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PLAYBOY ENTERPRISES INC
Form 10-Q
November 06, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2003

Or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-14790

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

Delaware
(State or other jurisdiction of
incorporation or organization)

36-4249478
(I.R.S. Employer
Identification Number)

680 North Lake Shore Drive, Chicago, IL
(Address of principal executive offices)

60611
(Zip Code)

(312) 751-8000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☒ No ☐

At October 31, 2003, there were 4,864,102 shares of Class A common stock, par value \$0.01 per share, and 22,577,809 shares of Class B common stock, par value \$0.01 per share, outstanding.

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PLAYBOY ENTERPRISES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS for the Quarters Ended September 30 (Unaudited) (In thousands, except per share amounts)

	2003	2002
Net revenues	\$ 74,448	\$ 67,372
Costs and expenses		
Cost of sales	(54,304)	(48,305)
Selling and administrative expenses	(14,483)	(14,879)
Total costs and expenses	(68,787)	(63,184)
Operating income	5,661	4,188
Nonoperating income (expense)		
Investment income	95	22
Interest expense	(4,254)	(3,500)
Amortization of deferred financing fees	(375)	(250)
Minority interest	(345)	(437)
Other, net	(242)	(57)

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Total nonoperating expense	(5,121)	(4,222)
Income (loss) before income taxes	540	(34)
Income tax expense	(1,150)	(605)
Net loss	(610)	(639)
Other comprehensive income (loss)		
Unrealized gain (loss) on marketable securities	153	(499)
Unrealized gain on derivatives	20	198
Foreign currency translation adjustments	82	--
Total other comprehensive income (loss)	255	(301)
Comprehensive loss	\$ (355)	\$ (940)
Net loss	\$ (610)	\$ (639)
Dividend requirements of preferred stock	(334)	--
Net loss applicable to common shareholders	\$ (944)	\$ (639)
Basic and diluted weighted average number of common shares outstanding	27,437	26,036
Basic and diluted earnings per common share	\$ (0.03)	\$ (0.01)

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

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PLAYBOY ENTERPRISES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS for the Nine Months Ended September 30 (Unaudited) (In thousands, except per share amounts)

	2003	2002
Net revenues	\$ 224,700	\$ 204,085
Costs and expenses		
Cost of sales	(162,834)	(152,612)
Selling and administrative expenses	(41,237)	(42,868)
Total costs and expenses	(204,071)	(195,480)
Operating income	20,629	8,605
Nonoperating income (expense)		
Investment income	264	83
Interest expense	(12,032)	(11,547)
Amortization of deferred financing fees	(1,022)	(729)
Minority interest	(1,309)	(1,279)
Debt extinguishment expenses	(3,264)	--

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Other, net	(664)	(421)
<hr/>		
Total nonoperating expense	(18,027)	(13,893)
<hr/>		
Income (loss) before income taxes	2,602	(5,288)
Income tax expense	(3,485)	(7,802)
<hr/>		
Net loss	(883)	(13,090)
<hr/>		
Other comprehensive income (loss)		
Unrealized gain (loss) on marketable securities	415	(696)
Unrealized gain on derivatives	619	191
Foreign currency translation adjustments	(156)	--
<hr/>		
Total other comprehensive income (loss)	878	(505)
<hr/>		
Comprehensive loss	\$ (5)	\$ (13,595)
<hr/>		
Net loss	\$ (883)	\$ (13,090)
Dividend requirements of preferred stock	(557)	--
<hr/>		
Net loss applicable to common shareholders	\$ (1,440)	\$ (13,090)
<hr/>		
Basic and diluted weighted average number of common shares outstanding	26,881	25,444
<hr/>		
Basic and diluted earnings per common share	\$ (0.05)	\$ (0.51)
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The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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PLAYBOY ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	(Unaudited) Sept. 30, 2003	Dec. 31, 2002
<hr/>		
Assets		
Cash and cash equivalents	\$ 25,787	\$ 4,111
Marketable securities	3,122	2,600
Receivables, net of allowance for doubtful accounts of \$4,191 and \$5,124, respectively	40,863	42,200
Receivables from related parties	1,420	1,500
Inventories, net	12,859	10,400
Deferred subscription acquisition costs	12,223	12,000
Other current assets	7,805	11,200
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Total current assets	104,079	84,300

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Property and equipment, net	12,636	11,7
Programming costs, net	57,244	52,3
Goodwill	111,893	111,8
Trademarks	57,495	55,2
Distribution agreements, net of accumulated amortization of \$764 and \$6,598, respectively	32,376	34,2
Other noncurrent assets	23,696	19,8
Total assets	\$ 399,419	\$ 369,7
=====		
Liabilities		
Financing obligations	\$ --	\$ 6,4
Financing obligations to related parties	--	17,2
Acquisition liabilities	12,857	13,4
Accounts payable	17,015	24,5
Accrued salaries, wages and employee benefits	7,204	10,4
Deferred revenues	52,617	52,6
Other liabilities and accrued expenses	16,357	17,6
Total current liabilities	106,050	142,3
Financing obligations	115,000	58,8
Financing obligations to related parties	--	10,0
Acquisition liabilities	28,114	39,6
Net deferred tax liabilities	13,482	12,3
Other noncurrent liabilities	11,945	8,9
Total liabilities	274,591	272,1
Minority interest	10,730	9,7
Shareholders' equity		
Preferred stock, \$10,000 par value - 10,000,000 shares authorized; 1,674 issued	17,293	
Common stock, \$0.01 par value		
Class A voting - 7,500,000 shares authorized; 4,864,102 issued	49	
Class B nonvoting - 30,000,000 shares authorized; 22,575,714 and 21,422,321 issued, respectively	226	2
Capital in excess of par value	152,918	146,0
Accumulated deficit	(55,500)	(54,0
Unearned compensation - restricted stock	--	(2,7
Accumulated other comprehensive loss	(888)	(1,7
Total shareholders' equity	114,098	87,8
Total liabilities and shareholders' equity	\$ 399,419	\$ 369,7
=====		

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

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	2003	2002
Cash flows from operating activities		
Net loss	\$ (883)	\$ (13,090)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Depreciation of property and equipment	2,962	3,107
Amortization of intangible assets	4,240	5,435
Amortization of investments in entertainment programming	29,216	29,095
Amortization of deferred financing fees	1,022	729
Debt extinguishment expenses	3,264	--
Deferred income taxes	222	6,736
Net change in operating assets and liabilities	(6,143)	(3,612)
Investments in entertainment programming	(34,461)	(31,815)
Other, net	1,074	272
Net cash provided by (used for) operating activities	513	(3,143)
Cash flows from investing activities		
Proceeds from disposals	116	1,118
Additions to property and equipment	(4,280)	(1,625)
Other, net	105	(328)
Net cash used for investing activities	(4,059)	(835)
Cash flows from financing activities		
Proceeds from financing obligations	115,000	17,235
Repayment of financing obligations	(65,767)	(17,731)
Payment of debt extinguishment expenses	(356)	--
Payment of acquisition liabilities	(14,892)	--
Payment of deferred financing fees	(9,023)	(348)
Other, net	253	212
Net cash provided by (used for) financing activities	25,215	(632)
Net increase (decrease) in cash and cash equivalents	21,669	(4,610)
Cash and cash equivalents at beginning of period	4,118	4,610
Cash and cash equivalents at end of period	\$ 25,787	\$ --

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

PLAYBOY ENTERPRISES, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(A) BASIS OF PREPARATION

The financial information included in these financial statements is unaudited but, in the opinion of management, reflects all normal recurring and other adjustments necessary for a fair presentation of the results for the interim periods. The interim results of operations and cash flows are not

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necessarily indicative of those results and cash flows for the entire year. These financial statements should be read in conjunction with the financial statements and notes to the financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2002. Certain amounts reported for prior periods have been reclassified to conform to the current year's presentation.

(B) RESTRUCTURING EXPENSES

In 2002, we announced a Company-wide restructuring initiative in order to reduce our ongoing operating expenses. The restructuring resulted in a workforce reduction of approximately 11%, or 70 positions. In connection with the restructuring, we reported a \$5.7 million charge in 2002, of which \$2.9 million related to the termination of 53 employees. The remaining positions were eliminated through attrition. The initiative also involved consolidation of our office space in Los Angeles and Chicago, resulting in a charge of \$2.8 million. Approximately \$3.1 million of the total \$5.7 million of restructuring costs was paid by September 30, 2003, with most of the remainder to be paid in 2003 and 2004 and payments continuing through 2007.

In 2001, we implemented a restructuring plan in anticipation of a continuing weak economy. The plan included a reduction in workforce coupled with vacating portions of certain office facilities by combining operations for greater efficiency, refocusing sales and marketing, outsourcing some operations and reducing overhead expenses. Total restructuring charges of \$4.6 million were recorded, including, in 2002, a \$0.9 million unfavorable adjustment to the previous estimate due primarily to a change in sublease assumptions. The restructuring resulted in a workforce reduction of approximately 15%, or 104 positions, with employees from the Online Group accounting for more than half of the workforce reduction. Of the \$4.6 million charge, \$2.6 million related to the termination of 88 employees. The remaining positions were eliminated through attrition. The charge also included \$2.0 million related to excess space in our Chicago and New York offices. Of the total \$4.6 million of costs related to this restructuring plan, approximately \$3.8 million was paid by September 30, 2003, with most of the remainder to be paid in 2003 and payments continuing through 2007.

(C) EARNINGS PER COMMON SHARE

The following table represents the approximate number of potential shares of our Class B common stock, or Class B stock, which were not included in the computation of diluted earnings per common share, or EPS, as the inclusion of these shares would have been antidilutive (in thousands):

	(Unaudited) Quarters Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2003	2002	2003	2002
Stock options	2,875	2,745	3,155	2,660
Convertible preferred stock	1,535	--	1,535	--
Restricted stock awards	--	250	--	255
Total	4,410	2,995	4,690	2,915

As a result, the weighted average number of basic and diluted common shares outstanding for the quarters and nine months ended September 30, 2003 and 2002 were equivalent.

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(D) INVENTORIES, NET

Inventories, net, which are stated at the lower of cost (specific cost and average cost) or fair value, consisted of the following (in thousands):

	(Unaudited) Sept. 30, 2003	Dec. 31, 2002
Paper	\$ 3,173	\$ 2,470
Editorial and other prepublication costs	7,231	5,992
Merchandise finished goods	2,455	2,036
Total inventories, net	\$12,859	\$10,498

(E) MINORITY INTEREST

Our Condensed Consolidated Balance Sheets reflected "Minority interest" of \$10.7 million and \$9.7 million at September 30, 2003 and December 31, 2002, respectively. These amounts represented a series of preferred stock of Playboy.com, Inc., or Playboy.com.

The amount at March 31, 2003 also included two series of PEI Holdings, Inc., or Holdings, preferred stock, which were issued in March 2003. In connection with a sale of senior secured notes in March 2003, we restructured the outstanding indebtedness of Playboy.com owed to Mr. Hefner. Three promissory notes in the aggregate of \$27.2 million were extinguished in exchange for \$0.5 million in cash and two series of Holdings preferred stock. On May 1, 2003, we exchanged the Series A preferred stock of Holdings, which we refer to as the Holdings Series A Preferred Stock, plus accumulated dividends for 1,122,209 shares of Playboy Class B stock and exchanged the Series B preferred stock of Holdings, which we refer to as the Holdings Series B Preferred Stock, for 1,674 shares of a new series of preferred stock of Playboy, which we refer to as Playboy Preferred Stock. The Playboy Preferred Stock accrues dividends at a rate of 8.00% per annum which are paid semi-annually.

(F) CONTINGENCIES

On February 17, 1998, Eduardo Gongora, or Gongora, filed suit in state court in Hidalgo County, Texas against Editorial Caballero SA de CV, or EC, Grupo Siete International, Inc., or GSI, collectively the Editorial Defendants, and us. In the complaint, Gongora alleged that he was injured as a result of the termination of a publishing license agreement, or the License Agreement, between us and EC for the publication of a Mexican edition of Playboy magazine, or the Mexican Edition. We terminated the License Agreement on or about January 29, 1998 due to EC's failure to pay royalties and other amounts due us under the License Agreement. On February 18, 1998, the Editorial Defendants filed a cross-claim against us. Gongora alleged that in December 1996 he entered into an oral agreement with the Editorial Defendants to solicit advertising for the Mexican Edition to be distributed in the United States. The basis of GSI's cross-claim was that it was the assignee of EC's right to distribute the Mexican Edition in the United States and other Spanish-speaking Latin American countries outside of Mexico. On May 31, 2002, a jury returned a verdict against us in the amount of \$4.4 million. Under the verdict, Gongora was awarded no damages. GSI and EC were awarded \$4.1 million in out-of-pocket expenses and \$0.3 million for lost profits, respectively, even though the jury found that EC had failed to comply with the terms of the License Agreement. On October 24, 2002, the trial court signed a judgment against us for \$4.4 million plus pre- and post-judgment

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interest and costs. On November 22, 2002, we filed post-judgment motions challenging the judgment in the trial court. The trial court overruled those motions and we are vigorously pursuing an appeal with the State Appellate Court sitting in Corpus Christi challenging the verdict. We have posted a bond in the amount of approximately \$7.7 million (which represents the amount of the verdict, costs and estimated pre- and post-judgment interest) in connection with the appeal. We, on advice of legal counsel, believe that it is not probable that a material judgment against us will be sustained. In accordance with Statement of Financial Accounting Standards No., or Statement, 5, Accounting for Contingencies, no liability has been accrued.

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(G) STOCK-BASED COMPENSATION

The following pro forma information presents our net loss and basic and diluted EPS assuming stock-based compensation expense had been determined consistent with Statement 123, Accounting for Stock-Based Compensation (in thousands, except per share amounts):

	(Unaudited) Quarters Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2003	2002	2003	2002
Net loss				
As reported	\$ (610)	\$ (639)	\$ (883)	\$ (13,090)
Pro forma (1)	(1,321)	(1,613)	(2,311)	(15,465)
Basic and diluted EPS				
As reported	(0.03)	(0.01)	(0.05)	(0.51)
Pro forma (1)	\$ (0.06)	\$ (0.06)	\$ (0.11)	\$ (0.61)

(1) Amounts for the current year nine-month period reflect the cancellation of a significant number of stock options.

(H) SEGMENT INFORMATION

The following table represents financial information by reportable segment (in thousands):

	(Unaudited) Quarters Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2003	2002	2003	2002
Net revenues				
Entertainment	\$ 33,598	\$ 28,415	\$ 100,559	\$ 89,444
Publishing	28,444	29,033	83,882	82,444
Online	8,981	7,223	26,532	21,444
Licensing	3,425	2,701	13,727	10,444
Total	\$ 74,448	\$ 67,372	\$ 224,700	\$ 204,444

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Income (loss) before income taxes				
Entertainment	\$ 6,773	\$ 7,336	\$ 21,251	\$ 24,
Publishing	980	1,929	2,889	
Online	474	(2,186)	898	(8,
Licensing	1,775	1,171	6,689	3,
Corporate Administration and Promotion	(4,341)	(4,062)	(11,098)	(11,
Investment income	95	22	264	
Interest expense	(4,254)	(3,500)	(12,032)	(11,
Amortization of deferred financing fees	(375)	(250)	(1,022)	(
Minority interest	(345)	(437)	(1,309)	(1,
Debt extinguishment expenses	--	--	(3,264)	
Other, net	(242)	(57)	(664)	(

Total	\$ 540	\$ (34)	\$ 2,602	\$ (5,
=====				

	(Unaudited) Sept. 30, 2003	Dec. 31, 2002

Identifiable assets		
Entertainment	\$266,117	\$263,416
Publishing	41,241	43,861
Online	4,770	4,047
Licensing	5,320	4,726
Catalog	--	36
Corporate Administration and Promotion (1)	81,971	53,635

Total (1)	\$399,419	\$369,721
=====		

- (1) The increase in identifiable assets since December 31, 2002 was primarily due to proceeds from the issuance of senior secured notes in March 2003.

(I) SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

On March 11, 2003, Holdings issued in a private offering \$115.0 million of 11.00% senior secured notes due in 2010, which we refer to as the Old Notes. On September 17, 2003, the Old Notes were exchanged for new 11.00% senior secured notes due in 2010, which we refer to as the New Notes. The form and terms of the New Notes are identical in all material respects (including principal amount, interest rate, maturity, ranking and covenant restrictions) to the form and terms of the Old Notes, except that the New Notes (a) have been registered under the Securities Act of 1933, as amended, or the Securities Act, (b) do not bear restrictive legends restricting their transfer under the Securities Act, (c) are not entitled to the registration rights that apply to the Old Notes and (d) do not contain provisions relating to liquidated damages in connection with the Old Notes under circumstances related to the timing of the exchange offer. The payment obligations under the New Notes are fully and unconditionally guaranteed, jointly and severally, on a senior secured basis, by us and by substantially all of our domestic subsidiaries, referred to as the guarantors, excluding Playboy.com and its subsidiaries. All of our remaining subsidiaries, referred to as the nonguarantors, are wholly-owned by the guarantors except for Playboy.com and its subsidiaries, which are majority-owned subsidiaries. The following supplemental Condensed Consolidating Statements of Operations for the quarters and nine months ended September 30, 2003 and 2002, the Condensed Consolidating Balance Sheets at September 30, 2003 and December 31, 2002 and the

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Condensed Consolidating Statements of Cash Flows for the nine months ended September 30, 2003 and 2002, present financial information for (a) us (carrying our investment in Holdings under the equity method), (b) Holdings, the issuer of the New Notes (carrying its investment in the guarantors under the equity method), (c) on a combined basis the guarantors (carrying any investment in nonguarantors under the equity method) and (d) on a combined basis the nonguarantors. Separate financial statements of the guarantors are not presented because the guarantors are jointly, severally, and unconditionally liable under the guarantees, and we believe that separate financial statements and other disclosures regarding the guarantors are not material to investors. In general, Holdings has entered into third-party borrowings and financed its subsidiaries via intercompany accounts. All intercompany activity has been included as "Net receipts from (payments to) subsidiaries" in the Condensed Consolidating Statements of Cash Flows. In certain cases, taxes have been calculated on the basis of a group position that includes both guarantors and nonguarantors. In such cases, the taxes have been allocated to individual legal entities based upon each legal entity's actual contribution to the tax provision.

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PLAYBOY ENTERPRISES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS (In thousands)

	Quarter Ended September 30, 2003			
	Playboy Enterprises, Inc. (Parent)	Holdings (Issuer)	Guarantor Subsidiaries	Nonguarantor Subsidiaries
Net revenues	\$ --	\$ --	\$ 61,190	\$ 17,190
Costs and expenses				
Cost of sales	--	--	(45,211)	(13,211)
Selling and administrative expenses	--	--	(11,721)	(2,721)
Total costs and expenses	--	--	(56,932)	(16,932)
Operating income	--	--	4,258	1,258
Nonoperating income (expense)				
Investment income	--	--	120	--
Interest expense	--	(3,174)	(1,080)	--
Amortization of deferred financing fees	--	(375)	--	--
Minority interest	--	--	(345)	--
Equity income (loss) from subsidiaries	(610)	3,055	1,003	--
Other, net	--	(116)	(86)	--
Total nonoperating expense	(610)	(610)	(388)	--
Income (loss) before income taxes	(610)	(610)	3,870	1,258
Income tax expense	--	--	(815)	--
Net income (loss)	\$ (610)	\$ (610)	\$ 3,055	\$ 1,258

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	Quarter Ended September 30, 200			
	Playboy Enterprises, Inc. (Parent)	Holdings (Issuer)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries
Net revenues	\$ --	\$ --	\$ 60,010	\$ 7,
Costs and expenses				
Cost of sales	--	--	(41,704)	(6,
Selling and administrative expenses	--	--	(11,926)	(2,
Total costs and expenses	--	--	(53,630)	(9,
Operating income (loss)	--	--	6,380	(2,
Nonoperating income (expense)				
Investment income	--	--	13	(
Interest expense	--	(1,507)	(1,391)	(
Amortization of deferred financing fees	--	(235)	--	
Minority interest	--	--	(437)	
Equity income (loss) from subsidiaries	(639)	1,134	(2,842)	
Other, net	--	(31)	(26)	
Total nonoperating expense	(639)	(639)	(4,683)	(
Income (loss) before income taxes	(639)	(639)	1,697	(2,
Income tax expense	--	--	(563)	
Net income (loss)	\$ (639)	\$ (639)	\$ 1,134	\$ (2,

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PLAYBOY ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(In thousands)

	Nine Months Ended September 30, 2			
	Playboy Enterprises, Inc. (Parent)	Holdings (Issuer)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries
Net revenues	\$ --	\$ --	\$ 184,424	\$ 52,805
Costs and expenses				
Cost of sales	--	--	(134,563)	(40,800
Selling and administrative expenses	--	--	(33,112)	(8,125
Total costs and expenses	--	--	(167,675)	(48,925
Operating income	--	--	16,749	3,880

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Nonoperating income (expense)				
Investment income	--	--	318	36
Interest expense	--	(8,119)	(3,476)	(527)
Amortization of deferred financing fees	--	(998)	--	(24)
Minority interest	(297)	--	(1,012)	--
Debt extinguishment expenses	--	(3,061)	--	(203)
Equity income (loss) from subsidiaries	(586)	11,843	1,783	--
Other, net	--	(251)	(294)	(119)
Total nonoperating expense	(883)	(586)	(2,681)	(837)
Income (loss) before income taxes	(883)	(586)	14,068	3,043
Income tax expense	--	--	(2,225)	(1,260)
Net income (loss)	\$ (883)	\$ (586)	\$ 11,843	\$ 1,783

	Nine Months Ended September 30, 2003			
	Playboy Enterprises, Inc. (Parent)	Holdings (Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Net revenues	\$ --	\$ --	\$ 182,164	\$ 22,051
Costs and expenses				
Cost of sales	--	--	(130,653)	(22,089)
Selling and administrative expenses	--	--	(34,310)	(8,558)
Total costs and expenses	--	--	(164,963)	(30,647)
Operating income (loss)	--	--	17,201	(8,596)
Nonoperating income (expense)				
Investment income	--	--	55	28
Interest expense	--	(4,520)	(5,305)	(1,722)
Amortization of deferred financing fees	--	(698)	--	(31)
Minority interest	--	--	(1,279)	--
Equity loss from subsidiaries	(13,090)	(7,841)	(10,440)	--
Other, net	--	(31)	(390)	--
Total nonoperating expense	(13,090)	(13,090)	(17,359)	(1,725)
Loss before income taxes	(13,090)	(13,090)	(158)	(10,321)
Income tax expense	--	--	(7,683)	(119)
Net loss	\$ (13,090)	\$ (13,090)	\$ (7,841)	\$ (10,440)

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(In thousands)

	Playboy Enterprises, Inc. (Parent)	Holdings (Issuer)	Guarantor Subsidiaries	Non Guarantor Subsidiaries
<hr/>				
Assets				
Cash and cash equivalents	\$ --	\$ --	\$ 22,507	\$ 3,28
Marketable securities	--	--	3,122	--
Receivables, net of allowance for doubtful accounts	--	--	33,492	7,37
Receivables from related parties	--	--	(7,277)	8,69
Inventories, net	--	--	11,249	1,61
Deferred subscription acquisition costs	--	--	12,223	--
Other current assets	--	--	5,785	2,02
<hr/>				
Total current assets	--	--	81,101	22,97
<hr/>				
Receivables from affiliates	--	107,349	50,585	--
Property and equipment, net	--	--	11,275	1,36
Programming costs, net	--	--	56,327	91
Goodwill	--	--	111,370	52
Trademarks	--	--	57,495	--
Distribution agreements, net of accumulated amortization	--	--	32,376	--
Investment in subsidiaries	114,098	114,098	(45,994)	--
Other noncurrent assets	--	8,323	15,337	3
<hr/>				
Total assets	\$114,098	\$229,770	\$ 369,872	\$ 25,81
<hr/>				
Liabilities				
Acquisition liabilities	\$ --	\$ --	\$ 12,387	\$ 47
Accounts payable	--	110	12,064	4,84
Accrued salaries, wages and employee benefits	--	--	7,056	14
Deferred revenues	--	--	46,654	5,96
Other liabilities and accrued expenses	--	562	14,322	1,47
<hr/>				
Total current liabilities	--	672	92,483	12,89
<hr/>				
Financing obligations	--	115,000	--	--
Financing obligations to affiliates	--	--	107,349	50,58
Acquisition liabilities	--	--	21,107	7,00
Net deferred tax liabilities	--	--	13,482	--
Other noncurrent liabilities	--	--	10,623	1,32
<hr/>				
Total liabilities	--	115,672	245,044	71,80
<hr/>				
Minority interest	--	--	10,730	--
<hr/>				
Shareholders' equity	114,098	114,098	114,098	(45,99)
<hr/>				
Total liabilities and shareholders' equity	\$114,098	\$229,770	\$ 369,872	\$ 25,81
<hr/>				

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PLAYBOY ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2002 (Unaudited)
(In thousands)

	Playboy Enterprises, Inc. (Parent)	Holdings (Issuer)	Guarantor Subsidiaries	Non Guarantor Subsidiaries
<hr/>				
Assets				
Cash and cash equivalents	\$ --	\$ --	\$ (1,908)	\$ 6,020
Marketable securities	--	--	2,677	--
Receivables, net of allowance for doubtful accounts	--	--	33,286	8,920
Receivables from related parties	--	--	(6,926)	8,460
Inventories, net	--	--	9,489	1,000
Deferred subscription acquisition costs	--	--	12,038	--
Other current assets	--	905	9,387	1,000
<hr/>				
Total current assets	--	905	58,043	25,430
<hr/>				
Receivables from affiliates	--	63,603	27,598	--
Property and equipment, net	--	--	10,432	1,280
Programming costs, net	--	--	51,633	710
Goodwill	--	--	111,370	520
Trademarks	--	--	55,219	--
Distribution agreements, net of accumulated amortization	--	--	34,284	--
Investment in subsidiaries	87,815	87,815	(47,864)	--
Other noncurrent assets	--	1,990	17,723	160
<hr/>				
Total assets	\$87,815	\$154,313	\$ 318,438	\$ 28,120
<hr/>				
Liabilities				
Financing obligations	\$ --	\$ 6,402	\$ --	\$ --
Financing obligations to related parties	--	--	--	17,230
Acquisition liabilities	--	--	12,525	900
Accounts payable	--	--	18,281	6,310
Accrued salaries, wages and employee benefits	--	--	10,046	370
Deferred revenues	--	--	48,377	4,250
Other liabilities and accrued expenses	--	1,231	15,018	1,390
<hr/>				
Total current liabilities	--	7,633	104,247	30,480
<hr/>				
Financing obligations	--	58,865	--	--
Financing obligations to related parties	--	--	--	10,000
Financing obligations to affiliates	--	--	63,603	27,590
Acquisition liabilities	--	--	31,777	7,900
Net deferred tax liabilities	--	--	12,375	--
Other noncurrent liabilities	--	--	8,904	--
<hr/>				
Total liabilities	--	66,498	220,906	75,980
<hr/>				
Minority interest	--	--	9,717	--

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Shareholders' equity	87,815	87,815	87,815	(47,86
Total liabilities and shareholders' equity	\$87,815	\$154,313	\$ 318,438	\$ 28,12

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PLAYBOY ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30, 20			
	Playboy Enterprises, Inc. (Parent)	Holdings (Issuer)	Guarantor Subsidiaries	Non Guarantor Subsidiaries
Cash flows from operating activities				
Net cash provided by (used for) operating activities	\$ (186)	\$ (8,398)	\$ 5,352	\$ 3,74
Cash flows from investing activities				
Proceeds from disposals	--	--	116	
Additions to property and equipment	--	--	(3,537)	(74
Other, net	--	--	102	
Net cash used for investing activities	--	--	(3,319)	(74
Cash flows from financing activities				
Proceeds from financing obligations	--	115,000	--	--
Repayment of financing obligations	--	(65,267)	--	(50
Payment of debt extinguishment expenses	--	(356)	--	--
Payment of acquisition liabilities	--	--	(13,145)	(1,74
Payment of deferred financing fees	--	(9,023)	--	--
Other, net	253	--	--	--
Net cash provided by (used for) financing activities	253	40,354	(13,145)	(2,24
Net receipts from (payments to) subsidiaries	(67)	(31,956)	35,527	(3,50
Net increase (decrease) in cash and cash equivalents	--	--	24,415	(2,74
Cash and cash equivalents at beginning of period	--	--	(1,908)	6,02
Cash and cash equivalents at end of period	\$ --	\$ --	\$ 22,507	\$ 3,28

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Nine Months Ended September 30, 20

	Playboy Enterprises, Inc. (Parent)	Holdings (Issuer)	Guarantor Subsidiaries	Non Guarantor Subsidiaries
Cash flows from operating activities				
Net cash provided by (used for) operating activities	\$ --	\$ (4,667)	\$ 11,478	\$ (9,95
Cash flows from investing activities				
Proceeds from disposals	--	--	1,085	3
Additions to property and equipment	--	--	(1,362)	(26
Other, net	--	--	(328)	-
Net cash used for investing activities	--	--	(605)	(23
Cash flows from financing activities				
Proceeds from financing obligations	--	--	--	17,23
Repayment of financing obligations	--	(7,731)	--	(10,00
Payment of deferred financing fees	--	(136)	--	(21
Other, net	212	--	--	-
Net cash provided by (used for) financing activities	212	(7,867)	--	7,02
Net receipts from (payments to) subsidiaries	(212)	12,534	(13,387)	1,06
Net decrease in cash and cash equivalents	--	--	(2,514)	(2,09
Cash and cash equivalents at beginning of period	--	--	456	4,15
Cash and cash equivalents at end of period	\$ --	\$ --	\$ (2,058)	\$ 2,05

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MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The following table represents our results of operations (in millions, except per share amounts):

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net revenues				
Entertainment				

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Domestic TV networks	\$ 23.9	\$ 23.0	\$ 71.2	\$ 71.2
International TV	8.2	2.9	25.1	9.8
Worldwide DVD/home video	1.4	2.4	3.9	8.6
Other	0.1	0.1	0.4	0.2
Total Entertainment	33.6	28.4	100.6	89.8
Publishing				
Playboy magazine	23.0	23.8	70.1	70.0
Other domestic publishing	4.0	3.8	9.7	8.8
International publishing	1.5	1.5	4.1	3.9
Total Publishing	28.5	29.1	83.9	82.7
Online				
Subscriptions	4.7	3.0	13.0	7.7
E-commerce	3.5	2.8	10.7	9.5
Other	0.7	1.4	2.8	4.1
Total Online	8.9	7.2	26.5	21.3
Licensing	3.4	2.7	13.7	10.3
Total net revenues	\$ 74.4	\$ 67.4	\$ 224.7	\$ 204.1
Net loss				
Entertainment				
Before programming expense	\$ 16.4	\$ 16.7	\$ 50.4	\$ 53.5
Programming expense	(9.7)	(9.4)	(29.2)	(29.1)
Total Entertainment	6.7	7.3	21.2	24.4
Publishing	1.0	1.9	2.9	0.6
Online	0.5	(2.1)	0.9	(8.6)
Licensing	1.8	1.2	6.7	3.5
Corporate Administration and Promotion	(4.4)	(4.1)	(11.1)	(11.3)
Operating income	5.6	4.2	20.6	8.6
Nonoperating income (expense)				
Investment income	0.1	--	0.3	0.1
Interest expense	(4.2)	(3.5)	(12.0)	(11.6)
Amortization of deferred financing fees	(0.3)	(0.2)	(1.0)	(0.7)
Minority interest	(0.3)	(0.5)	(1.3)	(1.3)
Debt extinguishment expenses	--	--	(3.3)	--
Other, net	(0.3)	--	(0.7)	(0.4)
Total nonoperating expense	(5.0)	(4.2)	(18.0)	(13.9)
Income (loss) before income taxes	0.6	--	2.6	(5.3)
Income tax expense	(1.2)	(0.6)	(3.5)	(7.8)
Net loss	\$ (0.6)	\$ (0.6)	\$ (0.9)	\$ (13.1)
Basic and diluted EPS	\$ (0.03)	\$ (0.01)	\$ (0.05)	\$ (0.51)

Our revenues increased approximately 10% for both the quarter and

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nine-month period primarily due to higher online subscription revenues and international licensing royalties. In addition, as previously disclosed, our increased ownership in Playboy TV International, LLC, or PTVI, at the end of 2002, resulted in favorable revenue comparisons.

Operating income improved significantly for both the quarter and nine-month period, mostly due to the better online subscription revenues and licensing royalties described above, both of which are high-margin businesses. The positive performance in the Online and Licensing Groups was partially offset by expected lower revenues and operating income from our worldwide DVD/home video business. Operating income from the Publishing Group was lower in the current year quarter, but improved for the nine-month period.

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The net loss for the current year nine-month period included \$3.3 million of debt extinguishment expenses in connection with financing obligations which were repaid upon completion of our debt offering in the first quarter. The prior year nine-month period included a \$5.8 million noncash income tax charge related to our adoption of Statement 142, Goodwill and Other Intangible Assets.

Several of our businesses can experience variations in quarterly performance. As a result, our performance in any quarter is not necessarily reflective of full-year or longer-term trends. Playboy magazine newsstand revenues vary from issue to issue, with revenues generally higher for holiday issues and any issues including editorial or pictorial features that generate unusual public interest. Advertising revenues also vary from quarter to quarter depending on economic conditions, product introductions by advertising customers, holiday issues and changes in advertising buying patterns. E-commerce revenues are typically impacted by the holiday buying season and, along with online subscription revenues, decreased Internet traffic during the summer months.

ENTERTAINMENT GROUP

The following discussion focuses on the profit contribution of each of our Entertainment Group businesses before programming expense.

Revenues from our domestic TV networks business increased \$0.9 million, or 4%, for the quarter resulting in flat revenues for the nine-month comparison. We believe revenues continue to be impacted by theft of service which we also believe is an area of focus for the operators. We believe that revenues have also been impacted by customer resistance to pricing for basic and premium services and the resulting dissatisfaction with the overall value of digital service. In general, our networks are digital services and we are therefore negatively affected by customer churn in digital cable. The quarter and nine-month period both reflected higher revenues related to Playboy TV en Espanol. Profit contribution for the quarter and nine-month period increased slightly. Both periods were impacted by lower amortization of intangibles acquired in the Califa acquisition as their contractual lives are expiring and higher distribution costs and overhead related to our new production facility.

For both the quarter and nine-month period, profit contribution from our international TV business increased on revenue increases of \$5.3 million and \$15.3 million, respectively. In the current year we began consolidating our international TV operations as a result of the December 2002 restructuring of the ownership of our international TV joint ventures. The prior year quarter and nine-month period included \$2.9 million and \$9.8 million, respectively, in licensing fees from the PTVI joint venture, at which time we owned a minority interest.

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For both the quarter and nine-month period, profit contribution from our worldwide DVD/home video business decreased on revenue decreases of \$1.0 million, or 41%, and \$4.7 million, or 54%, respectively. Both the quarter and nine-month period reflected lower domestic sales of \$1.0 million and \$3.3 million, respectively, due to fewer titles released in the current year periods, reduced distribution outlets and the absence of last year's continuity series. In addition, the nine-month comparison was impacted by a large domestic sale of backlist titles in the prior year period and lower international revenues of \$1.4 million primarily as a result of revenues from a large Korean contract being recorded in the prior year period.

The group's administrative expenses increased for both the quarter and nine-month period mainly due to higher legal expenses in the current year periods.

As projected at the start of the year, Entertainment Group profitability for the full year 2003 is expected to be below 2002 due to the continuing lower worldwide DVD/home video revenues, flat domestic TV revenues, higher legal costs and overhead related to our new production facility.

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PUBLISHING GROUP

Playboy magazine revenues decreased \$0.8 million, or 3%, for the quarter as higher newsstand revenues were more than offset by \$1.2 million lower advertising revenues as a result of the previously announced fewer ad pages. For the nine-month period, Playboy magazine revenues increased \$0.1 million as \$2.3 million higher newsstand revenues, mainly due to several strong-selling issues which also carried higher cover prices, were mostly offset by \$1.8 million lower ad revenues. The ad revenues were lower as a result of fewer ad pages, partially offset by higher average net revenue per page. Ad sales for the 2003 fourth quarter magazine issues are closed, and we expect to report 64% higher ad revenues and 60% more ad pages compared to the 2002 fourth quarter. We expect that all three fourth quarter issues will be up in pages year-over-year, ending with Playboy's 50th anniversary issue. This is expected to result in 11% and 8% increases in ad revenues and pages, respectively, for 2003 compared to 2002.

Revenues from our other domestic publishing businesses increased \$0.2 million, or 6%, for the quarter and \$0.9 million, or 10%, for the nine-month period primarily due to a price increase for special editions, partially offset by fewer copies sold.

The group's segment performance decreased \$0.9 million for the quarter and increased \$2.3 million for the nine-month period. The quarter and nine-month period reflected lower manufacturing costs of \$0.8 million and \$2.5 million, respectively, driven by lower print runs, the fewer ad pages and lower paper prices, combined with the higher Playboy magazine newsstand revenues. The impact of these factors was more than offset for the quarter and partially offset for the nine-month period by the lower Playboy magazine ad revenues combined with higher editorial costs of \$1.6 million and \$1.4 million, respectively. The higher editorial costs were due in part to celebrity expenses, which drove newsstand sales, and transitional costs associated with moving editorial staff from Chicago to New York. We expect to incur additional transitional costs in the fourth quarter.

ONLINE GROUP

The Online Group's revenues increased \$1.7 million, or 24%, for the

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quarter and \$5.2 million, or 24%, for the nine-month period primarily due to significant increases in subscription revenues of \$1.7 million and \$5.3 million, respectively, due to the launch of several higher-priced subscription services that were not available in the prior year combined with the increased price and number of members of Playboy Cyber Club. Increased circulation helped improve e-commerce revenues by \$0.7 million for the quarter and \$1.2 million for the nine-month period. These revenue increases were offset in part by lower other revenues of \$0.7 million and \$1.3 million for the quarter and nine-month period, respectively, in large part due to lower advertising revenues. The group reported segment income of \$0.5 million and \$0.9 million in the current year quarter and nine-month period, respectively, compared to losses of \$2.1 million and \$8.6 million in the comparable prior year periods. These improvements were attributable to the higher revenues combined with a lower cost structure. The current and prior year quarters and nine-month periods included \$1.9 million and \$5.6 million, respectively, of trademark and administrative fees paid to the parent company.

LICENSING GROUP

For the quarter and nine-month period, segment income from our Licensing Group increased \$0.6 million and \$3.2 million, respectively, on revenue increases of \$0.7 million, or 27%, and \$3.4 million, or 33%, respectively. Higher brand licensing royalties from our international products business were mainly responsible for the improved performances in both periods. The sale in the current year of an original painting by Salvador Dali for \$1.9 million, partially offset by \$0.7 million of income in the prior year from an auction of a small portion of our art and memorabilia collection, also contributed to the nine-month comparison.

CORPORATE ADMINISTRATION AND PROMOTION

Corporate Administration and Promotion expenses increased \$0.3 million, or 7%, for the quarter while expenses for the nine-month period decreased \$0.2 million, or 1%. The quarter and nine-month period both reflected our continued focus on cost control measures more than offset by, and partially offset by, respectively, benefit-related expenses.

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INCOME TAX EXPENSE

Our income tax provision consists primarily of foreign income tax related to our international networks and withholding tax on licensing income for which we do not receive a current U.S. income tax benefit. The tax provision also includes noncash deferred federal and state income tax related to the amortization of goodwill and other indefinite-lived intangibles as a result of the adoption of Statement 142, Goodwill and Other Intangible Assets.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2003, we had \$25.8 million in cash and cash equivalents and \$115.0 million in total financing obligations compared to \$4.1 million in cash and cash equivalents and \$92.5 million in total financing obligations at December 31, 2002. The financing obligations at December 31, 2002 included \$27.2 million in obligations payable to Mr. Hefner by Playboy.com. As discussed below, we and Mr. Hefner agreed to exchange his \$27.2 million of promissory notes issued by Playboy.com for cash and our equity securities.

Our liquidity requirements are being provided by the cash generated from our private offering of \$115.0 million in aggregate principal amount of senior

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secured notes. In addition, we have a \$20.0 million revolving credit facility. At September 30, 2003, there were no borrowings and \$11.1 million in letters of credit outstanding under this facility.

DEBT FINANCINGS

On March 11, 2003, we completed the private offering of \$115.0 million in aggregate principal amount of the Old Notes of our subsidiary, Holdings. On September 17, 2003, the Old Notes were exchanged for the New Notes. The form and terms of the New Notes are identical in all material respects (including principal amount, interest rate, maturity, ranking and covenant restrictions) to the form and terms of the Old Notes. The New Notes mature on March 15, 2010 and bear interest at the rate of 11.00% per annum, with interest payable on March 15th and September 15th of each year, beginning September 15, 2003. On March 11, 2003, Holdings also entered into a new revolving credit facility, through which we are permitted to borrow up to \$20.0 million in revolving borrowings, issue letters of credit or a combination of both.

FINANCING FROM RELATED PARTY

At December 31, 2002, Playboy.com had an aggregate of \$27.2 million of outstanding indebtedness to Mr. Hefner in the form of three promissory notes. Upon the closing of the senior secured notes offering on March 11, 2003, Playboy.com's debt to Mr. Hefner was restructured. One promissory note, in the amount of \$10.0 million, was extinguished in exchange for shares of Holdings Series A Preferred Stock with an aggregate stated value of \$10.0 million. The two other promissory notes, in a combined principal amount of \$17.2 million, were extinguished in exchange for \$0.5 million in cash and shares of Holdings Series B Preferred Stock with an aggregate stated value of \$16.7 million. Pursuant to the terms of an exchange agreement between us, Holdings, Playboy.com and Mr. Hefner and certificates of designation governing the Holdings Series A and Series B Preferred Stock, we were required to exchange the Holdings Series A Preferred Stock for shares of Playboy Class B stock and to exchange the Holdings Series B Preferred Stock for shares of Playboy Preferred Stock.

In order to issue the Playboy Preferred Stock, we were required to amend our certificate of incorporation to authorize the issuance, which we refer to as the certificate amendment. In accordance with applicable law, Mr. Hefner, the holder of more than a majority of our outstanding Class A voting common stock, approved the certificate amendment by written consent. As a result, on May 1, 2003, we filed an amendment to our certificate of incorporation and exchanged the Holdings Series A Preferred Stock plus accumulated dividends for 1,122,209 shares of Playboy Class B stock and exchanged the Holdings Series B Preferred Stock for 1,674 shares of Playboy Preferred Stock. The Playboy Preferred Stock accrues dividends at a rate of 8.00% per annum which are paid semi-annually.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash provided by financing activities was \$25.2 million for the nine-month period principally due to proceeds of \$115.0 million related to the private offering of senior secured notes, partially offset by payment of \$9.0 million of related financing fees, repayment of former financing obligations of \$65.8 million and payment of \$14.9 million of acquisition liabilities.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements," including statements in "Management's Discussion and Analysis of Financial

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Condition and Results of Operations" as to expectations, beliefs, plans, objectives and future financial performance, and assumptions underlying or concerning the foregoing. We use words such as "may," "will," "would," "could," "should," "believes," "estimates," "projects," "potential," "expects," "plans," "anticipates," "intends," "continues" and other similar terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which could cause our actual results, performance or outcomes to differ materially from those expressed or implied in the forward-looking statements. The following are some of the important factors that could cause our actual results, performance or outcomes to differ materially from those discussed in the forward-looking statements:

- (1) foreign, national, state and local government regulation, actions or initiatives, including:
 - (a) attempts to limit or otherwise regulate the sale, distribution or transmission of adult-oriented materials, including print, video and online materials,
 - (b) limitations on the advertisement of tobacco, alcohol and other products which are important sources of advertising revenue for us, or
 - (c) substantive changes in postal regulations or rates which could increase our postage and distribution costs;
- (2) risks associated with our foreign operations, including market acceptance and demand for our products and the products of our licensees and our ability to manage the risk associated with our exposure to foreign currency exchange rate fluctuations;
- (3) changes in general economic conditions, consumer spending habits, viewing patterns, fashion trends or the retail sales environment which, in each case, could reduce demand for our programming and products and impact our advertising revenues;
- (4) our ability to protect our trademarks, copyrights and other intellectual property;
- (5) risks as a distributor of media content, including our becoming subject to claims for defamation, invasion of privacy, negligence, copyright, patent or trademark infringement, and other claims based on the nature and content of the materials we distribute;
- (6) dilution from any potential issuance of additional common stock in connection with financings or acquisitions;
- (7) competition for advertisers from other publications, media or online providers or any decrease in spending by advertisers, either generally or with respect to the adult male market;
- (8) competition in the television, men's magazine and Internet markets;
- (9) attempts by consumers or private advocacy groups to exclude our programming or other products from distribution;
- (10) the television and Internet businesses' reliance on third parties for technology and distribution, and any changes in that technology and/or unforeseen delays in its implementation which might affect our plans and assumptions;
- (11) risks associated with losing access to transponders and competition for transponders and channel space;
- (12) the impact of industry consolidation, any decline in our access to, and acceptance by, DTH and/or cable systems and the possible resulting deterioration in the terms, cancellation of fee arrangements or pressure on margin splits with operators of these systems;
- (13) risks that we may not realize the expected increased sales and profits and other benefits from acquisitions and the restructuring of our international TV joint ventures;
- (14) risks associated with the financial condition of Claxson Interactive Group Inc., our Playboy TV-Latin America, LLC joint venture partner;
- (15) increases in paper or printing costs;
- (16) effects of the national consolidation of the single-copy magazine distribution system; and

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- (17) uncertainty of the viability of our primarily subscription- and e-commerce-based Internet model.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Effective with the refinancing of our financing obligations, which occurred on March 11, 2003, we no longer have any floating interest rate exposure. All of our current debt is represented by the senior secured notes, which are fixed rate obligations. Therefore, the fair value of the \$115.0 million senior secured notes will be influenced by changes in market rates and our credit quality. At September 30, 2003, the notes were trading above par for an implied fair value of \$126.5 million.

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CONTROLS AND PROCEDURES

(a) Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by this quarterly report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

(b) Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

LEGAL PROCEEDINGS

On February 17, 1998, Gongora filed suit in state court in Hidalgo County, Texas against the Editorial Defendants and us. In the complaint, Gongora alleged that he was injured as a result of the termination of the License Agreement between us and EC for the publication of the Mexican Edition. We terminated the License Agreement on or about January 29, 1998 due to EC's failure to pay royalties and other amounts due us under the License Agreement. On February 18, 1998, the Editorial Defendants filed a cross-claim against us. Gongora alleged that in December 1996 he entered into an oral agreement with the Editorial Defendants to solicit advertising for the Mexican Edition to be distributed in the United States. The basis of GSI's cross-claim was that it was the assignee of EC's right to distribute the Mexican Edition in the United States and other Spanish-speaking Latin American countries outside of Mexico. On May 31, 2002, a jury returned a verdict against us in the amount of \$4.4 million. Under the verdict, Gongora was awarded no damages. GSI and EC were awarded \$4.1 million in out-of-pocket expenses and \$0.3 million for lost profits, respectively, even though the jury found that EC had failed to comply with the terms of the License Agreement. On October 24, 2002, the trial court signed a judgment against us for \$4.4 million plus pre- and post-judgment interest and costs. On November 22, 2002, we filed post-judgment motions challenging the judgment in the trial court. The trial court overruled those motions and we are vigorously pursuing an

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appeal with the State Appellate Court sitting in Corpus Christi challenging the verdict. We have posted a bond in the amount of approximately \$7.7 million (which represents the amount of the verdict, costs and estimated pre- and post-judgment interest) in connection with the appeal. We, on advice of legal counsel, believe that it is not probable that a material judgment against us will be sustained. In accordance with Statement 5, Accounting for Contingencies, no liability has been accrued.

On May 17, 2001, Logix Development Corporation, or Logix, D. Keith Howington and Anne Howington filed suit in state court in Los Angeles County Superior Court in California against Spice Entertainment Companies, Inc., or Spice, Emerald Media, Inc., or EMI, Directrix, Inc., or Directrix, Colorado Satellite Broadcasting, Inc., New Frontier Media, Inc., J. Roger Faherty, Donald McDonald, Jr. and Judy Savar. On February 8, 2002, plaintiffs amended the complaint and added as a defendant Playboy, which acquired Spice in 1999. The complaint alleged 11 contract and tort causes of action arising principally out of a January 18, 1997 agreement between EMI and Logix in which EMI agreed to purchase certain explicit television channels broadcast over C-band satellite. The complaint further seeks damages from Spice based on Spice's alleged failure to provide transponder and uplink services to Logix. Playboy and Spice filed a motion to dismiss plaintiffs' complaint. The court sustained Playboy's motion as to plaintiffs' fraud and conspiracy claims, but not as to plaintiffs' claims of tortious interference with contract and imposition of constructive trust and granted plaintiffs leave to amend. On June 10, 2002, plaintiffs filed their first amended complaint. In the first amended complaint, plaintiffs allege that the various defendants, including Playboy and Spice, were alter egos of each other. The complaint purports to seek unspecified damages in excess of \$10 million. On May 31, 2002, Directrix filed for bankruptcy and on July 8, 2002, Directrix removed the action to the Central District of California Bankruptcy Court. The case was subsequently remanded to state court on October 31, 2002. Playboy and Spice filed motions to dismiss the first amended complaint and on April 4, 2003, the California Superior Court granted Playboy's motion to dismiss without leave to amend. The court signed a final judgment dismissing Playboy on May 9, 2003. Logix then moved for a new trial and that motion was denied on July 21, 2003. The plaintiffs have filed a notice of appeal of Playboy's dismissal. When the court dismissed Playboy on April 4, 2003, the court's decision was silent as to Spice's motion to dismiss. Spice then moved for clarification of that order

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on the grounds that the same statute of limitations theory on which the court dismissed fraud claims against Playboy applied with equal force to certain claims against Spice. On May 19, 2003, the court heard the motion for clarification and on July 21, 2003 issued a final ruling dismissing all claims against Spice except for breach of contract claims. A trial date for the remaining breach of contract claims against Spice has been set for December 10, 2003. Spice and the plaintiffs filed cross-motions for summary judgment or, in the alternative, for summary adjudication, on September 5, 2003. Those motions are set for hearing on November 19, 2003. On September 22, 2003, the plaintiffs filed a petition for writ of mandate, prohibition or other relief which seeks to vacate the trial court's order that dismissed all but the contract claims against Spice. On September 29, 2003, Spice filed a letter brief with the Court of Appeals which preliminarily opposes the writ petition. The writ petition is pending. We intend to vigorously defend against these claims and we believe we have good defenses to them. At this point in the action, however, it is not possible to determine if there is any potential liability or whether any liability may be material or is likely.

On September 26, 2002, Directrix filed suit in the U.S. Bankruptcy Court

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in the Southern District of New York against Playboy Entertainment Group, Inc. In the complaint, Directrix alleged that it was injured as a result of the termination of a Master Services Agreement under which Directrix was to perform services relating to the distribution, production and post production of our cable networks and a sublease agreement under which Directrix would have subleased office, technical and studio space at our Los Angeles, California production facility. Directrix also alleged that we breached an agreement under which Directrix had the right to transmit and broadcast certain versions of films through C-band satellite, commonly known as the TVRO market, and Internet distribution. On November 15, 2002, we filed an answer denying Directrix's allegations, along with counterclaims against Directrix relating to the Sublease Agreement and the Master Services Agreement and seeking damages. On May 15, 2003, we filed an amended answer and counterclaims. On July 30, 2003, Directrix moved to dismiss one of the amended counterclaims, and on October 20, 2003, the Court denied Directrix's motion. Both sides have commenced discovery. We intend to vigorously defend ourselves against Directrix's claims. We believe its claims are without merit and that we have good defenses against them. We believe it is not probable that a material judgment against us will result.

EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit Number	Description
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10.1	Seventh Amendment to September 20, 2001 Lease dated July 23, 2003 between Kingston Andrita LLC and Playboy Entertainment Group, Inc.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

On July 25, 2003, we filed a Current Report on Form 8-K, dated July 25, 2003, under Item 7., attaching as exhibits thereto (a) consolidated financial statements of Playboy TV International, LLC and the related independent auditors' report and (b) an independent auditors' consent.

On August 6, 2003, we furnished a Current Report on Form 8-K, dated August 6, 2003, under Item 12., attaching our press release announcing our financial results for the second quarter of 2003.

On August 13, 2003, we filed a Current Report on Form 8-K, dated August 13, 2003, under Item 7., attaching as an exhibit thereto financial information that was included in our earnings release on August 6, 2003.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its

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behalf by the undersigned thereunto duly authorized.

PLAYBOY ENTERPRISES, INC.
(Registrant)

Date: November 6, 2003

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