May 13, 2010

CURRENT PRICE:	**$4.44**
RATING:	**NEUTRAL**
PRICE TARGET:	**N/A**
CURRENT YIELD:	**N/A**

EPS Estimates - Non-GAAP

	DEC 09	DEC 10E
1Q	($0.41)	($0.03)
2Q	($0.26)	($0.07) e
3Q	($0.03)	($0.06) e
4Q	($0.83)	($0.01) e
	($1.53)	**($0.17)**

Trading Data

52-WEEK PRICE RANGE:	**$5.22-$1.10**
SHARES OUTSTANDING:	**33.54(M)**
MARKET CAP:	**$148.9(M)**
AVG. DAILY TRADING VOLUME:	**160(K)**
S&P 500:	**1,157**

Valuation Data

BOOK VALUE:	**n/a**
PRICE TO BOOK:	**n/a**
DIVIDEND:	**n/a**

PLAYBOY ENTERPRISES, INC. (NYSE:PLA)

1Q10 Earnings Report: Maintain Neutral Rating

HIGHLIGHTS

- 1Q09 results of ($0.03)/share vs ($0.41)/share during 1Q08
- Segment income rose to $3.2 million from ($1.3 million)
- All three operating units produced improved results
- EBITDA growth could lead to positive EPS in 2011
- Maintain Neutral rating

INVESTMENT THESIS

Following a string of quarterly operating losses, and management changes, PLA recently unveiled its' turnaround strategy. The decline in consumer spending, due to the global recession, negatively impacted PLA. New CEO Scott Flanders has the company focused on revenue growth & cost controls. An improving world economy in 2010, and successful turnaround strategy could return PLA towards positive EPS by 2011. We have given PLA a NEUTRAL rating awaiting evidence of positive results from the company's turnaround strategy.

COMPANY SUMMARY

Playboy Enterprises Inc (PLA-$4.44), headquartered in Chicago IL, is a media and lifestyle company providing content/products for adults through a variety of platforms to US and international audiences. The company's iconic publication is "Playboy Magazine" and PLA creates/distributes content through television networks, radio, websites, and mobile platforms. PLA also uses licensing agreements to market the Playboy brand, and products in over 150 countries. Additionally, marketing is done through entertainment venues and retail stores. The company consists of three primary business units: Entertainment, Digital/Print, and Licensing. PLA's 2009 revenues totaled $240.4 million and generated an operating loss of ($1.53)/share. During 2009 the Entertainment unit produced $98.1 million in revenues, while Digital/Print generated $105.5 million, and Licensing was $36.8 million.

For Important Disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest, please refer to the last page of this report.

RECENT DEVELOPMENTS

Since PLA distributes content over five different media platforms, and has over 100 licensing agreements globally, management unveiled its strategy to reduce its operating oversight and license/partner most of its non-core competences such as creation of content. PLA recently entered into a licensing agreement with IMG making this company the licensing agent for PLA products in the Asian markets. Additionally, this past fall American Media Inc. (AMI) was given the non-editorial operations of "Playboy" Magazine. AMI will handle the production, circulation, advertising sales, marketing, and support functions for "Playboy Magazine" and PLA's other domestic publications. Management believes AMI's large presence in the newsstand business could increase magazine sales and eventually lead to increased advertising revenues. Christopher M. Pachler was recently named Executive Vice President and Chief Financial Officer. PLA is projecting approximately segment income growth in 2010 and potential profitability in 2011.

RECENT EARNINGS

PLA reported 1Q10 earnings of ($0.03)/share vs ($0.41)/share during 1Q09. 1Q10's results included $1.1 million in restructuring/impairment charges while $8.7 million was incurred during 1Q09. Segment income improved to $3.2 million from ($1.3 million), in last year's comparable quarter, as all three of PLA's operating segments experienced improved results. Recent cost cutting efforts and lower corporate expenses, including outsourcing functions related to the magazine, marketing, Asian licensing, and headcount reductions, helped to bolster 1Q10 profits. Revenues declined to $52.1 million from $61.6 million due to the publication of fewer "Playboy" issues, as well as a modest decline in the Entertainment unit

1Q10 SEGMENT PERFORMANCE

Entertainment: Segment income, on a quarter-to-quarter comparison, rose 21% to $3.6 million from $3.0 million. The improvement came primarily from cost cutting efforts and lower programming amortization expense. Domestic TV revenues rose slightly to $13.4 million from $13.3 million as gains in Playboy TV monthly subscription sales offset a decline in video-on-demand buys. International TV revenues fell 12% to $10.0 million from $11.3 million due to increased competition in Europe. Other revenues declined to $600,000 from $1.6 million because of lower licensing fees from third party productions. Overall revenues for this unit fell to $24.0 million from $26.2 million.

Print/Digital: Segment income rose to ($1.1 million) from ($3.6 million) due to significant improvement in the US edition business of "Playboy" magazine. PLA management decided to lower "Playboy" magazine's rate base and combine the first issue of 2010 with the last issue of 2009 into one editorial package, which was recorded during 4Q09. While revenues for the domestic magazine fell 48% to $7.1 million, from those moves, 1Q10 magazine results improved due to recent reductions in manufacturing/shipping costs, lower promotion costs, and the implementation of other expense control efforts. Digital revenues fell to $8.3 million from $9.3 million due to lower pay site sales, partially offset by cost reductions during the past year. Total revenues for Print/Digital declined to $18.2 million from $26.1 million. During the earnings conference call management said its agreement with AMI, to handle the non-editorial publishing functions of "Playboy" magazine, could produce cost benefits for PLA during 2H10 & further reduce the magazine's operating losses. Marketing efforts benefited 1Q10 online results as PLA experienced a 24% gain in new member sales, helping to offset lower rebills.

Licensing: Segment income grew 17% to $6.5 million from $5.6 million. The improvement in income was due primarily to two global licensing agreements and increased Asian sales. The weakness in its European results were more than offset by higher royalties from the "Coty" fragrance licensee and strong growth in the Southeast Asia, particularly from China. PLA said the deal recently signed with IMG, to handle PLA's licensing business in Asia, could double royalties from that part of the world during the next two years. Management believes, going forward, its Licensing unit will be the largest producer of overall profits and fastest growing segment.

Other: Corporate expense declined 7% to $5.8 million from $6.3 million in part due to reducing employee headcount to 573 from 800. Additionally, costs were reduced because of lower legal, finance, and administrative expenses.

OUR THOUGHTS

While revenues declined, on a quarter-to-quarter basis, segment income improved to $3.2 million from ($1.3 million). Revenues declined to $52.1 million from $61.6 millions due to lower results in the Entertainment and Print/Digital units. Management's goal is to reduce operating losses in 2010 and generate positive earnings in 2011 following the recent reduction of operating costs and improve future profits. This could occur if the Magazine operations posts and the Entertainment unit reduce operating losses, Digital/Online's numbers improve, and Licensing's profits/revenues continue to increase during 2010-2010. PLA believes its Licensing unit will be the largest contributor of earnings/revenue growth, going forward, driven by increased Asian revenues and continued success of the "Coty" fragrance and various planned new product announcements. We are raising our 2010 earnings estimate to ($0.17)/share from ($0.23)/share based on better than expected 1Q10 results and management expecting to pay only $1 million/quarter in income taxes due to a net-loss carry forward. While are encouraged by signs of the beginning of an operating improvement at PLA, further increases in operating income may cause us to reevaluate our earnings estimate and our rating on this stock. Currently, PLA is rated NEUTRAL.

RISKS

There are no guarantees PLA's turnaround strategy will return the company to profitability. A prolonged downturn in consumer spending and continued competition could hinder a recovery at PLA. New media formats/technology platforms is another risk. Being a small cap stock, PLA's shares are subject to wide price fluctuations from increased trading activity. Profitability could be impacted by rising interest rates, or higher operational expenses. PLA's stock could be adversely impacted by negative equity markets, failure to comply with Sarbanes Oxley guidelines, or terrorist attacks.

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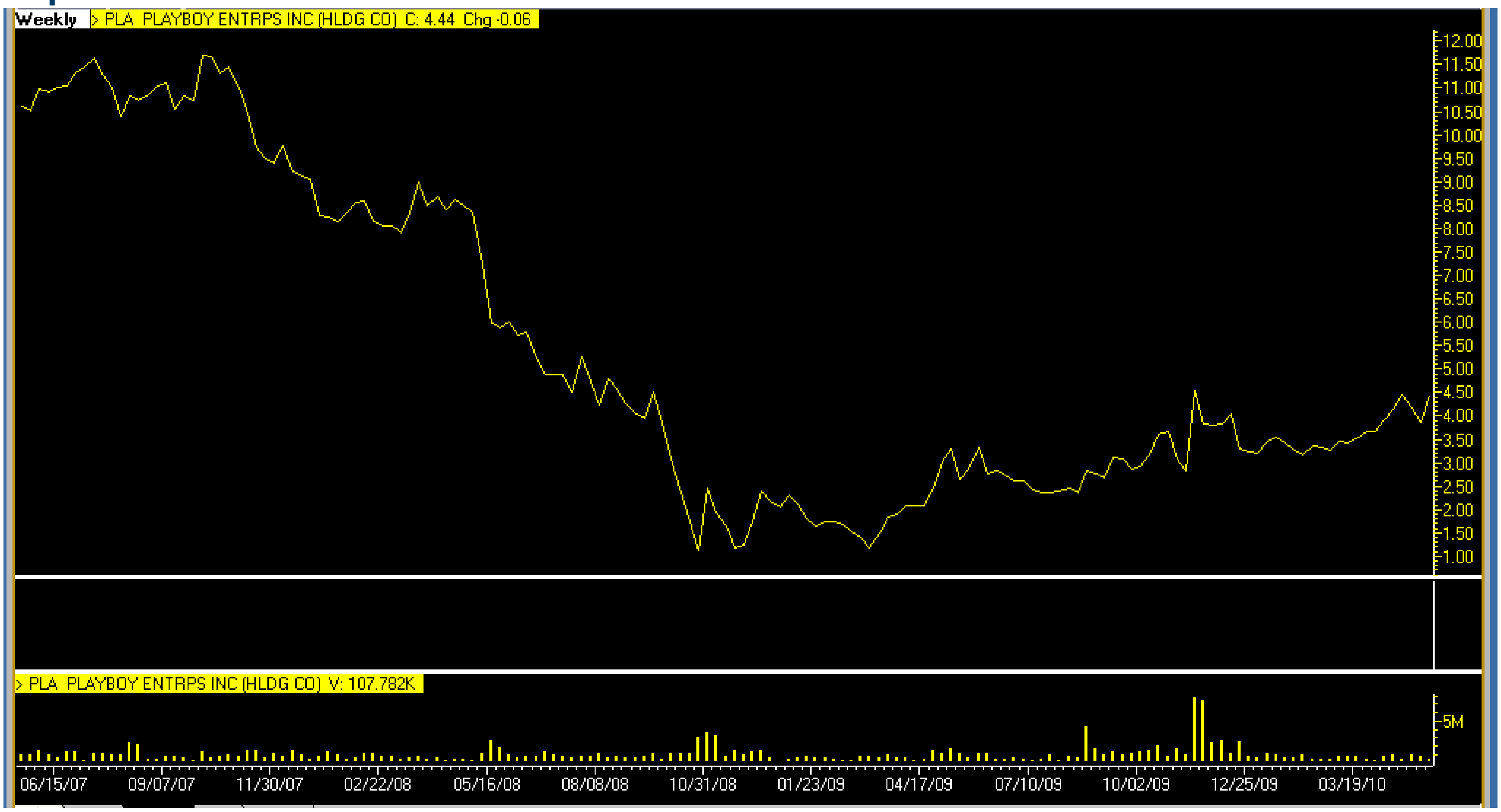
Playboy Enterprises, Inc.
(in millions, except per share)

	1Q09	2Q09	3Q09	4Q09	2009	1Q10	2Q10e	3Q10e	4Q10e	2010e
Revenues	$61.6	$62.2	$56.0	$60.6	$240.4	$53.1	$53.2	$53.9	$56.3	$215.5
Expenses	62.9	58.6	53.3	58.5	$233.3	48.9	52	52.3	52.5	205.4
Segment Income	-1.3	3.6	2.7	2.1	7.1	3.2	1.2	1.6	3.8	9.8
Restructuring expense	-3.2	-9.1	-0.5	-6.4	-19.2	-0.7	-0.4	-0.4	-0.2	-1.7
Provisions for reserves / impairment charge	-5.5			-22.2	-27.7	-0.4			-0.3	-0.7
Operating Income	-10	-5.5	2.2	-26.5	-39.8	2.1	0.8	1.2	3.3	7.4
Investment Income		0.7		0.1	0.8			0.1	0.2	0.3
Interest expense	-2.1	-2.2	-2.2	-2.2	-8.7	-2.2	-2.2	-2.2	-2.2	-8.8
Amortization of deferred financing fees	-0.3	-0.1	-0.1	-0.2	-0.7	-0.2	-0.2	-0.1	-0.2	-0.7
Other, net	-0.1	-0.4	0.2	0.1	-0.2		0.2	-0.1	-0.3	-0.4
Income before income taxes	-12.5	-7.5	0.1	-28.7	-48.6	-0.3	-1.4	-1.1	0.8	-2
Income tax expense	-1.2	-1.2	-1.2	0.9	-2.7	-0.7	-1	-1	-1	-3.7
Net gain/loss	-13.7	-8.7	-1.1	-27.8	-51.3	-1	-2.4	-2.1	-0.2	-5.7
Diluted outstanding shares	33	33.44	33.47	33.49	33.49	33.54	33.54	33.54	33.54	33.54
Diluted profit/loss per common stock	($0.41)	($0.26)	($0.03)	($0.83)	($1.53)	($0.03)	($0.07)	($0.06)	($0.01)	($0.17)

Important Disclosures



1/26/10 Initiate NEUTRAL

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Capitol Securities and employees of Capitol Securities may own shares of Playboy Enterprises, Inc.

Stock ratings used in this report are defined as follows:

(1) Outperform – The stock's total return including dividends is expected to exceed the industry or market average by at least 10% over the next twelve months.
(2) Neutral – The stock's total return including dividends is expected to be in line with the industry or market average of +/- 10% over the next twelve months.
(3) Underperform – The Stock's total return including dividends is expected to be below the industry or market average by 10% or more over the next twelve months.

The distribution of investment ratings for all companies in our coverage universe are as follows: (1) 75%, (2) 25%, (3) 0%

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For regulatory purposes, our ratings of Outperform, Neutral and Underperform most closely correspond to Buy, Hold and Sell, respectively.

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