PLAYBOY ENTERPRISES INC
Form 10-Q
May 09, 2007

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, 2007

OR

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

Commission file number 001-14790

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

Delaware	36-4249478
(State of incorporation)	(I.R.S. Employer Identification Number)

680 North Lake Shore Drive Chicago, IL	60611
(Address of principal executive offices)	(Zip Code)

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

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer |_| Accelerated filer |X| Non-accelerated filer |_|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes |_| No |X|

At April 30, 2007, there were 4,864,102 shares of Class A common stock and 28,378,639 shares of Class B common stock outstanding.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements," including statements in Part I. Item 2. "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. We want to caution you not to place undue reliance on any forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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 regulations, actions or initiatives, including:

  (a) attempts to limit or otherwise regulate the sale, distribution or transmission of adult-oriented materials, including print, television, video, Internet and wireless 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 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 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, new electronic media and product licensing markets;

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

(12) Our television, Internet and wireless 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 or technical failure of transponders or other transmitting or playback equipment that is beyond our control and competition for channel space on linear television platforms or video-on-demand platforms;

(14) Failure to maintain our agreements with multiple system operators, or MSOs, and direct-to-home, or DTH, operators on favorable terms, as well as 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 splits with operators of these systems;

(15) Risks that we may not realize the expected increased sales and profits and other benefits from acquisitions;

(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, printing or postage costs;

(19) Risks associated with certain minimum revenue amounts under certain television distribution agreements;

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

(21) Effects of the national consolidation of television distribution companies (e.g., cable MSOs, satellite platforms and telecommunications companies); and

(22) Risks associated with the viability of our subscription-, on demand- and e-commerce-based Internet models.

For a detailed discussion of these and other factors that may affect our performance, see Part 1. Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2006.

PLAYBOY ENTERPRISES, INC.
FORM 10-Q

TABLE OF CONTENTS

4

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	2007	2006
Net revenues	$ 85,415	$ 82,120

Costs and expenses		
Cost of sales	(66,947)	(63,252)
Selling and administrative expenses	(14,583)	(15,337)
Total costs and expenses	(81,530)	(78,589)
Operating income	3,885	3,531
Nonoperating income (expense)		
Investment income	475	607
Interest expense	(1,362)	(1,428)
Amortization of deferred financing fees	(134)	(134)
Other, net	(139)	(196)
Total nonoperating expense	(1,160)	(1,151)
Income before income taxes	2,725	2,380
Income tax expense	(1,251)	(1,591)
Net income	1,474	789
Other comprehensive income (loss)		
Unrealized gain on marketable securities	57	120
Unrealized loss on derivatives	(11)	(2)
Foreign currency translation gain (loss)	(177)	85
Total other comprehensive income (loss)	(131)	203
Comprehensive income	$ 1,343	$ 992
Weighted average number of common shares outstanding		
Basic	33,230	33,141
Diluted	33,269	33,453
Basic and diluted earnings per common share	$ 0.04	$ 0.02

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

5

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

	(Unaudited) March 31, 2007	December 31, 2006
Assets		

Cash and cash equivalents	$ 25,234	$ 26,748
Marketable securities and short-term investments	15,208	9,000
Receivables, net of allowance for doubtful accounts of $4,161 and $3,688, respectively	44,185	47,728
Receivables from related parties	2,173	1,791
Inventories	13,338	12,599
Deferred subscription acquisition costs	10,445	9,931
Other current assets	11,237	9,426
Total current assets	121,820	117,223
Property and equipment, net	18,860	17,407
Long-term receivables	4,665	4,665
Programming costs, net	56,590	55,183
Goodwill	132,976	132,974
Trademarks	64,141	63,794
Distribution agreements, net of accumulated amortization of $3,777 and $3,435, respectively	29,363	29,705
Other noncurrent assets	14,457	14,832
Total assets	$ 442,872	$ 435,783
Liabilities		
Acquisition liabilities	$ 10,776	$ 10,773
Accounts payable	30,851	28,846
Accrued salaries, wages and employee benefits	6,753	4,896
Deferred revenues	46,217	45,050
Accrued litigation settlement	2,500	1,800
Other liabilities and accrued expenses	13,266	14,124
Total current liabilities	110,363	105,489
Financing obligations	115,000	115,000
Acquisition liabilities	9,833	9,692
Net deferred tax liabilities	18,841	18,422
Other noncurrent liabilities	24,019	23,552
Total liabilities	278,056	272,155
Shareholders' equity		
Common stock, $0.01 par value		
Class A voting - 7,500,000 shares authorized; 4,864,102 issued	49	49
Class B nonvoting - 75,000,000 shares authorized; 28,755,699 and 28,743,914 issued, respectively	288	287
Capital in excess of par value	227,619	227,775
Accumulated deficit	(56,217)	(57,691)
Treasury stock, at cost, 381,971 shares	(5,000)	(5,000)
Accumulated other comprehensive loss	(1,923)	(1,792)
Total shareholders' equity	164,816	163,628
Total liabilities and shareholders' equity	$ 442,872	$ 435,783

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

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

	2007	2006
Cash flows from operating activities		
Net income	$ 1,474	$ 789
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment	1,115	885
Amortization of intangible assets	600	285
Amortization of investments in entertainment programming	8,581	8,498
Amortization of deferred financing fees	134	134
Deferred income taxes	419	905
Net change in operating assets and liabilities	5,351	59
Investments in entertainment programming	(9,813)	(9,331)
Litigation settlement	--	(1,000)
Stock-based compensation	(234)	793
Other, net	(184)	53
Net cash provided by operating activities	7,443	2,070
Cash flows from investing activities		
Purchases of investments	(6,155)	(185)
Additions to property and equipment	(2,576)	(1,099)
Net cash used for investing activities	(8,731)	(1,284)
Cash flows from financing activities		
Payments of acquisition liabilities	(319)	(1,457)
Proceeds from stock-based compensation	39	185
Net cash used for financing activities	(280)	(1,272)
Effect of exchange rate changes on cash and cash equivalents	54	44
Net decrease in cash and cash equivalents	(1,514)	(442)
Cash and cash equivalents at beginning of period	26,748	26,089
Cash and cash equivalents at end of period	$ 25,234	$ 25,647

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(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, 2006. Certain amounts reported for the prior periods have been reclassified to conform to the current year's presentation.

(B) RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2007, the Financial Accounting Standards Board, or the FASB, issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115, or Statement 159. Statement 159 allows entities to voluntarily elect to measure many financial assets and financial liabilities at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. We are required to adopt Statement 159 at the beginning of 2008. We are currently evaluating the impact of adopting Statement 159 on our future results of operations and financial condition.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R), or Statement 158. Statement 158 requires an entity to (a) recognize in its statement of financial position an asset or an obligation for a defined benefit postretirement plan's funded status, (b) measure a defined benefit postretirement plan's assets and obligations that determine its funded status as of the end of the employer's fiscal year and (c) recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the changes occur. We adopted the recognition and related disclosure provisions of Statement 158 effective December 31, 2006. The measurement date provision of Statement 158 is effective at the end of 2008. We do not expect the measurement date provision of adopting Statement 158 to have a significant impact on our future results of operations or financial condition.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, or Statement 157. Statement 157 provides enhanced guidance for using fair value to measure assets and liabilities. We are required to adopt Statement 157 effective at the beginning of 2008. We are currently evaluating the impact of adopting Statement 157 on our future results of operations and financial condition.

(C) RESTRUCTURING EXPENSES

During the quarter ended March 31, 2007, we made cash payments of $0.2 million and $19 thousand related to our 2006 and 2002 restructuring plans, respectively. Of the total costs related to our restructuring plans, approximately $12.2 million was paid by March 31, 2007, with the remaining $0.4 million to be paid through 2008.

In 2006, we implemented a cost reduction plan that will result in lower overhead costs and annual programming and editorial expenses. As a result of the 2006 restructuring plan, we reported a charge in 2006 of $2.1 million related to costs associated with a workforce reduction of 15 employees. In addition, in 2006, we recorded a favorable adjustment of $0.2 million and an unfavorable adjustment of $0.1 million related to the 2002 and 2001 restructuring plans, respectively, as a result of changes in plan assumptions primarily related to excess office space.

The following table sets forth the activity and balances of our restructuring reserves for the year ended December 31, 2006 and for the three-month period ended March 31, 2007 (in thousands):

	Workforce Reduction	Consolidation of Facilities and Operations	Total
Balance at December 31, 2005	$ --	$ 1,210	$ 1,210
Reserve recorded	2,103	--	2,103
Adjustments to previous estimates	--	(105)	(105)
Other	--	(574)	(574)
Cash payments	(1,673)	(263)	(1,936)
Balance at December 31, 2006	430	268	698
Cash payments	(241)	(19)	(260)
Balance at March 31, 2007	$ 189	$ 249	$ 438

(D) EARNINGS PER COMMON SHARE

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

	Quarters Ended March 31, 2007	Quarters Ended March 31, 2006
Numerator:		
For basic and diluted EPS - net income	$ 1,474	$ 789
Denominator:		
For basic EPS - weighted average shares	33,230	33,141
Effect of dilutive potential common shares:		
Employee stock options and other	39	312
Dilutive potential common shares	39	312
For diluted EPS - weighted average shares	33,269	33,453
Basic and Diluted EPS	$ 0.04	$ 0.02

The following table sets forth the number of shares related to outstanding options to purchase our Class B common stock, or Class B stock, and the potential shares of Class B stock contingently issuable under our 3.00% convertible senior subordinated notes due 2025, or convertible notes. These shares were not included in the computations of diluted EPS for the quarters presented, as their inclusion would have been antidilutive (in thousands):

	Quarters Ended March 31,	
	2007	2006
Stock options	3,166	2,409
Convertible notes	6,758	6,758
Total	9,924	9,167

(E) INVENTORIES

The following table sets forth inventories, which are stated at the lower of cost (specific cost and average cost) or fair value (in thousands):

	March 31, 2007	December 31, 2006
Paper	$ 3,039	$ 2,917
Editorial and other prepublication costs	7,761	7,425
Merchandise finished goods	2,538	2,257
Total inventories	$ 13,338	$ 12,599

(F) INCOME TAXES

Our income tax provision consists of foreign income tax, which relates to our international networks and withholding tax on licensing income, for which we do not receive a current U.S. income tax benefit due to our net operating loss, or NOL, position. Our income tax provision also includes deferred federal and state income taxes 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.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, or FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted FIN 48 on January 1, 2007. Pursuant to FIN 48 and as a result of the implementation of FIN 48, we recognized no adjustment in the liability for unrecognized income tax benefits. At March 31, 2007, we did not have any material unrecognized income tax benefits. We do not expect to recognize significant increases or decreases in unrecognized income tax benefits during 2007.

Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

The statute of limitations for tax years 2003 through 2006 remains open to examination by the major U.S. taxing jurisdictions to which we are subject. In addition, for all tax years prior to 2003 generating an NOL, tax authorities can adjust the amount of NOL. In our international tax jurisdictions, numerous tax years remain subject to examination by tax authorities, including tax returns for at least 2002 and subsequent years in all of our major international tax jurisdictions.

(G) CONTINGENCIES

In 2006, we recorded $1.8 million, based on an agreement in principle, for the settlement of litigation with Directrix, Inc., or Directrix. The settlement amount, which is subject to Bankruptcy Court approval, will be paid in 2007. The settlement is a compromise of disputed claims and is not an admission of liability. We believe that we had good defenses against Directrix's claims, but made the reasonable business decision to settle the litigation to avoid further management distraction and defense costs, which we had estimated would have approximately equaled the amount of the settlement.

In 2006, we acquired Club Jenna, Inc. and related companies, a multimedia adult entertainment business, to complement our existing television, online and DVD businesses. We paid $7.7 million at closing with additional payments of $1.6 million, $1.7 million, $2.3 million and $4.3 million required in 2007, 2008, 2009 and 2010, respectively. Pursuant to the acquisition agreement, we are also obligated to make future contingent earnout payments based primarily on sales of existing content of the acquired business over a ten-year period and on content produced by the acquired business during the five-year period after the closing of the acquisition. If the required performance benchmarks are achieved, any contingent earnout payments will be recorded as additional purchase price. No earnout payments have been made through March 31, 2007.

In 2005, we acquired an affiliate network of websites to complement our existing online business. We paid $8.0 million at closing, $2.0 million in 2006 and an additional payment of $2.0 million is required in 2007. Pursuant to the asset purchase agreement, we are also obligated to make future contingent earnout payments over a five-year period based primarily on the financial performance of the acquired business. If the required performance benchmarks are achieved, any contingent earnout payments will be recorded as additional purchase price and/or compensation expense. During 2006, an earnout payment of $0.1 million was made and recorded as additional purchase price. No additional earnout payments have been made in 2007.

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 us under the license agreement. We appealed and the State Appellate Court reversed the judgment by the trial court, rendered judgment for us on the majority of plaintiffs' claims and remanded the remaining claims for a new trial. We filed a petition for review with the Texas Supreme Court. We have posted a bond in the amount of approximately $9.4 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 of Financial Accounting Standards No. 5, Accounting for Contingencies.

(H) BENEFIT PLANS

We currently maintain a practice of paying a separation allowance under our salary continuation policy to employees with at least five years of continuous service who voluntarily terminate employment with us and are at age 60 or thereafter, which is not funded. We made cash payments under this policy of $0.1 million and $0.2 million during the quarters ended March 31, 2007 and 2006, respectively.

(I) STOCK-BASED COMPENSATION

The following table sets forth stock-based compensation expense (benefit) related to stock options, restricted stock units, other equity awards and our employee stock purchase plan, or ESPP (in thousands):

	Quarters Ended March 31, 2007	Quarters Ended March 31, 2006
Stock options	$ (283)	$ 709
Restricted stock units	--	35
Other equity awards	42	43
ESPP	7	6
Total	$ (234)	$ 793

Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, requires that the total amount of compensation cost recognized at the end of the vesting period be based on the number of stock options that actually vest as of the completion of the vesting period. Upon the vesting of certain stock option grants, we adjusted our stock-based compensation expense to reflect actual versus estimated forfeitures through March 31, 2007. During the quarter ended March 31, 2007, we recorded a favorable adjustment of $1.0 million to reflect higher actual than estimated forfeitures for vested stock option grants.

(J) SEGMENT INFORMATION

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

	Quarters Ended March 31, 2007	Quarters Ended March 31, 2006

Net revenues		
Entertainment	$ 50,858	$ 51,177
Publishing	23,345	23,495
Licensing	11,212	7,448
Total	$ 85,415	$ 82,120
Income before income taxes		
Entertainment	$ 4,304	$ 7,873
Publishing	(2,396)	(2,297)
Licensing	7,677	4,346
Corporate Administration and Promotion	(5,700)	(6,391)
Investment income	475	607
Interest expense	(1,362)	(1,428)
Amortization of deferred financing fees	(134)	(134)
Other, net	(139)	(196)
Total	$ 2,725	$ 2,380

	March 31, 2007	December 31, 2006
Identifiable assets		
Entertainment	$ 286,957	$ 288,540
Publishing	37,951	38,146
Licensing	11,582	9,386
Corporate Administration and Promotion	106,382	99,711
Total	$ 442,872	$ 435,783

12

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and accompanying notes in Item 1 and with our Annual Report on Form 10-K for the year ended December 31, 2006. All period references are to our fiscal periods unless otherwise indicated.

RESULTS OF OPERATIONS (1)

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

	Quarters Ended March 31,	
	2007	2006

Net revenues		
Entertainment		
Domestic TV	$ 19.7	$ 22.3
International TV	13.8	12.4
Online/mobile	15.7	15.3
Other	1.7	1.2
Total Entertainment	50.9	51.2
Publishing		
Domestic magazine	19.1	19.2
International magazine	1.9	1.7
Special editions and other	2.3	2.6
Total Publishing	23.3	23.5
Licensing		
Consumer products	8.7	6.8
Location-based entertainment	0.9	--
Marketing events	0.3	0.2
Other	1.3	0.4
Total Licensing	11.2	7.4
Total net revenues	$ 85.4	$ 82.1
Net income		
Entertainment		
Before programming amortization and online content expenses	$ 14.5	$ 17.3
Programming amortization and online content expenses	(10.2)	(9.4)
Total Entertainment	4.3	7.9
Publishing	(2.4)	(2.3)
Licensing	7.7	4.3
Corporate Administration and Promotion	(5.7)	(6.4)
Operating income	3.9	3.5
Nonoperating income (expense)		
Investment income	0.5	0.6
Interest expense	(1.4)	(1.4)
Amortization of deferred financing fees	(0.1)	(0.1)
Other, net	(0.2)	(0.2)
Total nonoperating expense	(1.2)	(1.1)
Income before income taxes	2.7	2.4
Income tax expense	(1.2)	(1.6)
Net income	$ 1.5	$ 0.8
Basic and diluted earnings per common share	$ 0.04	$ 0.02

(1) Certain amounts reported for the prior periods have been reclassified to

conform to the current year's presentation.

Our revenues increased $3.3 million, or 4%, compared to the prior year quarter primarily due to higher Licensing Group revenues.

Operating income increased $0.4 million, or 10%, compared to the prior year quarter due to higher Licensing Group results combined with lower Corporate Administration and Promotion expense, which more than offset significantly lower Entertainment Group results. Year over year Publishing Group results were comparable. The current year operating results included lower stock option expense as a result of a higher actual than estimated forfeiture rate, which was mostly offset by expense related to a reduction in force.

Net income of $1.5 million improved by $0.7 million, or 87%, compared to the prior year quarter due to the higher operating results previously discussed combined with a decrease in income tax expense of $0.4 million.

Several of our businesses may 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 strongest in the fourth quarter due to the holiday buying season.

ENTERTAINMENT GROUP

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

Revenues from our domestic TV networks decreased $2.6 million, or 12%, and profit contribution decreased $2.0 million compared to the prior year quarter. These decreases were due to lower direct-to-home, or DTH, revenues and lower movie network cable pay-per-view revenues as a result of less overall carriage of our linear networks due to the loss of exclusive carriage on one satellite service in the 2006 second quarter and the continuing transition in cable from linear networks to a more competitive video-on-demand, or VOD, environment. Expense related to certain distribution agreements that we began amortizing during the fourth quarter of the prior year and increased distribution expense related to VOD also contributed to the lower profitability. Partially offsetting these decreases were favorable variances related to previously estimated revenues, increased VOD revenues and lower marketing expenses. We believe that domestic TV revenues have stabilized and that they will remain in line with the first quarter, excluding the favorable variances related to the previously estimated revenues.

International TV revenues increased $1.4 million, or 12%, and profit contribution was flat compared to the prior year quarter.

Online/mobile revenues increased $0.4 million, or 2%, and profit contribution increased $0.6 million compared to the prior year quarter. Online subscription revenues increased due to our acquisition in June 2006 of Club Jenna, Inc. and related companies, or Club Jenna. Advertising revenues from

Playboy.com also increased. E-commerce revenues declined primarily due to licensing our Spice Catalog in September 2006. Mobile revenues decreased primarily due to lower royalties, primarily from Europe.

Revenues from other businesses increased $0.5 million, or 40%, as profit contribution decreased $0.7 million compared to the prior year quarter. The current quarter results reflected the positive benefits of a full quarter of Playboy Radio on SIRIUS Satellite Radio and of the Club Jenna acquisition, which were more than offset by a legal settlement.

The group's administrative expenses increased $0.6 million, or 11%, compared to the prior year quarter due in part to higher legal and severance expenses.

Programming amortization and online content expenses increased $0.8 million, or 8%, compared to the prior year quarter primarily due to increased investments in content to support new and existing websites. We anticipate annual programming amortization and online content expense to be $39.8 million, which could vary based on,

among other things, the timing of completion of productions.

Segment income for the group decreased $3.6 million, or 45%, compared to the prior year quarter due to the operating results previously discussed. We believe that the group's segment income in the last nine months of the current year will be in line with that of the prior year's last nine months.

PUBLISHING GROUP

Domestic magazine revenues were flat compared to the prior year quarter. Advertising revenues increased $1.0 million due to a 15% increase in advertising pages coupled with a 6% increase in average net revenue per page. Advertising sales for the 2007 second quarter magazine issues are closed, and we expect to report approximately 2% lower advertising revenues and a 6% increase in advertising pages compared to the 2006 second quarter. Subscription revenues decreased $1.0 million primarily due to fewer copies served in the current year quarter. Newsstand revenues were flat compared to the prior year quarter as a 7% decrease in the number of copies sold in the current year quarter was offset by a favorable variance related to prior issues.

Revenues from special editions and other decreased $0.3 million, or 11%, compared to the prior year quarter, as a 17% decrease in the number of special editions newsstand copies sold in the current year quarter was partially offset by a favorable variance related to prior issues.

The group's segment results were essentially flat compared to the prior year quarter as the lower revenues previously discussed combined with the allocation of actual post-employment benefit costs from Corporate Administration and Promotion and additional subscription collection costs were mostly offset by lower manufacturing and administration expenses. We continue to believe that the group's segment profitability will be consistent with the financial performance of the last two years.

LICENSING GROUP

Licensing Group revenues increased $3.8 million, or 51%, compared to the prior year quarter. The current year quarter reflected a $1.3 million sale of original art compared to $0.4 million in the prior year quarter. The current year quarter also reflected royalties from our location-based entertainment venue at the Palms Casino Resort in Las Vegas, which opened in October 2006, and higher consumer products royalties, principally from Europe, Southeast Asia and Australia. The group's segment income increased $3.4 million, or 77%, compared to the prior year quarter as a result of the revenue increases previously discussed. We are now projecting growth of approximately 20 to 25% in the Licensing Group's segment income, excluding the impact of the sale of original art.

CORPORATE ADMINISTRATION AND PROMOTION

Corporate Administration and Promotion expense decreased $0.7 million, or 11%, compared to the prior year quarter, primarily due to the allocation of actual post-employment benefit costs to the Publishing Group in the current year quarter, partially offset by expense related to certain trademark costs that were previously capitalized. We believe Corporate Administration and Promotion expense will increase compared to 2006, reflecting both an inflation-related increase and the impact of the previously mentioned trademark costs.

RESTRUCTURING EXPENSES

During the quarter ended March 31, 2007, we made cash payments of $0.2 million and $19 thousand related to our 2006 and 2002 restructuring plans, respectively. Of the total costs related to our restructuring plans, approximately $12.2 million was paid by March 31, 2007, with the remaining $0.4 million to be paid through 2008.

INCOME TAX EXPENSE

Our effective income tax rate differs from the U.S. statutory rate. Our income tax provision consists of foreign income tax, which relates to our international networks and withholding tax on licensing income, for which we do not receive a current U.S. income tax benefit due to our net operating loss position. Our income tax provision also includes deferred federal and state income taxes 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.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, or FIN 48. We adopted FIN 48 on January 1, 2007. Pursuant to FIN 48 and as a result of the implementation of FIN 48, we recognized no adjustment in the liability for unrecognized income tax benefits. At March 31, 2007, we did not have any material unrecognized income tax benefits. We do not expect to recognize significant increases or decreases in unrecognized tax benefits during 2007.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2007, we had $25.2 million in cash and cash equivalents compared to $26.7 million in cash and cash equivalents at December 31, 2006. We also had $9.0 million and $3.0 million of auction rate securities, or ARS, included in marketable securities and short-term investments at March 31, 2007 and December 31, 2006, respectively. 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 at both March 31, 2007 and December 31, 2006.

At March 31, 2007, cash generated from our operating activities, existing cash and cash equivalents and marketable securities and short-term investments were fulfilling our liquidity requirements. We also had a $50.0 million credit facility, which can be used for revolving borrowings, issuing letters of credit or a combination of both. At March 31, 2007, there were no borrowings and $10.6 million in letters of credit outstanding under this facility, resulting in $39.4 million of available borrowings under this facility.

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities was $7.4 million, an increase of $5.4 million compared to the prior year quarter primarily due to changes in working capital.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash used for investing activities was $8.7 million, an increase of $7.4 million compared to the prior year quarter. This increase was primarily due to the purchase of $6.0 million in ARS and capital expenditures of $2.6 million, which were primarily related to leasehold improvements at our New York office and Los Angeles programming facility and technology-related items.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used for financing activities was $0.3 million, a decrease of $1.0 million compared to the prior year quarter primarily due to lower acquisition liability payments related to our international TV business.

EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

The positive effect of foreign currency exchange rates on cash and cash equivalents during the current year and prior year quarter was due to the weakening of the U.S. dollar against the Euro and pound sterling.

RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2007, the Financial Accounting Standards Board, or the FASB, issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115, or Statement 159. Statement 159 allows entities to voluntarily elect to measure many financial assets and financial liabilities at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. We are required to adopt Statement 159 at the beginning of 2008. We are currently evaluating the impact of adopting Statement 159 on our future results of operations and financial condition.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R), or Statement 158. Statement 158 requires an entity to (a) recognize in its statement of financial position an asset or an obligation for a defined benefit postretirement plan's funded status, (b) measure a defined benefit postretirement plan's assets and obligations that determine its funded status as of the end of the employer's fiscal year and (c) recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the changes occur. We adopted the recognition and related disclosure provisions of Statement 158 effective December 31, 2006. The measurement date provision of Statement 158 is effective at the end of 2008. We do not expect the measurement date provision of adopting Statement 158 to have a significant impact on our future results of operations or financial condition.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, or Statement 157. Statement 157 provides enhanced guidance for using fair value to measure assets and liabilities. We are required to adopt Statement 157 effective at the beginning of 2008. We are currently evaluating the impact of adopting Statement 157 on our future results of operations and financial condition.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At March 31, 2007, we did not have any floating interest rate exposure. All of our outstanding debt as of that date consisted of the 3.00% convertible senior subordinated notes due 2025, or convertible notes, which are fixed-rate obligations. The fair value of the $115.0 million aggregate principal amount of the convertible notes will be influenced by changes in market interest rates, the share price of our Class B stock and our credit quality. At March 31, 2007, the convertible notes had an implied fair value of $108.7 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

There have been no material changes to our Legal Proceedings as contained in our Annual Report on Form 10-K for the year ended December 31, 2006.

ITEM 1A. RISK FACTORS

There have been no material changes to our Risk Factors as contained in our Annual Report on Form 10-K for the year ended December 31, 2006.

18

ITEM 6. EXHIBITS

Exhibit Number	Description
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

19

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 9, 2007

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)

20

EXHIBIT INDEX

Exhibit Number	Description
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

21