter, Hefner has had discussions with Rizvi Traverse Management LLC (“Rizvi Traverse”), with whom Hefner expresses an intention to partner in connection with the transaction. The proposal letter also states that Rizvi Traverse informed Hefner that it had contacted major lenders regarding potential financing and that Rizvi Traverse is highly confident ample financial resources will be available to complete the transaction. The proposal letter states that Hefner and Rizvi Traverse contemplate that the definitive agreements would not contain a financing contingency. In the proposal letter, Hefner advises the board of directors that out of Hefner’s concerns for, amongst other matters, the PEI brand, the editorial direction of the magazine and PEI’s legacy, Hefner is not interested in any sale or merger of PEI, selling Hefner’s shares to any third party or entering into discussions with any other financial sponsor for a transaction of the nature proposed in the letter.

50. The \$5.50 per share price proposed by Hefner recognizes a value of just *\$185 million* for the Company. Not surprisingly, it has been poorly received in the marketplace. Penthouse owner FriendFinder accused Hefner of lowballing PEI shareholders. FriendFinder CEO Mark Bell recently stated, "We think the price is low and there's a lot of value there." Consequently, FriendFinder indicated that it is now working on a competing bid for the Company.

51. On July 13, 2010, Hefner released his initial proposal from five days earlier, in the form of a letter to the Board. Hefner's letter stated, in its entirety:

Gentlemen:

I am writing to you to inform you that I am interested in negotiating a transaction with our company to acquire all of the outstanding shares of Class A and Class B Common Stock of PEI that I do not currently beneficially own. In this transaction, I intend to partner with Rizvi Traverse Management LLC ("Rizvi Traverse"). Rizvi Traverse is a private equity firm with a special focus on the entertainment and media sector. Rizvi Traverse currently owns or has investments in International Creative Management, Summit Entertainment, Newbridge Capital and Clearscope Partners. Rizvi Traverse can bring significant resources to our company to help accelerate its growth.

Given my many relationships with our company – founder, editor-in-chief, chief creative officer, holder of 69.5% of the outstanding voting Class A common stock and 33.7% of the total outstanding shares of capital stock, I expect that a Special Committee of the Board of Directors will be formed to consider this transaction. I look forward to working with the Special Committee to move this transaction forward as expeditiously as possible.

I believe this proposal is in the best interests of our company and its minority stockholders. The proposal provides an excellent opportunity for the minority stockholders of PEI to realize liquidity for their shares at a significant premium to market values. I believe the proposal will also reinvigorate the company I founded and create a lasting legacy for the Playboy brand, a brand we have all worked hard to establish as one of the most widely recognized and popular brands in the world.

Please be advised that out of my concerns for amongst other matters the Playboy brand, the editorial direction of the magazine and our company's legacy, I am not interested in any sale or merger of the Company, selling my shares to any third party or entering into discussions with any other financial sponsor for a transaction of the nature proposed in this letter.

I expect continuity of senior management through and following the transactions contemplated by my proposal. I am open to participation by continuing

members of senior management in the new entity I and Rizvi Traverse propose to form to complete the acquisition ("NewCo").

Based upon conversations with Rizvi Traverse which are in turn informed by Rizvi Traverse's due diligence to date, I am in a position to propose that NewCo would acquire all of the outstanding shares of common stock not currently owned by me for \$5.50 per share in cash. In accordance with the Company's Certificate of Incorporation, the same per share price will be paid to Class A and Class B common stockholders. The proposed per share consideration represents a 39.9% premium over the closing price of the Class B common stock on July 7 and premiums of 43.4% and 80.9% over the average closing prices for the last 30 days and one year, respectively.

Rizvi Traverse informs me that it has contacted major lenders regarding potential financing for this transaction and Rizvi Traverse is highly confident that ample financial resources will be available to complete this transaction. I and Rizvi Traverse contemplate that the definitive agreements will not contain a financing contingency.

This confidential indication of interest is non-binding and no agreement, arrangement or understanding between or among me, Rizvi Traverse or Playboy Enterprises, Inc. has been or will be created until such time as definitive documentation has been executed and delivered by all appropriate parties, and any proposed agreement, arrangement or understanding has been approved by the Special Committee and the Board of Directors, as appropriate. In that regard, you should be aware that while I have engaged in discussions with Rizvi Traverse in connection with this proposal, I have not entered into any agreement, arrangement or understanding with Rizvi Traverse concerning the transactions proposed in this letter.

This indication of interest and its contents are confidential, and should not be disclosed to any third parties, except to the extent that legal counsel to the Company advises the Board of Directors in writing that disclosure is required by applicable law or disclosure is made on a confidential basis to the Company's legal and financial advisors.

I and my legal and financial advisors at Munger, Tolles & Olson LLP and Moelis & Company, LLC look forward to the earliest possible opportunity to discuss with the Special Committee and its legal and financial advisors the path to complete a mutually acceptable transaction.

Very truly yours,

Hugh M. Hefner

52. As noted, in complete disregard of the fiduciary duties owed to PEI's minority shareholders, Hefner stated that "out of my concerns for amongst other matters the Playboy brand, the editorial direction of the magazine and our company's legacy, *I am not interested in any sale or*

merger of the Company, selling my shares to any third party or entering into discussions with any other financial sponsor for a transaction of the nature proposed in this letter.” In other words, Hefner will use his controlling shares and influence over the Board to, once again, block all offers by all other bidders, no matter the price and no matter the detriment to minority shareholders. If Hefner and the Board are allowed to continue on the present path, Hefner’s individualized and personal concerns regarding “editorial direction” and “legacy” will trump the minority shareholders’ concerns in maximizing value for their stock.

53. In the same letter, Hefner’s incentives to the Board and Company management further undermine any hope at a fair process for the Proposed Acquisition. Senior management and the Board, already conflicted from Hefner’s undeniable influence over the Company, are even further conflicted by his promises of continued employment in the new Hefner-driven entity.

54. Lastly, as detailed above, Hefner also explained that, in light of his overwhelming influence as “founder, editor-in-chief, creative officer, holder of 69.5% of the outstanding voting Class A common stock and 33.7% of the total outstanding shares of capital stock,” he expects to “work[] with the Special Committee to move this transaction forward *as expeditiously as possible.*” Thus, time is of the essence as Hefner and the Board work towards consummating the Proposed Acquisition at a firesale price while blocking all other competing non-Hefner driven bids.

55. In pursuing the unlawful plan to cash out the Company’s public shareholders for grossly inadequate consideration, each of the defendants is violating applicable law by directly breaching and/or aiding the other defendants’ breaches of their fiduciary duties of loyalty, candor, due care, independence, good faith and fair dealing.

56. In essence, the Proposed Acquisition is solely designed to ensure that PEI’s largest shareholder completes the Proposed Acquisition despite the fact that the offer price called for in the Proposed Acquisition is highly unfair to the minority shareholders of the Company.

CAUSE OF ACTION

Breach of Fiduciary Duty Against All Defendants

57. Plaintiff repeats and realleges each allegation set forth herein.
58. Defendants are structuring their discussions concerning and timing of announcements of the Proposed Acquisition to benefit themselves and/or their colleagues to the detriment of PEI's public shareholders, and/or are aiding and abetting therein. Instead of attempting to maximize shareholder value for PEI's shareholders, the defendants have taken actions in violation of applicable state law which will only serve their own interests, and the interests of the private equity firm, while sacrificing the interests of PEI's public shareholders, and/or are aiding and abetting therein.
59. Defendants were and are under a duty:
- (a) to fully inform themselves of the market value of PEI before taking, or agreeing to refrain from taking, action;
 - (b) to act in the interests of PEI's public shareholders;
 - (c) refrain from advancing their own interests, or those of other defendants, at the expense of plaintiff and the Class;
 - (d) to obtain the best financial and other terms when the Company's independent existence will be materially altered by a transaction; and
 - (e) to act in accordance with their fundamental duties of due care, loyalty, candor, independence, and good faith.
60. By the acts, transactions and courses of conduct alleged herein, defendants, individually and as part of a common plan and scheme, in breach of their fiduciary duties to plaintiff and the other members of the Class, are implementing and abiding by a process that will deprive plaintiff and other members of the Class of a fair process and the true value of their investment in PEI.

61. By reason of the foregoing acts, practices and course of conduct, the defendants failed to exercise the required care and diligence in the exercise of their fiduciary obligations toward plaintiff and the other PEI public stockholders.

62. In light of the foregoing, plaintiff demands that defendants, as their fiduciary obligations require, immediately:

(a) act independently so that the interests of PEI's public stockholders will be protected, including, but not limited to, the retention of truly independent advisors and/or the appointment of a truly independent Special Committee;

(b) adequately ensure that no conflicts of interest exist between defendants' own interests and their fiduciary obligation to maximize stockholder value or, if such conflicts exist, to ensure that all conflicts be resolved in the best interests of PEI's public stockholders; and

(c) otherwise ensure that plaintiff and the other members of the Class receive a fair process and fair price in connection with any transaction involving PEI, including full and fair disclosure of all material information.

63. As a result of defendants' failure to take such steps to date, plaintiff and the other members of the Class have been and will be damaged in that they have been and will be prevented from obtaining a fair process or fair price for their shares.

64. Defendants are not acting in good faith toward plaintiff and the other members of the Class, and have breached and are continuing to breach their fiduciary duties to plaintiff and the members of the Class.

65. As a result of defendants' unlawful actions, plaintiff and the other members of the Class will be irreparably harmed in that they will not receive a fair process or fair value for PEI's assets and business. Unless the defendants' actions are enjoined by the Court, defendants will

continue to breach their fiduciary duties owed to plaintiff and the members of the Class, and will engage in a process that inhibits the maximization of shareholder value.

66. Plaintiff and the other members of the Class have no adequate remedy at law.

PRAYER FOR RELIEF

WHEREFORE, plaintiff demands injunctive relief, in his favor and in favor of the Class and against defendants as follows:

- A. Declaring that this action is properly maintainable as a class action;
- B. Enjoining defendants, their agents, counsel, employees and all persons acting in concert with them from consummating the Proposed Acquisition, unless and until the Company adopts and implements a procedure or process to obtain a merger providing the highest possible value for shareholders;
- C. Directing the Individual Defendants to exercise their fiduciary duties to obtain a transaction which is in the best interests of the Company's shareholders until the process for the sale or auction of the Company is completed and the best possible consideration is obtained for PEI;
- D. Rescinding, to the extent already implemented, the Proposed Acquisition ;
- E. Awarding plaintiff the costs and disbursements of this action, including reasonable attorneys' and experts' fees; and
- F. Granting such other and further equitable relief as this Court may deem just and proper.

DATED: July 14, 2010

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