

# PLAYBOY



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## FINANCIAL HIGHLIGHTS

(in thousands, except per share amounts)	Fiscal Year Ended 12/31/99	Fiscal Year Ended 12/31/98	Six Months Ended 12/31/97	Fiscal Year Ended 6/30/97
<b>OPERATING DATA</b>				
Net revenues	\$ 347,817	\$ 317,618	\$ 149,541	\$ 296,623
Operating income (1)	12,888	4,968	4,459	15,745
Net income (loss)	(5,335)	4,320	1,065	21,394
Basic net income (loss) per common share	(0.23)	0.21	0.05	1.05
Diluted net income (loss) per common share	(0.23)	0.21	0.05	1.03
EBITDA (2)	58,722	38,889	17,584	41,651
<b>YEAR-END POSITION</b>				
Shareholders' equity	\$ 161,281	\$ 84,202	\$ 78,683	\$ 76,133
Book value per common share	6.68	4.08	3.83	3.73

(1) For the fiscal year ended December 31, 1999, segment profitability, or operating income before restructuring expenses, was \$13,979.

(2) EBITDA represents earnings from continuing operations before income taxes, cumulative effect of change in accounting principle, interest expense, depreciation of property and equipment, amortization of intangible assets, amortization of investments in entertainment programming, amortization of deferred financing fees related to the Spice acquisition, expenses related to the vesting of restricted stock awards and equity in operations of PTVI and other. EBITDA should not be considered an alternative to any measure of performance or liquidity under generally accepted accounting principles. Similarly, it should not be inferred that EBITDA is more meaningful than any of those measures.

**CHANGE IN FISCAL YEAR:** To better align the Company's businesses with its customers and partners who also operate and plan on a calendar-year basis, the Company changed its year-end from June 30 to December 31. The fiscal year ended December 31, 1998 represented the first full calendar year subsequent to this change.

**FORWARD-LOOKING STATEMENTS:** This annual review contains "forward-looking statements" as to expectations, beliefs, plans, objectives and future financial performance, and assumptions underlying or concerning the foregoing. Such forward-looking statements involve risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. The following are some of the important factors that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements: (1) government actions or initiatives, including (a) attempts to limit or otherwise regulate the sale of adult-oriented materials, including print, video and online materials or businesses such as casino gaming; (b) regulation of the advertisement of tobacco products; or (c) substantive changes in postal regulations or rates; (2) increases in paper prices; (3) changes in distribution technology and/or unforeseen delays in the implementation of such technology by the cable and satellite industries that might affect the Company's plans and assumptions regarding carriage of its program services; (4) increased competition for advertisers from other publications and media or any significant decrease in spending by advertisers generally, or with respect to the adult male market; (5) increased competition for transponders and channel space, and any decline in the Company's access to, and acceptance by, cable and direct-to-home satellite systems; (6) effects of the consolidation taking place nationally in the single-copy magazine distribution system; (7) marketing issues facing direct marketing stamp sheet agents; (8) new competition in the cable and direct-to-home markets; (9) uncertainty of market acceptance of the Internet as a medium for information, entertainment, e-commerce and advertising, an increasingly competitive environment for advertising sales, the impact of competition from other content and merchandise providers, as well as the Company's reliance on third parties for technology and distribution for its online business; (10) potential problems associated with the integration of the Company's business with Spice's business; and (11) potential adverse effects of unresolved Year 2000 problems, including those experienced by external key suppliers.

# PLAYBOY INTERVIEW: CHRISTIE HEFNER

**PLAYBOY:** What were the most significant milestones for Playboy Enterprises in 1999?

**HEFNER:** It was a very busy, very productive year. We made the largest acquisition in our history, Spice Entertainment, Inc., and completed our largest joint venture ever, Playboy TV International, LLC (PTVI), with the Cisneros Television Group. Late in the year, we also announced plans to spin off a minority interest in Playboy.com, Inc., our fast-growing Internet business.

The big story for our largest profit center, the Entertainment Group, is the significant growth of digital cable domestically. Digital is important to our future television success because we realize greater revenues per home on digital systems than on cable or direct-to-home satellite, and our networks are carried on more digital systems thanks to their greater channel capacity. The number of digital homes with access to Playboy TV grew to 1.3 million in 1999, a more than sixfold increase over 1998, and Paul Kagan Associates, Inc.'s *Pay TV Newsletter* projects that the total number of U.S. digital households will grow more than threefold between 1999 and 2001, to 16.1 million.

On the international front, the structure of the PTVI joint venture gives us significant annual payments for both the international television rights to our library of more than 1400 hours of original Playboy programming, and to cover production costs of new programming. Additionally, the joint venture—of which Playboy now owns 19.9%, with the right

to increase to 50%—allows us to launch new international Playboy and Spice networks more aggressively.

Additionally, the Company completed a successful secondary offering in the spring of 1999, which was designed to improve the stock's liquidity by increasing institutional investment and reducing family ownership. The offering was oversubscribed and attracted new institutional investors to the Company.

**PLAYBOY:** The Playboy.com spin-off certainly attracted considerable interest from the media and the financial community. Why did you and the board decide to take that step?

**HEFNER:** For some time, we've indicated we would consider selling a portion of this business if we felt it was the best way to create shareholder value. Playboy.com increased revenues 126.9% in 1999 over 1998 and 83.1% in 1998 over 1997. It also set a new high of 112 million page views in December 1999. We felt that track record, along with Playboy's brand power, would earn us an attractive valuation. By creating a separate entity, we also could provide the currency needed to attract top talent and execute deals. We recently hired Kevin Mayer as CEO for the business. Kevin was previously executive vice president and general manager of the GO Network portal, and executive vice president for the Buena Vista Internet Group, where he oversaw ESPN's and ABC's portfolios of sites. Kevin has both a strong Internet background and proven strategic and business-building skills. We're currently in registration with the Securities and

Exchange Commission—which means I can't say a lot—but we're very excited about our plans to go to market in the first half of 2000.

**PLAYBOY:** Looking ahead, what are the Company's biggest challenges?

**HEFNER:** Certainly, the business pressures facing our Catalog Group are a major concern for us. Unfortunately, the proliferation of low-cost online competitors has affected this business, causing declining revenues and profits. In response, we've implemented three strategies: reducing the Catalog Group's overhead and customer prospecting costs; moving the former *Playboy* and *Spice* print catalogs online and integrating them into our growing branded e-commerce business; and working with ING Baring Furman Selz to assess strategic options for the business.

**PLAYBOY:** In 1998, you announced that you wanted Playboy Enterprises to be a \$1 billion company within five years. Where are you on that path?

**HEFNER:** As of December 31, 1999, the Company's equity market capitalization stood at \$569 million, up 34.5% from the market cap on that date a year earlier. Because of the secondary offering last year and shares issued in connection with the Spice acquisition, the number of shares outstanding is also up 17.1%, to 24.1 million. We also believe the Playboy.com spin-off will help unlock additional value in PEI's stock, which we don't believe is fully reflected in the current share price.

**PLAYBOY:** What does 2000 hold for your other businesses?



**HEFNER:** Playboy is unmistakably hot, which is reflected both in how popular the Playboy Mansion has become among Hollywood stars such as Leonardo DiCaprio and Cameron Diaz, and in the favorable media coverage Hef and the Mansion are attracting. All of our business groups are working to capitalize on the buzz, most notably the Product Marketing Group. In its successful repositioning of the Playboy products program, the business developed several popular products in 1999, including the Playboy covers camp shirt—in which Hef was photographed constantly by the media during his return to the Cannes Film Festival last year—and a new jewelry line. New Playboy products have gotten tremendous editorial coverage in major publications, including *Vogue*, *Elle*, *Jane*, *Cosmopolitan*, and *The New York Times*, which in turn has helped spur international interest in our branded merchandise. In late 1999, we signed a deal with Mitsui & Company, Ltd., Japan's largest general trading company, to produce and sell Playboy products and open Playboy boutiques in that country. And early this year, we reached an agreement with Sanrio Far East Company—which created the successful Hello Kitty program—to develop a Femlin product line in Japan.

The Publishing Group also is leveraging the buzz, adding 65 new advertisers

in 1999—a 35.4% increase over the previous year—including companies such as Ralph Lauren Chaps, Liz Claiborne, FOX Broadcasting, Comedy Central and a number of dot-coms, including Reel.com and Gear.com.

Our Casino Gaming Group also plans to capitalize on the Company's current marketing sizzle by joining with strong partners to develop upscale Playboy-themed entertainment centers anchored by casinos. I remain convinced that this is a business at which Playboy can succeed, but only under the right terms and with the right partners.

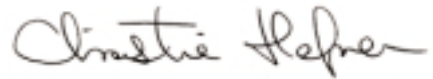
**PLAYBOY:** With Playboy.com expected to become a separate company, what will be the focus of Playboy Enterprises in 2000?

**HEFNER:** When I became CEO in 1988, I developed a strategy for Playboy 2000 designed to make the Company more global and electronic. Twelve years later, that strategy has produced the dramatic revenue and profit growth of our Entertainment Group, along with our move onto the Internet. The magazine continues to be the most-recognized symbol of the Company and the brand, and often is the leader in opening up new international markets. For example, in partnership with Attica, our Greek publishing partner, we launched two more international editions of *Playboy* in 1999, in Hungary and Romania.

With the additional human and

financial resources Playboy.com is assembling as a separate company, we will be in an even stronger position to create multimedia ventures. In late 1999, we produced the very successful *Playboy's Club Lingerie* fashion show, which was simulcast on *Playboy.com* and Playboy TV, was the subject of a Playboy home video, and inspired a lingerie line sold through *PlayboyStore.com*. Mardi Gras 1999 was the subject of a Playboy home video, a *Playboy* magazine pictorial and a *Playboy.com* Webcast. *Playboy.com* and our ancillary publishing business, Special Editions, just returned from New Orleans and an even more successful Mardi Gras.

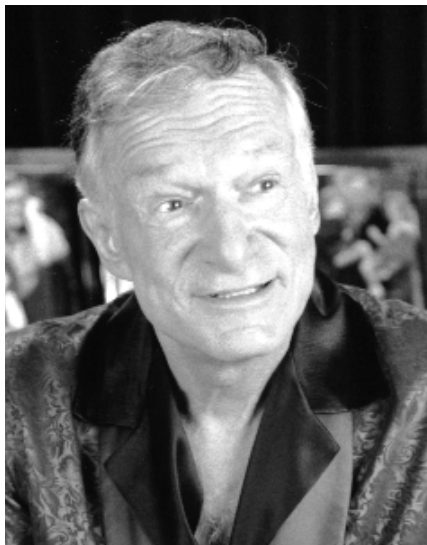
The success of events like these demonstrates that new communications and entertainment technologies have opened up more of the world to us than ever before, enabling us to cost-effectively expand Playboy's appeal around the globe. We believe this popularity will carry us successfully through 2000 and beyond.



Christie Hefner  
Chairman and Chief Executive Officer  
March 17, 2000

## A FEW WORDS FROM

# HUGH M. HEFNER



*"We live in a Playboy world today. You see it reflected on television and the Internet, in newspapers and magazines—from shows like Sex and the City, in which Sarah Jessica Parker wears a Playboy Rabbit Head necklace, to Jay Leno's nightly monologue."*



*"We're a class act with a history, a heritage, a continuity of accomplishment. Playboy has always had a connection with its readers, which is why, for the better part of half a century, Playboy has been the largest-selling, most influential men's magazine in the world."*



*"Now a whole new generation identifies with Playboy. The magazine's college readership has increased 62 percent since 1995. We have a string of top-selling videos in Billboard. And there are more than 400 Playboy stores and boutiques selling our merchandise in China."*

SPECIAL EDITIONS



## Publishing

As *Playboy* magazine enters the new millennium, it remains the best-selling men's monthly magazine in the world and the nucleus of one of the world's most popular lifestyle brands. Since its creation in 1953, *Playboy* has published a rich editorial mix of articles and fiction, including contributing authors ranging from Tom Clancy to Molly Ivins, as well as interviews and photography of the world's most beautiful women. In addition to the explosive and controversial *Playboy Interview* with Jesse Ventura, highlights in 1999 included pictorials featuring actress and *Playboy* favorite Pamela Anderson, model Naomi Campbell and Rena Mero, the World Wrestling Federation champion and the character formerly known as Sable, whose April 1999 pictorial became the second-highest-selling issue of the Nineties. In 1999, the magazine also attracted 65 new advertisers—a 35.4% increase over the previous year—including Ralph Lauren Chaps, Liz Claiborne, First Bank USA, FOX Broadcasting, Comedy Central, Konami, Rado watches and a share of the emerging dot-com business, including Reel.com and Gear.com. *Playboy* also expanded its multimedia advertising program, which offers companies powerful, wide-reaching advertising opportunities in *Playboy* magazine and on *Playboy.com*, to include contracts with HBO, Miller Beer and FOX Sports.

**PLAYBOY MAGAZINE:** As the world's most popular monthly magazine for men, *Playboy* is known for its ability to attract the most beautiful women to its pages, as well as for its compelling editorial content. In 1999, *Playboy* continued to build upon its impressive roster of celebrated cover models with international supermodel Naomi Campbell, featured in a 14-page pictorial in the December issue. *Playboy* also attracts the world's best writers and journalists. Contributors in 1999 included William F. Buckley Jr., Joyce Carol Oates, Amy Sohn, Kurt Vonnegut, Donald Westlake, Robert S. Wieder and Bill Zehme, as well as humorists Al Franken, Bill Maher, Janeane Garofalo and Ben Stiller. In the fiction piece *Personal Injury* (November 1999), best-selling author Scott Turow continues his thoughtful examination of the legal world by exploring an attorney's internal struggle with judicial bribes. *Illustration by Daniel Torres.* [Click here to view the wealth of content inside each issue of \*Playboy\*.](#)

**OTHER DOMESTIC PUBLISHING:** *The Century of Sex: Playboy's History of the Sexual Revolution 1900-1999*, the culmination of *Playboy* Senior Staff Writer James R. Petersen's three and a half years of work and ten installments in *Playboy*, was published by Grove/Atlantic in the fall of 1999. The 547-page opus, which includes a foreword by *Playboy* Founder and Editor-in-Chief Hugh M. Hefner, received very positive critical response and national media coverage. It continues to sell in bookstores throughout the country and online.

**SPECIAL EDITIONS:** The Publishing Group's Special Editions provide a profitable way to use the Company's vast photo collection. In 1999, the Company produced 24 Special Editions, including continuing top-selling titles *Playboy's College Girls*, *Playboy's Nudes* and *Playboy's Book of Lingerie*. Additionally, *Special Editions Online* launched a site within *Playboy.com* dedicated to behind-the-scenes peeks at photo shoots and promotional coverage of current and upcoming issues. In early 2000, *Special Editions* launched a section on *Playboy Cyber Club* that is devoted to providing exclusive and innovative content, including video coverage of model auditions, in-depth views of cover photo shoots and interactive evaluations of photo submissions.

**INTERNATIONAL EDITIONS:** Capitalizing on the global recognition and reputation of *Playboy* magazine, the Company produces 15 editions of *Playboy* around the world through international publishing partnerships and licensing agreements. In 1999, *Playboy* expanded its alliance with Attica, the Greek edition's publishing partner, into a joint venture that launched locally produced editions of *Playboy* in Hungary (pictured above) and Romania. [For a peek at \*Playboy\* around the globe, click here.](#)



## Playboy Magazine

**PLAYBOY INTERVIEW:** The *Playboy Interview* presents thought-provoking, in-depth conversations with celebrities, newsmakers, sports figures and business and political leaders. Subjects included Academy Award-nominated actor Kevin Spacey (October 1999); New Orleans chef extraordinaire Emeril Lagasse (February 1999); electrifying actor Samuel L. Jackson (June 1999); legendary stand-up comedian and filmmaker Albert Brooks (August 1999); gifted comedic talent Chris Rock (September 1999); Academy Award-winning screenwriter and actor Ben Affleck (December 1999); Amazon.com Founder and CEO Jeff Bezos (February 2000); and an astonishing conversation with professional wrestler turned Minnesota governor Jesse Ventura (November 1999). [Ventura's interview](#), which attracted international media attention for his shocking opinions on organized religion, gun control and drugs, inspired a second installment in March 2000, featuring previously unpublished material from *Playboy* Contributing Editor Lawrence Grobel's original discussion with Ventura. [All Playboy Interviews are available in their entirety via the Playboy Cyber Club.](#)

**PICTORIALS:** Each issue of *Playboy* contains its trademark Playmate of the Month. After a yearlong cross-country search for the first Playmate of the new millennium, *Playboy* found two, Misses January 2000 Darlene and Carol Bernaola, two Peruvian beauties residing in Miami. Throughout the year, *Playboy* showcases celebrity pictorials as well as special thematic features. [Access to Playmate pictorials is available through the Playboy Cyber Club.](#)

**ARTICLES:** The countdown to the new millennium sparked international debate and trepidation about what Y2K would portend for everything from the world's banking system to municipalities' water supplies to air travel. In *Cities on the Moon* (January 2000), Ray Bradbury shared his dismay over the frenzy surrounding New Year's Eve 2000 celebrations and offered advice for facing the future. *Painting by Donato Giancola.*

**FASHION:** Fashion is important to the *Playboy* man. Combining trendsetting style with fashion-conscious personalities, the magazine keeps its readers informed about the hottest designers and latest looks. In the fashion feature *Joshua Redman* (May 1999), the popular jazz saxophonist redefined the power suit in a bold setting.

**20 QUESTIONS:** Each month, *Playboy's 20 Questions* offers a glimpse into personalities who are attracting interest across the country, such as David and Tom Gardner of the popular Motley Fool investment Web site (February 1999). Other *20 Questions* subjects in 1999 included actor Ashley Judd (May 1999) and baseball Hall of Famer Joe Morgan (October 1999).

**ELECTRONICS:** From digital toys to must-have gadgets, *Playboy* men demand knowledge of the latest technological innovations. This sleek television, with a flat picture tube that produces top-of-the-line images, is just one of the dozen affordable electronic treasures featured in *Gotta Have It* (May 1999).

WHAT'S NEW IN PLAYBOY MAGAZINE



## Entertainment

The launch of Playboy TV International, LLC (PTVI), the acquisition of Spice Entertainment, Inc. and the strength of Playboy TV in the United States contributed to a record year in 1999 and secured Playboy's position as the world's premier provider of branded adult programming. Capitalizing on the global popularity of television entertainment and the power of the Playboy brand, the Entertainment Group produces quality adult programming for sale and distribution around the world. Playboy programming is available on Playboy TV networks in the United States and overseas as well as on other TV networks and through home video and digital video disc (DVD) sales in more than 150 countries and territories.

**PLAYBOY TV INTERNATIONAL:** In 1999, the Entertainment Group and Cisneros Television Group, a division of one of Latin America's leading entertainment corporations, formed PTVI, a joint venture that owns, operates and launches Playboy TV and Spice-branded television networks around the world, excluding the United States and Canada. The joint venture will own existing international Playboy TV and Spice networks in the United Kingdom, Japan, Latin America and Iberia. In addition, PTVI is aggressively pursuing a business plan that includes the launch of networks in new countries, development of local programming and the sale of programming to other overseas TV networks.

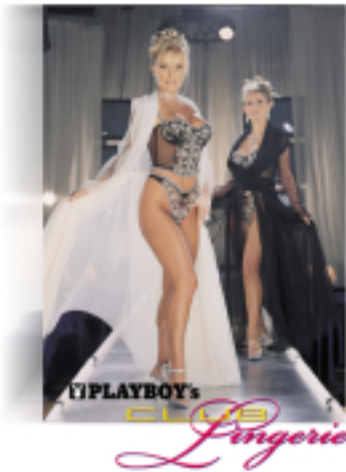
**WORLDWIDE HOME VIDEO/DVD:** With all 16 newly released titles reaching *Billboard's* top 40 video sales in 1999, Playboy maintains its strong presence in the home video industry. In addition to their extensive U.S. distribution, the Company's videos are sold in approximately 55 countries and territories. Taking advantage of the emerging DVD market, Playboy Home Video, working with Image Entertainment, Inc., released more than 50 Playboy titles in DVD format in 1999.

**PLAYBOY TV:** Playboy TV, which added approximately 3.5 million households last year, served approximately 25 million U.S. cable addressable and DTH households at the end of 1999. As cable service providers continue their shift of upgrading analog to digital systems, Playboy TV will continue to gain distribution in more television households. [For more information about Playboy TV programming and distribution, click here.](#)

**PLAYBOY TV EN ESPAÑOL:** In August 1999, Playboy TV en Español was launched as a 24-hour Spanish-language network within the United States. Playboy TV en Español provides quality adult programming via a feed from our Latin American network. Carried in the DISH Latino package on the EchoStar service, which is available to approximately 3 million homes, Playboy TV en Español is offered to U.S. cable and DTH operators.

**SPICE:** In March 1999, the Company acquired Spice Entertainment, Inc., which now includes the Spice and Spice 2 networks, leading providers of premium adult entertainment. The acquisition was a classic consolidation play with the Company's AdulTVision movie service and enhanced the Entertainment Group's growing, high-margin television business. The [Spice networks](#) reached approximately 16 million U.S. cable addressable households at the end of 1999.

CROSS-PROMOTIONAL EVENTS



MOVIES



ORIGINAL PROGRAMMING



DTH/SATELLITE



## Playboy TV

**CROSS-PROMOTIONAL EVENTS:** In 1999, the Company created its first-ever live multimedia event, *Playboy's Club Lingerie*, a fashion show simultaneously broadcast via Playboy TV and *Playboy.com*. *Playboy's Club Lingerie* home video and the runway-modeled lingerie designs were available through [PlayboyStore.com](http://PlayboyStore.com).

**MOVIES:** In 1999, the Entertainment Group produced 10 original feature-length movies, including *Web of Seduction* and *Word of Mouth*. The films air on Playboy TV and other international television networks, are available for rent in major video stores, and are sold domestically and internationally on home video through retail outlets.

**DTH/SATELLITE:** Playboy TV continues to expand its carriage on DTH platforms. At the end of 1999, the domestic network was available to approximately 12.4 million DTH households, a 27% increase over the previous year.

**ORIGINAL PROGRAMMING:** Playboy TV's library of original programming grew to approximately 1500 hours, including new installments of *Sexcetera*, an hourlong magazine-style program focusing on sex and relationships; *Behind Closed Doors*, a three-part documentary series examining sexual mores in America; *Playboy's Sexy Girls Next Door*, an amateur video contest; and *Night Calls*, a live call-in talk show, which entered its fifth season in 1999. In addition, Alta Loma Entertainment, Inc.'s *Passion Cove*, a sexy dramatic series, was licensed to Home Box Office/Cinemax to air on its networks. [For a schedule of Playboy TV programming, click here.](#)



FASHION

GLOBAL MARKETING

PLAYBOY COVERS SHIRT

BRAND IDENTITY

JEWELRY

COLLECTIBLES

RETAIL PRESENCE

**Product Marketing** Leveraging the strength of its brand, Rabbit Head Design and rich heritage, *Playboy* is the only magazine to become a global consumer products brand. Playboy merchandise is sold in more than 1000 U.S. specialty stores and hundreds of international retail outlets, and is available online through *PlayboyStore.com* (<http://www.playboystore.com>). Nineteen ninety-nine was a pivotal year for the business as it repositioned the Playboy products program worldwide. The launch of hot new products like the covers camp shirt and a metropolitan jewelry collection spurred a domestic resurgence of the brand that in turn broadened the group's international licensing business. In 1999, the Company signed a master license agreement with Mitsui & Company, Ltd., Japan's largest general trading company, to produce and sell Playboy apparel and accessories and to establish the first freestanding Japanese Playboy boutique. In early 2000, Playboy signed master licensee Sanrio Far East Company, creators of the successful Hello Kitty licensing program, to establish a Femlin line in Japan in 2000, which will be brought to the United States.

**FASHION:** Drawing upon the apparel expertise of our exclusive domestic activewear and jeanswear licensee, California Sunshine Activewear, Inc., Playboy has reemerged as an arbiter of style among today's 18-to-34-year-old fashion-conscious men and women. Buzz about and interest in the apparel line have been fueled by trade and consumer coverage in leading publications, including *Vogue*, *Elle*, *Cosmopolitan*, *The New York Times* and *Jane*.

**PLAYBOY COVERS SHIRT:** As one of the top-selling items of 1999, the Playboy covers camp shirt was worn around the world, from the Cannes Film Festival—by *Playboy* Founder and Editor-in-Chief Hugh M. Hefner—to a hot Hong Kong nightclub, worn by well-known Japanese pop star Takuya Kimura. Made from 98 *Playboy* magazine cover images, the striking pattern is featured on bikini model Caprice on *Playboy's* March 2000 cover and is being extended to other product categories.

**JEWELRY:** Combining the power of a Playboy vintage design with the contemporary ingenuity of licensee Lucas International, LLC, Playboy jewelry has become a fashionable way for young women and men to project the fun lifestyle for which Playboy is known. Sarah Jessica Parker, the Golden Globe-winning lead actor of HBO's *Sex and the City*, frequently wore this Rabbit Head Design necklace on the show.

**RETAIL PRESENCE:** Tied into promotional activities for the annual Playboy Jazz Festival, the Product Marketing Group teamed with three Los Angeles-area Bloomingdale's department stores to create dedicated in-store boutiques in the summer of 1999, showcasing Playboy's apparel line. In 2000, the trendy retailer Urban Outfitters will begin to offer Playboy-branded apparel, barware and products incorporating the Playboy covers pattern.

**GLOBAL MARKETING:** Critical to the continued success of its repositioning efforts, the Product Marketing Group is dedicated to ensuring a consistent global image for its products. In 1999, Playboy spearheaded a centralized photo shoot involving eyewear licensees, from Brazil to Hong Kong, which supported uniform global marketing and branding. Plans are under way to broaden these efforts into additional product categories.

**COLLECTIBLES:** The public's fascination with Playboy's extraordinary 46-year history and the brand's important role in popular culture have made collectibles an important new product category. In 1999, Playboy signed a two-year deal with industry leader Gibson Musical Instruments to produce a limited-edition series of high-end electric guitars and accessories featuring the Rabbit Head Design and Playmate images. Product Marketing also secured a five-year deal with Cigarette Racing Team, Inc. to annually produce at least nine 35-foot limited-edition offshore racing boats.

**BRAND IDENTITY:** Nothing personifies Playboy more than its Bunny Costume, which evokes the glamour and sophistication of the Playboy Clubs and casinos. In 1999, Playboy joined Chanel and Sotheby's to raise money for New York's Community Research Initiatives on AIDS by donating a Bunny Costume, which was showcased in a Bergdorf's window display along with retro Playboy barware. Not only did the Bunny suit attract consumer attention; it also raised \$7,500 for the cause. Leveraging the power of the Playboy brand, the Company expects to announce a gaming deal in 2000.



**Playboy.com** In late 1999, Playboy Enterprises, Inc. (PEI) announced its plans to sell a minority interest in Playboy.com, Inc. The decision came as Playboy.com significantly expanded its editorial content and e-commerce offerings, integrated the *Playboy* and *Spice* catalogs as direct commerce, set a high of approximately 113 million page views in a single month and more than doubled revenues in 1999 over 1998. Giving the business access to capital to continue its aggressive growth and creating a separately traded stock valuable for attracting top talent and concluding deals were major factors driving the IPO decision. Going forward, Playboy.com plans to solidify its position as the preeminent men's entertainment destination on the Web by leveraging its relationships with other PEI businesses to create Playboy-themed content unique to the Internet and developing a strong international presence.

**PLAYBOY.COM:** In 1999, *Playboy.com* created 20 themed content areas, ranging from Love & Sex—featuring commentary from noted sexperts Dr. Pepper Schwartz and Susie Bright, along with an interactive version of the *Playboy Advisor*—to Living in Style, which includes authoritative lifestyle advice on topics such as “Martini Culture” and “Stereo 101.” Seizing on the Internet auction craze, the site launched *Auctions.Playboy.com* in late 1999, which specializes in premium collectibles and tickets to special events, such as those to the millennium New Year's Party at the Playboy Mansion that sold for \$50,000.

**PLAYBOY STORE:** Playboy.com's e-commerce revenues climbed almost 200% in 1999, driven primarily by sales through *PlayboyStore.com*. In late 1999, the Company completed the reconfiguration of the former *Playboy* print catalog into *PlayboyStore.com*, and tapped the Catalog Group's direct-response expertise to produce a spring 2000 print mailing designed to drive traffic to the Web as well as showcase top products. Also in early 2000, *PlayboyStore.com* completed a major redesign that implemented the latest e-commerce advances, including live, real-time customer service, Express Click shopping and automated up-selling and cross-selling. *PlayboyStore.com* now includes more than 2700 products, a number it plans to increase to 10,000 by the end of 2000.

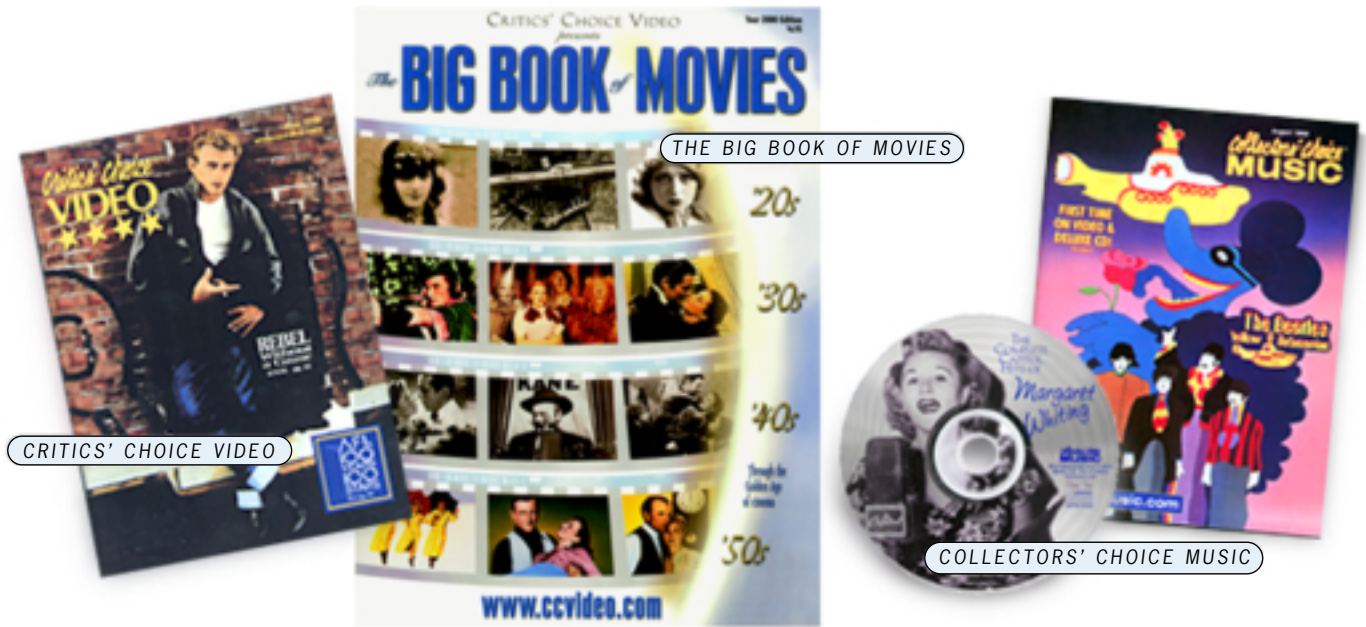
**PLAYBOY LIVE:** Preparing for the projected widespread availability of broadband Internet delivery, Playboy.com is creating live, original events for the Web. The two most successful features in 1999 included its inaugural Mardi Gras Webcast and *Playboy's Club Lingerie*, a one-hour fashion show simulcast on *Playboy.com* and Playboy TV that also was the subject of a *Playboy* magazine pictorial, a Playboy home video and a *Playboy* lingerie line. *Playboy.com's* *Mardi Gras 2000* was even more successful than the 1999 event, generating 3.5 million page views and an additional 2000 Cyber Club subscribers during the four-day Webcast.

**CELEBRITY CHATS:** Because the Web makes real-time personal interaction possible with no regard for physical location, Playboy.com taps the power of the Playboy brand to provide visitors access to celebrities and newsmakers. In addition to almost daily chats with Playboy personalities and Playmates offered on the *Playboy Cyber Club*, *Playboy.com* in 1999 hosted numerous live conversations with celebrities ranging from actress and *Playboy* Centerfold Angie Everhart to controversial Internet seer Jon Katz.

**ROUZE:** Playboy.com made its first acquisition in early 2000, when it acquired *Rouze.com*, an irreverent Web destination popular among young men, a purchase designed to bolster Playboy.com's grip on the key 18-to-25-year-old market. As part of Playboy.com, *Rouze.com* will maintain its own edgy, quick-hit feature content, but will move from nude to near-nude pictorials, in keeping with Playboy.com's approach of featuring most nude content on its subscription sites and focusing on entertainment and lifestyle content on its free sites.

PLAYBOY CYBER CLUB: The Playboy Cyber Club is the online virtual Playboy Club that includes never-before-released photography and video, along with backstage access to Playboy events and personalities. A major business advantage provided by the site is the ability to offer—and profit from—sexier, behind-the-scenes coverage of unique Playboy.com events, as it did through pay-per-visit passes to *Playboy's Club Lingerie* and Playboy.com's Mardi Gras 2000. The latest addition to the site is *Special Editions*, the online counterpart of PEI's print product line, which includes exclusive video and photography from photo shoots. Membership is \$6.95 monthly, \$17.95 quarterly or \$59.95 annually.

CYBERSPICE: CyberSpice.com—is positioned as the quality safe adult entertainment site on the Web where people can interact and buy adult products in privacy while enjoying the entertaining presence of the Spice TV stars. *CyberSpice.com* features programming guides for Spice TV, streaming video and the Spice Store, which offers more than 3100 products.



**Catalog** Building upon its core competencies of prompt order fulfillment and differential customer service, the Catalog Group continues to serve its customers through *Critic's Choice Video* and *Collectors' Choice Music* print catalogs and brand extensions, including a minicatalog of films available on digital video disc (DVD). In the fourth quarter of 1999, as part of the strategic restructuring of the Catalog Group, the Company transitioned the print versions of its *Playboy* and *Spice* catalogs to Playboy.com, with a focus on developing new direct mail programs to attract customers to the Internet.

**CRITICS' CHOICE VIDEO:** *Critic's Choice Video*, one of the nation's largest consumer catalogs of prerecorded movies on videocassette and DVD, and its online counterpart *CCVideo* (<http://www.ccvideo.com>), offer thousands of titles, including classics and recent releases. Top sellers of 1999 included *The Wizard of Oz*, *Move Over Darling*, *Cheaper by the Dozen* and *Critic's Choice Video* exclusives *Mary Queen of Scots* and *Evil Roy Slade*. Based on the success of two DVD minicatalogs mailed in the second half of 1999, the Catalog Group will launch *Critic's Choice DVD* in early 2000. A separate mail-order catalog, *Critic's Choice DVD* will go out five times a year and offer more than 750 DVD titles, each reduced by at least 20% of the suggested retail price and shipped free of charge.

**COLLECTORS' CHOICE MUSIC:** As America's leading catalog of imports and hard-to-find musical releases, *Collectors' Choice Music* catalog offers more than 2000 selections, including 40 new exclusive titles in 1999. Top-selling titles released in 1999 included *The Kingston Trio: Last Month of the Year*, *The Unreleased Quicksilver Messenger Service: Lost Gold and Silver* and *The Complete Capitol Hits of Margaret Whiting*. The catalog's online counterpart, *CCMusic* (<http://www.ccmusic.com>), features more than 250,000 CDs and cassettes, including new releases from today's pop artists, re-released classics and limited editions.

**THE BIG BOOK OF MOVIES:** In its third year of publication, *The Big Book of Movies* continued to be a key revenue generator for the Catalog Group in 1999. Offering more than 10,000 in-stock movies on videocassette and DVD ready to ship to consumers' doors, *The Big Book of Movies* is a 420-page, perfect-bound full-size catalog that also includes fun movie facts and trivia. *The Big Book of Movies* is sold at bookstores throughout the country, as well as through the *Critic's Choice Video* catalog and *CCVideo* (<http://www.ccvideo.com>) Web site, which features more than 50,000 titles on videocassette and DVD.

HUGH M. HEFNER FIRST AMENDMENT AWARDS



SUNDANCE FILM FESTIVAL



PLAYBOY JAZZ FESTIVAL & COMMUNITY EVENTS

PLAYBOY FOUNDATION FUNDING

**Public Affairs** Since its inception in 1965, the Playboy Foundation has worked to preserve human rights and dignity and to protect and enhance the American principles of personal freedom and social justice. With grants and in-kind contributions totaling nearly \$13 million to date to organizations actively concerned with these objectives, the Playboy Foundation continues to be at the forefront of social change movements. In 1999, the Playboy Foundation awarded more than \$400,000 through grants to nonprofit organizations, including the American Civil Liberties Union Foundation, People for the American Way and The Creative Coalition. In addition, the Foundation donated more than \$600,000 in public service advertisements within *Playboy* magazine for organizations such as the clean-ocean Surfrider Foundation and the Jazz Musicians' Emergency Fund.

**SUNDANCE FILM FESTIVAL:** Through its *Freedom of Expression Award* given at the Sundance Film Festival, the Playboy Foundation honors documentary films that investigate, and inform and educate the public about, issues of social concern. Created in 1993 by the Playboy Foundation and the Sundance Institute, this year's award was presented to *Dark Days*, a documentary chronicling life in a New York subterranean shantytown. The compelling black-and-white film focuses on a group of people who left Manhattan's drug-ravaged homeless shelter system and built shacks in an Amtrak tunnel running from Penn Station to Harlem. [Click here to read more about this year's recipient and Playboy's involvement with the Sundance Film Festival.](#)

**HUGH M. HEFNER FIRST AMENDMENT AWARDS:** For 20 years, through its annual *Hugh M. Hefner First Amendment Awards*, the Playboy Foundation has recognized more than 100 citizens whose personal struggles have protected the fundamental rights of all Americans. Established in 1979, the awards acknowledge individuals who have made significant contributions to protect and enhance the First Amendment freedoms of religion, speech and the press as well as the right to assemble. Traditionally, the awards have been given in the areas of print and broadcast journalism, education, publishing, arts and entertainment, law, government and lifetime achievement.

**PLAYBOY FOUNDATION FUNDING:** In 1999, the Playboy Foundation continued its long-standing tradition of supporting documentary films that educate the public on issues of social concern by partially underwriting the postproduction costs of *An American Love Story*. This critically acclaimed 10-part PBS miniseries chronicles the lives of a black man and a white woman who have struggled for 30 years against racial stereotypes and societal prejudice to keep their family together. [For more information about the Foundation's grant funding guidelines, click here.](#)

**PLAYBOY JAZZ FESTIVAL & COMMUNITY EVENTS:** The 21st Annual Playboy Jazz Festival, held at the Los Angeles Hollywood Bowl, continued its community events program by sponsoring six weeks of free musical performances, including concerts at Watts Senior Citizens Center and Santa Monica College. As an extension of the West Coast festival, the Playboy Foundation was the exclusive sponsor of the Chicago Old Town School of Folk Music's three-part 1999 Heritage Jazz Series, which included a performance by New Orleans jazz legend Henry Butler, with the Charles Brown Band.

## CORPORATE OFFICERS

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Chairman of the Board

CLEO F. WILSON  
Executive Director

## BOARD OF DIRECTORS

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Pictured left to right: Donald G. Drapkin, David I. Chemerow, Dennis S. Bookshester, Sol Rosenthal, Christie Hefner, Richard S. Rosenzweig and Sir Brian Wolfson.

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