ARS

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

FORM 10-K

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

For the fiscal year ended December 31, 2007

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 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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, par value $0.01 per share	New York Stock Exchange
Class B Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** __ **No** √

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. **Yes** __ **No** √

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. __

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer __ Accelerated filer √ Non-accelerated filer __ Smaller reporting company __

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

The aggregate market value of Class A Common Stock held by nonaffiliates on June 30, 2007 (based upon the closing sale price on the New York Stock Exchange) was $16,360,742. The aggregate market value of Class B Common Stock held by nonaffiliates on June 30, 2007 (based upon the closing sale price on the New York Stock Exchange) was $230,115,212.

At February 29, 2008, there were 4,864,102 shares of Class A Common Stock and 28,407,816 shares of Class B Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part II. Item 5 and Part III. Items 10-14 of this report is incorporated herein by reference to the Notice of Annual Meeting of Stockholders and Proxy Statement (to be filed) relating to the Annual Meeting of Stockholders to be held in May 2008.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains "forward-looking statements," including statements in Part I. Item 1. "Business," Part I. Item 1A. "Risk Factors" and Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," among other places, 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 and partners;

(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, wireless, new electronic media and product licensing markets;

(11) Attempts by consumers, distributors, merchants 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 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, pressure on splits or adverse changes in certain minimum revenue amounts 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) Effects of the national consolidation of the single-copy magazine distribution system and risks associated with the financial stability of major magazine wholesalers;

(20) Effects of the national consolidation of television distribution companies (e.g., cable MSOs, satellite

platforms and telecommunications companies); and

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

For a detailed discussion of these and other factors that might affect our performance, see Part I. Item 1A. "Risk Factors" of this Annual Report on Form 10-K.

PLAYBOY ENTERPRISES, INC.
2007 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business	5
Item 1A.	Risk Factors	14
Item 1B.	Unresolved Staff Comments	21
Item 2.	Properties	22
Item 3.	Legal Proceedings	23
Item 4.	Submission of Matters to a Vote of Security Holders	24
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	25
Item 6.	Selected Financial Data	26
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	41
Item 8.	Financial Statements and Supplementary Data	41
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	68
Item 9A.	Controls and Procedures	68
Item 9B.	Other Information	70
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	71
Item 11.	Executive Compensation	71
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	71
Item 13.	Certain Relationships and Related Transactions, and Director Independence	71
Item 14.	Principal Accounting Fees and Services	71
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	72

PART I

Item 1. Business

Playboy Enterprises, Inc., together with its subsidiaries and predecessors, is referred to in this Annual Report on Form 10-K by terms such as "we," "us," "our," "Playboy" and the "Company," unless the context requires otherwise. We were organized in 1953 to publish *Playboy* magazine and are now a brand-driven, international multimedia entertainment and lifestyle company. The Playboy brand is one of the most widely recognized and popular brands in the world. The strength of our brand drives the financial performance of our media and merchandising businesses. Our programming and content is available worldwide on television and online via a network of websites. *Playboy* magazine is the best-selling monthly men's magazine in the world based on the combined circulation of the U.S. and international editions. Our licensing business leverages the Playboy name, the Rabbit Head Design and our other trademarks globally on a variety of consumer products, third-party owned and operated Playboy-branded retail stores and multifaceted location-based entertainment venues.

Our businesses are organized into the following three reportable segments: Entertainment, Publishing and Licensing. Net revenues, income before income taxes, depreciation and amortization and identifiable assets of each reportable segment are set forth in Note (Q), Segment Information, to the Notes to Consolidated Financial Statements.

Our trademarks, copyrights and domain names are critical to the success and potential growth of all of our businesses. Our trademarks, which are renewable periodically and which can be renewed indefinitely, include Playboy, the Rabbit Head Design, Playmate and Spice.

ENTERTAINMENT GROUP

Our Entertainment Group operations include the production and marketing of television programming for our domestic and international TV businesses, web-based entertainment experiences, wireless content distribution, e-commerce, DVD products and satellite radio under the Playboy, Spice and other brand names. In 2006, we acquired Club Jenna, Inc. and related companies, or Club Jenna, a multimedia adult entertainment business. Club Jenna adds a premier brand to our businesses with assets that include successful film production, DVD, online and mobile businesses as well as a library of content.

Programming

Our Entertainment Group develops, produces, acquires and distributes a wide range of high-quality lifestyle adult television programming for our domestic and international TV networks, pay-per-view, or PPV, subscription pay-per-month, or PPM, video-on-demand, or VOD, subscription video-on-demand, or SVOD, subscription package, or Tier, and worldwide DVD products. Our proprietary productions include magazine-format shows, reality-based and dramatic series, documentaries, live events and celebrity and Playmate programs. Our programming is featured in a variety of formats, enabling us to leverage our programming costs over multiple distribution platforms. We have produced a number of shows that air on the domestic and international Playboy TV networks and are distributed internationally in countries where we do not have networks. Additionally, some of our programming is released as DVD titles and some has been licensed to other networks, such as HBO and Showtime. Our original series programming includes *Naked Happy Girls, Naughty Amateur Home Videos, 69 Sexy Things to Do Before You Die* and *Around the World in 80 Babes*. Additionally, we co-produce shows and series to air on third-party networks, including *The Girls Next Door* on E! Entertainment Television.

We invest in the creation and acquisition of high-quality, adult-oriented programming to support our worldwide entertainment businesses. We invested $34.6 million, $38.5 million and $33.1 million in entertainment programming in 2007, 2006 and 2005, respectively. These amounts, which also include expenditures for licensed programming, resulted in the domestic production of 276, 207 and 129 hours of original programming for Playboy TV in 2007, 2006 and 2005, respectively. At December 31, 2007, our domestic library of primarily exclusive, Playboy-branded original programming totaled approximately 3,300 hours. In addition to investing in original productions, we also acquire high-quality adult movies in various editing standards. A majority of the programming that airs on our Spice Digital Networks is licensed, on an exclusive basis, from third parties. We will continue to both produce and acquire original programming with a heavier emphasis on producing and delivering content for multiple electronic delivery platforms, including both long- and short-form programming.

In addition to utilizing some of the programming we produce for our websites and for licensing to wireless providers, we invested $5.6 million, $5.0 million and $2.2 million in content specifically for online and wireless initiatives in 2007, 2006 and 2005, respectively.

Our programming is delivered to direct-to-home, or DTH, and cable operators through satellite transponders and through outside content processors. We currently have four transponder service agreements related to our domestic networks, the terms of which extend through 2008, 2013, 2013 and 2014. We also have two international transponder service agreements, the terms of which extend through 2009. In connection with the potential sale of assets related to our Los Angeles production facility, we expect to transfer the four transponder service agreements related to our domestic networks to the purchaser of the assets. Following such transfer, we will lease access to these transponders from the purchaser. See Note (T), Subsequent Events, to the Notes to Consolidated Financial Statements for additional information.

Domestic TV

We currently operate several domestic TV networks, including Playboy TV, Playboy TV en Español and the Spice Digital Networks.

Our flagship service is Playboy TV, with a programming mix that includes a variety of originally produced and exclusively licensed content.

Playboy TV en Español is a Spanish language network similar to Playboy TV. It shares some content with the domestic Playboy TV network and also includes locally produced, proprietary Spanish-language and other original Spanish-language content.

Spice Digital Networks feature adult movies under exclusive licenses from leading adult studios and from our Club Jenna and other original productions. These adult-oriented networks offer a distinct thematic focus and are available in a variety of editing standards.

Our domestic TV content is distributed primarily through cable, e.g., Comcast and Time Warner Cable; DTH, e.g., DirecTV and EchoStar; and telephone companies, or Telcos, e.g., Verizon and AT&T, which distribute television via phone and/or fiber optic lines. Each of the distributors controls the packaging and pricing to consumers.

The following table sets forth our domestic and Canadian networks and distribution options:

Network	Domestic DTH	Domestic Cable	Domestic Telcos	Canadian DTH
Playboy TV	PPV/PPM	PPV/PPM/VOD/ SVOD	PPM/SVOD	PPM
Playboy TV en Español	Tier	PPV/PPM/Tier	PPM	PPM
Spice Digital Networks	PPV	PPV/VOD	VOD	-

Our TV networks are available either as linear channels or as part of a VOD service. Our linear channels, offered on cable, DTH and Telco platforms, are television networks with regularly scheduled content distributed through a single network feed to all homes at the same time. VOD and SVOD, which are available on cable and Telco platforms, makes content available to the consumer through a television interface at any time the consumer chooses to view it. This is done by storing a selection of content on a server at the local cable system, which consumers may access by using their remote control devices at any time and for a specified time. Consumers then view the content in a DVD-like manner, i.e., they may pause, fast forward, rewind, stop and resume viewing at a later time.

In recent years, cable operators have shifted from analog to digital technology, moving away from linear PPV to VOD. Digital technology allows for the compression of signals so that several channels fit into the same bandwidth previously consumed by a single analog channel. Accordingly, digital is a more efficient technology for all platforms, and DVD functionality is only possible in a digital environment. We transmit exclusively in digital, and the vast majority of delivery to consumers is via digital technology.

Playboy TV is the only adult television network available on all major DTH services in both the United States and Canada.

As VOD supplants traditional linear networks, we are seeking to establish a leading position in this new phase of technology by leveraging the power of our brands, our large library of original programming and our relationships with leading adult studios, while at the same time recognizing that we are operating in a far more fragmented and competitive marketplace with lower costs of entry.

Our revenues generally reflect our contractual percentage of the retail price received by the system operators.

Channel space for our networks is determined at each distributor's corporate level as part of our distributor negotiations; however, in some cases, we negotiate terms at the corporate level with distribution at the system level.

Our agreements with cable and DTH operators are renewed or renegotiated from time to time in the ordinary course of business. In some cases, following the expiration of an agreement, the respective operator and we agree to continue to operate under the terms of the expired agreement until a new agreement is negotiated. In any event, our agreements with distributors generally may be terminated on short notice without penalty.

International TV

We currently own and operate or license Playboy-, Spice- and locally-branded TV networks in the United Kingdom, which are further distributed through DTH and cable throughout greater Europe. Additionally, we have networks in Australia, France, Germany, Hong Kong, Israel, New Zealand, South Korea and Turkey. Also, through joint ventures, we have minority equity interests in networks in Latin America, Iberia and Japan. These international networks, which are generally available on both a PPV and PPM basis, principally carry U.S.-originated content, which is subtitled or dubbed and complemented by local content. We also license individual programs from our extensive library to broadcasters internationally.

We own a 19.0% interest in Playboy TV–Latin America, LLC, or PTVLA, a joint venture with Claxson Interactive Group, Inc., or Claxson, which operates Playboy TV networks in Latin America and Iberia, as well as a local adult service called Venus. In the third quarter of 2007, PTVLA launched Lifestyle TV, a male targeted, ad-supported basic cable channel with a mix of locally produced and acquired content with no nudity. In these markets, PTVLA has the exclusive right to use content from the Playboy library. In the fourth quarter of 2007, PTVLA reached an agreement with Turner Broadcasting System Latin America, Inc., or Turner, to exclusively distribute all PTVLA owned and operated services and to sell advertising on Lifestyle TV. Turner bundles PTVLA channels with their existing services, including Cartoon Network, CNN and TNT. PTVLA pays Turner a distribution fee.

In the third quarter of 2007, PTVLA entered into a new joint venture with Globomedia S.A., or GLOBO, to own and operate adult services in Brazil. PTVLA owns a 40% interest in the joint venture and GLOBO owns 60%. Channels included in the joint venture are PTVLA-owned Playboy TV and Venus as well as GLOBO-owned Sexy Hot. Both companies have gay-themed channels that will be combined using GLOBO's For Men brand. In addition, PTVLA has contributed non-branded adult content for use in DVD distribution and online and mobile markets in Brazil.

While Claxson has management control, we have significant management influence on our joint venture. We provide both programming and the use of our trademarks directly to PTVLA in return for 17.5% of the venture's net revenues with a guaranteed annual minimum. The term of the program supply and trademark agreement for PTVLA expires in 2022, unless terminated earlier in accordance with the terms of the agreement. PTVLA provides the feed for Playboy TV en Español and we pay PTVLA a 20% distribution fee for that feed based on the network's net revenues in the U.S.

We have an option to purchase up to an additional 30.9% of PTVLA at fair market value through December 23, 2022. In addition, we have the option to purchase the remaining 50.1% of PTVLA at fair market value, exercisable at any time during the period beginning December 23, 2012, and ending December 23, 2022, so long as we have previously or concurrently exercised the initial 49.9% buy-up option. We have the option to pay the purchase price for the 49.9% buy-up option in cash, shares of our Class B common stock, or Class B stock, or a combination of both. However, if we exercise both options concurrently, we must use cash to acquire the 80.1% of PTVLA that we do not own.

We also hold a 19.9% ownership interest in Playboy Channel Japan, which includes Playboy Channel and Channel Ruby, a local adult service.

We seek the most appropriate and profitable manner in which to build on the powerful Playboy and Spice brands in each international market. In addition, we seek to generate synergies among our networks by combining operations where practicable, through innovative programming and scheduling, through joint programming acquisitions and by coordinating and sharing marketing activities and materials efficiently throughout the territories in which our programming is aired. We also look to develop and establish relationships with international production companies on a local level in order to create original international product for distribution to our various owned and licensed networks.

We believe we can continue growing our international television business by expanding the distribution reach of existing networks; launching and operating additional networks in existing and new markets; and increasing subscription penetration and buy rates with new programming and scheduling tactics as well as targeted marketing activities. In addition, we expect that the roll out of digital technology in addressable households in our existing international markets will favor growth.

Online/Mobile

We operate various subscription-based websites, or clubs, as well as free and e-commerce websites under our Playboy and other brands.

Our largest club, *Playboy Cyber Club*, offers access to over 100,000 photos and videos and offers members the ability to see Playmates, an assortment of celebrity content and special "online only" features, including our franchises of "Cyber Girls" and "Coeds" and an extensive archive of *Playboy* magazine interviews. The other Playboy-branded clubs include broadband video-specific membership clubs, solely offering high-quality video, and a thematic pictorial and video club navigable by niche.

We offer two online VOD theaters under the Playboy and Spice brands that provide consumers the option to view video content on a pay-per-minute basis, to download entire movies for viewing on their computers and/or to burn movies to DVD.

We also offer sites branded under the Spice and Club Jenna names, including *ClubJenna.com*, as well as niche, reality-based sites produced, marketed and promoted via our large affiliate network of websites. We continue to add new niche sites as changes in the market warrant. In 2006, we also introduced a first-of-its-kind adult SVOD website, *Adult.com*, which offers users the ability to pay a recurring subscription fee to stream, download or burn to DVD any video in the entire library.

Our Playboy-branded e-commerce websites, *PlayboyStore.com* and *ShopTheBunny.com*, combined with their respective Playboy and BUNNYshop Catalogs, offer customers the ability to purchase Playboy-branded fashions, calendars, DVDs, jewelry, collectibles, back issues of *Playboy* magazine and special editions, as well as select non-Playboy-branded products. In early 2008, we entered into a contract to outsource the Playboy and BUNNYshop businesses to a third party. We anticipate that by the second quarter of 2008, we will no longer be operating these businesses although we retain significant creative control. In late 2006, we also outsourced the operation of our Spice-branded e-commerce website, *SpiceTVStore.com*, and the Spice Catalog to a third party.

We launched a site-wide redesign of *Playboy.com* in late 2006. The new *Playboy.com* website offers more original content leveraging *Playboy* magazine's editorial assets and providing more opportunities to increase online advertising sales. Additionally, the free area of the website is designed with a goal of converting visitors to purchasers by directing them to our subscription sites.

We also distribute our branded content internationally via the Internet and wireless platforms. We have significant traffic from international users on our owned and operated websites, *Playboy.com* and *Playboy.co.uk*, that results in customers for our other products and services. Additionally, we have websites in approximately 20 countries, some of which were created in conjunction with our international magazine partners, that feature a blend of original, local-edition *Playboy* magazine and U.S. and U.K. websites' content. We also have licensees that distribute our content on the wireless platform in many countries. Demand for wireless content is increasing as technology and consumer adoption continue to grow. Our current offerings include graphical images, video clips, mobile television, ringtones and games. We also create integrated cross-platform mobile marketing and promotions to leverage opportunities across our businesses.

Other Businesses

We distribute some of our proprietary content domestically in DVD format. We also distribute non-Playboy-branded movies and adult DVDs, including titles under the Club Jenna brand, and re-package and re-market our catalog of previously released DVD titles. These DVDs are sold worldwide via distributors to video and music stores, other retail outlets, catalogs and e-commerce sites.

Playboy Radio is a 24-hour Playboy-branded radio channel available on SIRIUS Satellite Radio. The channel features new and exclusive content and leverages our entertainment assets by expanding the Playboy brand on the satellite radio platform.

Alta Loma Entertainment functions as a production company. It leverages our assets, including editorial material and the Playboy brand, as well as icons such as the Playmates, the Playboy Mansion and Hugh M. Hefner, our Editor-In-Chief and Chief Creative Officer, or Mr. Hefner, to develop and co-produce original programming, such as the top-rated *The Girls Next Door* on E! Entertainment Television.

Competition

Competition among television programming providers is intense for both channel space and viewer spending. Our competition varies in both the type and quality of programming offered, but consists primarily of other premium pay services, such as general-interest premium channels and other adult movie pay services. We compete with the other pay services as we (a) attempt to obtain or renew carriage with DTH operators and individual cable affiliates, (b) negotiate fee arrangements with these operators, (c) negotiate for VOD and SVOD rights and (d) market our programming to consumers through these operators. Over the past several years, all of the competitive factors described above have adversely impacted us, as has consolidation in the DTH and cable systems industries, which has resulted in fewer, but larger, operators. The availability of, and price pressure from, more explicit content on the Internet and more pay television options, both mainstream and adult, also present a significant competitive challenge. We believe the impact on our movie networks is greater than the impact on Playboy TV due to the strong brand recognition of Playboy, the quality of our original programming and our ability to appeal to a broad range of adult audiences.

As a result of VOD's lower cost of entry for programmers compared to linear networks and capacity constraints disappearing, the market has become significantly more competitive as we have less shelf space. We encourage distributors to increase the dollars they spend marketing the full range of Playboy PPV, VOD, SVOD and PPM to consumers with particular emphasis on the value of PPM. Our strategy with respect to Spice is to maintain VOD shelf space while reducing costs.

We also face competition in international markets from both the availability and prevalence of explicit adult content on free television, specifically in Europe, as well as competitive pay services. As in the U.S., there are often low costs of entry, which yield increasing competition, especially from companies in Asia and parts of Europe providing local content as opposed to dubbed U.S. programming.

The Internet is highly competitive, and we continue to compete for visitors, subscribers, shoppers and advertisers. We believe that the primary competitive factors affecting our Internet operations include brand recognition, the quality of our content and products, technology, including the number of broadband homes, pricing, ease of use, sales and marketing efforts and consumer demographics. We have the advantage of being able to leverage the power of our Playboy and other brands across multiple media platforms.

PUBLISHING GROUP

Our Publishing Group operations include the publication of *Playboy* magazine, special editions and other domestic publishing businesses, including books and calendars, and the licensing of international editions of *Playboy* magazine.

Domestic Magazine

Founded by Mr. Hefner in 1953, *Playboy* magazine plays a key role in driving the continued popularity and recognition of the Playboy brand. *Playboy* magazine is the best-selling monthly men's magazine in the world based on the combined circulation of the U.S. and international editions. Circulation of the U.S. edition was approximately 2.8 million copies monthly in 2007, while the combined average circulation of the 24 licensed international editions was approximately 1.0 million copies monthly in 2007. According to fall 2007 data published by the independent market research firm of Mediamark Research, Inc., or MRI, approximately one in every eight men in the United States aged 18 to 34 reads the U.S. edition of *Playboy* magazine.

Playboy magazine is a general-interest magazine, targeted to men, with a reputation for excellence founded on its high-quality photography, entertainment, humor, cartoons and articles on current issues, interests and trends. *Playboy* magazine consistently includes in-depth, candid interviews with high-profile political, business, entertainment and sports figures, pictorials of famous women and content by leading authors, including the following:

Interviews	Pictorials	Leading Authors
Halle Berry	Pamela Anderson	Jimmy Breslin
Michael Brown	Drew Barrymore	Ethan Coen
George Clooney	Cindy Crawford	Denis Johnson
Al Franken	Carmen Electra	Stephen King
Bill Gates	Rachel Hunter	Norman Mailer
Arianna Huffington	Kim Kardashian	Jay McInerney
Derek Jeter	Elle Macpherson	Walter Mosley
Nicole Kidman	Cindy Margolis	Joyce Carol Oates
Jack Nicholson	Jenny McCarthy	Jane Smiley
Bill Richardson	Denise Richards	Scott Turow
Donald Trump	Anna Nicole Smith	John Updike
Kanye West	Katarina Witt	Kurt Vonnegut

Playboy magazine has long been known for publishing the work of top photographers, writers and artists. *Playboy* magazine also features lifestyle articles on consumer electronics and other products, fashion and automobiles and covers the worlds of sports and entertainment.

According to the independent audit agency Audit Bureau of Circulations, or ABC, for the six months ended December 31, 2007, *Playboy* magazine was the 15th highest-ranking U.S. consumer publication in terms of circulation rate base (the total newsstand and subscription circulation guaranteed to advertisers). *Playboy* magazine's circulation rate base for the same period was greater than each of *Maxim*, *GQ* and *Esquire*. To better reflect changes in how and where media is consumed and in response to the challenging magazine landscape, we adjusted our magazine circulation rate base effective with the January 2008 issue to 2.6 million from 3.0 million.

Playboy magazine has historically generated approximately two-thirds of its revenues from subscription and newsstand circulation, with the remainder primarily from advertising. Subscription copies represent approximately 92% of total copies sold. Managing *Playboy* magazine's circulation to be primarily subscription driven provides a relatively stable and desirable circulation base, which we believe is attractive to advertisers. According to MRI, the median age of male *Playboy* magazine readers is 33, with a median annual household income of approximately $54,000, a demographic that we believe is also attractive to advertisers. We also derive revenues from the rental of *Playboy* magazine's subscriber list.

We attract new subscribers to *Playboy* magazine through our own direct mail advertising campaigns, subscription agent campaigns and the Internet, including *Playboy.com*. Subscription copies of the magazine are delivered through the United States Postal Service as periodical mail. We attempt to contain these costs through presorting and other methods.

Playboy magazine is also available as a digital edition. Each month, digital copies are delivered to subscribers via the Internet. Digital copies may also be purchased on a single-issue basis.

Playboy magazine is one of the highest priced magazines in the U.S. The basic U.S. newsstand cover price is \$5.99 (\$6.99 for the December 2007 and January 2008 holiday issues). We generally increase the newsstand cover price by \$1.00 when there is a feature of special appeal. We price test from time to time; however, no cover price increases are planned for 2008.

Playboy magazine targets a wide range of advertisers. The following table sets forth advertising by category, as a percent of total advertising pages, and the total number of advertising pages:

Category	Fiscal Year Ended 12/31/07	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05
Retail/Direct mail	29%	28%	27%
Beer/Wine/Liquor	28	21	22
Tobacco	13	13	10
Apparel/Footwear/Accessories	5	7	1
Electronic games	5	1	4
Home electronics	4	4	6
Automotive	3	4	6
Automotive accessories and equipment	3	4	3
Other	10	18	21
Total	100%	100%	100%
Total advertising pages	460	429	479

We continue to focus on securing new advertisers, including expanding advertising in underserved categories. We publish the U.S. edition of *Playboy* magazine in 15 advertising editions: one upper income zip-coded, eight regional, two state and four metropolitan editions. All contain the same editorial material but provide targeting opportunities for advertisers. We implemented 4%, 5% and 8% cost per thousand increases in advertising rates effective with the January 2008, 2007 and 2006 issues, respectively.

Playboy magazine subscriptions are serviced by Communications Data Services, Inc., or CDS. Pursuant to a subscription fulfillment agreement, CDS performs a variety of services, including (a) processing orders or transactions, (b) receiving, verifying, balancing and depositing payments from subscribers, (c) printing forms and promotional materials, (d) maintaining master files on all subscribers, (e) issuing bills and renewal notices to subscribers, (f) generating labels, (g) resolving customer service complaints as directed by us and (h) furnishing various reports that enable us to monitor and to account for all aspects of the subscription operations. The term of the subscription fulfillment agreement expires June 30, 2011. Either party may terminate the agreement prior to expiration in the event of material nonperformance by, or insolvency of, the other party. We pay CDS specified fees and charges based on the types and amounts of service performed under the agreement. The fees and charges increase annually based on the consumer price index to a maximum of 6% in one year.

Domestic distribution of *Playboy* magazine and special editions to newsstands and other retail outlets is accomplished through Time/Warner Retail Sales and Marketing, or TWRSM. The copies are shipped in bulk to wholesalers, who are responsible for local retail distribution. We receive a substantial cash advance from TWRSM 30 days after the date each issue goes on sale. We recognize revenues from newsstand sales based on estimated copy sales at the time each issue goes on sale and adjust for actual sales upon settlement with TWRSM. Revenue adjustments have not been material. Retailers return unsold copies to wholesalers, who count and then shred the returned copies and report the returns by affidavit. The number of copies sold on newsstands varies from month to month, depending in part on consumer interest in the cover, the pictorials and the editorial features. Our current agreement with TWRSM expires December 2008.

Playboy magazine and special editions are printed at Quad/Graphics, Inc., or Quad, at a single site located in Wisconsin, which ships the products to subscribers and wholesalers. The print runs vary each month based on expected sales and are determined with input from TWRSM. Paper is the principal raw material used in the production of these publications. We use a variety of types of high-quality coated and uncoated papers that are purchased from a number of suppliers around the world.

Magazine publishing companies face intense competition for readers, advertisers and retail shelf space. Magazines and Internet sites primarily aimed at men are *Playboy* magazine's principal competitors. Other types of media that carry advertising, particularly cable and broadcast television, also compete with *Playboy* magazine for advertising revenues. Levels of advertising revenues may be affected by, among other things, competition for and spending by advertisers, general economic activity and governmental regulation of advertising content, such as tobacco products. However, since only approximately one-third of *Playboy* magazine's revenues and less than 10% of our total revenues are from *Playboy* magazine advertising, we are not overly dependent on this source of revenue.

International Magazine

We license the right to publish 24 international editions of *Playboy* magazine to local partners in the following countries: Argentina, Brazil, Bulgaria, Colombia, Croatia, the Czech Republic, Estonia, France, Georgia, Germany, Greece, Hungary, Japan, Mexico, the Netherlands, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Spain, Ukraine and Venezuela.

Local publishing licensees tailor their international editions by mixing the work of their national writers and artists with editorial and pictorial content from the U.S. edition. We monitor the content of the international editions so that they retain the distinctive style, look and quality of the U.S. edition while meeting the needs of their respective markets. The license agreements vary but, in general, are for terms of three to five years and carry a guaranteed minimum royalty as well as a formula for computing earned royalties in excess of the minimum. Royalty computations are based on both circulation and advertising revenues. The German and Brazilian editions accounted for approximately one-half of our total revenues from international editions in 2007, 2006 and 2005.

Special Editions and Other

We have created media extensions, such as special editions and calendars, which are primarily sold in newsstand outlets. We published 25 special editions in each of 2007, 2006 and 2005, and we expect to publish the same number in 2008. Effective with the issues on newsstands in July 2007, the U.S. newsstand cover price was increased to \$9.99 from \$8.99. No cover price increases are currently planned for 2008. We also license rights to third parties to publish books for which we receive royalties.

LICENSING GROUP

Our Licensing Group operations include the licensing of consumer products carrying one or more of our trademarks and/or images, third-party owned and operated Playboy-branded retail stores, multifaceted location-based entertainment venues and certain revenue-generating marketing activities.

We license the Playboy name, the Rabbit Head Design and other images, trademarks and artwork for the worldwide manufacture, sale and distribution of a multitude of consumer products. We work with our licensees to develop, market and distribute high-quality Playboy-branded merchandise. Our licensed product lines include men's and women's apparel, men's underwear and women's lingerie, accessories, collectibles, cigars, watches, jewelry, fragrances, shoes, luggage, bath and body products, small leather goods, stationery, music, eyewear, barware, home fashions and slot machines. We continually seek to license our brand name and images in new markets and retail categories, including the launch in 2007 of *PlayboyGaming.com*, a Playboy-branded online casino and poker site. The group also licenses art-related products based on our extensive art collection, most of which was originally commissioned as illustrations for *Playboy* magazine. Occasionally, we sell small portions of our art and memorabilia collection through auction houses such as Christie's and Sotheby's. Playboy-branded merchandise is marketed primarily through retail outlets, including department and specialty stores, as well as through our and other e-commerce websites and catalogs.

We also license Playboy concept stores, opening eight in the last three years, with locations in Auckland, Bangkok, Hong Kong, Kuala Lumpur, London, Melbourne and two in Las Vegas. We expect licensees to open three additional stores in 2008.

We have expanded our licensing activities to include multifaceted location-based entertainment venues. Our first such venue located at the Palms Casino Resort in Las Vegas opened in the fourth quarter of 2006. Our venture partner provided the funding for all of the Playboy elements, which include a 30-foot tall Rabbit Head on the exterior of their new tower, a nightclub, a boutique casino and lounge, a retail store and a sky villa hotel suite. We contributed the Playboy brand and trademarks as well as marketing support. In 2007, we announced a joint venture with Macao Studio City for a Playboy-branded entertainment destination in Macao, which will include nightlife and entertainment options, dining, specialty retail elements and a Hugh M. Hefner Villa. This venue is expected to open in late 2009.

While our branded products are unique, the licensing business is intensely competitive and is extremely sensitive to economic conditions, shifts in consumer buying habits, fashion and lifestyle trends and changes in the global retail sales environment.

Company-wide marketing events, which are operated at approximately break-even, consist of the Playboy Jazz Festival and Playmate Promotions. We have produced the Playboy Jazz Festival on an annual basis in Los Angeles at the Hollywood Bowl since 1979 and continue our sponsorship of related community events. Playmate Promotions represents the Playmates in advertising campaigns, trade shows, endorsements, commercials, motion pictures, television and videos.

PROMOTIONAL AND OTHER ACTIVITIES

We believe that our sales of products and services are enhanced by public recognition of the Playboy brand as symbolic of a lifestyle. In order to establish public recognition, we, among other activities, purchased in 1971 the Playboy Mansion in Los Angeles, California, where Mr. Hefner lives. The Playboy Mansion is used for various corporate activities and serves as a valuable location for television production, magazine photography and for online, advertising, marketing and sales events. It also enhances our image, as we host many charitable and civic functions. The Playboy Mansion generates substantial publicity and recognition, which increases public awareness of us and our products and services. As indicated in Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part III. Item 13. "Certain Relationships and Related Transactions," Mr. Hefner pays us rent for that portion of the Playboy Mansion used exclusively for his and his personal guests' residence as well as for the per-unit value of non-business meals, beverages and other benefits received by him and his personal guests. The Playboy Mansion is included in our Consolidated Balance Sheets at December 31, 2007 and December 31, 2006, at a net book value of $1.4 million and $1.6 million, respectively, including all improvements and after accumulated depreciation. We incur all operating expenses of the Playboy Mansion, including depreciation and taxes, which were $2.8 million, $2.1 million and $3.1 million for 2007, 2006 and 2005, respectively, net of rent received from Mr. Hefner.

The Playboy Foundation provides financial support to many not-for-profit organizations and projects throughout the country concerned with issues historically of importance to *Playboy* magazine and its readers, including anti-censorship efforts, civil rights, AIDS education, prevention and research, reproductive freedom and social justice.

Our trademarks, copyrights and online domain names are critical to the success and growth potential of all of our businesses. We actively protect and defend them throughout the world and monitor the marketplace for counterfeit products, including by initiating legal proceedings, when warranted, to prevent their unauthorized use.

EMPLOYEES

We employed 789 and 782 full-time employees at February 29, 2008 and February 28, 2007, respectively. No employees are represented by collective bargaining agreements. We believe we maintain a satisfactory relationship with our employees.

AVAILABLE INFORMATION

We make available free of charge on our website, *PlayboyEnterprises.com*, our annual, quarterly and current reports, and, if applicable, amendments to those reports, filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission.

Also posted on our website are the charters of the Audit Committee and Compensation Committee of our Board of Directors, our Code of Business Conduct and our Corporate Governance Guidelines. Copies of these documents are available free of charge by sending a request to Investor Relations, Playboy Enterprises, Inc., 680 North Lake Shore Drive, Chicago, Illinois 60611.

As required under Section 302 of the Sarbanes-Oxley Act of 2002, the certifications of our Chief Executive Officer and Chief Financial Officer are filed as exhibits to this Annual Report on Form 10-K. In addition, we submitted to the New York Stock Exchange, or the Exchange, the required annual certifications of our Chief Executive Officer relating to compliance by us with the Exchange's corporate governance listing standards. Copies of these certifications are available to stockholders free of charge by sending a request to Investor Relations, Playboy Enterprises, Inc., 680 North Lake Shore Drive, Chicago, Illinois 60611.

Item 1A. Risk Factors

In addition to the other information contained in this Annual Report on Form 10-K, the following risk factors should be carefully considered in evaluating our business and us.

We may not be able to protect our intellectual property rights.

We believe that our trademarks, particularly the Playboy name and Rabbit Head Design, and other proprietary rights are critical to our success, growth potential and competitive position. Accordingly, we devote substantial resources to the establishment and protection of our trademarks and other proprietary rights. Our actions to establish and protect our trademarks and other proprietary rights, however, may not prevent imitation of our products by others or prevent others from claiming violations of their trademarks and proprietary rights by us. Any infringement or related claims, even if not meritorious, may be costly and time consuming to litigate, may distract management from other tasks of operating the business and may result in the loss of significant financial and managerial resources, which could harm our business, financial condition or operating results. These concerns are particularly relevant with regard to those international markets, such as China, in which it is especially difficult to enforce intellectual property rights.

Failure to maintain our agreements with multiple system operators, or MSOs, and DTH operators on favorable terms could adversely affect our business, financial condition or results of operations.

We currently have agreements with all of the largest MSOs in the United States. We also have agreements with the principal DTH operators in the United States and Canada. Our agreements with these operators may be terminated on short notice without penalty. If one or more MSOs or DTH operators terminate or do not renew these agreements, or do not renew them on terms as favorable as those of current agreements, our business, financial condition or results of operations could be materially adversely affected.

In addition, competition among television programming providers is intense for both channel space and viewer spending. Our competition varies in both the type and quality of programming offered, but consists primarily of other premium pay services, such as general-interest premium channels, and other adult movie pay services. We compete with other pay services as we attempt to obtain or renew carriage with DTH operators and individual cable affiliates, negotiate fee arrangements with these operators, negotiate for VOD and SVOD rights and market our programming through these operators to consumers. The competition with programming providers has intensified as a result of consolidation in the DTH and cable systems industries, which has resulted in fewer, but larger, operators. Competition has also intensified with VOD's lower cost of entry for programmers compared to linear networks and with capacity constraints disappearing. 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 of agreements, cancellation of fee arrangements or pressure on margin splits with operators of these systems could adversely affect our business, financial condition or results of operations.

Limits on our access to satellite transponders could adversely affect our business, financial condition or results of operations.

Our cable television and DTH operations require continued access to satellite transponders to transmit programming to cable and DTH operators. Material limitations on our access to these systems or satellite transponder capacity could materially adversely affect our business, financial condition or results of operations. Our access to transponders may also be restricted or denied if:

- we or the satellite transponder providers are indicted or otherwise charged as a defendant in a criminal proceeding;
- the Federal Communications Commission issues an order initiating a proceeding to revoke the satellite owner's authorization to operate the satellite;
- the satellite transponder providers are ordered by a court or governmental authority to deny us access to the transponder;
- we are deemed by a governmental authority to have violated any obscenity law; or
- the satellite transponder providers fail to provide the required services.

In addition to the above, the access of Playboy TV, the Spice Digital Networks and our other networks to transponders may be restricted or denied if a governmental authority commences an investigation or makes an adverse finding concerning the content of their transmissions. Technical failures may also affect our satellite transponder providers' ability to deliver transmission services.

We are subject to risks resulting from our operations outside the United States, and we face additional risks and challenges as we continue to expand internationally.

The international scope of our operations may contribute to volatile financial results and difficulties in managing our business. For the year ended December 31, 2007, we derived approximately 33% of our consolidated revenues from countries outside the United States. Our international operations expose us to numerous challenges and risks, including, but not limited to, the following:

- adverse political, regulatory, legislative and economic conditions in various jurisdictions;
- costs of complying with varying governmental regulations;
- fluctuations in currency exchange rates;
- difficulties in developing, acquiring or licensing programming and products that appeal to a variety of audiences and cultures;
- scarcity of attractive licensing and joint venture partners;
- the potential need for opening and managing distribution centers abroad; and
- difficulties in protecting intellectual property rights in foreign countries.

In addition, important elements of our business strategy, including capitalizing on advances in technology, expanding distribution of our products and content and leveraging cross-promotional marketing capabilities, involve a continued commitment to expanding our business internationally. This international expansion will require considerable management and financial resources.

We cannot assure you that one or more of these factors or the demands on our management and financial resources would not harm any current or future international operations and our business as a whole.

Any inability to identify, fund investment in and commercially exploit new technology could have a material adverse impact on our business, financial condition or results of operations.

We are engaged in businesses that have experienced significant technological changes over the past several years and are continuing to undergo technological changes. Our ability to implement our business plan and to achieve the results projected by management will depend on management's ability to anticipate technological advances and implement strategies to take advantage of future technological changes. Any inability to identify, fund investment in and commercially exploit new technology or the commercial failure of any technology that we pursue, such as Internet and wireless, could result in our businesses becoming burdened by obsolete technology and could have a material adverse impact on our business, financial condition or results of operations.

Our online operations are subject to security risks and systems failures.

Online security breaches could materially adversely affect our business, financial condition or results of operations. Any well-publicized compromise of security could deter use of the Internet in general or use of the Internet to conduct transactions that involve transmitting confidential information or downloading sensitive materials in particular. In offering online payment services, we may increasingly rely on technology licensed from third parties to provide the security and authentication necessary to effect secure transmission of confidential information such as customer credit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other developments could compromise or breach the algorithms that we use to protect our customers' transaction data. If third parties are able to penetrate our network security or otherwise misappropriate confidential information, we could be subject to liability, which could result in litigation. In addition, experienced programmers or "hackers" may attempt to misappropriate proprietary information or cause interruptions in our services that could require us to expend significant capital and resources to protect against or remediate these problems. Increased scrutiny by regulatory agencies, such as the Federal Trade Commission and state agencies, of the use of customer information could also result in additional expenses if we are obligated to reengineer systems to comply with new regulations or to defend investigations of our privacy practices.

The uninterrupted performance of our computer systems is critical to the operations of our websites. Our computer systems are located at external third-party sites, and, as such, may be vulnerable to fire, loss of power, telecommunications failures and other similar catastrophes. In addition, we may have to restrict access to our websites to solve problems caused by computer viruses or other system failures. Our customers may become dissatisfied by any disruption or failure of our computer systems that interrupts our ability to provide our content. Repeated system failures could substantially reduce the attractiveness of our websites and/or interfere with commercial transactions, negatively affecting our ability to generate revenues. Our websites must accommodate a high volume of traffic and deliver regularly-updated content. Our sites have, on occasion, experienced slow response times and network failures. These types of occurrences in the future could cause users to perceive our websites as not functioning properly and therefore induce them to frequent websites other than ours. We are also subject to risks from failures in computer systems other than our own because our customers depend on their own Internet service providers for access to our sites. Our revenues could be negatively affected by outages or other difficulties customers experience in accessing our websites due to Internet service providers' system disruptions or similar failures unrelated to our systems. Our insurance policies may not adequately compensate us for any losses that may occur due to any failures in our Internet systems or the systems of our customers' Internet service providers.

Piracy of our television networks, programming and photographs could materially reduce our revenues and adversely affect our business, financial condition or results of operations.

The distribution of our subscription programming by MSOs and DTH operators requires the use of encryption technology to assure that only those who pay can receive programming. It is illegal to create, sell or otherwise distribute mechanisms or devices to circumvent that encryption. Nevertheless, theft of subscription television programming has been widely reported. Theft of our programming reduces future potential revenue. In addition, theft of our competitors' programming can also increase our churn rate. Although MSOs and DTH operators continually review and update their conditional access technology, there can be no assurance that they will be successful in developing or acquiring the technology needed to effectively restrict or eliminate signal theft.

Additionally, the development of emerging technologies, including the Internet and online services, poses the risk of making piracy of our intellectual property more prevalent. Digital formats, such as the ones we use to distribute our programming through MSOs, DTH and the Internet, are easier to copy, download or intercept. As a result, users can download, duplicate and distribute unauthorized copies of copyrighted programming and photographs over the Internet or other media, including DVDs. As long as pirated content is available, consumers could choose to download or purchase pirated intellectual property rather than pay to subscribe to our services or purchase our products.

National consolidation of the single-copy magazine distribution system may adversely affect our ability to obtain favorable terms on the distribution of *Playboy* magazine and special editions and may lead to declines in profitability and circulation.

In the past decade, the single-copy magazine distribution system has undergone dramatic consolidation. According to an economic study released by Magazine Publishers of America in 2001, the number of magazine wholesalers has declined from more than 180 independent distribution owners to just four large wholesalers that handle 80% of the single-copy distribution business. Currently, we rely on a single national distributor, TWRSM, for the distribution of *Playboy* magazine and special editions to newsstands and other retail outlets. As a result of this industry consolidation, we face increasing pressure to lower the prices we charge to wholesalers and increase our sell-through rates. If we are forced to lower the prices we charge wholesalers, we may experience declines in revenue. If we are unable to meet targeted sell-through rates, we may incur greater expenses in the distribution process. The combination of these factors could negatively impact the profitability and newsstand circulation for *Playboy* magazine and special editions.

If we are unable to generate revenues from advertising and sponsorships, or if we were to lose our large advertisers or sponsors, our business would be harmed.

If companies perceive *Playboy* magazine, *Playboy.com* or any of our other free websites to be limited or ineffective advertising mediums, they may be reluctant to advertise in our products or to be our sponsors. Our ability to generate significant advertising and sponsorship revenues depends upon several factors, including, among others, the following:

- our ability to maintain a large, demographically attractive subscriber base for *Playboy* magazine and *Playboy.com* and any of our other free websites;
- our ability to offer attractive advertising rates;
- our ability to attract advertisers and sponsors; and
- our ability to provide effective advertising delivery and measurement systems.

Our advertising revenues are also dependent on the level of spending by advertisers, which is impacted by a number of factors beyond our control, including general economic conditions, changes in consumer purchasing and viewing habits and changes in the retail sales environment. Our existing competitors, as well as potential new competitors, may have significantly greater financial, technical and marketing resources than we do. These companies may be able to undertake more extensive marketing campaigns, adopt aggressive advertising pricing policies and devote substantially more resources to attracting advertising customers.

We rely on third parties to service our *Playboy* magazine subscriptions and to print and distribute the magazine and special editions. We also rely on a third party to operate our e-commerce and catalog businesses. If these third parties fail to perform, our business could be harmed.

We rely on CDS to service *Playboy* magazine subscriptions. The magazine and special editions are printed by Quad at a single site located in Wisconsin, which ships the product to subscribers and wholesalers. We rely on a single national distributor, TWRSM, for the distribution of *Playboy* magazine and special editions to newsstands and other retail outlets. In the second quarter of 2008, we will be outsourcing our e-commerce and catalog businesses to a third party and will rely on this third party to operate these businesses. If CDS, Quad, TWRSM or our e-commerce and catalog businesses operator is unable to or does not perform and we are unable to find alternative services in a timely fashion, our business could be adversely affected.

Increases in paper prices or postal rates could adversely affect our operating performance.

Paper costs are a substantial component of the manufacturing and direct marketing expenses of our publishing business. The market for paper has historically been cyclical, resulting in volatility in paper prices. An increase in paper prices could materially adversely affect our operating performance unless and until we can pass any increases through to the consumer.

The cost of postage also affects the profitability of *Playboy* magazine. An increase in postage rates could materially adversely affect our operating performance unless and until we can pass the increase through to the consumer.

If we experience a significant decline in our circulation rate base, our results could be adversely affected.

According to ABC, *Playboy* magazine was the 15th highest-ranking U.S. consumer publication in terms of circulation rate base for the six months ended December 31, 2007. Our circulation is primarily subscription driven, with subscription copies comprising approximately 92% of total copies sold. If we either experience a significant decline in subscriptions because we lose existing subscribers or do not attract new subscribers, our results could be adversely affected.

We may not be able to compete successfully with direct competitors or with other forms of entertainment.

We derive a significant portion of our revenues from subscriber-based fees, advertising and licensing, for which we compete with various other media, including magazines, newspapers, television, radio, Internet websites and event or event sponsorships that offer customers information and services similar to those that we provide. We also compete with providers of alternative leisure-time activities and media. Competition could result in price reductions, reduced margins or loss of market share, any of which could have a material adverse effect on our business, financial condition or results of operations.

We face competition on both country and regional levels. In addition, each of our businesses competes with companies that deliver content through the same platforms. Many of our competitors, including large entertainment and media enterprises, have greater financial and human resources than we do. We cannot assure you that we can remain competitive with companies that have greater resources or that offer alternative entertainment and information options.

Government regulations could adversely affect our business, financial condition or results of operations.

Our businesses are regulated by governmental authorities in the countries in which we operate. Because of our international operations, we must comply with diverse and evolving regulations. Regulation relates to, among other things, licensing, access to satellite transponders, commercial advertising, subscription rates, foreign investment, Internet gaming, use of confidential customer information and content, including standards of decency/obscenity. Changes in the regulation of our operations or changes in interpretations of existing regulations by courts or regulators or our inability to comply with current or future regulations could adversely affect us by reducing our revenues, increasing our operating expenses and/or exposing us to significant liabilities. While we are not able to reliably predict particular regulatory developments that could affect us adversely, those regulations related to adult content, the Internet, privacy and commercial advertising illustrate some of the potential difficulties we face.

- **Adult content.** Regulation of adult content could prevent us from making our content available in various jurisdictions or otherwise have a material adverse effect on our business, financial condition or results of operations. The governments of some countries, such as China and India, have sought to limit the influence of other cultures by restricting the distribution of products deemed to represent foreign or "immoral" influences. Regulation aimed at limiting minors' access to adult content could also increase our cost of operations and introduce technological challenges, such as by requiring development and implementation of age verification systems.

- **Internet.** Various governmental agencies are considering a number of legislative and regulatory proposals that may lead to laws or regulations concerning various aspects of the Internet, including online content, intellectual property rights, user privacy, taxation, access charges, liability for third-party activities and jurisdiction. Regulation of the Internet could materially adversely affect our business, financial condition or results of operations by reducing the overall use of the Internet, reducing the demand for our services or increasing our cost of doing business.

- **Regulation of commercial advertising.** We receive a significant portion of our advertising revenues from companies selling alcohol and tobacco products. For the year ended December 31, 2007, beer/wine/liquor and tobacco represented 28% and 13%, respectively, of the total advertising pages in *Playboy* magazine. Significant limitations on the ability of those companies to advertise in *Playboy* magazine or on our websites because of either legislative, regulatory or court action could materially adversely affect our business, financial condition or results of operations. In 1996, the Food and Drug Administration announced regulations that prohibited the publication of tobacco advertisements containing drawings, colors or pictures. While those regulations were later held unconstitutional by the Supreme Court of the United States, future attempts may be made by other federal agencies to impose similar or other types of advertising limitations.

Our business involves risks of liability claims for media content, which could adversely affect our business, financial condition or results of operations.

As a distributor of media content, we may face potential liability for:

- defamation;
- invasion of privacy;
- negligence;
- copyright or trademark infringement; and
- other claims based on the nature and content of the materials distributed.

These types of claims have been brought, sometimes successfully, against broadcasters, publishers, online services and other disseminators of media content. We could also be exposed to liability in connection with material available through our websites. Any imposition of liability that is not covered by insurance or is in excess of insurance coverage could have a material adverse effect on us. In addition, measures to reduce our exposure to liability in connection with material available through our websites could require us to take steps that would substantially limit the attractiveness of our websites and/or their availability in various geographic areas, which would negatively affect their ability to generate revenues.

Private advocacy group actions targeted at our content could result in limitations on our ability to distribute our products and programming and negatively impact our brand acceptance.

Our ability to operate successfully depends on our ability to obtain and maintain distribution channels and outlets for our products. From time to time, private advocacy groups have sought to exclude our programming from local pay television distribution because of the adult-oriented content of the programming. In addition, from time to time, private advocacy groups have targeted *Playboy* magazine and its distribution outlets and advertisers, seeking to limit the magazine's availability because of its adult-oriented content. In addition to possibly limiting our ability to distribute our products and programming, negative publicity campaigns, lawsuits and boycotts could negatively affect our brand acceptance and cause additional financial harm by requiring that we incur significant expenditures to defend our business or by discouraging investors from investing in our securities.

In pursuing selective acquisitions, we may incur various costs and liabilities and we may never realize the anticipated benefits of the acquisitions.

If appropriate opportunities become available, we may acquire businesses, products or technologies that we believe are strategically advantageous to our business. Transactions of this sort could involve numerous risks, including:

- unforeseen operating difficulties and expenditures arising from the process of integrating any acquired business, product or technology, including related personnel;
- diversion of a significant amount of management's attention from the ongoing development of our business;
- dilution of existing stockholders' ownership interest in us;
- incurrence of additional debt;
- exposure to additional operational risk and liability, including risks arising from the operating history of any acquired businesses;
- entry into markets and geographic areas where we have limited or no experience;
- loss of key employees of any acquired companies;
- adverse effects on our relationships with suppliers and customers; and
- adverse effects on the existing relationships of any acquired companies, including suppliers and customers.

Furthermore, we may not be successful in identifying appropriate acquisition candidates or consummating acquisitions on terms favorable or acceptable to us or at all.

When we acquire businesses, products or technologies, our due diligence reviews are subject to inherent uncertainties and may not reveal all potential risks. We may therefore fail to discover or inaccurately assess undisclosed or contingent liabilities, including liabilities for which we may have responsibility as a successor to the seller or the target company. As a successor, we may be responsible for any past or continuing violations of law by the seller or the target company, including violations of decency laws. Although we generally attempt to seek contractual protections, such as representations and warranties and indemnities, we cannot be sure that we will obtain such provisions in our acquisitions or that such provisions will fully protect us from all unknown, contingent or other liabilities or costs. Finally, claims against us relating to any acquisition may necessitate our seeking claims against the seller for which the seller may not indemnify us or that may exceed the scope, duration or amount of the seller's indemnification obligations.

Our significant debt could adversely affect our business, financial condition or results of operations.

We have a significant amount of debt. At December 31, 2007, we had total financing obligations of $115.0 million, all of which consisted of our 3.00% convertible senior subordinated notes due 2025. In addition, we have a $50.0 million revolving credit facility. At December 31, 2007, there were no borrowings and $10.6 million in letters of credit outstanding under this facility, permitting $39.4 million of available borrowings under this facility.

The amount of our existing and future debt could adversely affect us in a number of ways, including the following:

- we may be unable to obtain additional financing for working capital, capital expenditures, acquisitions and general corporate purposes;
- debt-service requirements could reduce the amount of cash we have available for other purposes;
- we could be disadvantaged as compared to our competitors, such as in our ability to adjust to changing market conditions; and
- we may be restricted in our ability to make strategic acquisitions and to exploit business opportunities.

Our ability to make payments of principal and interest on our debt depends upon our future performance, general economic conditions and financial, business and other factors affecting our operations, many of which are beyond our control. If we are not able to generate sufficient cash flow from operations in the future to service our debt, we may be required, among other things:

- to seek additional financing in the debt or equity markets;
- to refinance or restructure all or a portion of our debt; and/or
- to sell assets.

These measures might not be sufficient to enable us to service our debt. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms.

The terms of our existing credit facility impose restrictions on us that may affect our ability to successfully operate our business.

Our existing credit facility contains covenants that limit our actions. These covenants could materially and adversely affect our ability to finance our future operations or capital needs or to engage in other business activities that may be in our best interests. The covenants limit our ability to, among other things:

- incur or guarantee additional indebtedness;
- repurchase capital stock;
- make loans and investments;
- enter into agreements restricting our subsidiaries' abilities 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 credit facility also contains financial covenants requiring us to maintain specified minimum net worth and interest coverage ratios.

Our ability to comply with these covenants and requirements may be affected by events beyond our control, such as prevailing economic conditions and changes in regulations, and if such events occur, we cannot be sure that we will be able to comply.

We depend on our key personnel.

We believe that our ability to successfully implement our business strategy and to operate profitably depends on the continued employment of some of our senior management team. If these members of the management team become unable or unwilling to continue in their present positions, our business, financial condition or results of operations could be materially adversely affected.

Ownership of Playboy Enterprises, Inc. is concentrated.

As of December 31, 2007, Mr. Hefner beneficially owned 69.53% of our Class A common stock. As a result, given that our Class B stock is nonvoting, Mr. Hefner possesses influence on matters including the election of directors as well as transactions involving a potential change of control. Mr. Hefner may support, and cause us to pursue, strategies and directions with which holders of our securities disagree. The concentration of our share ownership may delay or prevent a change in control, impede a merger, consolidation, takeover or other transaction involving us or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Location	Primary Use
Office Space Leased:	
Chicago, Illinois	This space serves as our corporate headquarters and is used by all of our operating groups and executive and administrative personnel.
Los Angeles, California	This space serves as our Entertainment Group's headquarters and is utilized by executive and administrative personnel.
New York, New York	This space serves as our Publishing and Licensing Groups' headquarters, and the Entertainment Group and executive and administrative personnel use a limited amount of space.
London, England	This space is used by our Playboy TV U.K. executive and administrative personnel and as a programming facility.
Operations Facilities Leased:	
Los Angeles, California	This space is used by our Entertainment Group and third parties as a centralized digital, technical and programming facility. In connection with the potential sale of assets related to this production facility, we expect to enter into an agreement to sublet the entirety of this facility to the buyer of the assets. See Note (T), Subsequent Events, to the Notes to Consolidated Financial Statements.
Santa Monica, California	This space is used by our Publishing Group as a photography studio and offices.
Property Owned:	
Los Angeles, California	The Playboy Mansion is used for various corporate activities and serves as a valuable location for television production, magazine photography and for online, advertising and sales events. It also enhances our image as host for many charitable and civic functions.

Item 3. 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, 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 vigorously pursued an appeal with the State Appellate Court sitting in Corpus Christi challenging the verdict. 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, in connection with the appeal. On May 25, 2006, the State Appellate Court reversed the judgment by the trial court, rendered judgment for us on the majority of the plaintiffs' claims and remanded the remaining claims for a new trial. On July 14, 2006, the plaintiffs filed a motion for rehearing and en banc reconsideration, which we opposed. On October 12, 2006, the State Appellate Court denied plaintiffs' motion. On December 27, 2006, we filed a petition for review with the Texas Supreme Court. On January 25, 2008, the Texas Supreme Court denied our petition for review. On February 8, 2008, we filed a petition for rehearing with the Texas Supreme Court. We, on advice of legal counsel, believe that it is not probable that a material judgment against us will be obtained. In accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*, or Statement 5, 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 2003. We paid $1.0 million, $1.0 million and $6.5 million in 2006, 2005 and 2004, respectively. In 2004, we received a $5.6 million insurance recovery partially related to the prior year litigation settlement with Logix.

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 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. As of November 30, 2006, the appeal was fully briefed. 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. 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, 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 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 through 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 were engaged in discovery. In January 2007, the parties agreed in principle to a settlement and release of the claims between them. Under the settlement, which was subject to the approval of the Bankruptcy Court, we agreed to provide a payment in the amount of $1.8 million, which we recorded as a charge in 2006. The settlement was paid in the third quarter of 2007. The settlement is a compromise of disputed claims and is not an admission of liability. We believe 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.

Item 4. Submission of Matters to a Vote of Security Holders

None.

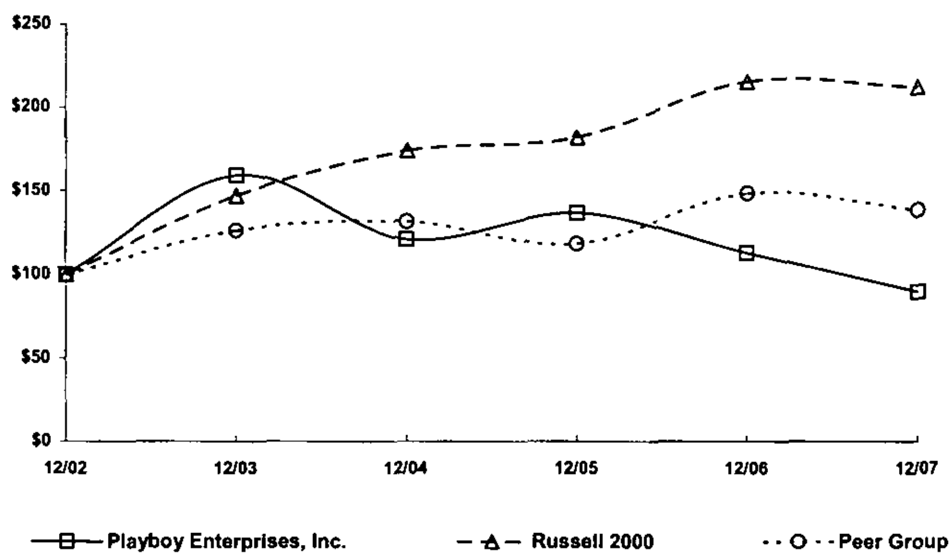
PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock price information, as reported in the New York Stock Exchange Composite Listing, is set forth in Note (S), Quarterly Results of Operations (Unaudited), to the Notes to Consolidated Financial Statements. Our securities are traded on the exchange listed on the cover page of this Annual Report on Form 10-K under the ticker symbols PLA A (Class A voting) and PLA (Class B nonvoting). At February 29, 2008, there were 3,305 and 9,492 holders of record of Class A common stock and Class B common stock, or Class B stock, respectively. There were no cash dividends declared during 2007, 2006 or 2005. Information regarding the high and low sales prices for our common stock for each full quarterly period within the two most recent completed fiscal years is set forth in Note (S), Quarterly Results of Operations (Unaudited), to the Notes to Consolidated Financial Statements.

As previously reported in our Current Report on Form 8-K, dated March 9, 2005 and filed March 15, 2005, and our Current Report on Form 8-K, dated March 28, 2005 and filed April 1, 2005 and as more fully described in Note (L), Financing Obligations, to the Notes to Consolidated Financial Statements, in March 2005, we issued and sold in a private placement $115.0 million aggregate principal amount of our 3.00% convertible senior subordinated notes due 2025.

The following graph sets forth the five-year cumulative total stockholder return on our Class B stock with the cumulative total stockholder return of the Russell 2000 Stock Index and with our peer group for the period from December 31, 2002, through December 31, 2007. The graph reflects $100 invested on December 31, 2002, in stock or index, including reinvestment of dividends. Our peer group is comprised of Time Warner Inc., Meredith Corporation, MGM Mirage, Playboy Enterprises, Inc., Primedia, Inc., The Walt Disney Company, World Wrestling Entertainment, Inc. and Viacom Inc.



Other information required under this Item is contained in our Notice of Annual Meeting of Stockholders and Proxy Statement (to be filed) relating to the Annual Meeting of Stockholders to be held in May 2008, which will be filed within 120 days after the close of our fiscal year ended December 31, 2007, and is incorporated herein by reference.

Item 6. Selected Financial Data
(in thousands, except per share amounts
and number of employees)

	Fiscal Year Ended 12/31/07	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05	Fiscal Year Ended 12/31/04	Fiscal Year Ended 12/31/03
Selected financial data [1]					
Net revenues	$ 339,840	$ 331,142	$ 338,153	$ 329,376	$ 315,844
Interest expense, net	(2,363)	(3,164)	(4,769)	(13,108)	(15,946)
Net income (loss)	4,925	2,285	(735)	9,989	(7,557)
Net income (loss) applicable to common shareholders	4,925	2,285	(735)	9,561	(8,450)
Basic and diluted earnings (loss) per common share	0.15	0.07	(0.02)	0.30	(0.31)
EBITDA: [2]					
Net income (loss)	4,925	2,285	(735)	9,989	(7,557)
Adjusted for:					
Interest expense	4,874	5,611	6,986	13,687	16,309
Income tax expense	1,928	2,496	3,998	3,845	4,967
Depreciation and amortization	41,198	42,218	42,540	47,100	49,558
Amortization of deferred financing fees	490	535	635	1,266	1,407
Stock options and restricted stock awards	1,633	1,859	601	682	45
Equity (income) loss in operations of investments	(129)	94	383	71	80
EBITDA	$ 54,919	$ 55,098	$ 54,408	$ 76,640	$ 64,809
At period end					
Cash and cash equivalents and marketable securities and short-term investments	$ 33,555	$ 35,748	$ 52,052	$ 50,720	$ 34,878
Total assets	445,156	435,783	428,969	416,330	413,809
Long-term financing obligations	115,000	115,000	115,000	80,000	115,000
Redeemable preferred stock	-	-	-	-	16,959
Total shareholders' equity	$ 171,317	$ 163,628	$ 157,247	$ 162,158	$ 100,344
Long-term financing obligations as a percentage of total capitalization	40%	41%	42%	33%	53%
Number of common shares outstanding					
Class A voting	4,864	4,864	4,864	4,864	4,864
Class B nonvoting	28,402	28,362	28,261	28,521	22,579
Number of full-time employees	801	789	709	645	592
Selected operating data					
Cash investments in Company-produced and licensed entertainment programming	$ 34,619	$ 38,475	$ 33,075	$ 41,457	$ 44,727
Cash investments in online content	5,620	5,031	2,242	2,317	2,436
Total cash investments in programming and content	40,239	43,506	35,317	43,774	47,163
Amortization of investments in Company-produced and licensed entertainment programming	33,935	36,564	37,450	41,695	40,603
Online content expense	5,620	5,241	2,626	2,317	2,436
Total amortization of programming and content	$ 39,555	$ 41,805	$ 40,076	$ 44,012	$ 43,039

For a more detailed description of our financial position, results of operations and accounting policies, please refer to Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II. Item 8. "Financial Statements and Supplementary Data."

(1) 2007 included $0.5 million of restructuring expense and a $1.5 million charge on assets held for sale related to the potential sale of our Los Angeles production facility. 2006 included $2.0 million of restructuring expense. 2005 included $19.3 million of debt extinguishment expense related to the redemption of $80.0 million of 11.00% senior secured notes, or senior secured notes, issued by our subsidiary PEI Holdings, Inc. 2004 included $5.9 million of debt extinguishment expense related to the redemption of $35.0 million of the senior secured notes and a $5.6 million insurance recovery partially related to a litigation settlement recorded in the prior year. 2003 included an $8.5 million charge related to the litigation settlement and $3.3 million of debt extinguishment expense related to prior financing obligations, which were paid upon completion of our debt offering.

(2) EBITDA represents earnings from continuing operations before interest expense, income tax expense, depreciation of property and equipment, amortization of intangible assets, amortization of investments in entertainment programming, amortization of deferred financing fees, stock-based compensation related to stock options and restricted stock awards and equity income or loss in operations of investments. We evaluate our operating results based on several factors, including EBITDA. We consider EBITDA an important indicator of the operational strength and performance of our ongoing businesses, including our ability to provide cash flows to pay interest, service debt and fund capital expenditures. EBITDA eliminates the uneven effect across business segments of noncash depreciation of property and equipment and amortization of intangible assets. Because depreciation and amortization are noncash charges, they do not affect our ability to service debt or make capital expenditures. EBITDA also eliminates the impact of how we fund our businesses and the effect of changes in interest rates, which we believe relate to general trends in global capital markets but are not necessarily indicative of our operating performance. Finally, EBITDA is used to determine compliance with some of the terms of our credit facility. EBITDA should not be considered an alternative to any measure of performance or liquidity under generally accepted accounting principles in the United States. Similarly, EBITDA should not be inferred as more meaningful than any of those measures.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Since our inception in 1953 as the publisher of *Playboy* magazine, we have evolved into a brand-driven, international multimedia entertainment and lifestyle company. Today, our businesses are organized into three reportable segments: Entertainment, Publishing and Licensing.

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our results of operations and financial condition. The discussion should be read in conjunction with the financial statements and the accompanying notes.

REVENUES

Entertainment Group revenues are principally from domestic and international TV and online/mobile. Television revenues are affected by factors including shelf space, retail price and marketing, which are controlled by our distribution partners, by revenue splits negotiated with distribution partners and by demand for our programming. Domestic TV revenues are generated primarily from our Playboy TV- and Spice-branded networks. Internationally, we own and operate or license Playboy-, Spice- and locally-branded television networks or blocks of programming. We have minority equity interests in additional international networks through joint ventures. We currently generate most of our online/mobile revenues from the sale of our premium content. These subscription revenues are derived from multiple online clubs, which offer unique content under various brands, including Playboy and Spice. E-commerce revenues include the sale of our branded and third-party consumer products, both online and through direct mail. We also generate revenues from online advertising sales in conjunction with our magazine advertising sales efforts. Internationally, we receive licensing fees from Playboy- and other-branded websites and from content delivered via wireless devices to providers outside of the U.S. Entertainment Group revenues are also generated from the sale of DVDs, from co-productions aired on third-party networks and from license fees for *Playboy Radio* on SIRIUS Satellite Radio.

Publishing Group revenues are primarily circulation driven for our domestic magazine and special editions and include both subscription and newsstand sales. Additionally, the group generates revenues from advertising sales in *Playboy* magazine as well as from royalties on circulation and advertising sales from our 24 licensed international editions.

Licensing Group revenues are generated primarily from royalties on the wholesale price of our branded products around the world as well as from multifaceted location-based entertainment venues. We also generate revenues from periodic auction or opportunistic sales of small portions of our art and memorabilia collection and from marketing events such as the annual Playboy Jazz Festival.

COSTS AND OPERATING EXPENSES

Entertainment Group expenses include television programming amortization, online content, network distribution, hosting, sales and marketing and administrative expenses. Programming amortization and content expenses are expenditures associated with the creation of Playboy programming, the licensing of third-party programming for our adult movie business and the creation of content for our websites and wireless and satellite radio providers.

Publishing Group expenses include manufacturing, subscription acquisition, newsstand promotion, editorial, shipping and administrative expenses. Manufacturing of the magazine represents the largest cost for the group.

Licensing Group expenses include agency fees, promotion, development and administrative expenses.

Corporate Administration and Promotion expenses include general corporate costs such as technology, legal, security, human resources, finance and investor relations and communications, as well as expenses related to company-wide marketing, promotions and the Playboy Mansion.

RESULTS OF OPERATIONS [1]

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

	Fiscal Year Ended 12/31/07	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05
Net revenues			
Entertainment			
Domestic TV	$ 75.8	$ 82.5	$ 98.6
International TV	55.9	49.5	46.9
Online/mobile	63.3	61.7	53.9
Other	8.0	7.3	4.6
Total Entertainment	203.0	201.0	204.0
Publishing			
Domestic magazine	77.0	80.7	89.4
International magazine	7.4	6.6	6.6
Special editions and other	9.4	9.8	10.5
Total Publishing	93.8	97.1	106.5
Licensing			
Consumer products	34.0	28.2	24.2
Location-based entertainment	3.8	1.2	0.1
Marketing events	3.2	3.0	3.0
Other	2.0	0.6	0.4
Total Licensing	43.0	33.0	27.7
Total net revenues	$ 339.8	$ 331.1	$ 338.2
Net income (loss)			
Entertainment			
Before programming amortization and online content expenses	$ 60.9	$ 65.1	$ 81.2
Programming amortization and online content expenses	(39.6)	(41.8)	(40.1)
Total Entertainment	21.3	23.3	41.1
Publishing	(7.6)	(5.4)	(6.5)
Licensing	26.4	18.9	16.0
Corporate Administration and Promotion	(28.1)	(25.7)	(19.6)
Segment income	12.0	11.1	31.0
Restructuring expense	(0.5)	(2.0)	(0.1)
Impairment charge on assets held for sale	(1.5)	-	-
Operating income	10.0	9.1	30.9
Nonoperating income (expense)			
Investment income	2.5	2.4	2.2
Interest expense	(4.9)	(5.6)	(7.0)
Amortization of deferred financing fees	(0.5)	(0.5)	(0.6)
Minority interest expense	-	-	(1.6)
Debt extinguishment expense	-	-	(19.3)
Other, net	(0.3)	(0.6)	(1.3)
Total nonoperating expense	(3.2)	(4.3)	(27.6)
Income before income taxes	6.8	4.8	3.3
Income tax expense	(1.9)	(2.5)	(4.0)
Net income (loss)	$ 4.9	$ 2.3	$ (0.7)
Basic and diluted earnings (loss) per common share	$ 0.15	$ 0.07	$ (0.02)

[1] Certain amounts reported for prior periods have been reclassified to conform to the current year's presentation.

2007 COMPARED TO 2006

Revenues increased $8.7 million, or 3%, compared to 2006 due to continued revenue growth in our Licensing Group, partially offset by lower revenues from our Publishing Group. Entertainment Group revenues were flat compared to the prior year.

Segment income increased $0.9 million, or 8%, compared to 2006 due to increased profits from our Licensing Group, largely offset by lower results from our Publishing and Entertainment Groups and higher Corporate Administration and Promotion expenses.

Operating income of $10.0 million improved $0.9 million, or 10%, compared to 2006 as a result of the segment results previously discussed. The current year included a $1.5 million charge in connection with the potential sale of assets related to our Los Angeles production facility and a $0.5 million restructuring charge, compared to a $2.0 million restructuring charge in 2006.

Net income of $4.9 million improved $2.6 million, or 116%, compared to 2006 primarily as a result of the improved operating results previously discussed, combined with decreases of $0.7 million and $0.6 million in interest and income tax expenses, respectively.

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 $6.7 million, or 8%, and profit contribution decreased $4.2 million in 2007. The decrease in revenues was primarily due to pressure on splits with operators and a reduction in the total number of households with access to our linear networks. The profit contribution decrease was primarily due to the lower revenues, partially offset by lower marketing expense and the impact of a $1.8 million legal settlement in 2006. We are currently negotiating the sale of the assets related to our Los Angeles production facility. See Note (T), Subsequent Events, to the Notes to Consolidated Financial Statements for additional information.

International TV revenues increased $6.4 million, or 13%, and profit contribution increased $4.0 million in 2007 primarily due to growth in our U.K. and other European networks. Foreign currency exchange rate fluctuations increased both revenues and expenses, which resulted in an overall small favorable impact on profit contribution.

Online/mobile revenues increased $1.6 million, or 3%, and profit contribution was flat in 2007. Online subscription revenues were flat for the year, while profit contribution increased slightly. E-commerce revenues and profit contribution increased from the launch in the fourth quarter of 2006 of the BUNNYshop, a women's fashion e-commerce and catalog business, combined with improved sales from our Playboy e-commerce and catalog business. In early 2008, we entered into an agreement to outsource these e-commerce and catalog businesses. Licensing our Spice e-commerce and catalog business in the third quarter of 2006 also favorably impacted 2007 profit contribution. Advertising revenues grew 49% due to the redesign of *Playboy.com*, largely offset by increased related costs. Mobile results decreased primarily due to lower royalties from a licensee in Europe.

Revenues from other businesses increased $0.7 million, or 9%, in 2007 primarily due to recording license fees for our production company, Alta Loma Entertainment. A $0.7 million decrease in profit contribution was impacted by Club Jenna, Inc. and related companies, or Club Jenna, which we acquired in the second quarter of 2006, and a legal settlement recorded in 2007.

The group's administrative expenses increased $3.2 million, or 17%, in 2007 primarily in support of the acquired businesses coupled with higher performance-based compensation expense.

Programming amortization and online content expenses decreased $2.2 million, or 5%, in 2007.

Segment income for the group decreased $2.0 million, or 9%, in 2007 compared to 2006 due to the results previously discussed.

Publishing Group

Domestic magazine revenues decreased $3.7 million, or 5%, in 2007. Subscription revenues decreased $3.5 million, or 8%, primarily due to 7% fewer copies served in 2007. Newsstand revenues decreased $1.0 million, or 10%, primarily due to 10% fewer copies sold in 2007. Print advertising revenues increased $0.8 million, or 3%, primarily due to a 6% increase in advertising pages, partially offset by a 3% decrease in average net revenue per page. To better reflect changes in how and where media is consumed and in response to the challenging magazine landscape, we adjusted our magazine circulation rate base (the total newsstand and subscription circulation guaranteed to advertisers) effective with the January 2008 issue to 2.6 million from 3.0 million. Advertising sales for the 2008 first quarter magazine issues are closed, and we expect to report approximately 30% lower advertising revenues due in part to the effect of the lower rate base and a 14% decrease in advertising pages compared to the 2007 first quarter.

We believe that the complementary nature of our print and online businesses will allow us to grow our overall audience for Playboy content and effectively aggregate that audience for our advertising partners. On a combined basis, our Playboy print and online advertising revenues increased $2.8 million, or 10%, for the year, reflecting growth in online advertising, driven by the redesign of *Playboy.com,* which has attracted new advertisers.

International magazine revenues increased $0.8 million, or 12%, in 2007 due in part to higher royalties as a result of strong performance from our Brazilian and Russian editions.

Special editions and other revenues decreased $0.4 million, or 4%, in 2007. Special editions revenues decreased $0.7 million primarily due to 16% fewer newsstand copies sold, partially offset by the impact of a $1.00 cover price increase effective with the July 2007 issues.

The group's segment loss increased $2.2 million, or 41%, in 2007 primarily due to the decrease in revenues discussed above combined with higher expenses related to celebrity pictorials, partially offset by lower manufacturing costs due to printing fewer copies and fewer editorial pages per issue. The segment loss included additional expense for subscription collection costs and actual allocated post-employment benefit costs related to senior editorial employees. Excluding these additional subscription collection and post-employment benefit costs, segment results would have been comparable with those of 2006.

Licensing Group

Licensing Group revenues increased $10.0 million, or 30%, in 2007 primarily due to higher consumer products revenues, principally from Western Europe and Southeast Asia, and a full year of royalties from our location-based entertainment venue at the Palms Casino Resort in Las Vegas, which opened in the fourth quarter of 2006. The year also reflected an increase of $1.4 million related to opportunistic sales of original artwork.

The group's segment income increased $7.5 million, or 40%, in 2007 primarily due to the increased revenues previously discussed, partially offset by higher growth-related costs and performance-based compensation expense.

Corporate Administration and Promotion

Corporate Administration and Promotion expenses increased $2.4 million, or 9%, in 2007 in part due to additional expense related to certain trademark costs that we began expensing in the fourth quarter of 2006 and higher performance-based compensation expense. The previously mentioned allocation of actual post-employment benefit costs to the Publishing Group partially offset the unfavorable variance.

Restructuring Expense

In 2007, we implemented a plan to outsource our remaining e-commerce and catalog businesses, to sell our Los Angeles production facility and to eliminate office space obtained as part of the Club Jenna acquisition. As a result of this restructuring plan, we recorded a charge of $0.4 million related to costs associated with a workforce reduction of 28 employees. Additional expense related to this plan will be recorded in 2008. During 2007, we made cash payments of $0.6 million related to prior years' restructuring plans. Approximately $12.5 million of the total costs of our restructuring plans was paid through December 31, 2007, with the remaining $0.5 million to be paid during 2008.

In 2006, we recorded a charge of $2.1 million related to reducing overhead costs and annual programming and editorial expenses.

Impairment Charge on Assets Held for Sale

We recorded a $1.5 million charge in connection with the potential sale of assets related to our Los Angeles production facility. See Note (T), Subsequent Events, to the Notes to Consolidated Financial Statements for additional information.

Nonoperating Income (Expense)

Nonoperating expense was $1.1 million, or 26%, lower in 2007 primarily due to a $0.7 million decrease in interest expense primarily due to payments made on acquisition liabilities and a $0.2 million increase in equity income from Playboy TV–Latin America, LLC.

Income Tax Expense

In 2007, we recognized a tax benefit associated with the decrease of $2.4 million in the valuation allowance related to the realization of our U.K. net operating losses, or NOLs, and the effect of the deferred tax treatment of certain acquired intangibles. In 2007, our effective tax rate differed from the U.S. statutory rate primarily as a result of the NOL carryforwards and the effect of the deferred tax treatment of certain indefinite-lived intangibles.

In 2006, we modified the assumptions related to the useful lives of certain distribution agreements that previously were classified as indefinite-lived. As these distribution agreements are now being amortized, the deferred tax liability related to the distribution agreements that is expected to be realized within the NOL carryforward period may be netted against our deferred tax asset. In 2006, we recorded an income tax benefit for $2.6 million of the $3.9 million deferred tax liability related to the distribution agreement modification. In 2007, we recognized an additional income tax benefit of $0.5 million related to the distribution agreements. In 2006, our effective income tax rate differed from the U.S. statutory rate primarily as a result of foreign income and withholding taxes, for which no current U.S. income tax benefit is recognized, and the effect of the deferred tax treatment of certain indefinite-lived intangibles.

2006 Compared to 2005

Our revenues decreased $7.1 million, or 2%, compared to 2005 due to a continued decrease in revenues from our Publishing Group combined with lower revenues from our Entertainment Group, partially offset by higher revenues from our Licensing Group.

Segment income decreased $19.9 million, or 64%, compared to 2005 due to significantly lower results from our Entertainment Group combined with higher Corporate Administration and Promotion expenses, partially offset by improved results from our Licensing and Publishing Groups.

Operating income of $9.1 million for 2006 included $2.0 million of restructuring expense primarily related to a cost reduction plan implemented during 2006.

Net income of $2.3 million improved $3.0 million over 2005 as the lower operating results previously discussed were more than offset by debt extinguishment and minority interest expenses of $19.3 million and $1.6 million, respectively, in 2005 and decreases of $1.5 million and $1.4 million in income tax and interest expenses, respectively, in 2006.

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 $16.1 million, or 16%, in 2006.

Playboy TV network revenues decreased $6.0 million in 2006 with cable revenues decreasing $3.0 million and direct-to-home, or DTH, revenues decreasing $1.2 million. These decreases were largely due to the continued impact of a consumer shift from pay-per-view, or PPV, to video-on-demand, or VOD, purchasing.

Movie business revenues decreased $12.2 million in 2006 primarily due to the decline of PPV as a result of less overall carriage of adult linear networks and less shelf space in VOD compared to linear PPV. The loss of two channels to a competitor on the largest satellite TV provider also contributed to the lower movie revenues.

2005 was favorably impacted by the discontinuation of a distributor's high-definition subscription service agreement, which resulted in the accelerated recognition of $1.4 million of deferred revenues associated with the agreement.

Revenues from VOD increased $0.9 million in 2006.

Revenues associated with our Los Angeles production facility increased $1.2 million in 2006 primarily due to the addition of new third-party networks.

Profit contribution from our domestic TV networks decreased $22.4 million as a result of the lower revenues previously discussed combined with a $1.8 million legal settlement in the fourth quarter of 2006 and increased expenses primarily related to marketing and staffing. See Part I. Item 3. "Legal Proceedings" for additional information.

International TV revenues increased $2.6 million, or 6%, in 2006 primarily due to increased DTH and cable revenues from our U.K. television business combined with favorable foreign currency exchange rates, partially offset by lower revenues from several third-party licensees. International TV profit contribution decreased $0.7 million in 2006 as a result of higher international distribution and staffing expenses.

Online/mobile revenues increased $7.8 million, or 14%, and profit contribution increased $0.9 million in 2006. Online subscriptions and e-commerce revenues increased $5.2 million, or 11%, in 2006. Positive results from our acquisitions of an affiliate network of websites late in 2005 and Club Jenna in 2006 were partially offset by the impacts of a termination payment received in 2005 related to the discontinuation of a marketing alliance and the outsourcing of our Spice e-commerce and catalog business in 2006. Online subscriptions and e-commerce profit contribution decreased $0.2 million, or 1%, as the revenue increases previously discussed were more than offset by costs associated with the acquired businesses and higher marketing expenses. Advertising revenues increased $1.7 million in 2006 and profit contribution increased $0.5 million due to advertising revenues from the acquired businesses. Mobile revenues increased $0.9 million and profit contribution increased $0.6 million due to higher royalties combined with revenues from our acquisition of Club Jenna in 2006.

Revenues from other businesses increased $2.7 million, or 58%, in 2006, driven by worldwide DVD sales and revenues resulting from the 2006 launch of *Playboy Radio* on SIRIUS Satellite Radio. Profit contribution increased $1.0 million, or 66%, in 2006 due to the revenue increases previously discussed, partially offset by higher costs largely related to the acquired businesses.

The group's administrative expenses decreased $5.0 million, or 20%, in 2006 due to the elimination of our intra-company agreements related to trademark, content and administrative fees that had been paid by Playboy.com, Inc., or Playboy.com, to us as a result of our October 2005 repurchase of the remaining minority interest of Playboy.com, partially offset by higher staffing-related expenses, in large part associated with the acquired businesses.

Programming amortization and online content expenses increased $1.7 million, or 4%, in 2006, primarily due to new programming costs to support our acquired businesses and *Playboy Radio*, partially offset by a change in the mix of television programming.

Segment income for the group decreased $17.8 million, or 43%, in 2006 compared to 2005 due to the previously discussed operating results.

Publishing Group

Domestic magazine revenues decreased $8.7 million, or 10%, in 2006. Advertising revenues decreased $4.0 million due to 10% fewer advertising pages coupled with a 4% decrease in average net revenue per page. Subscription revenues also decreased $4.0 million primarily due to lower average revenue per copy combined with fewer copies served. Newsstand revenues decreased $0.7 million primarily due to 15% fewer copies sold in 2006. This decrease was partially mitigated by the impact of a $1.00 cover price increase effective with the February 2006 issue.

Revenues from special editions and other decreased $0.7 million, or 7%, in 2006. Special editions revenues decreased $0.5 million primarily due to 15% fewer newsstand copies sold in 2006, partially offset by the impact of a $1.00 cover price increase effective with the November 2005 issues and by a favorable variance related to prior issues.

International magazine revenues were flat for 2006.

The group's segment loss improved $1.1 million, or 17%, as lower subscription acquisition amortization, editorial content, manufacturing, advertising sales, marketing and administration expenses were partially offset by the lower revenues previously discussed and by higher operating expenses related to international publishing in 2006.

Licensing Group

Licensing Group revenues increased $5.3 million, or 19%, in 2006 primarily due to higher international royalties, principally from Europe, and royalties from our location-based entertainment venue at the Palms Casino Resort in Las Vegas, which opened in the fourth quarter of 2006. The group's segment income increased $2.9 million, or 19%, due to the increased revenues previously discussed, partially offset by higher growth-related costs.

Corporate Administration and Promotion

Corporate Administration and Promotion expenses increased $6.1 million, or 31%, in 2006 primarily due to the elimination of our intra-company agreements related to trademark, content and administrative fees as a result of the Playboy.com minority interest repurchase previously discussed and higher promotional spending.

Restructuring Expense

In 2006, we implemented a cost reduction plan to lower overhead costs and annual programming and editorial expenses. As a result of the 2006 restructuring plan, we reported a charge of $2.1 million related to costs associated with a workforce reduction of 15 employees.

Nonoperating Income (Expense)

Nonoperating expense decreased $23.3 million, or 84%, in 2006. 2005 included $19.3 million of debt extinguishment expense related to a debt refinancing and $1.6 million of minority interest expense related to the previously discussed repurchase of the remaining minority interest in Playboy.com. 2006 reflected a decrease in interest expense of $1.4 million, which was also a result of our 2005 debt refinancing.

Income Tax Expense

Our effective income tax rate differed from the U.S. statutory rate primarily as a result of foreign income and withholding taxes, for which no current U.S. income tax benefit was recognized, and the deferred tax treatment of certain indefinite-lived intangibles.

In 2006, we modified the assumptions related to the useful lives of certain distribution agreements that previously were classified as indefinite-lived. As these distribution agreements are now being amortized, the deferred tax liability related to the distribution agreements that is expected to be realized within the NOL carryforward period may be netted against our deferred tax asset. In 2006, we recorded an income tax benefit for $2.6 million of the $3.9 million deferred tax liability related to the distribution agreement modification. In 2005, our effective income tax rate differed from the U.S. statutory rate primarily as a result of the reduction in the valuation allowance corresponding to the utilization of our NOL carryforwards. The benefit of our NOL carryforwards was partially offset by foreign income and withholding tax, for which no current U.S. income tax benefit is recognized, and the deferred tax treatment of certain indefinite-lived intangibles.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2007, we had \$20.6 million in cash and cash equivalents compared to \$26.7 million in cash and cash equivalents at December 31, 2006. We also had \$6.0 million and \$3.0 million of auction rate securities, or ARS, included in marketable securities and short-term investments at December 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 December 31, 2007 and December 31, 2006.

At December 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 December 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.

We believe that cash on hand and operating cash flows, together with funds available under our credit facility and potential access to credit and capital markets, will be sufficient to meet our operating expenses, capital expenditures and other contractual obligations as they become due.

DEBT FINANCING

In March 2005, we issued and sold \$115.0 million aggregate principal amount of our 3.00% convertible senior subordinated notes due 2025, or convertible notes, which included \$15.0 million due to the initial purchasers' exercise of the over-allotment option. The convertible notes bear interest at a rate of 3.00% per annum on the principal amount of the notes, payable in arrears on March 15 and September 15 of each year, payment of which began 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% per annum.

The convertible notes are convertible into cash and, if applicable, shares of our Class B common stock, or 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: (a) 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; (b) 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; (c) upon the occurrence of specified corporate transactions, as set forth in the indenture governing the convertible notes; or (d) 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 maximum conversion rate, subject to adjustment, is 76.3942 shares per \$1,000 principal amount of convertible notes.

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 convertible 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 Playboy Enterprises, Inc. and rank junior to all of the issuer's senior debt, including its guarantee of our subsidiary PEI Holdings, Inc., or 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

We amended our $50.0 million credit facility effective September 28, 2007. The agreement now provides for revolving borrowings, the issuance of letters of credit or a combination of both of up to $50.0 million outstanding at any time. The borrowing rates and financial covenants contained in the amendment did not change materially, but we obtained additional flexibility in other restrictive covenants. Borrowings under the credit facility bear interest at a variable rate, equal to a specified LIBOR or base rate plus a specified borrowing margin based on our Adjusted EBITDA, as defined in the credit agreement. We pay fees on the outstanding amount of letters of credit based on the margin that applies to borrowings that bear interest at a rate based on LIBOR. All amounts outstanding under the credit facility will mature on September 28, 2010. The obligations of Holdings as borrower under the credit facility are guaranteed by us and each of our other U.S. subsidiaries. The obligations of the borrower and nearly all 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

In 2007, we made cash payments totaling $8.0 million in accordance with The Califa Entertainment Group, Inc., or Califa, acquisition agreement. At December 31, 2007, our remaining acquisition payment obligations, which include interest, to Califa were $3.8 million, which are payable in cash in quarterly installments ending in 2011. We have the option of accelerating these remaining acquisition payments. See the Contractual Obligations table for the future cash obligations related to our acquisitions. See Note (B), Acquisition, to the Notes to Consolidated Financial Statements for additional information relating to the Califa acquisition.

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities increased $15.2 million to $24.2 million in 2007 compared to 2006 primarily due to the operating and nonoperating results previously discussed combined with increases in accounts payable and accrued salaries, wages and employee benefits from 2006.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash used for investing activities was $19.0 million for 2007 compared to net cash provided by investing activities of $2.1 million in 2006. 2007 reflected $10.5 million of net purchases of marketable securities and investments and $8.5 million of capital expenditures, which primarily related to leasehold improvements at our New York office and Los Angeles production facility and technology-related items. 2006 reflected net proceeds of $17.4 million from the sale of marketable securities and short-term investments, payments for acquisitions of $7.8 million primarily related to the acquisition of Club Jenna and capital expenditures of $7.5 million primarily related to technology-related items.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used for financing activities of $11.7 million for 2007 and $11.1 million for 2006 were primarily due to payments in connection with acquisition liabilities.

EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

The positive effects of foreign currency exchange rates on cash and cash equivalents during 2007 and 2006 of $0.3 million and $0.7 million, respectively, were due to the weakening of the U.S. dollar against foreign currencies, primarily the pound sterling.

CONTRACTUAL OBLIGATIONS

The following table sets forth a summary of our contractual obligations and commercial commitments at December 31, 2007, as further discussed in the Notes to Consolidated Financial Statements (in thousands):

	2008	2009	2010	2011	2012	Thereafter	Total
Long-term financing obligations [1]	$ 3,450	$ 3,450	$ 3,450	$ 3,450	$ 3,450	$ 158,125	$ 175,375
Operating leases	12,387	9,131	9,222	9,354	9,238	58,502	107,834
Purchasing obligations:							
Licensed programming commitments [2]	5,887	4,510	5,000	3,333	-	-	18,730
Other [3]:							
Acquisition liabilities [1], [4]	2,700	3,300	5,300	750	-	-	12,050
Transponder service agreements	$ 7,214	$ 5,408	$ 3,480	$ 3,480	$ 3,480	$ 3,915	$ 26,977

(1) Includes interest and principal commitments.

(2) Represents our non-cancelable obligations to license programming from other studios. Typically, the licensing of the programming allows us access to specific titles or in some cases the studio's entire library over an extended period of time. We broadcast this programming on our networks throughout the world, as appropriate.

(3) We have obligations of $6.7 million recorded in "Other noncurrent liabilities" on our Consolidated Balance Sheet at December 31, 2007, under two nonqualified deferred compensation plans, which permit certain employees and all non-employee directors to annually elect to defer a portion of their compensation. These amounts have not been included in the table, as the dates of payment are not known at the balance sheet date.

(4) Includes interest and principal related to the acquisitions of Califa and Club Jenna.

We have excluded from the table above uncertain tax liabilities as defined in Financial Accounting Standards Board, or FASB, Interpretation No. 48, *Accounting for Uncertainty in Income Taxes–an interpretation of FASB Statement No. 109*, or FIN 48, due to the uncertainty of the amount and period of payment. At December 31, 2007, our expected payment for significant contractual obligations includes approximately $8.0 million for unrecognized tax benefits associated with the adoption of FIN 48. We cannot make a reasonably reliable estimate as to if or when such amounts may be settled.

CRITICAL ACCOUNTING POLICIES

Our financial statements are prepared in conformity with generally accepted accounting principles in the United States, which require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We believe that of our significant accounting policies, the following are the more complex and critical areas. For additional information about our accounting policies, see Note (A), Summary of Significant Accounting Policies, to the Notes to Consolidated Financial Statements.

REVENUE RECOGNITION

Domestic Television

Our domestic television revenues were $75.8 million and $82.5 million for the years ended December 31, 2007 and 2006, respectively. In order to record our revenues, we estimate the number of PPV and VOD buys and monthly subscriptions using a number of factors including, but not exclusively, the average number of buys and subscriptions in the prior three months based on actual payments received and historical data by geographic location. Upon recording the revenue, we also record the related receivable. We have reserves for uncollectible receivables based on our experience and monitor and adjust these reserves on a quarterly basis. At December 31, 2007 and 2006, we had receivables of $14.8 million and $13.2 million, respectively, related to domestic television. We record adjustments to revenue on a monthly basis as we obtain actual payments from the providers. Actual subscriber information and payment are generally received within three months. Historically, our adjustments have not been material. At any point, our exposure to a material adjustment to revenue is mitigated because, generally, only the most recent two to three months would not have been fully adjusted to actual based on payments received.

International Television

Our international television revenues were $55.9 million and $49.5 million for the years ended December 31, 2007 and 2006, respectively. In order to record our revenues, we estimate the number of PPV and VOD buys and monthly subscriptions using a number of factors including, but not exclusively, the average number of buys and subscriptions in the prior month based on subscription and billing reports provided by platform operators. Upon recording the revenue, we also record the related receivable. We have reserves for uncollectible receivables based on our experience and monitor and adjust these reserves on a monthly basis. At December 31, 2007 and 2006, we had receivables of $9.1 million and $8.0 million, respectively, related to international television. We record adjustments to revenue on a monthly basis as we obtain subscription and billing reports from the platform operators. Actual subscriber information is generally received within one month. Historically, our adjustments have not been material. At any point, our exposure to a material adjustment to revenue is mitigated because, generally, only the most recent month would not have been fully adjusted to actual based on the prior month's reports.

Domestic Magazine

Our *Playboy* magazine revenues were $77.0 million and $80.7 million for the years ended December 31, 2007 and 2006, respectively, of which 11.5% and 12.1% were derived from newsstand sales in the respective years. Our print run, which is developed with input from Time/Warner Retail Sales and Marketing, our national distributor, varies each month based on expected sales. Our expected sales are based on analyses of historical demand based on a number of variables, including content, time of year and the cover price. We record our revenues for each month's issue utilizing our expected sales. Our revenues are recorded net of a provision for estimated returns. Substantially all of the magazines to be returned are returned within 90 days of the date that the subsequent issue goes on sale. We adjust our provision for returns based on actual returns of the magazine. Historically, our annual adjustments to *Playboy* magazine newsstand revenues have not been material and are driven by differences in actual consumer demand as compared to expected sales. At any point, our exposure to a material adjustment to revenue is mitigated because, generally, only the most recent two to three issues would not have been fully adjusted to actual based on actual returns received.

DEFERRED REVENUES

We had deferred revenues related to *Playboy* magazine subscriptions and online subscriptions of $32.6 million and $4.1 million, respectively, at December 31, 2007 and $34.3 million and $4.0 million, respectively, at December 31, 2006. Sales of *Playboy* magazine and online subscriptions, less estimated cancellations, are deferred and recognized as revenues proportionately over the subscription periods. Our estimates of cancellations are based on historical experience and current marketplace conditions and are adjusted monthly on the basis of actual results. We have not experienced significant deviations between estimated and actual results.

STOCK-BASED COMPENSATION

Our stock-based compensation expense related to stock options was $1.1 million for the year ended December 31, 2007. On January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, or Statement 123(R), which is a revision of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, under the modified prospective method. We estimate the value of stock options on the date of grant using the Lattice Binomial model, or Lattice model. The Lattice model requires extensive analysis of actual exercise behavior data and a number of complex assumptions including expected volatility, risk-free interest rate, expected dividends and option cancellations. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We measure stock-based compensation cost at the grant date based on the value of the award and recognize the expense over the vesting period. Compensation expense, as recognized under Statement 123(R), for all stock-based compensation awards is recognized using the straight-line attribution method.

RELATED PARTY TRANSACTIONS

HUGH M. HEFNER

We own a 29-room mansion located on five and one-half acres in Los Angeles, California. The Playboy Mansion is used for various corporate activities and serves as a valuable location for television production, magazine photography and for online, advertising, marketing and sales events. It also enhances our image as host for many charitable and civic functions. The Playboy Mansion generates substantial publicity and recognition, which increases public awareness of us and our products and services. Its facilities include a tennis court, swimming pool, gymnasium and other recreational facilities as well as extensive film, video, sound and security systems. The Playboy Mansion also includes accommodations for guests and serves as an office and residence for Hugh M. Hefner, our Editor-in-Chief and Chief Creative Officer, or Mr. Hefner. It has a full-time staff that performs maintenance, serves in various capacities at the functions held at the Playboy Mansion and provides our and Mr. Hefner's guests with meals, beverages and other services.

Under a 1979 lease entered into with Mr. Hefner, the annual rent Mr. Hefner pays to us for his use of the Playboy Mansion is determined by independent experts who appraise the value of Mr. Hefner's basic accommodations and access to the Playboy Mansion's facilities, utilities and attendant services based on comparable hotel accommodations. In addition, Mr. Hefner is required to pay the sum of the per-unit value of non-business meals, beverages and other benefits he and his personal guests receive. These standard food and beverage per-unit values are determined by independent expert appraisals based on fair market values. Valuations for both basic accommodations and standard food and beverage units are reappraised every three years and are annually adjusted between appraisals based on appropriate consumer price indexes. Mr. Hefner is also responsible for the cost of all improvements in any Hefner residence accommodations, including capital expenditures, that are in excess of normal maintenance for those areas.

Mr. Hefner's usage of Playboy Mansion services and benefits is recorded through a system initially developed by the professional services firm of PricewaterhouseCoopers LLP, and now administered by us, with appropriate modifications approved by the Audit and Compensation Committees of the Board of Directors. The lease dated June 1, 1979, as amended, between Mr. Hefner and us renews automatically at December 31st each year and will continue to renew unless either Mr. Hefner or we terminate it. The rent charged to Mr. Hefner during 2007 included the appraised rent and the appraised per-unit value of other benefits, as described above. Within 120 days after the end of our fiscal year, the actual charge for all benefits for that year is finally determined. Mr. Hefner pays or receives credit for any difference between the amount finally determined and the amount he paid over the course of the year. We estimated the sum of the rent and other benefits payable for 2007 to be $0.7 million, and Mr. Hefner paid that amount during 2007. The actual rent and other benefits paid for 2006 and 2005 were $0.8 million and $1.1 million, respectively.

We purchased the Playboy Mansion in 1971 for $1.1 million and in the intervening years have made substantial capital improvements at a cost of $14.2 million through 2007 (including $2.7 million to bring the Hefner residence accommodations to a standard similar to the Playboy Mansion's common areas). The Playboy Mansion is included in our Consolidated Balance Sheets at December 31, 2007 and 2006, at a net book value of $1.4 million and $1.6 million, respectively, including all improvements and after accumulated depreciation. We incur all operating expenses of the Playboy Mansion, including depreciation and taxes, which were $2.8 million, $2.1 million and $3.1 million for 2007, 2006 and 2005, respectively, net of rent received from Mr. Hefner.

Holly Madison, Bridget Marquardt and Kendra Wilkinson, the stars of *The Girls Next Door* on E! Entertainment Television, reside in the mansion with Mr. Hefner. The value of rent, food and beverage and other personal benefits for the use of the Playboy Mansion by Ms. Madison, Ms. Marquardt and Ms. Wilkinson is charged to Alta Loma Entertainment, our production company. The aggregate amount of these charges in 2007 was $0.4 million. In addition, each of Ms. Madison, Ms. Marquardt and Ms. Wilkinson receives payments for services rendered on our behalf, including appearance fees.

RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements–an Amendment of ARB No. 51*, or Statement 160. Statement 160 clarifies that a noncontrolling interest (previously referred to as minority interest) in a subsidiary is an ownership interest in a consolidated entity that should be reported as equity in the consolidated financial statements. It also requires consolidated net income to include the amounts attributable to both the parent and the noncontrolling interest. We are required to adopt Statement 160 at the beginning of 2009. We are currently evaluating the impact, if any, of adopting Statement 160 on our future results of operations and financial condition.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations*, or Statement 141(R). Statement 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations. Statement 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any noncontrolling interest at their fair values as of the acquisition date. Statement 141(R) also requires, among other things, that acquisition-related costs be recognized separately from the acquisition. We are required to adopt Statement 141(R) prospectively for business combinations on or after January 1, 2009. Assets and liabilities that arose from business combinations prior to January 1, 2009 are not affected by the adoption of Statement 141(R).

In February 2007, 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. The impact of the adoption of Statement 159 will be dependent upon the extent to which we elect to measure eligible items at fair value. We do not expect the adoption of Statement 159 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. 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 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; however, FASB Staff Position FAS 157-2 delayed the effective date of Statement 157 to the beginning of 2009 for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We do not expect the adoption of Statement 157 to have a significant impact on our future results of operations or financial condition.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks, including changes in foreign currency exchange rates. In order to manage the risk associated with our exposure to such fluctuations, we enter into hedging transactions that have been authorized pursuant to our policies and procedures. We have derivative instruments that have been designated and qualify as cash flow hedges, which are entered into in order to hedge the variability of cash flows to be received related to forecasted royalty payments denominated in the yen and the euro. We hedge these royalties with forward contracts for periods not exceeding 12 months. We formally document all relationships between hedging instruments and hedged items, as well as our risk management objectives and strategies for undertaking various hedge transactions. We link all hedges that are designated as cash flow hedges to forecasted transactions. We also assess, both at the inception of the hedge and on an ongoing basis, whether the derivatives used in hedging transactions are effective in offsetting changes in cash flows of the hedged items. Any hedge ineffectiveness is recorded in earnings. We do not use financial instruments for trading purposes.

We prepared sensitivity analyses to determine the impact of a hypothetical 10% devaluation of the U.S. dollar relative to the foreign currencies of the countries to which we have exposure, primarily Japan and Germany. Based on our sensitivity analyses at December 31, 2007 and 2006, such a change in foreign currency exchange rates would affect our annual consolidated operating results, financial position and cash flows by approximately $0.5 million in each period.

At December 31, 2007 and 2006, we did not have any floating interest rate exposure. All of our outstanding debt as of those dates consisted of 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 December 31, 2007, the convertible notes had an implied fair value of $103.9 million.

Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements and supplementary data are set forth in this Annual Report on Form 10-K as follows:

	Page
Consolidated Statements of Operations – Fiscal Years Ended December 31, 2007, 2006 and 2005	42
Consolidated Balance Sheets – December 31, 2007 and 2006	43
Consolidated Statements of Shareholders' Equity – Fiscal Years Ended December 31, 2007, 2006 and 2005	44
Consolidated Statements of Cash Flows – Fiscal Years Ended December 31, 2007, 2006 and 2005	45
Notes to Consolidated Financial Statements	46
Report of Independent Registered Public Accounting Firm	67

The supplementary data regarding quarterly results of operations are set forth in Note (S), Quarterly Results of Operations (Unaudited), to the Notes to Consolidated Financial Statements.

PLAYBOY ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Fiscal Year Ended 12/31/07	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05
Net revenues	$ 339,840	$ 331,142	$ 338,153
Costs and expenses			
Cost of sales	(263,871)	(262,242)	(250,319)
Selling and administrative expenses	(63,973)	(57,816)	(56,838)
Restructuring expense	(445)	(1,998)	(149)
Impairment charge on assets held for sale	(1,508)	-	-
Total costs and expenses	(329,797)	(322,056)	(307,306)
Gains on disposal	-	29	14
Operating income	10,043	9,115	30,861
Nonoperating income (expense)			
Investment income	2,511	2,447	2,217
Interest expense	(4,874)	(5,611)	(6,986)
Amortization of deferred financing fees	(490)	(535)	(635)
Minority interest expense	-	-	(1,557)
Debt extinguishment expense	-	-	(19,280)
Other, net	(337)	(635)	(1,357)
Total nonoperating expense	(3,190)	(4,334)	(27,598)
Income before income taxes	6,853	4,781	3,263
Income tax expense	(1,928)	(2,496)	(3,998)
Net income (loss)	$ 4,925	$ 2,285	$ (735)
Weighted average number of common shares outstanding			
Basic	33,246	33,171	33,163
Diluted	33,281	33,276	33,163
Basic and diluted earnings (loss) per common share	$ 0.15	$ 0.07	$ (0.02)

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

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

	Dec. 31, 2007	Dec. 31, 2006
Assets		
Cash and cash equivalents	$ 20,603	$ 26,748
Marketable securities and short-term investments	12,952	9,000
Receivables, net of allowance for doubtful accounts of $3,627 and $3,688, respectively	51,139	47,728
Receivables from related parties	1,704	1,791
Inventories	11,363	12,599
Deferred subscription acquisition costs	8,686	9,931
Deferred tax asset	1,320	-
Assets held for sale	4,706	-
Prepaid expenses and other current assets	13,402	9,426
Total current assets	125,875	117,223
Long-term investments	6,556	-
Property and equipment, net	14,665	17,407
Long-term receivables	2,795	4,665
Programming costs, net	54,926	55,183
Goodwill	133,570	132,974
Trademarks	65,437	63,794
Distribution agreements, net of accumulated amortization of $4,803 and $3,435, respectively	28,337	29,705
Deferred tax asset	1,206	-
Other noncurrent assets	11,789	14,832
Total assets	$ 445,156	$ 435,783
Liabilities		
Acquisition liabilities	$ 2,134	$ 10,773
Accounts payable	37,842	28,846
Accrued salaries, wages and employee benefits	8,304	4,896
Deferred revenues	43,955	45,050
Accrued litigation settlement	-	1,800
Deferred tax liability	1,490	1,774
Other current liabilities and accrued expenses	14,269	14,124
Total current liabilities	107,994	107,263
Financing obligations	115,000	115,000
Acquisition liabilities	7,936	9,692
Deferred tax liability	18,604	16,648
Other noncurrent liabilities	24,305	23,552
Total liabilities	273,839	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; 28,784,079 and 28,743,914 issued, respectively	288	287
Capital in excess of par value	229,833	227,775
Accumulated deficit	(52,766)	(57,691)
Treasury stock, at cost - 381,971 shares	(5,000)	(5,000)
Accumulated other comprehensive loss	(1,087)	(1,792)
Total shareholders' equity	171,317	163,628
Total liabilities and shareholders' equity	$ 445,156	$ 435,783

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

PLAYBOY ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)

	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Accum. Deficit	Treasury Stock	Accum. Other Comp. Loss[1]	Total
Balance at December 31, 2004	$ 49	$ 285	$ 222,285	$ (59,241)	$ -	$ (1,220)	$ 162,158
Net loss	-	-	-	(735)	-	-	(735)
Shares issued or vested under stock plans, net	-	1	1,219	-	-	-	1,220
Minimum benefit liability adjustment	-	-	-	-	-	(341)	(341)
Other comprehensive loss	-	-	-	-	-	(88)	(88)
Treasury stock purchase	-	-	-	-	(5,000)	-	(5,000)
Other	-	-	33	-	-	-	33
Balance at December 31, 2005	49	286	223,537	(59,976)	(5,000)	(1,649)	157,247
Net income	-	-	-	2,285	-	-	2,285
Shares issued or vested under stock plans, net	-	1	4,238	-	-	-	4,239
Adjustment to initially apply FASB Statement 158	-	-	-	-	-	(1,396)	(1,396)
Other comprehensive income	-	-	-	-	-	1,253	1,253
Balance at December 31, 2006	49	287	227,775	(57,691)	(5,000)	(1,792)	163,628
Net income	-	-	-	4,925	-	-	4,925
Shares issued or vested under stock plans, net	-	1	2,058	-	-	-	2,059
Other comprehensive income	-	-	-	-	-	705	705
Balance at December 31, 2007	$ 49	$ 288	$ 229,833	$ (52,766)	$ (5,000)	$ (1,087)	$ 171,317

[1] Accumulated other comprehensive loss consisted of the following:

	Dec. 31, 2007	Dec. 31, 2006
Unrealized gain on marketable securities	$ 197	$ 247
Derivative gain (loss)	(78)	105
Adjustment to initially apply FASB Statement 158	-	(1,396)
Actuarial liability adjustment	(576)	(155)
Foreign currency translation loss	(630)	(593)
Accumulated other comprehensive loss	$ (1,087)	$ (1,792)

Comprehensive income (loss) was as follows:

	Fiscal Year Ended 12/31/07	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05
Net income (loss)	$ 4,925	$ 2,285	$ (735)
Unrealized gain (loss) on marketable securities	(50)	113	(24)
Derivative gain (loss)	(183)	98	87
Minimum benefit liability adjustment	-	-	(341)
Actuarial gain on liability	975	186	-
Foreign currency translation gain (loss)	(37)	856	(151)
Total other comprehensive income (loss)	705	1,253	(429)
Comprehensive income (loss)	$ 5,630	$ 3,538	$ (1,164)

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

PLAYBOY ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Fiscal Year Ended 12/31/07	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05
Cash flows from operating activities			
Net income (loss)	$ 4,925	$ 2,285	$ (735)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation of property and equipment	4,963	3,971	3,188
Amortization of intangible assets	2,300	1,683	1,902
Amortization of investments in entertainment programming	33,935	36,564	37,450
Stock-based compensation	1,856	2,326	155
Impairment charge on assets held for sale	1,508	-	-
Amortization of deferred financing fees	490	535	635
Minority interest expense	-	-	1,557
Debt extinguishment expense	-	-	19,280
Equity (income) loss in operations of investments	(129)	94	383
Deferred income taxes	(854)	867	2,532
Changes in current assets and liabilities:			
Receivables	(2,342)	(103)	(1,112)
Receivables from related parties	87	137	(647)
Inventories	1,236	247	(409)
Deferred subscription acquisition costs	1,245	521	2,652
Prepaid expenses and other current assets	(3,576)	(1,460)	299
Accounts payable	8,746	3,771	3,084
Accrued salaries, wages and employee benefits	3,443	(3,796)	2,776
Deferred revenues	(1,095)	(937)	(5,434)
Acquisition liability interest	1,274	459	(55)
Accrued litigation settlements	(1,800)	800	(1,875)
Other current liabilities and accrued expenses	93	(2,145)	(719)
Net change in current assets and liabilities	7,311	(2,506)	(1,440)
Investments in entertainment programming	(34,619)	(38,475)	(33,075)
Increase in trademarks	(1,704)	(2,734)	(2,242)
(Increase) decrease in other noncurrent assets	3,511	(52)	(69)
Increase (decrease) in other noncurrent liabilities	1,234	2,690	(1,244)
Other, net	(498)	1,747	(499)
Net cash provided by operating activities	24,229	8,995	27,778
Cash flows from investing activities			
Payments for acquisitions	(105)	(7,761)	(8,283)
Purchases of investments	(36,846)	(574)	(53,446)
Proceeds from sales of investments	26,377	18,000	51,511
Additions to property and equipment	(8,493)	(7,546)	(5,590)
Other, net	88	-	-
Net cash provided by (used for) investing activities	(18,979)	2,119	(15,808)
Cash flows from financing activities			
Proceeds from financing obligations	-	-	115,000
Repayment of financing obligations	-	-	(80,000)
Payment of debt extinguishment fees	-	-	(15,197)
Payment of acquisition liabilities	(11,669)	(11,628)	(8,804)
Purchase of treasury stock	-	-	(5,000)
Payment of deferred financing fees	(212)	-	(5,077)
Repurchase of minority interest in a controlled subsidiary	-	-	(14,074)
Proceeds from stock-based compensation	163	494	1,066
Other, net	-	-	(39)
Net cash used for financing activities	(11,718)	(11,134)	(12,125)
Effect of exchange rate changes on cash and cash equivalents	323	679	(424)
Net increase (decrease) in cash and cash equivalents	(6,145)	659	(579)
Cash and cash equivalents at beginning of year	26,748	26,089	26,668
Cash and cash equivalents at end of year	$ 20,603	$ 26,748	$ 26,089

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Playboy Enterprises, Inc., together with its subsidiaries through which we conduct business, is a brand-driven, international multimedia entertainment and lifestyle company with operations in the following business segments: Entertainment, Publishing and Licensing.

Principles of Consolidation: The consolidated financial statements include our accounts and all majority-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

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

New Accounting Pronouncements: In December 2007, the Financial Accounting Standards Board, or the FASB, issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements–an Amendment of ARB No. 51*, or Statement 160. Statement 160 clarifies that a noncontrolling interest (previously referred to as minority interest) in a subsidiary is an ownership interest in a consolidated entity that should be reported as equity in the consolidated financial statements. It also requires consolidated net income to include the amounts attributable to both the parent and the noncontrolling interest. We are required to adopt Statement 160 at the beginning of 2009. We are currently evaluating the impact, if any, of adopting Statement 160 on our future results of operations and financial condition.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations*, or Statement 141(R). Statement 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations. Statement 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any noncontrolling interest at their fair values as of the acquisition date. Statement 141(R) also requires, among other things, that acquisition-related costs be recognized separately from the acquisition. We are required to adopt Statement 141(R) prospectively for business combinations on or after January 1, 2009. Assets and liabilities that arose from business combinations prior to January 1, 2009 are not affected by the adoption of Statement 141(R).

In February 2007, 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. The impact of the adoption of Statement 159 will be dependent upon the extent to which we elect to measure eligible items at fair value. We do not expect the adoption of Statement 159 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. 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 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; however, FASB Staff Position FAS 157-2 delayed the effective date of Statement 157 to the beginning of 2009 for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We do not expect the adoption of Statement 157 to have a significant impact on our future results of operations or financial condition.

Revenue Recognition: Domestic and international TV direct-to-home, or DTH, and cable revenues are recognized based on estimates of pay-per-view and video-on-demand buys and monthly subscriber counts reported each month by the system operators and adjusted to actual. The net adjustments to actual have not been material. International TV third-party revenues are recognized upon identification of programming scheduled for networks, delivery of programming to customers and/or upon the commencement of the license term. Revenues from the sale of *Playboy* magazine and online subscriptions are recognized over the terms of the subscriptions. Revenues from newsstand sales of *Playboy* magazine and special editions (net of estimated returns) and revenues from the sale of *Playboy* magazine advertisements are recorded when each issue goes on sale. Revenues from e-commerce, except for those from outsourced operations, are recognized when the items are shipped, which is when title passes. Royalties from licensing our trademarks in our international magazine, product licensing and location-based entertainment businesses are generally recognized on a straight-line basis over the terms of the related agreements.

Stock-Based Compensation: On January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, or Statement 123(R), which is a revision of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, or Statement 123, under the modified prospective method. Statement 123(R) supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, or APB 25, and amends Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows*. Statement 123(R) requires that all stock-based compensation to employees, including grants of employee stock options, be recognized in the income statement based on its fair value. Under the modified prospective method, results for prior periods have not been restated.

Stock-based compensation expense is based on awards ultimately expected to vest, reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience. In our pro forma information required under Statement 123 for the periods prior to fiscal 2006, we accounted for forfeitures as they occurred. Under the fair value recognition provisions of Statement 123(R), we measure stock-based compensation cost at the grant date based on the value of the award and recognize the expense over the vesting period. Compensation expense, as recognized under Statement 123(R), for all stock-based compensation awards is recognized using the straight-line attribution method. Stock-based compensation expense is reflected in "Selling and administrative expenses" on our Consolidated Statements of Operations and the proceeds are reflected in "Proceeds from stock-based compensation" on our Consolidated Statements of Cash Flows. See Note (O), Stock-Based Compensation.

Cash Equivalents: Cash equivalents are temporary cash investments with an original maturity of three months or less at the date of purchase and are stated at cost, which approximates fair value.

Marketable Securities: Marketable securities are classified as available-for-sale securities, stated at fair value and accounted for under the specific identification method. Net unrealized holding gains and losses are included in "Accumulated other comprehensive loss."

Accounts Receivable and Allowance for Doubtful Accounts: Trade receivables are reported at their outstanding unpaid balances less an allowance for doubtful accounts. The allowance for doubtful accounts is increased by charges to income and decreased by chargeoffs (net of recoveries) or by reversals to income. We perform periodic evaluations of the adequacy of the allowance based on our past loss experience and adverse situations that may affect a customer's ability to pay. A receivable balance is written off when we deem the balance to be uncollectible.

Inventories: Inventories are stated at the lower of cost (specific cost and average cost) or fair value.

Assets Held for Sale: Assets held for sale are reported at the lower of the carrying amount or fair value, less the estimated costs to sell. See Note (T), Subsequent Events.

Property and Equipment: Property and equipment are stated at cost. Costs incurred for computer software developed or obtained for internal use are capitalized for application development activities and are immediately expensed for preliminary project activities or post-implementation activities. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. The useful life for building improvements is 10 years; furniture and equipment ranges from one to 10 years; and software ranges from one to five years. Leasehold improvements are depreciated using the straight-line method over the shorter of their estimated useful lives or the terms of the related leases. Repair and maintenance costs are expensed as incurred and major betterments are capitalized. Sales and retirements of property and equipment are recorded by removing the related cost and accumulated depreciation from the accounts, after which any related gains or losses are recognized.

Advertising Costs: We expense advertising costs as incurred, except for direct response advertising. Direct response advertising consists primarily of costs associated with the promotion of *Playboy* magazine subscriptions, principally the production of direct mail solicitation materials and postage, and the distribution of direct- and e-commerce catalog mailings. In accordance with the American Institute of Certified Public Accountants' Statement of Position 93-7, *Reporting on Advertising Costs*, these capitalized direct response advertising costs are amortized over the period during which the future benefits are expected to be received, generally six to 12 months.

Programming Amortization and Online Content Costs: Original programming and film acquisition costs are primarily assigned to the domestic and international networks and are capitalized and amortized utilizing the straight-line method, generally over three years. Online content expenditures are generally expensed as incurred. We believe that these methods provide a reasonable matching of expenses with total estimated revenues over the periods that revenues associated with films, programs and online content are expected to be realized. Film and program costs are stated at the lower of unamortized cost or estimated net realizable value as determined on a specific identification basis and are classified on our Consolidated Balance Sheets as noncurrent assets. See Note (K), Programming Costs, Net.

Intangible Assets: In accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, we do not amortize goodwill and trademarks with indefinite lives, but subject them to annual impairment tests. Noncompete agreements are being amortized using the straight-line method over the lives of the agreements, either five or 10 years. Distribution agreements are being amortized using the straight-line method over the lives of the agreements, which were determined to be 27 and one-half years. Capitalized trademark costs include costs associated with the acquisition, registration and/or renewal of our trademarks. In the fourth quarter of 2006, we began expensing certain costs associated with the defense of such trademarks. A program supply agreement is amortized using the straight-line method over the 10-year life of the agreement. Copyright costs are being amortized using the straight-line method over 15 years. Other intangible assets continue to be amortized over their useful lives. The noncompete agreements, program supply agreement and copyright costs are all included in "Other noncurrent assets" on our Consolidated Balance Sheets.

In 2006, we modified the assumptions related to the useful lives of certain distribution agreements that previously were classified as indefinite-lived. As these distribution agreements are now being amortized, the deferred tax liability related to the distribution agreements that is expected to be realized within the net operating loss, or NOL, carryforward period may be netted against our deferred tax asset. In 2007 and 2006, we recorded an income tax benefit for $0.5 million and $2.6 million, respectively, of the $3.9 million deferred tax liability related to the modification to the lives of these distribution agreements.

As a result of the restructuring of the ownership of Playboy TV International, LLC, or PTVI, in 2002, we acquired distribution agreements of $3.4 million with a weighted average life of approximately four years and a program supply agreement of $3.2 million with a life of 10 years. The weighted average life of the aggregate of the definite-lived intangible assets acquired was approximately seven years. We also acquired distribution agreements of $9.0 million, which were previously determined to be indefinite-lived. In 2006, we modified the lives to 27 and one-half years, which did not materially impact our results of operations.

The following table sets forth our amortizable intangible assets (in thousands):

	December 31, 2007			December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Noncompete agreements	$ 14,000	$ 13,545	$ 455	$ 14,000	$ 13,415	$ 585
Distribution agreements	33,140	4,803	28,337	33,140	3,435	29,705
Program supply agreement	3,226	1,613	1,613	3,226	1,290	1,936
Trademark license agreement	2,530	542	1,988	2,880	262	2,618
Copyrights	2,064	1,281	783	1,983	1,143	840
Other	420	409	11	420	348	72
Total amortizable intangible assets	$ 55,380	$ 22,193	$ 33,187	$ 55,649	$ 19,893	$ 35,756

At December 31, 2007 and 2006, our indefinite-lived intangible assets not subject to amortization included goodwill of $133.6 million and $133.0 million, respectively, and trademarks of $65.4 million and $63.7 million, respectively.

At December 31, 2007 and 2006, goodwill by reportable segment, reflected entirely in the Entertainment Group, was $133.6 million and $133.0 million, respectively. For the years ended December 31, 2007 and 2006, the aggregate amount of goodwill acquired was $0.6 million and $10.6 million, respectively.

The aggregate amortization expense for intangible assets with definite lives for 2007, 2006 and 2005 was $2.3 million, $1.7 million and $1.9 million, respectively. The aggregate amortization expense for intangible assets with definite lives is expected to total approximately $2.2 million, $2.2 million, $2.2 million, $2.1 million and $2.1 million for 2008, 2009, 2010, 2011 and 2012, respectively.

We conduct our annual impairment testing of goodwill and indefinite-lived intangible assets as of every October 1st. If the carrying amount of the asset is not recoverable based on a forecasted-discounted cash flow analysis, such asset would be reduced by the estimated shortfall of fair value to recorded value. We must make assumptions regarding forecasted-discounted cash flows to determine a reporting unit's estimated fair value. If these estimates or related assumptions change in the future, we may be required to record an impairment charge. Based upon our impairment testing, we determined that no impairments of intangible assets existed as of October 1, 2007.

In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we evaluate the potential impairment of finite-lived acquired intangible assets when appropriate. If the carrying amount of the asset is not recoverable based on a forecasted-undiscounted cash flow analysis, such asset would be reduced by the estimated shortfall of fair value to recorded value.

Derivative Financial Instruments: We account for derivative instruments in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by Statement of Financial Accounting Standards No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, which requires all derivative instruments to be recognized as either assets or liabilities in the balance sheet at fair value regardless of the purpose or intent for holding the derivative instrument. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated as and qualifies as part of a hedging relationship and, further, on the type of relationship.

We formally document all relationships between hedging instruments and hedged items, as well as our risk management objectives and strategies for undertaking various hedge transactions. At December 31, 2007, we had derivative instruments that have been designated as and qualify as cash flow hedges, which are entered into in order to hedge the variability of cash flows to be received related to forecasted royalty payments denominated in the yen and the euro. We hedge these royalties with forward contracts for periods not exceeding 12 months. The fair value and carrying value of our forward contracts are not material. Since these derivative instruments are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instruments is being deferred and reported as a component of "Accumulated other comprehensive loss" and is reclassified into earnings in the same line item where the royalty revenue is recognized.

We had net unrealized losses of $0.1 million and net unrealized gains of $0.1 million in 2007 and 2006, respectively, included in "Accumulated other comprehensive loss," which represents the effective portion of changes in fair value of the cash flow hedges. We do not expect any significant losses to be reclassified from "Accumulated other comprehensive loss" to earnings within the next 12 months.

Earnings per Common Share: We compute basic and diluted earnings per share, or EPS, in accordance with Statement of Financial Accounting Standards No. 128, *Earnings per Share*. Basic EPS is computed by dividing net income (loss) applicable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS adjusts basic EPS for the dilutive effects of stock options and other potentially dilutive financial instruments. See Note (E), Earnings per Common Share.

Equity Investments: The equity method is used to account for our 19.0% investment in Playboy TV–Latin America, LLC, or PTVLA, since we have the ability to exercise influence over PTVLA.

Minority Interest: In 2001, our subsidiary Playboy.com, Inc., or Playboy.com, issued $15.3 million of its Series A Preferred Stock, of which $5.0 million was purchased by Mr. Hefner. In connection with the restructuring of our international TV joint ventures, we received the Playboy.com Series A Preferred Stock that was owned by an affiliate of Claxson Interactive Group, Inc., or Claxson. In 2005, we repurchased the remaining outstanding Playboy.com Series A Preferred Stock that was held by Mr. Hefner and an unrelated third party for $14.1 million. Included in this amount was $3.9 million of accrued dividends. Pursuant to its terms, the Playboy.com Series A Preferred Stock was canceled, retired and ceased to be outstanding as a result of the repurchases. Subsequently, Playboy.com became a wholly owned subsidiary of ours.

Foreign Currency Translation: Assets and liabilities in foreign currencies related to our international TV foreign operations were translated into U.S. dollars at the exchange rate existing at the balance sheet date. The net exchange differences resulting from these translations were included in "Accumulated other comprehensive loss" on our Consolidated Statements of Shareholders' Equity. Revenues and expenses were translated at average rates for the period.

Transaction gains and losses that arise from foreign exchange rate fluctuations on transactions denominated in a currency other than U.S. dollars, except those transactions that operate as a hedge transaction, are included in "Other, net" on our Consolidated Statements of Operations. Foreign currency transaction gains were $0.3 million and $0.1 million in 2007 and 2006, respectively, and the foreign currency transaction loss was $0.3 million in 2005.

(B) ACQUISITION

In July 2001, we acquired The Hot Network and The Hot Zone networks, together with the related television assets of Califa Entertainment Group, Inc., or Califa. In addition, we acquired the Vivid TV network and the related television assets of V.O.D., Inc., or VODI, a separate entity owned by the sellers. We collectively refer to Califa and VODI as the Califa acquisition. These networks now operate as the Spice Digital Networks. The addition of these networks into our movie networks portfolio enabled us to offer consumers a wider range of adult programming. We accounted for the acquisition under the purchase method of accounting. Accordingly, the results of these networks since the acquisition date have been included in our Consolidated Statements of Operations. In connection with the acquisition and purchase price allocations, the Entertainment Group recorded goodwill of $27.4 million, which is deductible over 15 years for income tax purposes. Future obligations were recorded at their net present value and are reported on our Consolidated Balance Sheets as a component of current and noncurrent "Acquisition liabilities."

We recorded $30.8 million of intangible assets separate from goodwill consisting of $28.5 million for distribution agreements and $2.3 million for noncompete agreements. All of the noncompete agreements are being amortized over approximately eight years, which are the weighted average lives of these agreements. Distribution agreements of $7.5 million were amortized over approximately two years, which were the weighted average lives of these agreements. Distribution agreements of $21.0 million, which were previously determined to be indefinite-lived, are now being amortized over their modified useful lives of 27 and one-half years.

The total consideration for the acquisition was $70.0 million and is required to be paid in installments over a 10-year period ending in 2011. The nominal consideration for Califa's assets was $28.3 million. We also assumed the obligations of Califa related to a note payable and noncompete liability. The nominal consideration for VODI's assets was $41.7 million. We were obligated to pay up to an additional $12.0 million in consideration upon the achievement of specified financial performance targets, $5.0 million of which we paid on February 28, 2003 and

$7.0 million of which we paid on March 1, 2004. The amounts were recorded at the acquisition date as part of acquisition liabilities.

We may accelerate all or any portion of the remaining unpaid purchase price, but only by making the accelerated payments in cash, at a discount rate to be mutually agreed upon by the parties in good-faith negotiations. However, if the parties are unable to agree on the discount rate, we may, at our sole discretion, elect to accelerate the payment at a 12% discount rate.

The Califa acquisition agreement gave us the option of paying up to $71.0 million of the scheduled payments in cash or our Class B common stock, or Class B stock. The number of shares, if any, we issue in connection with a particular payment or particular payments is based on the trading prices of the Class B stock surrounding the applicable payment dates. Prior to each scheduled payment of consideration, we must provide the sellers with written notice specifying the portion of the purchase price payment that we intend to pay in cash and the portion in Class B stock. In each of 2007, 2006 and 2005, we paid the sellers $8.0 million in cash. All remaining payments must also be made in cash.

The following table sets forth the remaining installments of consideration, including interest (in thousands):

2008	$ 1,000
2009	1,000
2010	1,000
2011	750
Total future payments	$ 3,750

See Note (N), Commitments and Contingencies, for additional information on other future acquisition payments.

(C) Restructuring Expense

In 2007, we implemented a plan to outsource our remaining e-commerce and catalog businesses, to sell our Los Angeles production facility and to eliminate office space obtained as part of the Club Jenna acquisition. As a result of this restructuring plan, we recorded a charge of $0.4 million related to costs associated with a workforce reduction of 28 employees. During 2007, we made cash payments of $0.6 million related to prior years' restructuring plans. Approximately $12.5 million of the total costs of our restructuring plans was paid through December 31, 2007, with the remaining $0.5 million to be paid during 2008.

In 2006, we recorded a charge of $2.1 million related to reducing overhead costs and annual programming and editorial expenses.

The following table sets forth the activity and balances of our restructuring reserves, which are included in "Other current liabilities and accrued expenses" on our Consolidated Balance Sheets, for the years ended December 31, 2007 and 2006 (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
Reserve recorded	429	-	429
Adjustments to previous estimates	43	(27)	16
Cash payments	(473)	(127)	(600)
Balance at December 31, 2007	$ 429	$ 114	$ 543

(D) INCOME TAXES

The following table sets forth the income tax provision (in thousands):

	Fiscal Year Ended 12/31/07	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05
Current:			
Federal	$ (153)	$ -	$ -
State	90	120	105
Foreign	2,845	1,509	1,361
Total current	2,782	1,629	1,466
Deferred:			
Federal	1,463	160	2,302
State	209	707	230
Foreign	(2,526)	-	-
Total deferred	(854)	867	2,532
Total income tax provision	$ 1,928	$ 2,496	$ 3,998

The U.S. statutory tax rate applicable to us for each of 2007, 2006 and 2005 was 35%. The following table sets forth the reconciliation of the income tax provision to the provision computed at the U.S. statutory tax rate (in thousands):

	Fiscal Year Ended 12/31/07	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05
Statutory rate tax provision	$ 2,399	$ 1,673	$ 1,142
Increase (decrease) in taxes resulting from:			
Foreign income and withholding tax on licensing income	2,845	1,509	1,629
State income taxes	194	158	335
Nondeductible expenses	218	175	295
Increase (decrease) in valuation allowance	(2,075)	1,327	2,632
Tax benefit of foreign taxes paid or accrued	(2,541)	(2,503)	(1,843)
(Increase) decrease in state/foreign NOLs	1,749	(181)	(188)
Expiration of NOL/capital loss carryforwards	1,217	-	-
Refund from amended federal return	(2,150)	-	-
Tax audit adjustment	-	281	-
Other	72	57	(4)
Total income tax provision	$ 1,928	$ 2,496	$ 3,998

Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement and tax bases of assets and liabilities using enacted tax rates expected to apply in the years in which the temporary differences are expected to reverse.

In 2006, we modified the assumptions related to the useful lives of certain distribution agreements that previously were classified as indefinite-lived. As these distribution agreements are now being amortized, the deferred tax liability related to the distribution agreements that is expected to be realized within the NOL carryforward period may be netted against our deferred tax asset. In 2006, we recorded an income tax benefit for \$2.6 million of the \$3.9 million deferred tax liability related to the distribution agreement modification. In 2007, we recognized an additional income tax benefit of \$0.5 million related to the distribution agreements.

In 2007, the valuation allowance decreased by \$2.4 million as a result of the realization of our U.K. NOLs and the effect of the deferred tax treatment of certain acquired intangibles. In 2006, the valuation allowance increased by \$1.9 million related to the realization of the deferred tax benefit of our NOLs and foreign tax credits and the effect of the deferred tax treatment of certain acquired intangibles. In 2005, the valuation allowance, as adjusted, increased by \$2.6 million related to the realization of the deferred tax benefit of our NOLs and the effect of the deferred tax treatment of certain acquired intangibles.

The following table sets forth the significant components of our deferred tax assets and deferred tax liabilities (in thousands):

	Dec. 31, 2007	Dec. 31, 2006
Deferred tax assets:		
NOL carryforwards	$ 48,513	$ 47,476
Capital loss carryforwards	-	1,629
Tax credit carryforwards	16,046	13,505
Temporary difference related to PTVI	5,720	6,651
Other deductible temporary differences	36,931	32,580
Total deferred tax assets	107,210	101,841
Valuation allowance	(74,818)	(77,180)
Deferred tax assets	32,392	24,661
Deferred tax liabilities:		
Deferred subscription acquisition costs	(4,620)	(4,808)
Intangible assets	(31,004)	(27,587)
Other taxable temporary differences	(14,336)	(10,688)
Deferred tax liabilities	(49,960)	(43,083)
Deferred tax liabilities, net	$ (17,568)	$ (18,422)

At December 31, 2007, we had federal NOLs of $110.7 million expiring from 2008 through 2027, state and local NOLs of $91.0 million expiring from 2008 through 2027 and foreign NOLs of $9.0 million that have no expiration date. In addition, foreign tax credit carryforwards of $15.0 million and minimum tax credit carryforwards of $1.1 million are available to reduce future U.S. federal income taxes. The foreign tax credit carryforwards expire in 2014 through 2017 and the minimum tax credit carryforwards have no expiration date.

On January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes–an interpretation of FASB Statement No. 109*, or FIN 48. As a result of the implementation of FIN 48, we recognized no material adjustment in the liability for unrecognized income tax benefits.

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

The following table sets forth a reconciliation of the beginning and ending amount of unrecognized tax benefits (in thousands):

Unrecognized tax benefits at January 1, 2007	$ 7,978
Gross increases for tax positions of prior years	-
Gross decreases for tax positions of prior years	-
Settlements	-
Unrecognized tax benefits at December 31, 2007	$ 7,978

At December 31, 2007, we had unrecognized tax benefits of $8.0 million; we do not expect this amount to change significantly over the next 12 months. Because of the impact of deferred income tax accounting, the disallowance would not affect the effective income tax rate nor would it accelerate the payment of cash to the taxing authority to an earlier period.

The statute of limitations for tax years 2004 through 2007 remains open to examination by the major U.S. taxing jurisdictions to which we are subject. In addition, for all tax years prior to 2004 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.

(E) EARNINGS PER COMMON SHARE

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

	Fiscal Year Ended 12/31/07	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05
Numerator:			
For basic and diluted EPS – net income (loss)	$ 4,925	$ 2,285	$ (735)
Denominator:			
For basic EPS – weighted average shares	33,246	33,171	33,163
Effect of dilutive potential common shares:			
Employee stock options and other	35	105	-
Dilutive potential common shares	35	105	-
For diluted EPS – weighted average shares	33,281	33,276	33,163
Basic and diluted EPS	$ 0.15	$ 0.07	$ (0.02)

The following table sets forth the number of shares related to outstanding options to purchase our 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 years presented, as their inclusion would have been antidilutive (in thousands):

	Fiscal Year Ended 12/31/07	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05
Stock options	3,133	3,387	2,371
Convertible notes	6,758	6,758	6,758
Total	9,891	10,145	9,129

(F) FINANCIAL INSTRUMENTS

Fair Value: The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. For cash and cash equivalents, receivables and certain other current assets, the amounts reported approximated fair value due to their short-term nature. As described in Note (L), Financing Obligations, in March 2005, we issued and sold in a private placement $115.0 million aggregate principal amount of our convertible notes. As of December 31, 2007 and 2006, the fair value of the convertible notes was determined to be $103.9 million and $110.2 million, respectively. For foreign currency forward contracts, the fair value was estimated using quoted market prices established by financial institutions for comparable instruments, which approximated the contracts' values.

Concentrations of Credit Risk: Concentration of credit risk with respect to accounts receivable is limited due to the wide variety of customers to whom and segments from which our products are sold and/or licensed.

(G) MARKETABLE SECURITIES AND INVESTMENTS

The following table sets forth marketable securities and investments (in thousands):

	Dec. 31, 2007	Dec. 31, 2006
Marketable securities and short-term investments:		
Cost of marketable securities	$ 6,927	$ 5,753
Cost of short-term investments	6,000	3,000
Gross unrealized holding gains	25	341
Gross unrealized holding losses	-	(94)
Fair value of marketable securities and short-term investments	12,952	9,000
Long-term investments:		
Cost of long-term investments	6,384	-
Gross unrealized holding gains	290	-
Gross unrealized holding losses	(118)	-
Fair value of long-term investments	6,556	-
Total marketable securities and investments	$ 19,508	$ 9,000

We had realized gains totaling $0.2 million, $31 thousand and $0.1 million in 2007, 2006 and 2005, respectively. Included in "Comprehensive income (loss)" were a net unrealized holding loss of $0.1 million, a net unrealized holding gain of $0.1 million and a net unrealized holding loss of $24 thousand for 2007, 2006 and 2005, respectively. We recognized interest income of $2.5 million, $2.4 million and $2.2 million during 2007, 2006 and 2005, respectively.

In December 2007, we purchased an investment in an enhanced cash portfolio as a marketable security for $7.7 million. At December 31, 2007, due to adverse market conditions, we determined that the market value of this investment was other-than-temporarily impaired, and we recorded a charge of $0.1 million in "Other, net" on our Consolidated Statements of Operations.

(H) 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):

	Dec. 31, 2007	Dec. 31, 2006
Paper	$ 2,948	$ 2,917
Editorial and other prepublication costs	5,518	7,425
Merchandise finished goods	2,897	2,257
Total inventories	$ 11,363	$ 12,599

(I) ADVERTISING COSTS

At December 31, 2007 and 2006, advertising costs of $7.2 million and $7.3 million, respectively, were deferred and included in "Deferred subscription acquisition costs" and "Prepaid expenses and other current assets" on our Consolidated Balance Sheets. For 2007, 2006 and 2005, our advertising expense was $28.0 million, $27.7 million and $25.8 million, respectively.

(J) PROPERTY AND EQUIPMENT, NET

The following table sets forth property and equipment, net (in thousands):

	Dec. 31, 2007	Dec. 31, 2006
Land	$ 292	$ 292
Buildings and improvements	8,775	8,773
Furniture and equipment	22,019	24,288
Leasehold improvements	13,002	13,670
Software	12,895	11,623
Total property and equipment	56,983	58,646
Accumulated depreciation	(42,318)	(41,239)
Total property and equipment, net	$ 14,665	$ 17,407

(K) PROGRAMMING COSTS, NET

The following table sets forth programming costs, net (in thousands):

	Dec. 31, 2007	Dec. 31, 2006
Released, less amortization	$ 31,531	$ 43,228
Completed, not yet released	8,149	4,207
In-process	15,246	7,748
Total programming costs, net	$ 54,926	$ 55,183

Based on management's estimate of future total gross revenues at December 31, 2007, approximately 56% of the completed original programming costs is expected to be amortized during 2008. We expect to amortize virtually all of the released original programming costs during the next three years. At December 31, 2007, we had $13.0 million of film acquisition costs, which are typically amortized using the straight-line method, generally over three years or less, which is our estimate of the length of time during which we plan to re-air a film or program on our television networks.

(L) FINANCING OBLIGATIONS

The following table sets forth financing obligations (in thousands):

	Dec. 31, 2007	Dec. 31, 2006
Convertible senior subordinated notes, interest of 3.00%	$ 115,000	$ 115,000
Total financing obligations	$ 115,000	$ 115,000

Debt Financing

In March 2005, we issued and sold $115.0 million aggregate principal amount of our convertible notes, which included $15.0 million 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 offering expenses, were used, together with available cash, (a) to complete a tender offer and consent solicitation for, and to purchase and retire all of the $80.0 million outstanding principal amount of the 11.00% senior secured notes, or senior secured notes, issued by 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, (b) 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 (c) for working capital and general corporate purposes.

The convertible notes bear interest at a rate of 3.00% per annum on the principal amount of the notes, payable in arrears on March 15th and September 15th of each year, payment of which began 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% per annum.

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: (a) 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; (b) 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; (c) upon the occurrence of specified corporate transactions, as set forth in the indenture governing the convertible notes; or (d) 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 maximum conversion rate, subject to adjustment, is 76.3942 shares per $1,000 principal amount of the convertible notes.

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 convertible 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 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

We amended our $50.0 million credit facility effective September 28, 2007. The agreement provides for revolving borrowings, the issuance of letters of credit or a combination of both of up to $50.0 million outstanding at any time. The borrowing rates and financial covenants contained in the amendment did not change materially, but we obtained additional flexibility in other restrictive covenants. Borrowings under the credit facility bear interest at a variable rate, equal to a specified LIBOR or base rate plus a specified borrowing margin based on our Adjusted EBITDA, as defined in the credit agreement. We pay fees on the outstanding amount of letters of credit based on the margin that applies to borrowings that bear interest at a rate based on LIBOR. All amounts outstanding under the credit facility will mature on September 28, 2010. The obligations of Holdings as borrower under the credit facility are guaranteed by us and each of our other U.S. subsidiaries. The obligations of the borrower and nearly all 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. At December 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.

(M) BENEFIT PLANS

Our Employees Investment Savings Plan is a defined contribution plan consisting of two components: a profit sharing plan and a 401(k) plan. The profit sharing plan covers all employees who have completed 12 months of service of at least 1,000 hours. Our discretionary contribution to the profit sharing plan is distributed to each eligible employee's account in an amount equal to the ratio of each eligible employee's compensation, subject to Internal

Revenue Service limitations, to the total compensation paid to all such employees. Total contributions for 2007, 2006 and 2005 related to this plan were $0.5 million, $0.3 million and $1.5 million, respectively.

Eligible employees may participate in our 401(k) plan upon their date of hire. Our 401(k) plan offers several mutual fund investment options. The purchase of our stock is not an option. We make matching contributions to our 401(k) plan based on each participating employee's contributions and eligible compensation. Our matching contribution expense for 2007, 2006 and 2005 related to this plan were $1.4 million, $1.4 million and $1.3 million, respectively.

We have two nonqualified deferred compensation plans, which permit certain employees and all nonemployee directors to annually elect to defer a portion of their compensation. A match is provided to employees who participate in the deferred compensation plan, at a certain specified minimum level, and whose annual eligible earnings exceed the salary limitation contained in the 401(k) plan. All amounts contributed and earnings credited under these plans are general unsecured obligations. Such obligations totaled $6.7 million and $6.2 million at December 31, 2007 and December 31, 2006, respectively, and are included in "Other noncurrent liabilities" on our Consolidated Balance Sheets.

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. Payments in 2007, 2006 and 2005 under this policy were approximately $0.6 million, $0.3 million and $0.2 million, respectively. In 2007, 2006 and 2005 we recorded expenses, based on actuarial estimates, of $0.5 million, $0.6 million and $0.5 million, respectively.

We adopted the recognition and related disclosure provisions of Statement 158 effective December 31, 2006, with the projected benefit obligation reflected in "Other current liabilities and accrued expenses" and "Other noncurrent liabilities" on our Consolidated Balance Sheets. At December 31, 2007 and 2006, the accumulated benefit obligation was $3.0 million and $3.7 million, respectively. At December 31, 2007 and 2006, the projected benefit obligation was $4.0 million and $5.1 million, respectively. Our estimated future benefit payments are $0.6 million, $0.6 million, $0.7 million, $0.7 million and $0.7 million for 2008, 2009, 2010, 2011 and 2012, respectively, and $3.7 million for the five-year period ending December 31, 2017. The assumptions we used to compute the 2007 projected benefit obligation included a discount rate of 6.25% and a rate of compensation increase of 4.00%.

(N) Commitments and Contingencies

Our principal lease commitments are for office space, operations facilities and furniture and equipment. Some of these leases contain renewal or end-of-lease purchase options.

Rent expense was $15.1 million, $15.4 million and $14.7 million in 2007, 2006 and 2005, respectively. There was no sublease income or contingent rent expense in 2007, 2006 and 2005.

The following table sets forth the minimum future commitments at December 31, 2007, under operating leases with initial or remaining noncancelable terms in excess of one year (in thousands):

2008	$ 12,387
2009	9,131
2010	9,222
2011	9,354
2012	9,238
Later years	58,502
Minimum lease commitments	$ 107,834

Our entertainment programming is delivered to DTH and cable operators through communications satellite transponders. At December 31, 2007, we had four transponder service agreements related to our domestic networks, the terms of which extend through 2008, 2013, 2013 and 2014. See Note (T), Subsequent Events. We also had two international transponder service agreements, the terms of which extend through 2009. At December 31, 2007, future commitments related to these six agreements were $7.2 million, $5.4 million, $3.5 million, $3.5 million and $3.5 million for 2008, 2009, 2010, 2011 and 2012, respectively, and $3.9 million thereafter.

In 2006, we recorded a charge of $1.8 million, based on an agreement in principle, for the settlement of litigation with Directrix, Inc., or Directrix. The settlement amount was paid in the third quarter of 2007. The settlement was a compromise of disputed claims and was 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 and $1.6 million in 2007 with additional payments, which include interest, of $1.7 million, $2.3 million and $4.3 million required in 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 10-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. In 2007 and 2006, no earnout payments were earned.

In 2005, we acquired an affiliate network of websites to complement our existing online business. We paid $8.0 million at closing and $2.0 million in each of 2006 and 2007. Pursuant to the asset purchase agreement, we are also obligated to make future contingent earnout payments over the five-year period commencing January 1, 2005, 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 2007 and 2006, earnout payments of $0.1 million were made each year and recorded as additional purchase price.

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. On January 25, 2008, the Texas Supreme Court denied our petition for review. On February 8, 2008, we filed a petition for rehearing with the Texas Supreme Court. We posted a bond in the amount of approximately $9.4 million, which represented 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 obtained and have not recorded a liability for this case in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies.*

(O) STOCK-BASED COMPENSATION

We have stock plans for key employees and nonemployee directors, which provide for the grant of nonqualified and incentive stock options and/or shares of restricted stock units, deferred stock and other equity awards in our Class B stock. The Compensation Committee of the Board of Directors, which is composed entirely of independent nonemployee directors, administers all the plans. These plans are designed to further our growth, development and financial success by providing key employees with strong additional incentives to maximize long-term stockholder value. The Compensation Committee believes that this objective can be best achieved through assisting key employees to become owners of our stock, which aligns their interests with our interests. As stockholders, key employees will benefit directly from our growth, development and financial success. These plans also enable us to attract and retain the services of those executives whom we consider essential to our long-range success by providing these executives with a competitive compensation package and an opportunity to become owners of our stock. At December 31, 2007, we had 3,103,484 shares of our Class B stock available for grant under these plans.

Stock options, exercisable for shares of our Class B stock, generally vest ratably over a three- to four-year period from the grant date and expire 10 years from the grant date.

The 2005 and 2006 grants of restricted stock units provide for the issuance of our Class B stock if three-year cumulative operating income target thresholds are met. The 2007 restricted stock unit grants provide for the issuance of our Class B stock if two-year cumulative operating income target thresholds are met; grants are also subject to an additional one-year service requirement for the units to vest. If the operating income minimum threshold established for each grant is not achieved, the restricted stock units for that grant are forfeited.

One of our stock plans pertaining to nonemployee directors also allows for the issuance or deferral of our Class B stock as awards and payments for retainer, committee and meeting fees.

We also have an Employee Stock Purchase Plan, or ESPP, that provides substantially all regular full- and part-time employees an opportunity to purchase shares of our Class B stock through payroll deductions. The funds are withheld and then used to acquire stock on the last trading day of each quarter, based on that day's closing price less a 15% discount. ESPP expense is reflected in "Selling and administrative expenses" on our Consolidated Statements of Operations and the proceeds are reflected in "Proceeds from stock-based compensation" on our Consolidated Statements of Cash Flows. At December 31, 2007, we had 71,275 shares of our Class B stock available for purchase under this plan.

Valuation Information

Upon adoption of Statement 123(R), we began estimating the value of stock options on the date of grant using the Lattice Binomial model, or Lattice model. Prior to the adoption of Statement 123(R), the value of each employee stock option was estimated on the date of grant using the Black-Scholes model for the purpose of pro forma financial information in accordance with Statement 123. This change was made in order to provide a better estimate of fair value since the Lattice model is a more flexible method for valuing employee stock options than the Black-Scholes model. The Lattice model requires extensive analysis of actual exercise behavior data and a number of complex assumptions including expected volatility, risk-free interest rate, expected dividends and option cancellations.

The following table sets forth the assumptions used for the Lattice model in 2007 and 2006 and the Black-Scholes model in 2005:

	Fiscal Year Ended 12/31/07	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05
Expected volatility	25% - 41%	29% - 43%	46%
Weighted average volatility	34%	38%	46%
Risk-free interest rate	4.67% - 5.04%	4.32% - 5.16%	3.80% - 4.18%
Expected dividends	-	-	-

The expected life of stock options represents the weighted average period the stock options are expected to remain outstanding and is a derived output of the Lattice model. The expected life of stock options is impacted by all of the underlying assumptions and calibration of the Lattice model. The Lattice model assumes that exercise behavior is a function of the option's remaining contractual life and the extent to which the option's fair market value exceeds the exercise price. The Lattice model estimates the probability of exercise as a function of these two variables based upon the entire history of exercises and vested cancellations on all past option grants.

The weighted average expected life for options granted during 2007 and 2006 using the Lattice model was 6.3 years and 5.9 years, respectively, and the weighted average expected life for options granted during 2005 using the Black-Scholes model was 6.0 years. The weighted average fair value per share for stock options granted during 2007 and 2006 using the Lattice model was $4.64 and $6.03, respectively, and the weighted average fair value per share for stock options granted during 2005 using the Black-Scholes model was $5.85.□

Stock Option Activity

The following table sets forth stock option activity for the year ended December 31, 2007:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2006	3,682,416	$ 15.68
Granted	160,000	10.61
Canceled	(296,166)	13.96
Outstanding at December 31, 2007	3,546,250	$ 15.60

During 2007, there were no exercises of stock options. The aggregate intrinsic value for options exercised during 2006 was $0.1 million. The aggregate intrinsic value for options exercised during 2005 was $0.5 million.

At December 31, 2007, the weighted average remaining contractual lives of options outstanding and options exercisable were 4.8 years and 3.9 years, respectively. At December 31, 2007, the number of options exercisable was 2,838,417 and the weighted average exercise price per share of options exercisable was $16.36.

There were no aggregate intrinsic values related to options outstanding and options exercisable at December 31, 2007.

The following table sets forth the activity and balances of our stock options not yet vested for the year ended December 31, 2007:

	Number of Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2006	1,068,666	$ 6.14
Granted	160,000	4.64
Vested	(422,333)	6.40
Canceled	(98,500)	6.35
Outstanding at December 31, 2007	707,833	$ 5.61

The total fair value of options vested in 2007, 2006, and 2005 was $2.7 million, $3.0 million and $2.8 million, respectively.

The following table sets forth stock-based compensation expense related to stock options and to our ESPP for 2007 and 2006 and pro forma amounts for 2005 (in thousands, except per share amounts):

	Fiscal Year Ended 12/31/07	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05
Stock options	$ 1,131	$ 3,141	$ 2,950
ESPP	29	29	16
Total	$ 1,160	$ 3,170	$ 2,966
Net income (loss)			
As reported	$ 4,925	$ 2,285	$ (735)
Fair value of stock-based compensation excluded from net loss, gross			(2,966)
Pro forma			$ (3,701)
Basic and diluted EPS			
As reported	$ 0.15	$ 0.07	$ (0.02)
Pro forma			$ (0.11)

At December 31, 2007, there was $2.1 million of unrecognized stock-based compensation expense related to non-vested stock options, which will be recognized over a weighted average period of 1.5 years.

Restricted Stock Unit Activity

At December 31, 2007, we had 433,875 restricted stock units outstanding, none of which were vested, and all of which were performance-based awards contingent upon meeting certain performance goals.

The following table sets forth the activity and balances of our restricted stock units for the years ended December 31, 2007, 2006 and 2005:

	Number of Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2004	164,000	$ 13.96
Granted	182,000	11.90
Canceled	(27,000)	12.42
Outstanding at December 31, 2005	319,000	12.91
Granted	233,500	13.51
Forfeited	(112,000)	14.23
Canceled	(107,500)	13.34
Outstanding at December 31, 2006	333,000	12.75
Granted	250,625	10.61
Forfeited	(121,000)	11.86
Canceled	(28,750)	13.25
Outstanding at December 31, 2007	433,875	$ 11.73

In 2007, we issued 250,625 shares of restricted stock units at a weighted average fair value per share of $10.61, and 1,250 of these shares were canceled during the year. We have estimated that it is probable that the performance criteria for this grant will be met, and we recorded $0.5 million of compensation expense in 2007 related to this grant. Also, we determined that the minimum threshold associated with the 2005 grants was not achieved and those grants were forfeited. As of December 31, 2007, there was $1.6 million of unrecognized stock-based compensation expense related to non-vested restricted stock units to be recognized in future periods.

In 2006, we determined that the minimum threshold associated with the 2004 grants was not achieved and those grants were forfeited. Also in 2006, we determined that it was unlikely that the minimum threshold associated with the 2005 and 2006 grants would be met. Therefore, in 2006 we reversed $1.9 million of stock-based compensation expense, which included $0.6 million and $0.7 million that was recorded in 2005 and 2004, respectively, related to the 2004 and 2005 restricted stock unit grants. As of December 31, 2006, there was no unrecognized stock-based compensation expense related to non-vested restricted stock units to be recognized in future periods.

Other Equity Awards

We issued 17,806 shares of our Class B stock during 2007 related to other equity awards. Stock-based compensation expense related to other equity awards was $0.2 million, $0.6 million and $0.2 million for 2007, 2006 and 2005, respectively.

Employee Stock Purchase Plan

Stock-based compensation expense related to our ESPP was $29 thousand for each of 2007 and 2006 and $16 thousand for 2005.

Income Taxes

On November 10, 2005, the FASB issued Staff Position No. 123(R)-3, *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards*, or Staff Position 123(R)-3. We have elected to adopt the alternative transition method provided in Staff Position 123(R)-3 for calculating the tax effects of stock-based compensation pursuant to Statement 123(R). The alternative transition method simplifies the calculation of the beginning balance of the additional paid-in capital pool, or APIC pool, related to the tax effect of employee stock-based compensation. This method also has subsequent impact on the APIC pool and Consolidated Statements of Cash Flows relating to the tax effects of employee stock-based compensation awards that are outstanding upon adoption of Statement 123(R).

Under Statement 123(R), the income tax effects of share-based payments are recognized for financial reporting purposes only if such awards would result in deductions on our income tax returns. The settlement of share-based payments to date that would have resulted in an excess tax benefit would have increased our existing NOL carryforward. Under Statement 123(R), no excess tax benefits resulting from the settlement of a share-based payment can result in a tax deduction before realization of the tax benefit; i.e., the recognition of excess tax benefits cannot be recorded until the excess benefit reduces current income taxes payable. Additionally, as a result of our existing NOL carryforward position, no excess tax benefits relating to share-based payments have been recorded for the years ended December 31, 2007 and 2006.

(P) Consolidated Statements of Cash Flows

The following table sets forth cash paid for interest and income taxes (in thousands):

	Fiscal Year Ended 12/31/07	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05
Interest	$ 5,042	$ 5,308	$ 8,615
Income taxes	$ 2,166	$ 1,976	$ 2,416

(Q) Segment Information

Our businesses are currently organized into the following three reportable segments: Entertainment, Publishing and Licensing. Entertainment Group operations include the production and marketing of television programming for our domestic and international TV businesses, web-based entertainment experiences, wireless content distribution, e-commerce, DVD products and satellite radio under the Playboy, Spice and other brand names. Publishing Group operations include the publication of *Playboy* magazine, special editions and other domestic publishing businesses, including books and calendars, and the licensing of international editions of *Playboy* magazine. Licensing Group operations include the licensing of consumer products carrying one or more of our trademarks and/or images, third-party owned and operated Playboy-branded retail stores, multifaceted location-based entertainment venues and certain revenue-generating marketing activities.

These reportable segments are based on the nature of the products offered. Our chief operating decision maker evaluates performance and allocates resources based on several factors, of which the primary financial measure is segment operating results. The accounting policies of the reportable segments are the same as those described in Note (A), Summary of Significant Accounting Policies.

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

	Fiscal Year Ended 12/31/07	Fiscal Year Ended 12/31/06	Fiscal Year Ended 12/31/05
Net revenues [1]			
Entertainment	$ 203,065	$ 201,068	$ 203,994
Publishing	93,774	97,078	106,513
Licensing	43,001	32,996	27,646
Total	$ 339,840	$ 331,142	$ 338,153
Income before income taxes [2]			
Entertainment	$ 21,291	$ 23,299	$ 41,130
Publishing	(7,568)	(5,374)	(6,471)
Licensing	26,432	18,927	15,969
Corporate Administration and Promotion	(28,159)	(25,768)	(19,632)
Restructuring expense	(445)	(1,998)	(149)
Impairment charge on assets held for sale	(1,508)	-	-
Gains on disposal	-	29	14
Nonoperating expenses	(3,190)	(4,334)	(27,598)
Total	$ 6,853	$ 4,781	$ 3,263
Depreciation and amortization [3], [4]			
Entertainment	$ 39,453	$ 41,056	$ 41,603
Publishing	297	190	159
Licensing	94	28	13
Corporate Administration and Promotion	1,354	944	765
Total	$ 41,198	$ 42,218	$ 42,540

	Dec. 31, 2007	Dec. 31, 2006
Identifiable assets [3], [5]		
Entertainment	$ 287,940	$ 288,540
Publishing	35,320	38,146
Licensing	11,560	9,386
Corporate Administration and Promotion	110,336	99,711
Total	$ 445,156	$ 435,783

(1) Net revenues include revenues attributable to foreign countries of approximately $113,139, $96,238 and $89,731 in 2007, 2006 and 2005, respectively. Revenues from the U.K. were $39,066, $39,330 and $34,451 in 2007, 2006 and 2005, respectively. No other individual foreign country's revenue was material. Revenues are generally attributed to countries based on the location of customers, except licensing royalties for which revenues are attributed based upon the location of licensees.

(2) Income before income taxes includes income attributable to foreign countries of approximately $6,617, $3,664 and $1,453 in 2007, 2006 and 2005, respectively.

(3) The majority of our property and equipment and capital expenditures are reflected in Corporate Administration and Promotion; depreciation, however, is partially allocated to the reportable segments.

(4) Amounts include depreciation of property and equipment, amortization of intangible assets and amortization of investments in entertainment programming.

(5) Our long-lived assets located in foreign countries were not material.

(R) Related Party Transactions

In 1971, we purchased the Playboy Mansion in Los Angeles, California, where Mr. Hefner lives. The Playboy Mansion is used for various corporate activities and serves as a valuable location for television production, magazine photography and for online, advertising and sales events. It also enhances our image, as we host many charitable and civic functions. The Playboy Mansion generates substantial publicity and recognition, which increase public awareness of us and our products and services. Mr. Hefner pays us rent for that portion of the Playboy Mansion used exclusively for his and his personal guests' residence as well as the per-unit value of non-business meals, beverages and other benefits received by him and his personal guests. The Playboy Mansion is included in our Consolidated Balance Sheets at December 31, 2007 and 2006 at a net book value, including all improvements and after accumulated depreciation, of $1.4 million and $1.6 million, respectively. The operating expenses of the Playboy Mansion, including depreciation and taxes, were $2.8 million, $2.1 million and $3.1 million for 2007, 2006 and 2005, respectively, net of rent received from Mr. Hefner. We estimated the sum of the rent and other benefits payable for 2007 to be $0.7 million, and Mr. Hefner paid that amount during 2007. The actual rent and other benefits paid for 2006 and 2005 were $0.8 million and $1.1 million, respectively.

Holly Madison, Bridget Marquardt and Kendra Wilkinson, the stars of *The Girls Next Door* on E! Entertainment Television, reside in the mansion with Mr. Hefner. The value of rent, food and beverage and other personal benefits for the use of the Playboy Mansion by Ms. Madison, Ms. Marquardt and Ms. Wilkinson is charged to Alta Loma Entertainment, our production company. The aggregate amount of these charges in 2007 was $0.4 million. In addition, each of Ms. Madison, Ms. Marquardt and Ms. Wilkinson receives payments for services rendered on our behalf, including appearance fees.

In 2005, we repurchased the remaining outstanding Playboy.com Series A Preferred Stock that was held by Mr. Hefner and an unrelated third party. These shares were part of $15.3 million issued by our subsidiary Playboy.com in 2001, of which $5.0 million was purchased by Mr. Hefner. See Note (A), Summary of Significant Accounting Policies.

(S) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth a summary of the unaudited quarterly results of operations for 2007 and 2006 (in thousands, except share amounts):

	Quarters Ended			
2007	Mar. 31	June 30	Sept. 30	Dec. 31
Net revenues	$ 85,415	$ 85,652	$ 82,858	$ 85,915
Operating income (loss)	3,885	3,853	4,137	(1,832)
Net income (loss)	1,474	1,911	2,595	(1,055)
Basic and diluted earnings (loss) per common share [1]	0.04	0.06	0.08	(0.03)
Common stock price:				
Class A high	12.30	12.10	11.91	11.93
Class A low	9.80	9.46	8.92	8.33
Class B high	11.79	11.69	11.94	12.00
Class B low	$ 9.90	$ 9.72	$ 10.15	$ 8.87

	Quarters Ended			
2006	Mar. 31	June 30	Sept. 30	Dec. 31
Net revenues	$ 82,120	$ 80,477	$ 82,297	$ 86,248
Operating income (loss)	3,531	(1,224)	3,716	3,092
Net income (loss)	789	(3,307)	1,137	3,666
Basic and diluted earnings (loss) per common share [1]	0.02	(0.10)	0.03	0.11
Common stock price:				
Class A high	13.40	13.03	9.85	12.29
Class A low	12.20	8.30	8.71	9.35
Class B high	15.50	14.50	10.20	12.65
Class B low	$ 12.85	$ 8.90	$ 9.02	$ 9.16

(1) Quarterly and year-to-date computations of per share amounts are made independently; therefore, the sum of per share amounts for the quarters may not equal per share amounts for the year.

Operating income (loss) for the quarters ended June 30, 2007, December 31, 2007 and June 30, 2006 included restructuring expense of $0.1 million, $0.4 million and $1.9 million, respectively. See Note (C), Restructuring Expense. The quarter ended December 31, 2007 also included a $1.5 million impairment charge on assets held for sale. See Note (T), Subsequent Events.

(T) SUBSEQUENT EVENTS

On January 15, 2008, we signed an agreement to outsource our Playboy and BUNNYshop e-commerce and catalog businesses to eFashions Solutions, LLC, or eFashions. The agreement grants eFashions a license to market, promote and distribute certain branded, unbranded and co-branded goods through catalogs and the Internet. Under the terms of the agreement, we will receive royalties from eFashions based on our contractual share of sales and advertising revenues generated by the e-commerce and catalog businesses. We will rely on eFashions to operate these businesses. We anticipate that by the second quarter of 2008, we will no longer be operating these businesses although we retain significant creative control. The foregoing description of the terms of the outsourcing agreement is a summary and by its nature is incomplete. For further information regarding the terms and conditions of the agreement, reference is made to the text of the agreement, which will be filed as an exhibit to our quarterly report on Form 10-Q for the quarter ended March 31, 2008.

We are currently negotiating the sale of the assets related to our Los Angeles production facility. Our need for the facility has significantly decreased since its inception, and we forecast that the need for linear network transmission capacity will continue to decrease over the next several years. We recorded a $1.5 million charge on assets held for sale in 2007. In connection with the sale of such assets, we expect to enter into an agreement to sublet the entirety of the leased operating facility in Los Angeles, California to the buyer of the assets related to our Los Angeles production facility assets.

Also in connection with the sale of such assets, we expect to enter into a services agreement under which the buyer of the assets related to our Los Angeles production facility will provide us with certain satellite transmission services and other related services (including compression, uplinking and downlinking) for our standard definition cable channels. If we launch high definition cable channels during the term of the agreement, we expect the buyer will also provide such services for our high definition channels.

We expect the sale of the assets to close during March or April of 2008 on substantially the terms described above. The foregoing description of the terms of the transaction is a summary and by its nature is incomplete. The transactions will be subject to other terms and conditions which will be contained in the definitive agreements to be signed by the parties.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Playboy Enterprises, Inc.

We have audited the accompanying Consolidated Balance Sheets of Playboy Enterprises, Inc. and subsidiaries, or the Company, as of December 31, 2007 and 2006, and the related Consolidated Statements of Operations, Consolidated Statements of Shareholders' Equity, and Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the index of Part IV, Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As described in Note (D) to the Notes to Consolidated Financial Statements, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes–an interpretation of FASB Statement No. 109* effective January 1, 2007, and as described in Note (A) to the Notes to Consolidated Financial Statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payments* effective January 1, 2006, and certain provisions of 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)* as of December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control–Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 11, 2008, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
March 11, 2008

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and 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(f) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of December 31, 2007. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2007, our disclosure controls and procedures are effective.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

Under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2007. In making this evaluation, management used the criteria set forth in *Internal Control–Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management believes that our internal control over financial reporting is effective as of December 31, 2007.

Ernst & Young LLP, an independent registered public accounting firm, who audited and reported on the consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as stated in their report which is included herein.

(c) Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

To the Board of Directors and Shareholders of Playboy Enterprises, Inc.

We have audited Playboy Enterprises, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Playboy Enterprises, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Playboy Enterprises, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheets of Playboy Enterprises, Inc. as of December 31, 2007 and 2006, and the related Consolidated Statements of Operations, Consolidated Statements of Shareholders' Equity, and Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2007 of Playboy Enterprises, Inc. and our report dated March 11, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
March 11, 2008

(d) Change in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting during the fiscal quarter ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 is included in our Proxy Statement (to be filed) relating to the Annual Meeting of Stockholders to be held in May 2008, which will be filed within 120 days after the close of our fiscal year ended December 31, 2007, and is incorporated herein by reference, pursuant to General Instruction G(3).

We have adopted a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer and Corporate Controller. That code is part of our Code of Business Conduct, which is available free of charge through our website, *PlayboyEnterprises.com*, and is available in print to any shareholder who sends a request for a paper copy to: Investor Relations, Playboy Enterprises, Inc., 680 North Lake Shore Drive, Chicago, Illinois 60611. We intend to include on our website any amendment to, or waiver from, a provision of the Code of Business Conduct that applies to our Chief Executive Officer, Chief Financial Officer and Corporate Controller that relates to any element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K.

Item 11. Executive Compensation

The information required by Item 11 is included in our Proxy Statement (to be filed) relating to the Annual Meeting of Stockholders to be held in May 2008, which will be filed within 120 days after the close of our fiscal year ended December 31, 2007, and is incorporated herein by reference (excluding the Report of the Compensation Committee and the Performance Graph), pursuant to General Instruction G(3).

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information regarding outstanding options and shares reserved for future issuance as of December 31, 2007:

	Class B Common Stock		
	Number of Options Outstanding	Weighted Average Exercise Price of Options Outstanding	Number of Shares Remaining for Future Issuance
Total equity compensation plans approved by security holders	3,546,250	$15.60	3,103,484

The other information required by Item 12 is included in our Proxy Statement (to be filed) relating to the Annual Meeting of Stockholders to be held in May 2008, which will be filed within 120 days after the close of our fiscal year ended December 31, 2007, and is incorporated herein by reference, pursuant to General Instruction G(3).

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is included in our Proxy Statement (to be filed) relating to the Annual Meeting of Stockholders to be held in May 2008, which will be filed within 120 days after the close of our fiscal year ended December 31, 2007, and is incorporated herein by reference, pursuant to General Instruction G(3).

Item 14. Principal Accounting Fees and Services

The information required by Item 14 is included in our Proxy Statement (to be filed) relating to the Annual Meeting of Stockholders to be held in May 2008, which will be filed within 120 days after the close of our fiscal year ended December 31, 2007, and is incorporated herein by reference, pursuant to General Instruction G(3).

PART IV

Item 15. Exhibits and Financial Statement Schedules

FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES AND EXHIBITS

	Page
(1) Financial Statements	
Our Financial Statements and Supplementary Data following are as set forth under Part II. Item 8. of this Annual Report on Form 10-K:	
Consolidated Statements of Operations – Fiscal Years Ended December 31, 2007, 2006 and 2005	42
Consolidated Balance Sheets – December 31, 2007 and 2006	43
Consolidated Statements of Shareholders' Equity – Fiscal Years Ended December 31, 2007, 2006 and 2005	44
Consolidated Statements of Cash Flows – Fiscal Years Ended December 31, 2007, 2006 and 2005	45
Notes to Consolidated Financial Statements	46
Report of Independent Registered Public Accounting Firm	67
(2) Financial Statement Schedules	
Schedule II – Valuation and Qualifying Accounts	73

All other schedules have been omitted because they are not required or applicable or because the required information is shown in the Consolidated Financial Statements or notes thereto.

(3) Exhibits

See Exhibit Index, which appears at the end of this document and which is incorporated herein by reference.

PLAYBOY ENTERPRISES, INC. AND SUBSIDIARIES
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Allowance deducted in the balance sheet from the asset to which it applies:					
Fiscal Year Ended December 31, 2007:					
Allowance for doubtful accounts	$ 3,688	$ 1,465	$ 823[1]	$ 2,349[2]	$ 3,627
Allowance for returns	$ 24,652	$ -	$ 35,167[3]	$ 37,921[4]	$ 21,898
Deferred tax asset valuation allowance	$ 77,180	$ -	$ -	$ 2,362[5]	$ 74,818
Fiscal Year Ended December 31, 2006:					
Allowance for doubtful accounts	$ 3,883	$ 592	$ 144[1]	$ 931[2]	$ 3,688
Allowance for returns	$ 27,777	$ 242	$ 41,322[3]	$ 44,689[4]	$ 24,652
Deferred tax asset valuation allowance	$ 75,295	$ 1,327[6]	$ 558[7]	$ -	$ 77,180
Fiscal Year Ended December 31, 2005:					
Allowance for doubtful accounts	$ 3,897	$ 890	$ 706[1]	$ 1,610[2]	$ 3,883
Allowance for returns	$ 28,284	$ 260	$ 44,960[3]	$ 45,727[4]	$ 27,777
Deferred tax asset valuation allowance	$ 72,663	$ 2,632[6]	$ -	$ -	$ 75,295

Notes:

(1) Primarily represents provisions for unpaid subscriptions charged to net revenues.
(2) Primarily represents uncollectible accounts written off less recoveries.
(3) Represents provisions charged to net revenues for estimated returns of *Playboy* magazine, other domestic publishing products and domestic DVD products.
(4) Represents settlements on provisions previously recorded.
(5) Primarily represents noncash foreign income tax benefit related to decreasing the valuation allowance.
(6) Represents noncash federal income tax expense related to increasing the valuation allowance.
(7) Represents noncash federal tax adjustment related to the adoption of 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).*

EXHIBIT INDEX

All agreements listed below may have additional exhibits, which are not attached. All such exhibits are available upon request, provided the requesting party shall pay a fee for copies of such exhibits, which fee shall be limited to our reasonable expenses incurred in furnishing these documents.

Exhibit Number	Description
#2.1	Asset Purchase Agreement, dated as of June 29, 2001, by and among Playboy Enterprises, Inc., Califa Entertainment Group, Inc., V.O.D., Inc., Steven Hirsch, Dewi James and William Asher (incorporated by reference to Exhibit 2.1 from the Current Report on Form 8-K dated July 6, 2001)
3.1	Certificate of Incorporation of Playboy Enterprises, Inc. (incorporated by reference to Exhibit 3 from our quarterly report on Form 10-Q dated March 31, 2003)
3.2	Amended and Restated Bylaws of Playboy Enterprises, Inc. (incorporated by reference to Exhibit 3.4 from the Current Report on Form 8-K dated March 15, 1999)
3.3	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Playboy Enterprises, Inc. (incorporated by reference to Exhibit 3.2 from our quarterly report on Form 10-Q dated June 30, 2004, or the June 30, 2004 Form 10-Q)
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 from the Current Report on Form 8-K dated March 9, 2005, or the March 9, 2005 Form 8-K)
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 from the March 9, 2005 Form 8-K)
10.1	*Playboy* Magazine Printing and Binding Agreement
#a	October 22, 1997 Agreement between Playboy Enterprises, Inc. and Quad/Graphics, Inc. (incorporated by reference to Exhibit 10.4 from our transition period report on Form 10-K for the six months ended December 31, 1997, or the Transition Period Form 10-K)
#b	Amendment to October 22, 1997 Agreement dated as of March 3, 2000 (incorporated by reference to Exhibit 10.1 from our quarterly report on Form 10-Q for the quarter ended March 31, 2000)
c	Second Amendment to October 22, 1997 Agreement dated as of March 2, 2004 (incorporated by reference to Exhibit 10.1 from our annual report on Form 10-K for the year ended December 31, 2003)
d	Third Amendment to October 22, 1997 Agreement dated as of July 30, 2007 (incorporated by reference to Exhibit 10.2 from our quarterly report on Form 10-Q for the quarter ended September 30, 2007, or the September 30, 2007 Form 10-Q)
10.2	*Playboy* Magazine Distribution Agreement
#a	May 4, 2004 Agreement between Warner Publisher Services, Inc. and Playboy Enterprises, Inc. (incorporated by reference to Exhibit 10.1 from the June 30, 2004 Form 10-Q)
b	Amendment to May 4, 2004 Agreement dated as of December 12, 2005
c	Amendment to May 4, 2004 Agreement dated as of January 13, 2006
	(items (b) and (c) incorporated by reference to Exhibits 10.2(c) and 10.2(d), respectively, from our annual report on Form 10-K for the year ended December 31, 2005, or the 2005 Form 10-K)
10.3	*Playboy* Magazine Subscription Fulfillment Agreement
a	July 1, 1987 Agreement between Communications Data Services, Inc. and Playboy Enterprises, Inc. (incorporated by reference to Exhibit 10.12(a) from our annual report on Form 10-K for the year ended June 30, 1992, or the 1992 Form 10-K)

b Amendment dated as of June 1, 1988 to said Fulfillment Agreement (incorporated by reference to Exhibit 10.12(b) from our annual report on Form 10-K for the year ended June 30, 1993, or the 1993 Form 10-K)

c Amendment dated as of July 1, 1990 to said Fulfillment Agreement (incorporated by reference to Exhibit 10.12(c) from our annual report on Form 10-K for the year ended June 30, 1991, or the 1991 Form 10-K)

d Amendment dated as of July 1, 1996 to said Fulfillment Agreement (incorporated by reference to Exhibit 10.5(d) from our annual report on Form 10-K for the year ended June 30, 1996, or the 1996 Form 10-K)

#e Amendment dated as of July 7, 1997 to said Fulfillment Agreement (incorporated by reference to Exhibit 10.6(e) from the Transition Period Form 10-K)

#f Amendment dated as of July 1, 2001 to said Fulfillment Agreement (incorporated by reference to Exhibit 10.1 from our quarterly report on Form 10-Q for the quarter ended September 30, 2001, or the September 30, 2001 Form 10-Q)

#g Seventh Amendment (related to Subscription Fulfillment Agreement, dated July 1, 1987, as amended), dated March 9, 2006, by and between Communications Data Services, Inc. and Playboy Enterprises International, Inc. (incorporated by reference to Exhibit 10.9 from our quarterly report on Form 10-Q for the quarter ended March 31, 2006, or the March 31, 2006 Form 10-Q)

10.4 Transponder Service Agreements

a SKYNET Transponder Service Agreement dated March 1, 2001 between Playboy Entertainment Group, Inc. and Loral Skynet (incorporated by reference to Exhibit 10.1 from our quarterly report on Form 10-Q for the quarter ended March 31, 2001)

b SKYNET Transponder Service Agreement dated February 8, 1999 by and between Califa Entertainment Group, Inc. and Loral Skynet

c Transfer of Service Agreement dated February 22, 2002 between Califa Entertainment Group, Inc., Loral Skynet and Spice Hot Entertainment, Inc.

d Amendment One to the Transponder Service Agreement between Spice Hot Entertainment, Inc. and Loral Skynet dated February 28, 2002

(items (b), (c) and (d) incorporated by reference to Exhibits 10.4(b), (c) and (d), respectively, from our annual report on Form 10-K for the year ended December 31, 2001, or the 2001 Form 10-K)

e Transponder Service Agreement dated August 12, 1999 between British Sky Broadcasting Limited and The Home Video Channel Limited (incorporated by reference to Exhibit 10.4(e) from our annual report on Form 10-K for the year ended December 31, 2002, or the 2002 Form 10-K)

f First Amendment dated as of May 7, 2004 between Playboy and Loral Skynet extending its current term expiration of January 31, 2010 to January 31, 2013

g Intelsat LLC acquired assets of Loral Skynet effective March 17, 2004

(items (f) and (g) incorporated by reference to Exhibits 10.4(f) and (g), respectively, from our annual report on Form 10-K for the year ended December 31, 2004, or the 2004 Form 10-K)

h Transfer of Service Agreement (related to Contract Number T79903021), dated as of October 25, 2004, among Spice Hot Entertainment, Inc., Andrita Studios, Inc., and Loral Skynet

#i Transfer of Service Agreement (related to Contract Number T70102100), dated February 4, 2004, among Playboy Entertainment Group, Inc., Andrita Studios, Inc. and Loral Skynet

j Amendment No. 1 to Contract Number T70102100 (IA7-C15) dated as of May 7, 2004, between Intelsat USA Sales Corp. and Andrita Studios, Inc.

#k Agreement Concerning Skynet Space Segment Service (Contract Number T70309257), dated as of November 20, 2003, between Andrita Studios, Inc. and Loral Skynet

#l Amendment No. 1 to Contract Number T70309257 (IA7-C9) dated as of May 7, 2004, between Intelsat USA Sales Corp. and Andrita Studios, Inc.

#m Digital Channel Platform Agreement (Contract Number GSS0210100) dated as of February 4, 2003, between Loral Skynet and Playboy Entertainment Group, Inc.

#n Amendment No. 1 to Contract Number GSS0210100 (Digital Channel Platform) dated as of May 7, 2004, between Intelsat USA Sales Corp. and Playboy Entertainment Group, Inc.

(items (h) through (n) incorporated by reference to Exhibits 10.1 through 10.4.2, respectively, from the March 31, 2006 Form 10-Q)

#10.5 Omnibus Amendment to Agreements between Playboy Entertainment Group, Inc., Andrita Studios, Inc. and Intelsat USA Sales Corp., dated as of December 22, 2005 (incorporated by reference to Exhibit 10.5 from the March 31, 2006 Form 10-Q)

10.6 Playboy TV UK Limited and UK/BENELUX Limited

- #a Contract for a Combined Compressed Uplink and Eurobird Space Segment Service, dated as of May 12, 2003, between British Telecommunications plc and Playboy TV UK Limited
- b Contract Amendment Agreement (Number 1) dated as of May 12, 2003, between British Telecommunications plc and Playboy TV UK Limited
- #c Contract for a Combined Compressed Uplink and Eurobird Space Segment Service, dated as of May 12, 2004, between British Telecommunications plc and Playboy TV UK/BENELUX Limited
- #d Contract Amendment Agreement (Number 1) dated as of November 30, 2004, between British Telecommunications plc and Playboy TV UK/BENELUX Limited

(items (a) through (d) incorporated by reference to Exhibits 10.6.1 through 10.7.2, respectively, from the March 31, 2006 Form 10-Q)

#10.7 Playboy TV–Latin America, LLC Agreements

- a Third Amended and Restated Operating Agreement for Playboy TV–Latin America, LLC, effective as of November 10, 2006, by and between Playboy Entertainment Group, Inc. and Lifford International Co. Ltd. (BVI)
- b Amended and Restated Program Supply and Trademark License Agreement, dated as of November 10, 2006, between Playboy Entertainment Group, Inc. and Playboy TV–Latin America, LLC

(items (a) and (b) incorporated by reference to Exhibits 10.7(c) and (d), respectively, from our annual report on Form 10-K for the year ended December 31, 2006)

#10.8 Agreement dated as of January 1, 2006, between Time/Warner Retail Sales & Marketing Inc. (f/k/a Warner Publisher Services, Inc.) and Playboy Enterprises, Inc. (incorporated by reference to Exhibit 10.10 from the March 31, 2006 Form 10-Q)

#10.9 Satellite Capacity Lease, dated as of August 21, 2006, by and among Playboy Entertainment Group, Inc., Spice Hot Entertainment, Inc. and Transponder Encryption Services Corporation (incorporated by reference to Exhibit 10.3 from our quarterly report on Form 10-Q for the quarter ended September 30, 2006, or the September 30, 2006 Form 10-Q)

10.10 Transfer Agreement, dated as of December 23, 2002, by and among Playboy Enterprises, Inc., Playboy Entertainment Group, Inc., Playboy Enterprises International, Inc., Claxson Interactive Group Inc., Carlyle Investments LLC (in its own right and as a successor in interest to Victoria Springs Investments Ltd.), Carlton Investments LLC (in its own right and as a successor in interest to Victoria Springs Investments Ltd.), Lifford International Co. Ltd. (BVI) and Playboy TV International, LLC (incorporated by reference to Exhibit 2.1 from the December 23, 2002 Form 8-K, and filed with the SEC on January 7, 2003)

#10.11 Amended and Restated Affiliation and License Agreement dated May 17, 2002 between DirecTV, Inc. and Playboy Entertainment Group, Inc., Spice Entertainment, Inc., Spice Hot Entertainment, Inc. and Spice Platinum Entertainment, Inc. regarding DBS Satellite Exhibition of Programming (incorporated by reference to Exhibit 10.1 from our quarterly report on Form 10-Q dated June 30, 2002, or the June 30, 2002 Form 10-Q)

#10.12 Affiliation Agreement dated July 8, 2004 between Playboy Entertainment Group, Inc., Spice Entertainment, Inc., Spice Hot Entertainment, Inc., and Time Warner Cable Inc. (incorporated by reference to Exhibit 10.1 from our quarterly report on Form 10-Q dated September 30, 2004, or the September 30, 2004 Form 10-Q)

10.13 Affiliation Agreement between Spice, Inc., and Satellite Services, Inc.

- a Affiliation Agreement, dated November 1, 1992, between Spice, Inc., and Satellite Services, Inc.
- b Amendment No. 1, dated September 29, 1994, to Affiliation Agreement, dated November 1, 1992, between Spice, Inc., and Satellite Services, Inc.

c Letter Agreement, dated July 18, 1997, amending the Affiliation Agreement, dated November 1, 1992, between Spice, Inc., and Satellite Services, Inc.

d Letter Agreement, dated December 18, 1997, amending the Affiliation Agreement, dated November 1, 1992, between Spice, Inc., and Satellite Services, Inc.

e Amendment, effective September 26, 2005, to Affiliation Agreement, dated November 1, 1992, between Spice, Inc., and Satellite Services, Inc.

(items (a) through (e) incorporated by reference to Exhibits 10.1.1 through 10.1.5, respectively, from our quarterly report on Form 10-Q dated September 30, 2005, or the September 30, 2005 Form 10-Q)

10.14 Affiliation Agreement between Playboy Entertainment Group, Inc., and Satellite Services, Inc.

a Affiliation Agreement, dated February 10, 1993, between Playboy Entertainment Group, Inc., and Satellite Services, Inc.

b Amendment, effective September 26, 2005, to Affiliation Agreement, dated February 10, 1993, between Playboy Entertainment Group, Inc., and Satellite Services, Inc.

(items (a) and (b) incorporated by reference to Exhibits 10.2.1 and 10.2.2, respectively, from the September 30, 2005 Form 10-Q)

#10.15 Amended and Restated Agreement, dated August 1, 2007, by and between Playboy Entertainment Group, Inc. and Spice Hot Entertainment, Inc., and DirecTV, Inc. (incorporated by reference to Exhibit 10.3 from the September 30, 2007 Form 10-Q)

#10.16 Agreement dated October 4, 2004, between Playboy Enterprises International, Inc., Fiesta Palms LLC, N-M Ventures II, LLC and Nine Group LLC (incorporated by reference to Exhibit 10.1 from our quarterly report on Form 10-Q dated June 30, 2007, or the June 30, 2007 Form 10-Q)

10.17 Amended and Restated Credit Agreement, effective April 1, 2005, or the Credit Agreement, among PEI Holdings, Inc., as borrower, and Bank of America, N.A., as Agent and the other lenders from time to time party thereto

a Credit Agreement (incorporated by reference to Exhibit 10.1 to our quarterly report on Form 10-Q dated March 31, 2005)

b First Amendment to the Credit Agreement dated March 10, 2006 among PEI Holding, Inc., as borrower, Bank of America, N.A., as Agent, and the other Lenders Party thereto (incorporated by reference to Exhibit 10.15(b) from the 2005 Form 10-K)

c Master Corporate Guaranty, dated March 11, 2003

d Security Agreement, dated as of March 11, 2003, between PEI Holdings, Inc. and Bank of America, N.A., as Agent under the Credit Agreement

e Security Agreement, dated as of March 11, 2003, among Playboy Enterprises, Inc. and each of the domestic subsidiaries of PEI Holdings, Inc. set forth on the signature pages thereto and Bank of America, N.A., as Agent under the Credit Agreement

f Pledge Agreement, dated as of March 11, 2003, between PEI Holdings, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

g Pledge Agreement, dated as of March 11, 2003, among Chelsea Court Holdings LLC, as the limited partner in 1945/1947 Cedar River C.V., Candlelight Management LLC, as the general partner in 1945/1947 Cedar River C.V., and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

h Pledge Agreement, dated as of March 11, 2003, between Claridge Organization LLC and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

i Pledge Agreement, dated as of March 11, 2003, between Playboy Clubs International, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

j Pledge Agreement, dated as of March 11, 2003, between CPV Productions, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

k Pledge Agreement, dated as of March 11, 2003, between Playboy Entertainment Group, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement l Pledge Agreement, dated as of March 11, 2003, between Playboy Gaming International, Ltd. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

m Pledge Agreement, dated as of March 11, 2003, between Playboy Entertainment Group, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

n Pledge Agreement, dated as of March 11, 2003, between Playboy Enterprises, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

o Pledge Agreement, dated as of March 11, 2003, between Playboy Enterprises International, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

p Pledge Agreement, dated as of March 11, 2003, between Planet Playboy, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

q Pledge Agreement, dated as of March 11, 2003, between Spice Entertainment, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

r Pledge Agreement, dated as of March 11, 2003, between Playboy TV International, LLC and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

s Pledge Agreement, dated as of March 11, 2003, between Playboy TV International, LLC and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement

t Trademark Security Agreement, dated as of March 11, 2003, by AdulTVision Communications, Inc., Alta Loma Entertainment, Inc., Lifestyle Brands, Ltd., Playboy Entertainment Group, Inc., Spice Entertainment, Inc., Playboy Enterprises International, Inc. and Spice Hot Entertainment, Inc. in favor of Bank of America, N.A., as Agent under the Credit Agreement

u Copyright Security Agreement, dated March 11, 2003, by After Dark Video, Inc., Alta Loma Distribution, Inc., Alta Loma Entertainment, Inc., Impulse Productions, Inc., Indigo Entertainment, Inc., MH Pictures, Inc., Mystique Films, Inc., Playboy Entertainment Group, Inc., Precious Films, Inc. and Women Productions, Inc. in favor of Bank of America, N.A., as Agent under the Credit Agreement

v Lease Subordination Agreement, dated as of March 11, 2003, by and among Hugh M. Hefner, Playboy Enterprises International, Inc. and Bank of America, N.A., as Agent for various lenders

w Deed of Trust with Assignment of Rents, Security Agreement and Fixture Filing, dated as of March 11, 2003, made and executed by Playboy Enterprises International, Inc. in favor of Fidelity National Title Insurance Company for the benefit of Bank of America, N.A., as Agent for Lenders under the Credit Agreement

(items (c) through (w) incorporated by reference to Exhibits 10.9(b) through (u), respectively, from the 2002 Form 10-K)

x Pledge Amendment, dated July 22, 2003, between Playboy Entertainment Group, Inc. and Bank of America, N.A., as agent for the various financial institutions from time to time parties to the Credit Agreement (incorporated by reference to Exhibit 10.9(i)-1 from our May 19, 2003 Form S-4)

y First Amendment, dated September 15, 2004, to Deed of Trust With Assignment of Rents, Security Agreement and Fixture Filing, dated as of March 11, 2003, made and executed between Playboy Enterprises International, Inc. and Bank of America, N.A., as Agent (incorporated by reference to Exhibit 10.4 from the September 30, 2004 Form 10-Q)

z Second Amendment, dated as of April 27, 2006, to the Credit Agreement, or the Second Amendment

aa Reaffirmation of Guaranty, dated as of April 27, 2006, to the Credit Agreement, by each of the Guarantors, pursuant to the Second Amendment

bb Third Amendment, dated as of May 15, 2006, to the Credit Agreement

cc Pledge Amendment, dated as of May 15, 2006, from Playboy Enterprises International, Inc.

dd Pledge Amendment, dated as of May 15, 2006, from Playboy Entertainment Group, Inc.

ee Joinder to the Master Corporate Guaranty, dated as of May 15, 2006, by Playboy.com, Inc., Playboy.com Internet Gaming, Inc., Playboy.com Racing, Inc., SpiceTV.com, Inc., and CJI Holdings, Inc., and accepted by Bank of America, N.A., as agent for Lenders

ff Joinder to Security Agreement, dated as of May 15, 2006, by Playboy.com, Inc., Playboy.com Internet Gaming, Inc., Playboy.com Racing, Inc., SpiceTV.com, Inc. and CJI Holdings, Inc., and accepted by Bank of America, N.A., as agent for the Lenders

gg Pledge Agreement, dated as of May 15, 2006, between Playboy.com, Inc. and Bank of America, N.A., as agent for the Lenders

hh Pledge Agreement, dated as of May 15, 2006, between Playboy.com Internet Gaming Inc. and Bank of America, N.A., as agent for the Lenders

ii Trademark Security Agreement, dated as of May 15, 2006, by Playboy.com, Inc. in favor of Bank of America, N.A., as agent for the Lenders

jj Copyright Security Agreement, dated as of May 15, 2006, by Playboy.com, Inc. in favor of Bank of America, N.A., as agent for the Lenders

(items (z) through (jj) incorporated by reference to Exhibits 10.1.1 through 10.2.9, respectively, from our quarterly report on Form 10-Q for the quarter ended June 30, 2006)

kk Fourth Amendment, dated as of July 21, 2006, to the Credit Agreement, or the Fourth Amendment

ll Reaffirmation of Guaranty, dated as of July 21, 2006, by each of the Guarantors, pursuant to the Fourth Amendment

mm Fifth Amendment, dated as of September 28, 2006, to the Credit Agreement, or the Fifth Amendment

nn Reaffirmation of Guaranty, dated as of September 28, 2006, by each of the Guarantors, pursuant to the Fifth Amendment

oo Joinder and Amendment No. 1 to Master Corporate Guaranty, dated as of September 28, 2006, by Playboy Enterprises, Inc., Playboy Enterprises International, Inc., Spice Hot Entertainment, Inc. and Spice Platinum Entertainment, Inc., and accepted by Bank of America, N.A., as agent for the Lenders

(items (kk) through (oo) incorporated by reference to Exhibits 10.1.1 through 10.2.3, respectively, from the September 30, 2006 Form 10-Q)

#pp Sixth Amendment, dated as of September 28, 2007, to the Credit Agreement, or the Sixth Amendment (incorporated by reference to Exhibit 10.1 to the September 30, 2007 Form 10-Q)

10.18 Exchange Agreement, dated as of March 11, 2003, among Hugh M. Hefner, Playboy.com, Inc., PEI Holdings, Inc. and Playboy Enterprises, Inc. (incorporated by reference to Exhibit 4.2 from the 2002 Form 10-K)

10.19 Playboy Mansion West Lease Agreement, as amended, between Playboy Enterprises, Inc. and Hugh M. Hefner

a Letter of Interpretation of Lease

b Agreement of Lease

(items (a) and (b) incorporated by reference to Exhibits 10.3(a) and (b), respectively, from the 1991 Form 10-K)

c Amendment to Lease Agreement dated as of January 12, 1998 (incorporated by reference to Exhibit 10.2 from our quarterly report on Form 10-Q for the quarter ended March 31, 1998, or the March 31, 1998 Form 10-Q)

d Lease Subordination Agreement, dated as of March 11, 2003, by and among Hugh M. Hefner, Playboy Enterprises International, Inc. and Bank of America, N.A., as Agent for various lenders (see Exhibit 10.22(v)) (incorporated by reference to Exhibit 10.9(t) from the 2002 Form 10-K)

10.20 Los Angeles Office Lease Documents

a Agreement of Lease dated April 23, 2002 between Los Angeles Media Tech Center, LLC and Playboy Enterprises, Inc. (incorporated by reference to Exhibit 10.4 from the June 30, 2002 Form 10-Q)

b First Amendment to April 23, 2002 Lease dated June 28, 2002 (incorporated by reference to Exhibit 10.4 from our quarterly report on Form 10-Q for the quarter ended September 30, 2002, or the September 30, 2002 Form 10-Q) c Second Amendment to April 23, 2002 Lease dated September 23, 2004 (incorporated by reference to Exhibit 10.2 from the September 30, 2004 Form 10-Q)

10.21 Chicago Office Lease Documents
- a Office Lease dated April 7, 1988 by and between Playboy Enterprises, Inc. and LaSalle National Bank as Trustee under Trust No. 112912 (incorporated by reference to Exhibit 10.7(a) from the 1993 Form 10-K)
- b First Amendment to April 7, 1988 Lease dated October 26, 1989 (incorporated by reference to Exhibit 10.15(b) from our annual report on Form 10-K for the year ended June 30, 1995, or the 1995 Form 10-K)
- c Second Amendment to April 7, 1988 Lease dated June 1, 1992 (incorporated by reference to Exhibit 10.1 from our quarterly report on Form 10-Q for the quarter ended December 31, 1992)
- d Third Amendment to April 7, 1988 Lease dated August 30, 1993 (incorporated by reference to Exhibit 10.15(d) from the 1995 Form 10-K)
- e Fourth Amendment to April 7, 1988 Lease dated August 6, 1996 (incorporated by reference to Exhibit 10.20(e) from the 1996 Form 10-K)
- f Fifth Amendment to April 7, 1988 Lease dated March 19, 1998 (incorporated by reference to Exhibit 10.3 from the March 31, 1998 Form 10-Q)
- g Sixth Amendment to April 7, 1988 Lease effective May 1, 2006 (incorporated by reference to Exhibit 10.9.1 from the September 30, 2006 Form 10-Q)

10.22 New York Office Lease Documents
- a Agreement of Lease dated August 11, 1992 between Playboy Enterprises, Inc. and Lexington Building Co. (incorporated by reference to Exhibit 10.9(b) from the 1992 Form 10-K)
- b Second Amendment to August 11, 1992 Lease dated June 28, 2004 (incorporated by reference to Exhibit 10.4 from the June 30, 2004 Form 10-Q)

10.23 Los Angeles Studio Facility Lease Documents
- a Agreement of Lease dated September 20, 2001 between Kingston Andrita LLC and Playboy Entertainment Group, Inc. (incorporated by reference to Exhibit 10.3(a) from the September 30, 2001 Form 10-Q)
- b First Amendment to September 20, 2001 Lease dated May 15, 2002 (incorporated by reference to Exhibit 10.3 from the June 30, 2002 Form 10-Q)
- c Second Amendment to September 20, 2001 Lease dated July 23, 2002 (incorporated by reference to Exhibit 10.6 from the September 30, 2002 Form 10-Q)
- d Third Amendment to September 20, 2001 Lease dated October 31, 2002
- e Fourth Amendment to September 20, 2001 Lease dated December 2, 2002
- f Fifth Amendment to September 20, 2001 Lease dated December 31, 2002
- g Sixth Amendment to September 20, 2001 Lease dated January 31, 2003

(items (d) through (g) incorporated by reference to Exhibits 10.17(d) through (g), respectively, from the 2002 Form 10-K)
- h Guaranty dated September 20, 2001 by Playboy Entertainment Group, Inc. in favor of Kingston Andrita LLC (incorporated by reference to Exhibit 10.3(c) from the September 30, 2001 Form 10-Q)
- i Seventh Amendment to September 20, 2001 Lease dated July 23, 2003 (incorporated by reference to Exhibit 10.1 from our quarterly report on Form 10-Q dated September 30, 2003)

*10.24 Selected Company Remunerative Plans
- a Executive Protection Program dated March 1, 1990 (incorporated by reference to Exhibit 10.18(c) from the 1995 Form 10-K)
- b Amended and Restated Deferred Compensation Plan for Employees effective January 1, 1998
- c Amended and Restated Deferred Compensation Plan for Board of Directors effective January 1, 1998

(items (b) and (c) incorporated by reference to Exhibits 10.2(a) and (b), respectively, from our quarterly report on Form 10-Q for the quarter ended June 30, 1998)
- d Amended and Restated Playboy Enterprises, Inc. Board of Directors' Deferred Compensation Plan, effective January 1, 2005
- e Amended and Restated Playboy Enterprises, Inc. Deferred Compensation Plan, effective January 1, 2005

f Fourth Amendment, dated as of August 30, 2006, to the Playboy Enterprises, Inc. Employee Investment Savings Plan (as amended and restated January 1, 1997)

(items (d) through (f) incorporated by reference to Exhibits 10.4 through 10.6, respectively, from the September 30, 2006 Form 10-Q)

@g Fifth Amendment, dated as of November 29, 2007, to the Playboy Enterprises, Inc. Employee Investment Savings Plan (as amended and restated January 1, 1997)

@h Sixth Amendment, dated as of November 29, 2007, to the Playboy Enterprises, Inc. Employee Investment Savings Plan (as amended and restated January 1, 1997)

*10.25 1991 Directors' Plan

a Playboy Enterprises, Inc. 1991 Non-Qualified Stock Option Plan for Non-Employee Directors, as amended (incorporated by reference to Exhibit 10.23(c) from the 2004 Form 10-K)

b Playboy Enterprises, Inc. 1991 Non-Qualified Stock Option Agreement for Non-Employee Directors (incorporated by reference to Exhibit 10.4(nn) from the 1991 Form 10-K)

*10.26 1995 Stock Incentive Plan

a Third Amended and Restated Playboy Enterprises, Inc. 1995 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 from the June 30, 2007 Form 10-Q)

b Form of Non-Qualified Stock Option Agreement for Non-Qualified Stock Options which may be granted under the Plan

c Form of Incentive Stock Option Agreement for Incentive Stock Options which may be granted under the Plan

d Form of Restricted Stock Agreement for Restricted Stock issued under the Plan

(items (b), (c) and (d) incorporated by reference to Exhibits 4.3, 4.4 and 4.5, respectively, from our Registration Statement No. 33-58145 on Form S-8 dated March 20, 1995)

e Form of Section 162(m) Restricted Stock Agreement for Section 162(m) Restricted Stock issued under the Plan (incorporated by reference to Exhibit 10.1(e) from our annual report on Form 10-K for the year ended June 30, 1997)

*10.27 1997 Directors' Plan

a Second Amended and Restated 1997 Equity Plan for Non-Employee Directors of Playboy Enterprises, Inc. (incorporated by reference to Exhibit 10.3 from the June 30, 2007 Form 10-Q)

b Form of Restricted Stock Agreement for Restricted Stock issued under the Plan (incorporated by reference to Exhibit 10.1(b) from our quarterly report on Form 10-Q for the quarter ended September 30, 1997)

*10.28 Form of Nonqualified Option Agreement between Playboy Enterprises, Inc. and each of Dennis S. Bookshester and Sol Rosenthal (incorporated by reference to Exhibit 4.4 from our Registration Statement No. 333-30185 on Form S-8 dated June 27, 1997)

*10.29 Playboy Enterprises, Inc. Employee Stock Purchase Plan, as amended and restated (incorporated by reference to Exhibit 10.4 from the June 30, 2007 Form 10-Q)

*10.30 Selected Employment, Termination and Other Agreements

a Form of Severance Agreement by and between Playboy Enterprises, Inc. and each of Linda Havard, Christie Hefner, Martha Lindeman, Richard Rosenzweig, Howard Shapiro and Alex Vaickus (incorporated by reference to Exhibit 10.23(a) from the 2001 Form 10-K)

b Memorandum dated May 21, 2002 regarding severance agreement for Linda Havard (incorporated by reference to Exhibit 10.6 from the June 30, 2002 Form 10-Q)

c Employment Agreement dated as of September 15, 2006, between Playboy Enterprises, Inc. and Robert Meyers

d Severance Agreement dated as of September 18, 2006, between Playboy Enterprises, Inc. and Robert Meyers

(items (c) and (d) are incorporated by reference to Exhibits 10.8.1 and 10.8.2, respectively, from the September 30, 2006 Form 10-Q)

@e Memorandum dated December 21, 2007 regarding severance agreement for Alex Vaickus

@21 Subsidiaries

@23	Consent of Ernst & Young LLP
@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

---

* Indicates management compensation plan

\# Certain information omitted pursuant to a request for confidential treatment filed separately with and granted by the SEC

@ Filed herewith

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.

March 14, 2008

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/Christie Hefner Christie Hefner Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	March 14, 2008
/s/Richard S. Rosenzweig Richard S. Rosenzweig Executive Vice President and Director	March 14, 2008
/s/Dennis S. Bookshester Dennis S. Bookshester Director	March 14, 2008
/s/David I. Chemerow David I. Chemerow Director	March 14, 2008
/s/Charles Hirschhorn Charles Hirschhorn Director	March 14, 2008
/s/Jerome H. Kern Jerome H. Kern Director	March 14, 2008
/s/Russell I. Pillar Russell I. Pillar Director	March 14, 2008
/s/Sol Rosenthal Sol Rosenthal Director	March 14, 2008
/s/Linda Havard Linda G. Havard Executive Vice President, Finance and Operations, and Chief Financial Officer (Principal Financial and Accounting Officer)	March 14, 2008

END