PLAYBOY ENTERPRISES INC
Form 10-Q
August 14, 2001

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 June 30, 2001

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 1-6813

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 |_|

As of July 31, 2001, there were 4,864,102 shares of Class A common stock, par value $0.01 per share, and 19,636,521 shares of Class B common stock, par value $0.01 per share, outstanding.

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PART I
FINANCIAL INFORMATION

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

	2001	2000
Net revenues	$ 72,819	$ 77,182
Costs and expenses		
Cost of sales	(63,696)	(69,562)
Selling and administrative expenses	(13,859)	(13,428)
Total costs and expenses	(77,555)	(82,990)
Operating loss	(4,736)	(5,808)
Nonoperating income (expense)		
Investment income	336	274
Interest expense	(2,737)	(2,231)
Equity in operations of Playboy TV International, LLC	(38)	(205)
Other, net	(455)	(318)
Total nonoperating expense	(2,894)	(2,480)
Loss before income taxes	(7,630)	(8,288)
Income tax benefit (expense)	(340)	2,405

Net loss	(7,970)	(5,883)
Other comprehensive income (loss) (net of tax)		
Unrealized gain (loss) on marketable securities	149	(125)
Derivative loss	(225)	--
Foreign currency translation adjustment	14	(25)
Total other comprehensive loss	(62)	(150)
Comprehensive loss	$ (8,032)	$ (6,033)
Basic and diluted weighted average number of common shares outstanding	24,339	24,239
Basic and diluted net loss per common share	$ (0.32)	$ (0.24)

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

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

	2001	2000
Net revenues	$ 139,138	$ 150,285
Costs and expenses		
Cost of sales	(122,567)	(135,949)
Selling and administrative expenses	(26,197)	(26,201)
Restructuring expenses	--	(257)
Total costs and expenses	(148,764)	(162,407)
Operating loss	(9,626)	(12,122)
Nonoperating income (expense)		
Investment income	620	689
Interest expense	(5,370)	(4,119)
Equity in operations of Playboy TV International, LLC	421	(808)
Loss on disposal	(100)	--
Other, net	(837)	(635)
Total nonoperating expense	(5,266)	(4,873)
Loss before income taxes and cumulative effect of change in accounting principle	(14,892)	(16,995)

Income tax benefit (expense)	(654)	4,877
Loss before cumulative effect of change in accounting principle	(15,546)	(12,118)
Cumulative effect of change in accounting principle	(4,218)	--
Net loss	(19,764)	(12,118)
Other comprehensive income (loss) (net of tax)		
Unrealized gain (loss) on marketable securities	(143)	26
Derivative loss	(97)	--
Foreign currency translation adjustment	64	(12)
Total other comprehensive income (loss)	(176)	14
Comprehensive loss	$ (19,940)	$ (12,104)
Basic and diluted weighted average number of common shares outstanding	24,310	24,220
Basic and diluted loss per common share		
Loss before cumulative effect of change in accounting principle	$ (0.64)	$ (0.50)
Cumulative effect of change in accounting principle	(0.17)	--
Net loss	$ (0.81)	$ (0.50)

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

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

	(Unaudited) June 30, 2001	Dec. 3 20
Assets		
Cash and cash equivalents	$ 1,658	$ 2,5
Marketable securities	3,322	3,4
Receivables, net of allowance for doubtful accounts of $6,342 and $5,994, respectively	36,360	45,0
Receivables from related parties	6,974	7,5
Inventories, net	19,262	20,7
Programming costs	--	51,9
Deferred subscription acquisition costs	10,849	12,5
Other current assets	10,898	11,5

Total current assets	89,323	155,3
Receivables from related parties	57,500	57,5
Property and equipment, net	10,316	10,6
Programming costs	56,192	3,5
Goodwill, net of amortization of $6,138 and $4,761, respectively	85,898	87,2
Trademarks, net of amortization of $16,263 and $14,701, respectively	51,728	52,5
Other noncurrent assets	21,672	21,6
Total assets	$ 372,629	$ 388,4
Liabilities		
Financing obligations	$ 14,524	$ 3,9
Financing obligations to related parties	5,000	5,0
Accounts payable	18,389	25,2
Accounts payable to related parties	1,045	7
Accrued salaries, wages and employee benefits	3,373	8,9
Deferred revenues	45,058	41,8
Deferred revenues from related parties	4,854	4,3
Other liabilities and accrued expenses	16,593	16,8
Total current liabilities	108,836	107,0
Financing obligations	91,886	89,3
Financing obligations to related parties	5,000	5,0
Deferred revenues from related parties	50,025	50,8
Net deferred tax liabilities	4,679	4,6
Other noncurrent liabilities	16,116	17,4
Total liabilities	276,542	274,3
Shareholders' equity		
Common stock, $0.01 par value		
Class A voting - 7,500,000 shares authorized; 4,864,102 and 4,859,102 issued, respectively	49	
Class B nonvoting - 30,000,000 shares authorized; 19,866,472 and 19,647,048 issued, respectively	199	1
Capital in excess of par value	122,334	120,5
Accumulated deficit	(23,148)	(3,3
Unearned compensation restricted stock	(2,689)	(2,7
Accumulated other comprehensive loss	(658)	(4
Total shareholders' equity	96,087	114,1
Total liabilities and shareholders' equity	$ 372,629	$ 388,4

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

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PLAYBOY ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
for the Six Months Ended June 30 (Unaudited)
(In thousands)

	2001	2000
Cash flows from operating activities		
Net loss	$(19,764)	$(12,118)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation of property and equipment	1,944	1,515
Amortization of intangible assets	4,184	3,904
Equity in operations of Playboy TV International, LLC	(421)	808
Loss on disposal	100	--
Cumulative effect of change in accounting principle	4,218	--
Amortization of investments in entertainment programming	19,291	16,392
Investments in entertainment programming	(19,129)	(17,144)
Net change in operating assets and liabilities	(3,838)	(8,500)
Other, net	(13)	417
Net cash used for operating activities	(13,428)	(14,726)
Cash flows from investing activities		
Proceeds from (payments on) disposal	186	(18)
Additions to property and equipment	(1,551)	(3,358)
Acquisition of Rouze Media, Inc.	--	(1,125)
Funding of equity interests	(538)	(880)
Purchase of marketable securities	(22)	(532)
Other, net	3	--
Net cash used for investing activities	(1,922)	(5,913)
Cash flows from financing activities		
Proceeds from financing obligations	10,000	--
Repayment of financing obligations	(1,840)	(15,000)
Net proceeds from revolving credit facility	5,000	11,500
Deferred financing fees	(284)	(582)
Proceeds from stock plans	1,805	1,193
Other, net	(207)	--
Net cash provided by (used for) financing activities	14,474	(2,889)
Net decrease in cash and cash equivalents	(876)	(23,528)
Cash and cash equivalents at beginning of period	2,534	23,528
Cash and cash equivalents at end of period	$ 1,658	$ --

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

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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 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 the Annual Report on Form 10-K for the fiscal year ended December 31, 2000 of Playboy Enterprises, Inc. and its subsidiaries (the "Company"). Certain amounts reported for prior periods have been reclassified to conform to the current year's presentation.

(B) RESTRUCTURING EXPENSES

In fiscal year 1999, the Company began a cost reduction effort that led to a work force reduction of 49 employees, or approximately 6%, through Company-wide layoffs and attrition. This resulted in a $0.2 million restructuring charge related to the termination of eight employees in the first quarter of fiscal year 2000. All charges related to this restructuring were recorded and paid by December 31, 2000.

In the fourth quarter of fiscal year 2000, realignment of senior management coupled with staff reductions led to an additional restructuring charge of $3.7 million related to the termination of 19 employees, or approximately 3% of the work force. A total of $3.4 million related to this restructuring was paid by June 30, 2001, resulting in a remaining liability of $0.3 million, most of which will be paid by the end of fiscal year 2001.

(C) CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During the first quarter of fiscal year 2001, the Company adopted Statement of Financial Accounting Standards No. 139, Rescission of FASB Statement No. 53 and Amendments to FASB Statements No. 63, 89, and 121 ("Statement 139") and Statement of Position 00-2, Accounting by Producers or Distributors of Films ("SOP 00-2"). Statement 139 rescinds FASB Statement No. 53, Financial Reporting by Producers and Distributors of Motion Picture Films. SOP 00-2 establishes new film accounting and reporting standards for producers or distributors of films, including changes in revenue recognition and accounting for marketing, development and overhead costs. SOP 00-2 also requires all programming costs to be classified on the balance sheet as noncurrent assets. As a result of the adoption of SOP 00-2, the Company recorded a noncash, one-time charge of $4.2 million, or $0.17 per basic and diluted common share, in the first quarter of fiscal year 2001, representing a cumulative effect of change in accounting principle. The charge primarily relates to reversals of previously recognized revenues which under the new rules were not yet considered earned, combined with a write-off of marketing costs that were previously capitalized and are no longer capitalizable under the new rules.

(D) OTHER COMPREHENSIVE INCOME (LOSS)

The following sets forth the components of other comprehensive income (loss), and any related income tax expense or benefit allocated to each item (in thousands):

	(Unaudited) Quarters Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2001	2000	2001	2000
Unrealized gain (loss) on marketable securities (1)	$ 149	$(125)	$(143)	$ 26

Derivative loss	(225)	--	(97)	--
Foreign currency translation adjustment (2)	$ 14	$ (25)	$ 64	$(12

(1) Net of a related tax benefit of $67 and expense of $15 for the quarter and six months ended June 30, 2000, respectively.
(2) Net of a related tax benefit of $13 and $6 for the quarter and six months ended June 30, 2000, respectively.

(E) DERIVATIVE INSTRUMENTS

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by Statement of Financial Accounting Standards No. 138, which require all derivative instruments to be recognized as either assets or liabilities on the balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of relationship. The adoption of these statements did not have a material impact on the Company's financial statements.

(F) LOSS PER COMMON SHARE

For the quarter and six months ended June 30, 2001, options to purchase approximately 2,330,000 and 2,345,000 shares, respectively, of the Company's Class B common stock and approximately 240,000 shares of Class B restricted stock awards were outstanding but were not included in the computation of diluted earnings per common share as the inclusion of these shares would have been antidilutive. As a result, the weighted average number of basic and diluted common shares outstanding for the quarter and six-month period were equivalent.

(G) 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) June 30, 2001	Dec. 31, 2000
Paper	$ 4,670	$ 6,432
Editorial and other prepublication costs	7,684	6,987
Merchandise finished goods	6,908	7,281
Total inventories, net	$ 19,262	$ 20,700

(H) PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consisted of the following (in thousands):

	(Unaudited) June 30, 2001	Dec. 31, 2000
Land	$ 292	$ 292
Buildings and improvements	8,538	8,512

Furniture and equipment	15,804	15,420
Leasehold improvements	9,984	9,950
Software	4,376	3,232
Total property and equipment	38,994	37,406
Accumulated depreciation	(28,678)	(26,717)
Total property and equipment, net	$ 10,316	$ 10,689

(I) SEGMENT INFORMATION

The following tables represent financial information by reportable segment (in thousands):

	(Unaudited) Quarters Ended June 30,		(Six
	2001	2000	200
Net revenues			
Entertainment	$ 26,021	$ 25,913	$ 50,71
Publishing	33,509	31,844	63,33
Playboy Online	6,275	6,420	13,06
Catalog	2,797	9,425	5,77
Other Businesses	4,217	3,580	6,24
Total	$ 72,819	$ 77,182	$ 139,13
Loss before income taxes and cumulative effect of change in accounting principle			
Entertainment	$ 5,055	$ 5,730	$ 10,29
Publishing	483	(564)	(53
Playboy Online	(6,032)	(6,056)	(11,46
Catalog	(21)	31	(16
Other Businesses	591	278	1,10
Corporate Administration and Promotion	(4,812)	(5,227)	(8,85
Restructuring expenses	--	--	-
Investment income	336	274	62
Interest expense	(2,737)	(2,231)	(5,37
Equity in operations of Playboy TV International, LLC	(38)	(205)	42
Loss on disposal	--	--	(10
Other, net	(455)	(318)	(83
Total	$ (7,630)	$ (8,288)	$ (14,89
EBITDA (1)			
Entertainment	$ 16,409	$ 15,602	$ 32,48
Publishing	656	(409)	(18
Playboy Online	(5,595)	(5,640)	(10,58
Catalog	(15)	75	(15
Other Businesses	645	325	1,21
Corporate Administration and Promotion	(3,765)	(4,350)	(6,86
Restructuring expenses	--	--	-

Total	$ 8,335	$ 5,603	$ 15,90

(1) EBITDA represents earnings before interest expense, income taxes, cumulative effect of change in accounting principle, depreciation of property and equipment, amortization of intangible assets, amortization of investments in entertainment programming, amortization of deferred financing fees and equity in operations of Playboy TV International, LLC ("PTVI"). EBITDA should not be considered an alternative to any measure of performance or liquidity under generally accepted accounting principles. Similarly, it should not be inferred that EBITDA is more meaningful than any of those measures.

(J) FINANCING OBLIGATIONS

At June 30, 2001, the Company had a $108.2 million credit facility, which was comprised of $73.2 million of term loans and a $35.0 million revolving credit facility. At June 30, 2001, $23.3 million was outstanding under the revolving facility. The credit agreement contains financial covenants requiring the Company to maintain certain leverage, interest coverage and fixed charge coverage ratios. During the quarter ended June 30, 2001, the Company and its lenders amended the credit agreement, which approved the terms of the acquisition of television networks from Califa Entertainment Group, Inc. ("Califa") and V.O.D., Inc. ("VODI"), revised the financial covenant levels and increased the interest rate margin by 0.25%. See Note (L) Subsequent Event.

Playboy.com, Inc. ("Playboy.com") has been in active discussions with strategic partners and other potential investors in connection with a private placement of its preferred stock. On each of March 7, 2001 and April 2, 2001, Playboy.com issued a convertible promissory note in the aggregate principal amount of $5.0 million to two strategic investors. On July 30, 2001, Playboy.com issued a third convertible promissory note in the aggregate principal amount of $5.0 million to another investor. On August 13, 2001, each of the three aforementioned convertible promissory notes, together with accrued and unpaid interest thereon, were converted into shares of Playboy.com's Series A Preferred Stock. Playboy.com's Series A Preferred Stock is convertible into Playboy.com common stock (initially on a one-for-one basis) and is redeemable by Playboy.com after the fifth anniversary of the date of its issuance at the option of the holder. In addition, in the event that a holder elects to redeem Playboy.com's Series A Preferred Stock at any time after the fifth anniversary of the date of its issuance and before the 180th day thereafter, and Playboy.com is not able to, or does not, satisfy such obligation, the Company has agreed that it shall redeem all or part of the shares in lieu of redemption by Playboy.com, either in cash, shares of the Company's Class B common stock or any combination thereof.

(K) NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (the "FASB") issued Statements of Financial Accounting Standards No. 141, Business Combinations and No. 142, Goodwill and Other Intangible Assets (collectively, the "Statements"), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets with indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal year 2002. For fiscal year 2001, the amortization of goodwill and intangible assets is expected to be approximately $8.0 million, or $0.32 per basic and diluted common share. The Company is evaluating the impact that application of the nonamortization provisions of the Statements will have on the Company's financial statements. During fiscal year 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite-lived intangible assets as of January 1, 2002 and has not yet determined what the effect of these tests will be on the financial statements of the Company.

(L) SUBSEQUENT EVENT

On July 6, 2001, the Company acquired two networks and the related television assets of Califa, as well as a third network and the related television assets of VODI, a separate entity owned by Califa's principals. These television networks will be transitioned into the Company's Spice-branded television networks portfolio, enabling the Company to offer more adult-programming choices. Consideration for the Califa transaction was $28.3 million, excluding an outstanding note and non-compete agreement, and $41.7 million for VODI. These amounts will be paid over ten years, and a majority of the payments may be made in cash or Class B common stock at the Company's option. The consideration for both transactions could potentially increase up to $12.0 million should the acquired assets achieve certain financial performance targets.

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

RESULTS OF OPERATIONS

The following is a summary of the results of operations of the Company for the periods indicated below (in millions, except per share amounts):

	Quarters Ended June 30,		Six Months End June 30,	
	2001	2000	2001	
Net revenues	$ 72.8	$ 77.2	$ 139.1	$
Segment loss	$ (4.7)	$ (5.8)	$ (9.6)	$
Restructuring expenses	--	--	--	
Operating loss	$ (4.7)	$ (5.8)	$ (9.6)	$
Net loss	$ (8.0)	$ (5.9)	$ (19.8)	$
Basic and diluted net loss per common share	$ (0.32)	$ (0.24)	$ (0.81)	$

The Company's revenues decreased 6% to $72.8 million for the quarter ended June 30, 2001 compared to the prior year quarter. Revenues for the six-month period decreased 7% to $139.1 million. These decreases were primarily due to the sale of the Critics' Choice Video businesses in October 2000.

For the quarter, operating performance improved $1.1 million, primarily due to better performance from Playboy magazine. For the six-month period, the improvement in operating performance of $2.5 million was primarily due to lower Corporate Administration and Promotion expenses.

The higher net losses for the current year quarter and six-month period reflected income tax expense, compared to income tax benefits recorded in the prior year periods due to the Company's decision to increase the valuation allowance for its deferred tax assets at the end of fiscal year 2000. The current year six-month period also included a $4.2 million noncash, one-time charge for a cumulative effect of change in accounting principle related to the adoption of SOP 00-2, Accounting by Producers or Distributors of Films.

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

ENTERTAINMENT GROUP

The revenues and segment income of the Entertainment Group were as follows for the periods indicated below (in millions):

	Quarters Ended June 30,		Six Months E June 30,	
	2001	2000	2001	
Revenues				
Domestic TV networks	$ 18.0	$ 19.7	$ 37.1	$
International TV	3.9	3.1	6.7	
Worldwide home video	4.0	2.9	6.8	
Movies and other	0.1	0.2	0.1	
Total revenues	$ 26.0	$ 25.9	$ 50.7	$
Segment income				
Before programming expense	$ 15.0	$ 14.1	$ 29.6	$
Programming expense	(9.9)	(8.4)	(19.3)	
Total segment income	$ 5.1	$ 5.7	$ 10.3	$

The following discussion focuses on the profit contribution of each business before programming expense.

Domestic TV Networks

For the quarter and six-month period, revenues from domestic TV networks decreased $1.7 million and $1.6 million, respectively. These decreases were primarily due to lower analog cable revenues combined with lower sales to other networks and outlets, partially offset by higher digital revenues. For the quarter and six-month period, profit contribution decreased $0.6 million and increased $0.5 million, respectively, reflecting the lower revenues and lower costs for both the Playboy TV and Spice networks.

On July 6, 2001, the Company acquired two networks and the related television assets of Califa, as well as a third network and the related television assets of VODI, a separate entity owned by Califa's principals. These television networks will be transitioned into the Company's Spice-branded television networks portfolio, enabling the Company to offer more adult-programming choices.

The following is the approximate number of the Company's households for the periods indicated below (in millions):

	June 30, 2001	Dec. 31, 2000	June 30, 2000
Playboy TV (1):			
Cable analog addressable	9.8	11.0	12.4
Cable digital	5.7	3.2	1.9
DTH	16.7	15.4	13.9
Spice (1):			
Cable analog addressable	10.3	12.0	13.2
Cable digital	5.4	4.5	3.4

(1) There is an overlap of cable analog addressable and digital households due to some cable operators offering both analog and digital platforms to the same households.

International TV

For the quarter and six-month period, profit contribution from the international TV business increased $0.8 million and $1.5 million, respectively, on revenue increases of the same.

Worldwide Home Video

For the quarter and six-month period, profit contribution increased $0.7 million and $2.1 million, respectively, on revenue increases of $1.1 million, or 35%, and $2.6 million, or 62%, respectively. These increases were primarily due to revenues recorded in the current year periods in accordance with SOP 00-2, Accounting by Producers or Distributors of Films. These revenues related to guarantees from a backlist distribution agreement that were recorded in prior year periods. Under the new rules of SOP 00-2, these previously recognized revenues were not yet considered earned and were reversed and reported as part of a cumulative effect of change in accounting principle in the first quarter of the current year. Additionally, the six-month comparison was favorably impacted by higher domestic DVD sales. Increased worldwide sales of The Eros Collection movies, of which the international sales were through a one-time multi-territory deal, also favorably impacted the six-month comparison.

The Company is in final negotiations to replace a contract that expired in June 2001 with its domestic home video distributor.

Movies and Other

For the quarter, both revenues and profit contribution from movies and other businesses decreased $0.1 million. For the six-month period, profit contribution decreased $0.2 million on a $0.3 million decrease in revenues. The Entertainment Group's administrative expenses remained basically flat for both periods.

Programming Expense

Programming amortization expense increased $1.5 million and $2.9 million for the quarter and six-month period, respectively, primarily due to domestic TV networks, international TV and worldwide home video.

PUBLISHING GROUP

The revenues and segment performance of the Publishing Group were as follows for the periods indicated below (in millions):

	Quarters Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Revenues				
Playboy magazine	$ 26.6	$ 25.2	$ 49.8	$ 50.6
Other domestic publishing	3.5	3.6	7.4	7.6
International publishing	3.4	3.0	6.1	5.7
Total revenues	$ 33.5	$ 31.8	$ 63.3	$ 63.9
Segment income (loss)	$ 0.5	$ (0.6)	$ (0.5)	$ 1.1

For the quarter, Playboy magazine revenues increased $1.4 million, or 6%, compared to the prior year quarter. Circulation revenues increased $0.8 million, or 5%, primarily due to higher newsstand sales for the July 2001 issue featuring Pamela Anderson, which also carried a higher cover price. Advertising revenues increased $0.6 million, or 7%, primarily due to higher ad pages.

For the six-month period, Playboy magazine revenues decreased $0.8 million, or 2%, compared to the prior year. Circulation revenues decreased $1.0 million, or 3%, primarily due to a $0.6 million, or 2%, decrease in subscription revenues due in part to lower revenues from the rental of the magazine's subscriber list. Newsstand revenues decreased $0.4 million, or 5%, principally as the result of an unfavorable variance related to newsstand sales adjustments for prior years' issues. Advertising revenues increased $0.2 million, or 1%, primarily due to higher average net revenue per page. Advertising sales for the third quarter magazine issues are closed and the Company expects to report 2% lower ad revenues and 3% fewer ad pages compared to the quarter ended September

30, 2000.

Other domestic publishing revenues remained relatively flat for both the quarter and six-month period.

For both the quarter and six-month period, international publishing revenues increased $0.4 million primarily due to higher revenues from the Company's majority-owned Polish publishing joint venture. In July 2001, the Company sold 75% of its shares in this joint venture and thus it will no longer be consolidated. Lower royalties from the Brazilian edition due to unfavorable economic conditions in that country partially offset the increase for the six-month period.

For the quarter, Publishing Group segment performance increased $1.1 million compared to the prior year quarter primarily due to the higher Playboy magazine newsstand and advertising revenues, partially offset by higher editorial costs associated with the feature on Pamela Anderson. For the six-month period, segment performance decreased $1.6 million primarily due to the lower Playboy magazine circulation revenues and international publishing royalties combined with generally higher costs, partially offset by generally lower operating expenses.

PLAYBOY ONLINE GROUP

The revenues and segment losses of the Playboy Online Group were as follows for the periods indicated below (in millions):

	Quarters Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Revenues	$ 6.3	$ 6.4	$ 13.1	$ 12.2
Segment loss	$ (6.0)	$ (6.1)	$ (11.5)	$ (11.8)

For the quarter, Playboy Online Group revenues remained relatively flat. The group's revenues increased $0.9 million, or 7%, for the six-month period. Both periods included higher subscription and e-commerce revenues, excluding the absence of e-commerce revenues from CCVideo.com, which was sold in October 2000. Both comparisons also reflected weaker advertising and sponsorships revenues, an ongoing industry-wide trend. For the quarter and six-month period, the segment loss remained relatively flat and decreased $0.3 million, or 3%, respectively, in spite of higher administrative expenses principally due to trademark, content and administrative fees to the parent company, most of which were charged to Playboy.com beginning in the fourth quarter of fiscal year 2000. The Company is taking actions to enhance the group's performance by focusing on converting visitors to purchasers and reducing expenses.

CATALOG GROUP

The revenues and segment losses of the Catalog Group were as follows for the periods indicated below (in millions):

Quarters Ended Six Months Ended

	June 30,		June 30,	
	2001	2000	2001	2000
Revenues	$ 2.8	$ 9.4	$ 5.8	$ 20.2
Segment loss	$ --	$ --	$ (0.2)	$ (0.4)

For the quarter and six-month period, revenues decreased $6.6 million, or 70%, and $14.4 million, or 71%, respectively, and segment performance remained flat and increased $0.2 million, or 55%, respectively, compared to the prior year periods. These changes were the result of management's decision to divest this non-branded, non-core business. In October 2000, the Company completed the sale of its Critics' Choice Video businesses and fulfillment and customer service operations to Infinity Resources, Inc.

The Company expects to effect a sale of its Collectors' Choice Music catalog and related Internet business in fiscal year 2001, at which time the Company's presence in the non-branded print catalog business will end.

OTHER BUSINESSES GROUP

The revenues and segment income of the Other Businesses Group were as follows for the periods indicated below (in millions):

	Quarters Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Revenues	$ 4.2	$ 3.6	$ 6.2	$ 5.4
Segment income	$ 0.6	$ 0.3	$ 1.1	$ 0.5

For the quarter and six-month period, segment income from the Other Businesses Group increased $0.3 million and $0.6 million, respectively, on revenue increases of $0.6 million, or 18%, and $0.8 million, or 16%, respectively, primarily due to growth in the Company's domestic licensed branded products business.

CORPORATE ADMINISTRATION AND PROMOTION

Corporate Administration and Promotion expenses for the quarter of $4.8 million decreased $0.4 million, or 8%, and expenses for the six-month period of $8.9 million decreased $1.8 million, or 17%, reflecting a reduction of expenses related to the trademark, content and administrative fees from Playboy.com.

RESTRUCTURING EXPENSES

For the six months ended June 30, 2000, a $0.2 million restructuring charge was recorded in the first quarter related to the termination of eight employees.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2001, the Company had $1.7 million in cash and cash equivalents and $116.4 million in total financing obligations compared to $2.5 million in cash and cash equivalents and $103.3 million in total financing obligations at December 31, 2000. The financing obligations at June 30, 2001 and December 31, 2000 included $20.0 million and $10.0 million, respectively, in loans made directly to Playboy.com. Historically, the Company has financed its working capital and capital expenditure requirements primarily from cash generated from operations, short- and long-term borrowings and sales of equity. The Company's current liquidity requirements are being provided by a $108.2 million credit facility, which is comprised of $73.2 million of term loans and a $35.0 million revolving credit facility. At June 30, 2001, $23.3 million was outstanding under the revolving facility.

The credit agreement contains financial covenants requiring the Company to maintain certain leverage, interest coverage and fixed charge coverage ratios. During the quarter ended June 30, 2001, the Company and its lenders amended the credit agreement, which approved the terms of the acquisition of television networks from Califa and VODI, revised the financial covenant levels and increased the interest rate margin by 0.25%.

Consideration for the previously discussed Califa transaction was $28.3 million, excluding an outstanding note and non-compete agreement, and $41.7 million for VODI. These amounts will be paid over ten years, and a majority of the payments may be made in cash or Class B common stock at the Company's option. The consideration for both transactions could potentially increase up to $12.0 million should the acquired assets achieve certain financial performance targets.

Playboy.com has been in active discussions with strategic partners and other potential investors in connection with a private placement of its preferred stock. On each of March 7, 2001 and April 2, 2001, Playboy.com issued a convertible promissory note in the aggregate principal amount of $5.0 million to two strategic investors. On July 30, 2001, Playboy.com issued a third convertible promissory note in the aggregate principal amount of $5.0 million to another investor. On August 13, 2001, each of the three aforementioned convertible promissory notes, together with accrued and unpaid interest thereon, were converted into shares of Playboy.com's Series A Preferred Stock. Playboy.com's Series A Preferred Stock is convertible into Playboy.com common stock (initially on a one-for-one basis) and is redeemable by Playboy.com after the fifth anniversary of the date of its issuance at the option of the holder. In addition, in the event that a holder elects to redeem Playboy.com's Series A Preferred Stock at any time after the fifth anniversary of the date of its issuance and before the 180th day thereafter, and Playboy.com is not able to, or does not, satisfy such obligation, the Company has agreed that it shall redeem all or part of the shares in lieu of redemption by Playboy.com, either in cash, shares of the Company's Class B common stock or any combination thereof.

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash used for operating activities was $13.4 million for the six months ended June 30, 2001, which reflected $19.1 million of investments in Company-produced and licensed entertainment programming.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash used for investing activities was $1.9 million for the six-month period primarily due to $1.6 million of additions to property and equipment.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash provided by financing activities was $14.5 million for the six-month period principally due to the $10.0 million in loans from the two strategic investors and $5.0 million in borrowings from the Company's revolving credit facility.

OTHER

In June 2001, the FASB issued the Statements, Business Combinations and Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets with indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal year 2002. For fiscal year 2001, the amortization of goodwill and intangible assets is expected to be approximately $8.0 million, or $0.32 per basic and diluted common share. The Company is evaluating the impact that application of the nonamortization provisions of the Statements will have on the Company's financial statements. During fiscal year 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite-lived intangible assets as of January 1, 2002 and has not yet determined what the effect of these tests will be on the financial statements of the Company.

FORWARD-LOOKING STATEMENTS

This Form 10-Q Quarterly Report 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. These forward-looking statements involve risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. The following are some of the important factors that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements: (1) foreign, national, state and local government regulation, actions or initiatives, including (a) attempts to limit or otherwise regulate the sale, distribution or transmission of adult-oriented materials, including print, video and online materials, (b) changes in or increased regulation of gaming businesses, which could limit the Company's ability to obtain licenses, and the impact of federal and state laws on gaming businesses generally, (c) limitations on the advertisement of tobacco, alcohol and other products which are important sources of advertising revenue, or (d) substantive changes in postal regulations or rates which could increase the Company's postage and distribution costs; (2) increases in paper or printing costs; (3) changes in distribution technology and/or unforeseen delays in the implementation of that technology by the cable and DTH industries, which might affect the Company's plans and assumptions regarding carriage of its networks; (4) increased competition for transponders and channel space and any decline in the Company's access to, and acceptance by, cable and DTH systems or any deterioration in the terms of fee arrangements with operators of these systems; (5) increased 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; (6) effects of the national consolidation of the single-copy magazine distribution system; (7) increasing competition in the cable, DTH and Internet markets; (8) changes in consumer purchasing habits, viewing patterns or fashion trends or changes in the retail sales environment which could reduce demand for the Company's products and impact its advertising revenues; (9) uncertainty of the viability of the Internet gaming, e-commerce, advertising and subscription businesses; (10) the Company's ability to obtain adequate third-party financing, including equity investments, to fund the Company's Internet business, and the timing and terms of such financing; (11) reliance on third parties for technology and distribution for the television video-on-demand and Internet businesses; (12) risks associated with foreign operations, including market acceptance and demand for the Company's products and the products of its licensees, the Company's ability to protect its trademarks and other intellectual property and the Company's ability to manage the risk associated with its exposure to foreign currency exchange rate fluctuations; (13) changes in interest rates; (14) general economic conditions which can negatively impact advertising and consumer spending habits; and (15) attempts by consumers or citizens groups to exclude the Company's programming from pay television distribution.

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SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's annual meeting of shareholders was held on May 9, 2001. At the meeting, the following director nominees were elected:

Nominee	Votes For	Votes Withheld
Dennis S. Bookshester	4,381,047	32,306
David I. Chemerow	4,381,068	32,285
Donald G. Drapkin	4,381,060	32,293
Christie A. Hefner	4,402,836	10,517
Sol Rosenthal	4,381,106	32,247
Richard S. Rosenzweig	4,381,056	32,297
Sir Brian Wolfson	4,381,109	32,244

Also at the meeting, the shareholders approved, with voting as set forth below, ratification of Ernst & Young LLP as independent auditors ("Auditors"):

Matter	Votes For	Votes Against	Votes Withheld	Non-Vote
Auditors	4,404,291	3,373	N/A	5,689

EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit Number	Description
10.1	Fourth Amendment to February 26, 1999 Credit Agreement dated as of June 1, 2001
10.2	Third Amendment to December 29, 2000 Promissory Note dated May 7, 2001
10.3	Amendment to July 25, 1991 Lease between Playboy Enterprises, Inc. and Star Property Fund, L.P. dated March 16, 2001

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended June 30, 2001.

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SIGNATURES

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

PLAYBOY ENTERPRISES, INC.
(Registrant)

Date August 14, 2001

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)

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