PLAYBOY ENTERPRISES INC
Form 10-Q
May 10, 2005

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2005

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	36-4249478
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
680 North Lake Shore Drive, Chicago, IL	60611
(Address of principal executive offices)	(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 |X| 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 |X| No |_|

At April 30, 2005, there were 4,864,102 shares of Class A common stock, par value $0.01 per share, and 28,201,063 shares of Class B common stock, par value $0.01 per share, outstanding.

PLAYBOY ENTERPRISES, INC.
FORM 10-Q
TABLE OF CONTENTS

PART I
FINANCIAL INFORMATION

Page

Item 1. Financial Statements

Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income for the Quarters Ended March 31, 2005 and 2004 (Unaudited) 3

Condensed Consolidated Balance Sheets at March 31, 2005 (Unaudited) and December 31, 2004 4

Condensed Consolidated Statements of Cash Flows for the Quarters Ended March 31, 2005 and 2004 (Unaudited) 5

Notes to Condensed Consolidated Financial Statements (Unaudited) 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 11

Item 3. Quantitative and Qualitative Disclosures About Market Risk 17

Item 4. Controls and Procedures 17

PART II
OTHER INFORMATION

Item 1. Legal Proceedings 17

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 19

Item 5. Other Information 19

Item 6. Exhibits 21

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PLAYBOY ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE (LOSS) INCOME
for the Quarters Ended March 31 (Unaudited)
(In thousands, except per share amounts)

	2005	2004
Net revenues	$ 83,451	$ 80,870
Costs and expenses		
Cost of sales	(59,276)	(58,984)
Selling and administrative expenses	(13,267)	(14,434)
Total costs and expenses	(72,543)	(73,418)
Operating income	10,908	7,452
Nonoperating income (expense)		

Investment income	187	90
Interest expense	(2,648)	(4,158)
Amortization of deferred financing fees	(233)	(375)
Minority interest	(370)	(351)
Debt extinguishment expenses	(19,280)	--
Other, net	(476)	(459)
Total nonoperating expense	(22,820)	(5,253)
(Loss) income before income taxes	(11,912)	2,199
Income tax expense	(1,207)	(311)
Net (loss) income	(13,119)	1,888
Other comprehensive income (loss)		
Unrealized (loss) gain on marketable securities	(25)	132
Unrealized gain (loss) on derivatives	211	(28)
Foreign currency translation adjustments	276	(420)
Total other comprehensive income (loss)	462	(316)
Comprehensive (loss) income	$(12,657)	$ 1,572
Net (loss) income	$(13,119)	$ 1,888
Dividend requirements of preferred stock	--	(335)
Net (loss) income applicable to common shareholders	$(13,119)	$ 1,553
Weighted average number of common shares outstanding		
Basic	33,354	27,478
Diluted	33,354	29,323
Basic and diluted (loss) earnings per common share	$ (0.39)	$ 0.06

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

3

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

	(Unaudited) Mar. 31, 2005	De
Assets		
Cash and cash equivalents	$ 22,929	$
Marketable securities and short-term investments	40,777	
Receivables, net of allowance for doubtful accounts of		

$3,738 and $3,897, respectively	41,901	
Receivables from related parties	1,906	
Inventories, net	11,818	
Deferred subscription acquisition costs	13,570	
Other current assets	8,219	
Total current assets	141,120	1
Property and equipment, net	11,729	
Long-term receivables	2,429	
Programming costs, net	55,578	
Goodwill	111,893	1
Trademarks	57,146	
Distribution agreements, net of accumulated amortization		
of $2,145 and $1,935 respectively	30,995	
Other noncurrent assets	18,681	
Total assets	$ 429,571	$ 4
Liabilities		
Acquisition liabilities	$ 14,475	$
Accounts payable	19,515	
Accrued salaries, wages and employee benefits	5,893	
Deferred revenues	52,157	
Accrued litigation settlement	1,000	
Other liabilities and accrued expenses	14,516	
Total current liabilities	107,556	1
Financing obligations	115,000	
Acquisition liabilities	13,249	
Net deferred tax liabilities	15,638	
Accrued litigation settlement	--	
Other noncurrent liabilities	13,860	
Total liabilities	265,303	2
Minority interest	12,887	
Shareholders' equity		
Common stock, $0.01 par value		
Class A voting - 7,500,000 shares authorized; 4,864,102 issued	49	
Class B nonvoting - 75,000,000 shares authorized; 28,579,935		
and 28,521,493 issued, respectively	286	
Capital in excess of par value	222,872	2
Accumulated deficit	(66,068)	(
Treasury stock, at cost, 381,971 and 0 shares, respectively	(5,000)	
Accumulated other comprehensive loss	(758)	
Total shareholders' equity	151,381	1
Total liabilities and shareholders' equity	$ 429,571	$ 4

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

PLAYBOY ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
for the Quarters Ended March 31 (Unaudited)
(In thousands)

	2005
Cash flows from operating activities	
Net (loss) income	$ (13,119)
Adjustments to reconcile net (loss) income to net cash provided by (used for) operating activities:	
Depreciation of property and equipment	769
Amortization of intangible assets	413
Amortization of investments in entertainment programming	9,253
Amortization of deferred financing fees	233
Debt extinguishment expenses	19,280
Deferred income taxes	614
Net change in operating assets and liabilities	(3,481)
Investments in entertainment programming	(8,653)
Litigation settlement	(1,875)
Other, net	672
Net cash provided by (used for) operating activities	4,106
Cash flows from investing activities	
Additions to property and equipment	(1,041)
Purchases of investments	(26,750)
Proceeds from investments	10,000
Other, net	--
Net cash used for investing activities	(17,791)
Cash flows from financing activities	
Proceeds from financing obligations	115,000
Repayment of financing obligations	(80,000)
Payment of debt extinguishment expenses	(15,197)
Payment of acquisition liabilities	(1,880)
Purchase of treasury stock	(5,000)
Payment of deferred financing fees	(3,463)
Proceeds from stock plans	525
Other	(39)
Net cash provided by (used for) financing activities	9,946
Net decrease in cash and cash equivalents	(3,739)
Cash and cash equivalents at beginning of period	26,668
Cash and cash equivalents at end of period	$ 22,929

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 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, 2004. Certain amounts reported for prior periods have been reclassified to conform to the current year's presentation.

Marketable securities and short-term investments include $36.8 million and $20.0 million of auction rate securities, or ARS, for the periods ended March 31, 2005 and December 31, 2004, respectively, which were previously classified as cash and cash equivalents in prior periods. ARS generally have long-term maturities; however, these investments have characteristics similar to short-term investments because at predetermined intervals, typically every 28 days, there is a new auction process. We account for ARS as trading securities in accordance with Statement of Financial Accounting Standards, or Statement, No. 115.

(B) RESTRUCTURING EXPENSES

During the quarter ended March 31, 2005, we made cash payments of $0.4 million related to our various restructuring plans. Approximately $9.4 million of the total restructuring charges was paid by March 31, 2005, with most of the remainder to be paid in the current year and some payments continuing through 2007.

In 2004, we recorded a restructuring charge of $0.5 million relating to the realignment of our entertainment and online businesses. In addition, primarily due to excess office space, we recorded additional charges of $0.4 million related to the 2002 restructuring plan and reversed $0.2 million related to the 2001 restructuring plan as a result of changes in plan assumptions.

Our 2002 restructuring initiative to reduce our ongoing operating expenses resulted in a $5.7 million charge, of which $2.9 million related to the termination of employees and $2.8 million related to consolidation of our office space in Los Angeles and Chicago. Our 2001 restructuring plan resulted in a $4.6 million charge, of which $2.6 million related to the termination of employees and $2.0 million related to excess space in our Chicago and New York offices.

The following table displays the activity and balances of the restructuring reserve for the year ended December 31, 2004 and the quarter ended March 31, 2005 (in thousands):

	Workforce Reduction	Consolidation of Facilities and Operations	Total
Balance at December 31, 2003	$ 630	$ 2,563	$ 3,193
Additional reserve recorded	466	--	466
Adjustment to previous estimate	--	278	278

Cash payments	(917)	(1,014)	(1,931)
Balance at December 31, 2004	179	1,827	2,006
Cash payments	(169)	(227)	(396)
Balance at March 31, 2005	$ 10	$ 1,600	$ 1,610

(C) EARNINGS (LOSS) PER COMMON SHARE

The following table sets forth the computation of basic and diluted (loss) earnings per share, or EPS (in thousands, except per share amounts):

	(Unaudited) Quarters Ended March 31,	
	2005	2004
Numerator:		
For basic EPS - net (loss) income	$ (13,119)	$ 1,553
Preferred stock dividends	--	335
For diluted EPS - net (loss) income	$ (13,119)	$ 1,888
Denominator:		
For basic EPS - weighted-average shares	33,354	27,478
Effect of dilutive potential common shares:		
Employee stock options and other	--	359
Preferred stock	--	1,486
Dilutive potential common shares	--	1,845
For diluted EPS - weighted-average shares	33,354	29,323
Basic and diluted (loss) earnings per common share	$ (0.39)	$ 0.06

The following table represents the approximate number of shares related to options to purchase our Class B common stock, or Class B stock, that were outstanding which were not included in the computation of diluted EPS as the inclusion of these shares would have been antidilutive (in thousands):

	(Unaudited) Quarters Ended March 31,	
	2005	2004

Stock options	3,746	1,322
Total	3,746	1,322

On April 26, 2004, we completed a public offering of 6,021,340 shares of our Class B stock at $12.69 per share, before underwriting discounts. Included in this offering were 4,385,392 shares sold by Playboy, 1,485,948 shares sold by Hugh M. Hefner, our founder and Editor-in-Chief, and 150,000 shares sold by Christie Hefner, our Chairman and Chief Executive Officer. Playboy's shares included 3,600,000 initial shares, plus an additional 785,392 shares due to the underwriters' exercise of their over-allotment option. The shares sold by Mr. Hefner consisted of all the shares of Class B stock he received upon conversion, at the time of the offering, of all of the outstanding shares of Playboy Preferred Stock. Mr. Hefner and Ms. Hefner paid for expenses related to this transaction proportionate to the number of shares each sold to the total number of shares sold in the offering.

(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) Mar. 31, 2005	Dec. 31, 2004
Paper	$ 2,887	$ 2,573
Editorial and other prepublication costs	7,141	7,814
Merchandise finished goods	1,790	2,050
Total inventories, net	$ 11,818	$ 12,437

7

(E) INCOME TAXES

Our income tax provision consists 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 deferred federal and state income tax related to the amortization of goodwill and other indefinite-lived intangibles, which cannot be offset against deferred tax assets due to the indefinite reversal period of the deferred tax liabilities.

(F) CONTINGENCIES

In 2002, a $4.4 million verdict was entered against us by a state trial court in Texas in a lawsuit with a former publishing licensee. We terminated the license in 1998 due to the licensee's failure to pay royalties and other amounts due to us under the license agreement. We have posted a bond in the amount of $8.5 million, which represents the amount of the judgment, costs and estimated pre- and post-judgment interest. We, on advice of legal counsel, believe that it

is not probable that a material judgment against us will be sustained and have not recorded a liability for this case in accordance with Statement 5, Accounting for Contingencies. We are currently pursuing an appeal.

In the fourth quarter of 2003, we recorded $8.5 million related to the settlement of the Logix litigation, which related to events prior to our 1999 acquisition of Spice. We made a payment of $6.5 million in February 2004 and a payment of $1.0 million in January 2005 and will make the remaining payment of $1.0 million in 2006.

(G) STOCK-BASED COMPENSATION

We account for stock options as prescribed by Accounting Principles Board Opinion, or APB, No. 25, Accounting for Stock Issued to Employees, and disclose pro forma information as provided by Statement 123, as amended by Statement 148, Accounting for Stock Based Compensation. In December 2004, the Financial Accounting Standards Board (the "FASB") issued Statement 123 (revised 2004), Share-Based Payment ("Statement 123(R)"), which supersedes APB No. 25, and amends Statement No. 95, Statement of Cash Flows. The implementation of Statement 123(R) has since been delayed and will be effective for the first fiscal year beginning after December 15, 2005. We expect to adopt Statement 123(R) on January 1, 2006 using the modified prospective method and are currently conducting an analysis of the impact on our financial statements.

Pro forma net (loss) income and net (loss) income per common share, presented below (in thousands, except per share amounts), were determined as if we had accounted for our stock options under the fair value method of Statement 123. The fair value of these options was estimated at the date of grant using an option pricing model. Such models require the input of highly subjective assumptions, including the expected volatility of the stock price. For pro forma disclosures, the options' estimated fair value was amortized over their vesting period. No stock-based employee compensation expense is recognized because all options granted under those plans had an exercise price equal to or in excess of the market value of the underlying common stock at the grant date. If we accounted for our employee stock options under Statement 123, compensation expense related to stock options would have been $0.7 million for each of the quarters ended March 31, 2005 and 2004.

	(Unaudited) Quarters Ended March 31,	
	2005	2004
Net (loss) income		
As reported	$ (13,119)	$ 1,888
Pro forma	(13,823)	1,139
Basic EPS		
As reported	$ (0.39)	$ 0.06
Pro forma	(0.41)	0.03
Diluted EPS		
As reported	$ (0.39)	$ 0.06
Pro forma	(0.41)	0.03

We recorded $0.3 million and $0.2 million of compensation expense for the quarters ended March 31, 2005 and 2004, respectively, related to restricted stock units, as it was probable that the performance criteria would be met.

(H) SEGMENT INFORMATION

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

	(Unaudited) Quarters Ended March 31, 2005	2004
Net revenues		
Entertainment	$ 50,476	$ 46,444
Publishing	27,004	29,677
Licensing	5,971	4,749
Total	$ 83,451	$ 80,870
(Loss) income before income taxes		
Entertainment	$ 11,896	$ 7,553
Publishing	(384)	1,899
Licensing	3,602	2,571
Corporate Administration and Promotion	(4,206)	(4,571)
Investment income	187	90
Interest expense	(2,648)	(4,158)
Amortization of deferred financing fees	(233)	(375)
Minority interest	(370)	(351)
Debt extinguishment expenses	(19,280)	--
Other, net	(476)	(459)
Total	$(11,912)	$ 2,199

Prior period segment information has been restated as a result of the realignment of our Entertainment and Online businesses, into a combined Entertainment segment, as announced during the fourth quarter of 2004.

	(Unaudited) Mar. 31, 2005	Dec. 31, 2004
Identifiable assets		
Entertainment	$266,383	$266,736
Publishing	41,103	45,724
Licensing	5,839	5,344
Corporate Administration and Promotion(1)	116,246	102,777
Total(1)	$429,571	$420,581

(1) The increase in identifiable assets since December 31, 2004 was primarily due to our debt refinancing in March 2005. See Footnote (I), Debt Refinancing.

(I) DEBT REFINANCING

On March 15, 2005, we issued and sold in a private placement $100.0 million aggregate principal amount of our 3.00% convertible senior subordinated notes due 2025, or convertible notes. On March 28, 2005, we issued and sold in a

private placement an additional $15.0 million aggregate principal amount of the convertible notes due to the initial purchasers' exercise of the over-allotment option. The net proceeds of approximately $110.3 million from the issuance and sale of the convertible notes, after deducting the initial purchasers' discount and estimated offering expenses payable by us, were used, together with available cash, (i) to complete a tender offer and consent solicitation for, and to purchase and retire, all $80.0 million outstanding principal amount of the 11.00% senior secured notes of our subsidiary PEI Holdings, Inc., or Holdings, for a total of approximately $95.2 million, including the bond tender premium and consent fee of $14.9 million and other expenses of $0.3 million, (ii) to purchase 381,971 shares of our Class B stock for an aggregate purchase price of $5.0 million concurrently with the sale of the convertible notes and (iii) for working capital and general corporate purposes.

9

The convertible notes bear interest at a rate of 3.00% per annum on the principal amount of the notes, payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2005. In addition, under certain circumstances beginning in 2012, if the trading price of the convertible notes exceeds a specified threshold during a prescribed measurement period prior to any semi-annual interest period, contingent interest will become payable on the convertible notes for that semi-annual interest period at an annual rate of 0.25%.

The convertible notes are convertible into cash and, if applicable, shares of our Class B stock based on an initial conversion rate, subject to adjustment, of 58.7648 shares per $1,000 principal amount of the convertible notes (which represents an initial conversion price of approximately $17.02 per share), only under the following circumstances: (1) during any fiscal quarter after the fiscal quarter ending March 31, 2005, if the closing sale price of our Class B stock for each of 20 or more consecutive trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price in effect on that trading day; (2) during the five business day period after any five consecutive trading day period in which the average trading price per $1,000 principal amount of convertible notes over that five consecutive trading day period was equal to or less than 95% of the average conversion value of the convertible notes during that period; (3) upon the occurrence of specified corporate transactions, as set forth in the indenture governing the convertible notes; or (4) if we have called the convertible notes for redemption. Upon conversion of a convertible note, a holder will receive cash in an amount equal to the lesser of the aggregate conversion value of the note being converted and the aggregate principal amount of the note being converted. If the aggregate conversion value of the convertible note being converted is greater than the cash amount received by the holder, the holder will also receive an amount in whole shares of Class B stock equal to the aggregate conversion value less the cash amount received by the holder. A holder will receive cash in lieu of any fractional shares of Class B stock.

The convertible notes mature on March 15, 2025. On or after March 15, 2010, if the closing price of our Class B stock exceeds a specified threshold, we may redeem any of the convertible notes at a redemption price in cash equal to 100% of the principal amount of the notes, plus any accrued and unpaid interest up to, but excluding, the redemption date. On or after March 15, 2012, we may at any time redeem any of the convertible notes at the same redemption price. On each of March 15, 2012, March 15, 2015 and March 15, 2020, or upon the occurrence of a fundamental change, as specified in the indenture governing the convertible notes, holders may require us to purchase all or a portion of their convertible notes at a purchase price in cash equal to 100% of the principal

amount of the notes, plus any accrued and unpaid interest up to, but excluding, the purchase date.

The convertible notes are unsecured senior subordinated obligations of the issuer, Playboy Enterprises, Inc., and rank junior to all of the issuer's senior debt, including its guarantee of Holdings' borrowings under our credit facility; equally with all of the issuer's future senior subordinated debt; and senior to all of the issuer's future subordinated debt. In addition, the assets of the issuer's subsidiaries are subject to the prior claims of all creditors, including trade creditors, of those subsidiaries.

(J) EQUITY OFFERING

On April 26, 2004, we completed a public offering of 6,021,340 shares of our Class B stock at $12.69 per share, before underwriting discounts. Included in this offering were 4,385,392 shares sold by Playboy, 1,485,948 shares sold by Mr. Hefner and 150,000 shares sold by Ms. Hefner. Playboy's shares included 3,600,000 initial shares, plus an additional 785,392 shares due to the underwriters' exercise of the over-allotment option. The shares sold by Mr. Hefner consisted of all of the shares of Class B stock he received upon conversion of all of the outstanding shares of Playboy's Series A convertible preferred stock, which we refer to as the Playboy Preferred Stock, at the time of the offering.

Net proceeds to us from the sale of our shares were approximately $51.8 million. On June 11, 2004, we used $39.8 million of the net proceeds of this sale to redeem $35.0 million in aggregate principal amount of our outstanding 11.00% senior secured notes due 2010, which included a $3.9 million bond redemption premium and accrued and unpaid interest of $0.9 million. We used approximately $0.7 million of net proceeds to pay accrued and unpaid dividends on the Playboy Preferred Stock up to the time of conversion.

10

ITEM 2. 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):

Net revenues	
Entertainment	
Domestic TV networks	$
International	
Online subscriptions	
E-commerce	
Other	
Total Entertainment	

Publishing		
Playboy magazine		
Other domestic publishing		
International publishing		
Total Publishing		
Licensing		
International licensing		
Domestic licensing		
Entertainment licensing		
Marketing events		
Total Licensing		
Total net revenues	$	
Net (loss) income		
Entertainment		
Before programming amortization and online content expenses	$	
Programming amortization and online content expenses		
Total Entertainment		
Publishing		
Licensing		
Corporate Administration and Promotion		
Operating income		
Nonoperating income (expense)		
Investment income		
Interest expense		
Amortization of deferred financing fees		
Minority interest		
Debt extinguishment expenses		(
Other, net		
Total nonoperating expense		(
(Loss) income before income taxes		(
Income tax expense		
Net (loss) income	$	(
Basic and diluted (loss) earnings per common share	$	(

(1) Prior period segment information has been restated as a result of the realignment of our Entertainment and Online businesses, into a combined Entertainment segment, as announced during the fourth quarter of 2004.

Our revenues and operating income increased approximately 3% and 46%, respectively, for the quarter primarily due to strong results from our Entertainment and Licensing Groups, partially offset by anticipated lower

results from our Publishing Group.

The net loss for the current quarter of $13.1 million includes $19.3 million of debt extinguishment expenses related to our redemption of all $80.0 million of our 11.00% senior secured notes due 2010, comprised of $14.9 million of bond redemption premium combined with $0.3 million of related expenses and $4.1 million for the non-cash write-off of the related deferred financing costs. The senior secured notes were repurchased using the proceeds of the issuance of $115.0 million of 3.00% convertible senior subordinated notes. There were no such expenses in the prior year quarter. See the Debt Financing section within Liquidity and Capital Resources for more information regarding the redemption and the economic benefits associated with the transaction.

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 additional public interest. Advertising revenues also vary from quarter to quarter depending on economic conditions, holiday issues and changes in advertising buying patterns. Online subscription revenues and operating results are impacted by decreased Internet traffic during the summer months, and e-commerce revenues and operating results are typically higher in the fourth quarter due to the holiday buying season.

ENTERTAINMENT GROUP

The following discussion focuses on the profit contribution of each of our Entertainment Group businesses before programming amortization and online content expenses.

Revenues from our domestic TV networks business increased $0.8 million, or 3%, for the quarter. Direct-to-home, or DTH, revenues increased $0.8 million due to subscriber growth and an increase in average monthly pay-per-view, or PPV, buys compared to the prior year period. Video-on-demand, or VOD, revenues increased $0.7 million due to the roll out of VOD service in additional cable systems as well as growing customer demand. Higher revenues associated with renting our studio facility and providing various related services to third parties also contributed. These revenue increases were partially offset by a decrease in cable PPV buys as cable companies migrate consumers from linear channels to VOD.

Profit contribution from our domestic TV networks increased $1.4 million, or 9%, for the quarter, as a result of the revenue growth described above combined with a decrease in marketing expenses due to the timing of promotional campaigns. This increase was partially offset by higher overhead costs related to the operation of our production facility as a result of renting more production space to third parties compared to the prior year quarter.

International revenues increased $2.9 million, or 28%, for the quarter. Higher DTH revenues from our networks in the U.K., revenues from several new third party network licensees and royalties related to wireless license agreements contributed to the increase in revenues. Profit contribution from our international business increased $1.6 million, or 36%, from the prior year quarter, in spite of higher network costs in the U.K., due to the above-mentioned revenue increases.

Online subscription revenues increased $0.6 million, or 13%, for the quarter due to an increase in revenues for all Playboy.com clubs. Contributing to the revenue growth was a higher number of subscriptions and an increase in average revenue per subscription for our two largest clubs, Cyber Club and PlayboyNet. Profit contribution from the online subscription business increased

$0.6 million, or 18%, due to the revenue increase described above, partially offset by higher technology and promotional costs related to Playboy Daily, which launched in September 2004.

E-commerce revenues increased $0.4 million, or 8%, for the quarter due to an increase in online store visitors and catalog circulation. Profit contribution from e-commerce decreased $0.4 million, or 62%, due to higher production costs related to an anticipated increase in paper costs combined with higher circulation costs.

Profit contribution from other businesses decreased $0.2 million on a revenue decrease of $0.7 million, or 43%, primarily due to the expected decline in worldwide DVD sales.

Segment income for the group increased $4.3 million, or 58%, primarily due to the previously mentioned higher revenues. Segment income was also favorably impacted by lower programming amortization and online content expenses of $1.1 million, or 11%, compared to the prior year quarter due to the mix of programming and fewer program premieres. We believe our cash programming and online content investments will be approximately $40.0 million for the year, down nearly 10% from last year, and programming amortization and online content expenses will decline to about $41.0 million for the year.

PUBLISHING GROUP

Playboy magazine revenues decreased $2.5 million, or 10%, for the quarter. Newsstand revenues were $0.9 million lower largely due to a $0.3 million unfavorable adjustment related to prior year issues in the current quarter compared to a $0.3 million favorable adjustment related to prior year issues in the prior year quarter. Also contributing to the decrease were higher cover prices related to celebrity pictorials in the prior year quarter. Subscription revenues decreased $0.9 million primarily due to a higher favorable adjustment in the prior year quarter for paid subscriptions that will not be served combined with lower average net revenue per copy. As previously announced, advertising revenues decreased $0.7 million principally due to the mix of advertisements which resulted in a decrease in net revenue per page. Advertising sales for the 2005 second quarter magazine issues are closed, and we expect to report 20% lower advertising revenues and 14% lower advertising pages compared to the 2004 second quarter.

Revenues from our other domestic publishing businesses decreased $0.4 million, or 13%, primarily due to an unfavorable adjustment to special editions newsstand revenues related to prior year issues in the current year quarter combined with an expected decrease in royalties from Playboy: 50 Years: The Photographs.

International publishing revenues increased $0.2 million, or 10%, primarily due to higher royalties from the German edition.

The group's segment profitability decreased $2.3 million, which was attributable to the lower revenues discussed above as well as anticipated increases in subscription acquisition amortization expense and paper costs of $0.5 million and $0.3 million, respectively, partially offset by lower editorial costs related to celebrity pictorials in the current year quarter.

LICENSING GROUP

Licensing Group revenues increased $1.3 million, or 26%, for the quarter

principally due to higher royalties from existing licensees in Japan and Europe as well as several new international licensee agreements. Segment income for our Licensing Group increased $1.0 million, or 40%, due to the revenue increase.

CORPORATE ADMINISTRATION AND PROMOTION

Corporate Administration and Promotion expenses decreased $0.4 million, or 8%, for the quarter due to a decrease in benefit-related expenses.

INCOME TAX EXPENSE

Our effective income tax rate differs from U.S. statutory rates. The income tax provision consists 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 deferred federal and state income tax related to the amortization of goodwill and other indefinite-lived intangibles, which cannot be offset against deferred tax assets due to the indefinite reversal period of the deferred tax liabilities.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2005, we had $22.9 million in cash and cash equivalents compared to $26.7 million in cash and cash equivalents at December 31, 2004. At March 31, 2005, we had $36.8 million of auction rate securities, or ARS, included in short-term investments compared to $20.0 million at December 31, 2004. During the first quarter of 2005, we determined that investments in ARS should be classified as short-term investments. Previously, such investments had been classified as cash and cash equivalents. ARS generally have long-term maturities; however, these investments have characteristics similar to short-term investments because at predetermined intervals, typically every 28 days, there is a new auction process. Total financing obligations were $115.0 million and $80.0 million at March 31, 2005 and December 31, 2004, respectively.

At March 31, 2005, our liquidity requirements were being provided by cash generated from our operating activities, our existing cash, cash equivalents, short-term investments and net proceeds from the issuance of the convertible senior subordinated notes described under "Debt Financings" below. At March 31, 2005, we had a $30.0 million credit facility, which was used for revolving borrowings, issuing letters of credit or a combination of both. At March 31, 2005, there were no borrowings and $10.8 million in letters of credit outstanding under this facility, permitting $19.2 million of available borrowings under this facility. Effective April 1, 2005, we amended and restated the facility to increase the size of the facility to $50.0 million and extend the term to April 1, 2008. See "Credit Facility" for additional information.

DEBT FINANCINGS

On March 15, 2005, we issued and sold in a private placement $100.0 million aggregate principal amount of our 3.00% convertible senior subordinated notes due 2025, or convertible notes. On March 28, 2005, we issued and sold in a private placement an additional $15.0 million aggregate principal amount of the convertible notes due to the initial purchasers' exercise of the over-allotment option. The net proceeds of approximately $110.3 million from the issuance and sale of the convertible notes, after deducting the initial purchasers' discount and estimated offering expenses payable by us, were used, together with available cash, (i) to complete a tender offer and consent solicitation for, and to purchase and retire, all $80.0 million outstanding principal amount of the 11.00% senior secured notes of our subsidiary PEI Holdings, Inc., or Holdings,

for a total of approximately $95.2 million, including the bond tender premium and consent fee of $14.9 million and other expenses of $0.3 million, (ii) to purchase 381,971 shares of our Class B common stock, or Class B stock, for an aggregate purchase price of $5.0 million concurrently with the sale of the convertible notes and (iii) for working capital and general corporate purposes. Also, on March 15, 2005, concurrently with the convertible note offering, Hugh M. Hefner, our founder and Editor-In-Chief, purchased 381,971 shares of our Class B stock for an aggregate purchase price of $5.0 million.

The convertible notes bear interest at a rate of 3.00% per annum on the principal amount of the notes, payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2005. In addition, beginning in March 2012, if the trading price of the convertible notes exceeds a specified threshold during a prescribed measurement period prior to any semi-annual interest period, contingent interest will become payable on the convertible notes for that semi-annual interest period at an annual rate of 0.25%. The notes are convertible under specified circumstances into cash and, if applicable, shares of our Class B stock based on an initial conversion rate of 58.7648 shares per $1,000 principal amount of the convertible notes (which represents an initial conversion price of approximately $17.02 per share). In general, upon conversion of a convertible note, the holder of the note will receive cash in an amount equal to the principal amount of the note and Class B stock for the note's conversion value in excess of the principal amount. See Footnote (I), Debt Refinancing, for additional information.

The convertible notes mature on March 15, 2025. On or after March 15, 2010, if the closing price of our Class B stock exceeds a specified threshold, we may redeem any of the convertible notes at a redemption price in cash equal to 100% of the principal amount of the notes, plus any accrued and unpaid interest to, but excluding, the redemption date. On or after March 15, 2012, we may at any time redeem any of the convertible notes at the same redemption price. On each of March 15, 2012, March 15, 2015 and March 15, 2020, or upon the occurrence of a fundamental change, as specified in the indenture governing the convertible notes, holders may require us to purchase all or a portion of their convertible notes at a purchase price in cash equal to 100% of the principal amount of the notes, plus any accrued and unpaid interest up to, but excluding, the purchase date.

14

The convertible notes are unsecured senior subordinated obligations of the issuer, Playboy Enterprises, Inc., and rank junior to all of the issuer's senior debt, including its guarantee of Holdings' borrowings under our credit facility; equally with all of the issuer's future senior subordinated debt; and senior to all of the issuer's future subordinated debt. In addition, the assets of the issuer's subsidiaries are subject to the prior claims of all creditors, including trade creditors, of those subsidiaries.

CREDIT FACILITY

Effective April 1, 2005, Holdings and its lenders amended and restated the credit agreement governing our credit facility, primarily to increase the size of our credit facility from $30.0 million to $50.0 million. The credit facility provides for revolving borrowings by Holdings of up to $50.0 million and the issuance of up to $30.0 million in letters of credit, subject to a maximum of $50.0 million in combined borrowings and letters of credit outstanding at any time. Borrowings under the credit facility bear interest at a variable rate, equal to a specified Eurodollar, LIBOR, or base rate plus a specified borrowing margin based on our Transactions Adjusted EBITDA, as defined in the credit agreement. We pay fees on the outstanding amount of letters of credit under the

credit facility based on the borrowing margin that applies to borrowings that bear interest at a rate based on LIBOR. All amounts outstanding under the credit facility will mature on April 1, 2008. Holdings' obligations as borrower under the credit facility are guaranteed by Playboy Enterprises, Inc. and each of our other U.S. subsidiaries, except for Playboy.com and its subsidiaries. The obligations of the borrower and each of the guarantors under the credit facility are secured by a first-priority lien on substantially all of the borrower's and the guarantors' assets.

CALIFA ACQUISITION

The Califa acquisition agreement gives us the option of paying $21.0 million of the remaining $27.8 million purchase price consideration in cash or in shares of Class B stock. Under the terms of the agreement, a total of $8.0 million is payable in 2005, all of which will be paid in cash. On May 2, 2005, we made the first payment in the amount of $3.5 million. We also have the option of accelerating remaining acquisition payments.

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities was $4.1 million, which represents an increase of $15.3 million from the prior year quarter. This increase reflects a decrease of $4.6 million in litigation settlement payments and a decrease in investments in entertainment programming of approximately $2.8 million compared to the prior year quarter. Better overall operations also contributed to the increase.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash used for investing activities increased $17.3 million due to investments made in auction rate securities during the current year quarter. There was no such investment activity in the prior year quarter.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash provided by financing activities was $9.9 million for the quarter principally due to the proceeds from our sale of $115.0 million aggregate principal amount of convertible notes partially offset by the payment of $94.9 million in connection with the purchase and retirement of all $80.0 million outstanding principal amount of Holdings' 11.00% senior secured notes and the payment of $0.3 million in associated debt extinguishment expenses and $3.5 million of related financing fees. Proceeds from the convertible note offering were also used to purchase 381,971 shares of our Class B stock for an aggregate purchase price of $5.0 million. See Footnote (I), Debt Refinancing, for additional information.

FORWARD-LOOKING STATEMENTS

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

(3) Our ability to manage the risk associated with our exposure to foreign currency exchange rate fluctuations;

(4) 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;

(5) Our ability to protect our trademarks, copyrights and other intellectual property;

(6) 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;

(7) The risk our outstanding litigation could result in settlements or judgments which are material to us;

(8) Dilution from any potential issuance of common or convertible preferred stock or convertible debt in connection with financings or acquisition activities;

(9) 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;

(10) Competition in the television, men's magazine, Internet and product licensing markets;

(11) Attempts by consumers or private advocacy groups to exclude our programming or other products from distribution;

(12) Our 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;

(13) Risks associated with losing access to transponders and competition for transponders and channel space;

(14) 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;

(15) 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;

(16) Any charges or costs we incur in connection with restructuring measures we may take in the future;

(17) Risks associated with the financial condition of Claxson Interactive Group, Inc., our Playboy TV-Latin America, LLC joint venture partner;

(18) Increases in paper or printing costs;

(19) Effects of the national consolidation of the single-copy magazine distribution system; and

(20) Risks associated with the viability of our primarily subscription- and e-commerce-based Internet model.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At March 31, 2005, we did not have any floating interest rate exposure. All of our outstanding debt as of that date consisted of the convertible notes, which are fixed-rate obligations. The fair value of the $115.0 million aggregate principal amount of the notes will be influenced by changes in market interest rates, the share price of our Class B stock and our credit quality. As of March 31, 2005, the convertible senior subordinated notes had an implied fair value of $113.7 million.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure 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.

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.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 approximately $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 approximately $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 appeal with the State Appellate Court sitting in Corpus Christi challenging the verdict. We have posted a bond in the amount of approximately $8.5 million (which represents the amount of the judgment, 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, or 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, or 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 sought 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 the plaintiffs' complaint. After pre-trial motions, Playboy was dismissed from the case and a number of causes of action were dismissed against Spice. A trial date for the remaining breach of contract claims against Spice was set for December 10, 2003, and then continued, first to February 11, 2004 and then to March 17, 2004. Spice and the plaintiffs filed cross-motions for summary judgment or, in the alternative, for summary adjudication, on September 5, 2003. Those motions were heard on November 19, 2003 and were denied. In February 2004, prior to the trial, Spice and the plaintiffs agreed to a settlement in the amount of $8.5 million, which we recorded as a charge in the fourth quarter of 2003, $6.5 million of which was paid in 2004 and $1.0 million in 2005. The remaining $1.0 million will be paid in 2006.

On April 12, 2004, Faherty filed suit in the United States District Court for the Southern District of New York against Spice, Playboy, Playboy Enterprises International, Inc., or PEII, D. Keith Howington, Anne Howington (together, the "Howington defendants") and Logix. The complaint alleges that Faherty is entitled to statutory and contractual indemnification from Playboy, PEII and Spice with respect to defense costs and liabilities incurred by Faherty in the litigation described in the preceding paragraph, or the Logix litigation. The complaint further alleges that Playboy, PEII, Spice, D. Keith Howington, Anne Howington and Logix conspired to deprive Faherty of his alleged right to indemnification by excluding him from the settlement of the Logix litigation. On June 18, 2004, a jury entered a special verdict finding Faherty personally liable for $22.5 million in damages to the plaintiffs in the Logix litigation. A judgment was entered on the verdict on or around August 2, 2004. Faherty filed post-trial motions for a judgment notwithstanding the verdict and a new trial, but these motions were both denied on or about September 21, 2004. On October 20, 2004, Faherty filed a notice of appeal from the verdict. In consideration of this appeal Faherty and Playboy have agreed to seek a temporary stay of the indemnification action filed in the United States District Court for the Southern District of New York. On January 14, 2005, Logix and the Howington defendants filed a motion to dismiss the Faherty action for, among other things, lack of personal jurisdiction. On February 15, 2005, Faherty filed a cross-motion to stay the action pending the outcome of his appeal. The motion and cross-motions are pending. In the event Faherty's indemnification and conspiracy claims go forward against us, we believe they are without merit and that we have good defenses against them. As such, based on the information known to us to date, we do not believe that it is probable that a material judgment against us will result. In accordance with Statement 5, Accounting for Contingencies, no liability has been accrued.

On September 26, 2002, Directrix filed suit in the U.S. Bankruptcy Court 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 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. The parties are engaged in discovery. We believe that we have good defenses against Directrix's claims. We believe it is not probable that a material judgment against us will result. In accordance with Statement 5, Accounting for Contingencies, no liability has been accrued.

In the fourth quarter of 2004, we received a $5.6 million insurance recovery partially related to the prior year litigation settlement with Logix.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On March 9, 2005, in connection with our issuance and sale of $100.0 million aggregate principal amount of convertible notes, we and Mr. Hefner each, separately, contingent on the closing of the convertible note offering,

purchased 381,971 shares of our Class B stock from third parties for an aggregate purchase price in each case of $5.0 million. These purchases, which were settled concurrently with the closing of the convertible note offering on March 15, 2005, were effected in negotiated transactions by us and Mr. Hefner, acting through an agent. The table set forth below provides information with respect to purchases by us or any "affiliated purchaser" (as defined in Rule 10b 18(a)(3) under the Exchange Act) of our Class B stock during the quarter covered by this Quarterly Report on Form 10-Q. We have included in the table Mr. Hefner's purchase described above because Mr. Hefner could be deemed to be an affiliated purchaser with respect to that transaction, but we disclaim any implication or inference that Mr. Hefner is in fact such an affiliated purchaser or that he purchased the shares of Class B stock on our behalf.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	P
January 1 - January 31, 2005	--	$ --	--	
February 1 - February 28, 2005	--	--	--	
March 1 - March 31, 2005				
Purchases by Playboy Enterprises, Inc.	381,971	$ 13.09	--	
Purchases by Mr. Hefner	381,971	$ 13.09	--	
Total	763,942	$ 13.09	--	

ITEM 5. OTHER INFORMATION

CREDIT FACILITY

Effective April 1, 2005, Holdings entered into an amended and restated credit agreement with Bank of America, N.A. and LaSalle Bank National Association which amended and restated the terms of our credit facility. The following description of the credit facility is qualified in its entirety by reference to the complete text of the amended and restated credit agreement, which is included as Exhibit 10.1 to this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005.

The amended and restated credit agreement, subject to the terms and conditions set forth therein, provides Holdings with a secured revolving credit facility for borrowing up to $50.0 million for working capital advances and general corporate purposes, including up to $30.0 million of which is available for the issuance of letters of credit. As of the effective date of the amended and restated credit agreement, there were no loans and $10.8 million in letters of credit outstanding under the credit facility.

Term

All outstanding borrowings under the credit facility are scheduled to mature on April 1, 2008.

Interest

For purposes of calculating interest, revolving loans under the credit facility are designated as Eurodollar rate committed loans or, in certain circumstances, base rate committed loans.

Eurodollar rate committed loans bear interest at the London interbank eurodollar rate, adjusted for reserves, plus a borrowing margin that varies from 1.00% to 2.75% depending on our Transactions Adjusted EBITDA (as defined in the amended and restated credit agreement). Interest on Eurodollar rate committed loans is payable at the end of the applicable interest period in the case of interest periods of one, two or three months and every three months in the case of interest periods which exceed three months.

Base rate committed loans bear interest at (a) the greater of (i) the rate most recently announced by Bank of America, N.A. as its "prime rate" or (ii) the federal funds rate plus 1/2 of 1% per annum plus (b) a borrowing margin that varies from 0.00% to 1.25% depending on our Transactions Adjusted EBITDA (as defined in the amended and restated credit agreement). Interest on base rate committed loans is payable quarterly in arrears.

Letters of credit issued under the credit facility accrue fees at the applicable Eurodollar rate borrowing margin.

Security and Guarantees

The credit facility provides that any loans made thereunder and any swap or other hedging arrangements entered into with any of the lenders will be obligations of Holdings and guaranteed by Playboy Enterprises, Inc. and substantially all of its other present and future domestic subsidiaries other than Playboy.com and its subsidiaries. The credit facility provides that obligations thereunder will be secured by a first priority lien or pledge (subject to permitted liens) on 100% of the stock of substantially all of Playboy Enterprises, Inc.'s present and future direct and indirect domestic subsidiaries other than Playboy.com's subsidiaries and on 65% of the capital stock of certain of Playboy Enterprises, Inc.'s indirect first-tier foreign subsidiaries other than subsidiaries of Playboy.com. The credit facility also provides that obligations thereunder will be secured by a first priority lien or pledge (subject to permitted liens) on (i) the Playboy Mansion and the personal property assets of Playboy Enterprises, Inc. and substantially all of its present and future direct and indirect domestic subsidiaries, other than Playboy.com and its subsidiaries and (ii) trademarks owned by Playboy Enterprises, Inc. and substantially all of Playboy Enterprises, Inc.'s present and future direct and indirect domestic subsidiaries, other than Playboy.com and its subsidiaries. Under the terms of the amended and restated credit agreement, Playboy.com and its subsidiaries must provide guarantees of and pledge or grant security interests in their assets to secure the obligations of the Borrower under the credit facility on substantially the same terms as applicable to the existing loan parties if Playboy.com becomes a wholly-owned subsidiary of Playboy Enterprises, Inc.

Covenants

The credit facility contains representations, affirmative covenants, negative covenants and financial covenants that restrict our and our subsidiaries' ability to do specified things, including but not limited to:

- incur or guarantee additional indebtedness;
- pay dividends or make other distributions on capital stock;
- repurchase capital stock;
- make loans and investments;
- enter into agreements restricting the ability of the subsidiaries of Playboy Enterprises, Inc. to pay dividends;
- create liens;
- sell or otherwise dispose of assets;
- enter new lines of business;
- merge or consolidate with other entities; and
- engage in transactions with affiliates.

The following financial covenants are included:

- minimum net worth;
- minimum interest coverage ratio; and
- limitation on capital expenditures.

Mandatory Prepayment and Commitment Reduction

In the event of a sale or other disposition of the Playboy Mansion or the Playboy or Rabbit Head trademark designs, Holdings must apply the net cash proceeds of such disposition up to the amount necessary to repay its borrowings under the credit facility, and the banks' commitment under the credit facility will be reduced permanently by an amount equal to such net cash proceeds, unless at the time of such disposition no event of default exists, in which case the commitments shall not be reduced to less than $25.0 million.

Events of Default

The loan documentation for the credit facility contains customary events of default, including, but not limited to, specified change of control events and cross defaults to other indebtedness of Playboy Enterprises, Inc. or any subsidiary that is a restricted subsidiary for purposes of the credit facility. As of the date of this report, all of Playboy Enterprises, Inc.'s subsidiaries are restricted subsidiaries for the purposes of the credit facility.

ITEM 6. EXHIBITS

Exhibit Number	Description
4.1	Indenture, dated March 15, 2005, between Playboy Enterprises, Inc. and LaSalle Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 to Playboy Enterprises, Inc.'s Current Report on Form 8-K filed on March 15, 2005)

4.2	Form of 3.00% Convertible Senior Subordinated Notes due 2025 (included in Exhibit 4.1)
4.3	Registration Rights Agreement, dated March 15, 2005, among Playboy Enterprises, Inc. and the Initial Purchasers named therein (incorporated by reference to Exhibit 4.2 to Playboy Enterprises, Inc.'s Current Report on Form 8-K filed on March 15, 2005)
10.1	Credit Agreement, effective April 1, 2005, or the Credit Agreement, among PEI Holdings, Inc., as borrower, Bank of America, N.A., as Agent, and the Other Lenders Party Hereto.
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	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PLAYBOY ENTERPRISES, INC.
(Registrant)

Date: May 10, 2005

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)