PRIVATE MEDIA GROUP INC
Form 10-K
April 15, 2009

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

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 000-25067

PRIVATE MEDIA GROUP, INC.

(Name of Registrant as specified in its Charter)

Nevada	**87-0365673**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification Number)**

3230 Flamingo Road, Suite 156, Las Vegas, Nevada 89121

(Registered office)

Calle de la Marina 14-16, Floor 18, Suite D, 08005 Barcelona, Spain

(European headquarters and Address of principal executive offices)

34-93-620-8090

(Issuer s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.001 par value	**The Nasdaq Stock Market LLC** **(Nasdaq Global Market)**

Securities registered pursuant to Section 12(g) of the Exchange 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 x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes ¨ No x

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

Indicate by check mark 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 file, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Act).

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

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

At June 30, 2008, the aggregate market value of the voting stock and non-voting common equity held by non-affiliates of the registrant was $37,758,840. The aggregate market value has been computed by reference to the last sales price of the common stock on June 30, 2008.

On March 27, 2009 the registrant had 62,114,802 shares of Common Stock outstanding.

PART I

ITEM 1. BUSINESS

This Report includes forward-looking statements. Statements other than statements of historical fact included in this Report, including the statements under the headings Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and elsewhere in this Report regarding future events or prospects, are forward-looking statements. The words may, will, expect, anticipate, believ estimate, plan, intend, should or variations of these words, as well as other statements regarding matters that are not historical fact, constitute forward-looking statements. We have based these forward-looking statements on our current view with respect to future events and financial performance. These views involve a number of risks and uncertainties which could cause actual results to differ materially from those we predict in our forward-looking statements and from our past performance. Although we believe that the estimates and projections reflected in our forward-looking statements are reasonable, they may prove incorrect, and our actual results may differ, as a result of the following uncertainties and assumptions:

- *our business development, operating development and financial condition;*
- *our expectations of growth in demand for our products and services;*
- *our expansion and acquisition plans;*
- *the impact of expansion on our revenue potential, cost basis and margins;*
- *the effects of regulatory developments and legal proceedings on our business;*
- *the impact of exchange rate fluctuations; and*
- *our ability to obtain additional financing.*

We do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except to the extent required by law. You should interpret all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf as being expressly qualified by the cautionary statements in this Report. As a result, you should not place undue reliance on these forward-looking statements.

THE COMPANY

OVERVIEW

Private Media Group, Inc., a US incorporated company, and its subsidiaries (together referred to hereinafter as Private Media Group , Private , the Company we or us) is a leading international provider of high quality adult media content for a wide range of media platforms. Any references in this report to Milcap Media Group refers to Milcap Media Group S.L.U.(Spain), and Milcap Media Limited refers to Milcap Media Limited (Cyprus).

Private Media Group, Inc. is incorporated in the State of Nevada. In accordance with Nevada law we maintain a registered office at 3230 Flamingo Road, Suite 156, Las Vegas, Nevada. Our European headquarters are located at the offices of one of our principal operating subsidiaries, Milcap Media Group, S.L.U, whose address is Calle de la Marina 14-16, Floor 18, Suite D, 08005 Barcelona, Spain +34-93-620 80 90.

We acquire worldwide rights to still photography and motion pictures tailored to our specifications from independent producers/directors and process these images into products suitable for popular media formats such as print publications, DVDs and electronic media content for Internet, mobile and broadcasting distribution. We distribute our adult media content directly, and through a network of local affiliates and independent distributors, through multiple channels, including (1) newsstands, video rental stores, travel retail and adult bookstores, (2) mail order catalogues, (3) IPTV (Internet Protocol Television), cable, satellite and hotel television programming, (4) over the Internet via proprietary websites and broadband delivery services and (5) wireless telephony. In addition to media content, we also market and distribute branded leisure and novelty products oriented to the adult entertainment lifestyle and generate additional sales through the licensing of our *Private* trademark to third parties. In the fiscal year ended December 31, 2008, we had net sales of EUR 19.7 million and a net loss of EUR 5.2 million.

Our business was founded in 1965 and achieved initial success through our flagship publication, *Private*, the first full color, hard-core sex publication in the world. Today, we produce two X-rated periodical magazines: *Private* and *Private Sex*. As of December 31, 2008, we had compiled a digital archive of more than two million photographs and all of our 535 issues of print publications. Approximately 50,000 copies of our print publications are distributed each month at an average retail price of approximately Euro 11.50.

Since 1992, we have also acquired, processed and distributed adult motion picture entertainment. We acquire worldwide rights to motion pictures that meet our exacting standards for entertainment content and production value from independent producers/directors, either under exclusive contracts or on a freelance basis. We then edit and process these motion pictures to ensure consistent image quality and prepare and customize them for distribution in several formats, including DVDs, broadcasting, which includes IPTV, cable, satellite and hotel television programming, and the Internet. Our proprietary motion pictures and those produced by joint ventures in which we participate have received more than 180 industry awards since 1994, evidencing our success in setting high quality standards for our industry. As of December 31, 2008, our movie library contained 1,268 titles. We expect to add more than 50 titles in 2009.

We license our content to cable & satellite television operators and IPTV platforms as well as to hotels. Through different partnerships, we have also launched two television channels, *Private Gold* and *PrivateSpice*, which broadcast our content. Consumers pay for these products either on a video-on-demand, pay-per-view or subscription basis.

Since 1997, we have expanded our presence in emerging electronic markets such as the Internet, broadcasting and hand-held devices including both mobile phones, iPods and other MP4 players. We believe that these technologies represent a substantial growth opportunity for us in the future.

We launched our first Internet website, *www.private.com*, in 1997. We now own a number of sites directed at specific customer bases, including www.privatespeed.com and www.private.com/shop. We also generate incremental sales by licensing our trademarks and proprietary adult media content for use on the websites of other companies.

On January 20, 2009 we expanded our Internet operations through the acquisition of Game Link LLC and its affiliates, companies engaged in digital distribution of adult content over the Internet and eCommerce development. GameLink is a leading US adult entertainment VOD and eCommerce platform through its GameLink.com website. The site s installed user base represents over one million domestic and international customers and it serves over 10,000 users daily. Including 60,000 video titles, GameLink has the largest library of digital and physical adult media and novelties in the United States

We operate in a highly regulated industry. This requires us to be socially aware and sensitive to government strictures, including laws and regulations designed to protect minors and to prohibit the distribution of obscene material. We take great care to comply with all applicable governmental laws and regulations in each jurisdiction where we conduct business. Moreover, we do not knowingly engage the services of any business or individual, including producers/directors,that does not adhere to the same standards. Since 1965, we have never been held to have violated any laws or regulations regarding obscenity or the protection of minors.

Private, Private Media, our Private logo, Pirate, Triple-X, Triple-X Files, Private Black Label, Private XXX, Gaia, Private Sex, Private Life, Private Style, www.privatespeed.com, Private Gold, Private Blue, www.private.com, www.prvt.com, www.privatelive.com, www.privatechannels.com, www.sex.se, www.privatepda.com, www.privatenightclub.com, www.privateathome.com, www.privatestars.com, www.private.com/shop, and www.privategold.com are some of our trademarks and trade names. Other marks used in this Report are the property of their owners, which includes us in some instances. Information on these websites is not a part of this Report.

Market Opportunity

Demand for adult entertainment products has grown substantially during the past decades. We believe that two principal factors are driving growth in our industry: the relaxation of social and legal restrictions on distribution of adult entertainment products and new technologies that facilitate the distribution of high quality adult media content to consumers in the privacy of their own homes. As a result of liberalized regulation of adult entertainment products, we now distribute our products in physical form in more than 40 countries worldwide with an aggregate current population of 1.1 billion, as compared to six European countries with a population of 144 million when the current management took over in 1991. We expect this liberalizing trend to continue.

The proliferation of easy to use electronic equipment, such as DVD players, which allow consumers to view high quality video products in the privacy of their home, has boosted demand for adult media content compatible with these formats. For example, DVD players have been adopted by consumers faster than any other electronic device ever, including the cell phone and personal computer.

Also, the evolution of the Internet as a channel of commerce and content distribution has stimulated additional demand for adult media content. In addition, advances in cable, satellite and hotel communications systems furnish another channel for the delivery of media content, including adult entertainment, into private homes, hotels and businesses.

More recently, the telecommunications industry has shown considerable interest in the use of adult content on hand-held devices such as mobile telephones and other wireless activated devices. This provides an additional and exciting new source of potential revenues for us as one of the principal providers of adult content.

We expect these regulatory and technological developments to fuel increasing demand worldwide for adult media content, including demand for our products. In addition, we believe that market demand for content to fill new media outlets will lead mainstream media content providers to seek still more adult media content in the future. We expect that the high quality standards of the mainstream media, technological demands of multiple delivery formats and global marketing and distribution costs will increase capital requirements for providers of adult media content. While the adult entertainment industry is currently characterized by a large number of relatively small producers and distributors, we believe that the factors discussed above will cause smaller, thinly capitalized producers to seek partners or exit the adult entertainment business, leading to a consolidation of the adult entertainment industry.

Our Competitive Strengths

We believe the following strengths, among others, will enable us to exploit the growing global market for adult entertainment:

Extensive library of high quality adult media content

We have an extensive library of high quality adult media content. As of December 31, 2008, our library included still photographs developed for more than 500 back-issues of magazines and 1,000 movie titles. We hold exclusive worldwide rights to this entire content archive. This has enabled us to enter into distribution arrangements with a wide range of media content platforms, including leading international telecoms and broadcasting companies. To facilitate electronic distribution of our products, we have converted our entire archive of print images into a digital format. Our video archive is now also stored in rich media digital format, which can be converted into any known file format. We believe that this electronic archive constitutes one of the largest libraries of high quality adult media content in the world.

Recognized brand name

We believe that our target customers associate the *Private* brand name with high quality adult entertainment products and services. This name recognition attracts leading producers of adult media content, as well as distributors and prospective joint venture partners interested in working with Private Media Group. We believe that the strength of our brand name leads to more favorable economic terms than we could otherwise obtain in our processing and distribution contracts, and enables us to negotiate favorable revenue sharing arrangements and joint ventures from which we derive significant licensing fees and royalty income. We have entered into joint venture and co-branding agreements with leading participants in our industry and other related industries, including Playboy and Penthouse. We seek to strengthen awareness of our brand name by consistently featuring the *Private* label prominently in our product packaging, cross-promoting our own products, selectively sponsoring athletes and distributing under the *Private* label complementary or ancillary non-media products that are consistent with an adult entertainment lifestyle. We believe that these activities engender a loyal customer base which, in turn, enables us to grow even with relatively modest external advertising and marketing expenditures.

Established market position and distribution network

We have access to a well-established worldwide distribution network which has been built up over the past 40 years, including some 250,000 points of sale in over 40 countries as of December 31, 2008. In many markets, we believe that our established presence hinders our competitors ability to break into the market. In some cases, exclusive distribution agreements improve our market position further. This broad distribution network provides an effective channel to introduce new products and services and new formats for existing products and services. In electronic media categories, we have entered into strategic alliances with a number of leading international service providers. In addition, we have assembled an internal team of Internet specialists to maintain and improve our Internet infrastructure and electronic products and services. In January 2009 we expanded our Internet operations through the acquisition of Game Link LLC and its affiliate, companies engaged in digital distribution of adult content over the Internet and eCommerce development. We believe that our broad, multi-format distribution network affords our customers convenient access to high quality adult media content in the format of their choice.

Flexible operating structure and access to capital

We acquire adult media content from third-party producers/directors on a project basis. This approach gives us substantial flexibility in terms of production volume and delivery time, significantly reduces our fixed production overhead and largely eliminates the risk to us of cost overruns in production. Because of our multiple product and service formats and broad distribution network, we can afford to hire top directors in the industry, which we believe results in a higher quality product for our customers. Similarly, we reduce our fixed processing costs by outsourcing editing and duplication functions for most of our products, although we retain oversight of the overall production process for cost and quality control purposes. As a public company with access to the capital markets we believe that we will have sufficient financial resources to increase our production and grow through acquisitions without sacrificing our high quality standards. However, we cannot guarantee that funds will be available from the capital markets when needed.

Experienced professional management

Our management team has extensive experience in the acquisition and distribution of adult media content and in general business administration. Berth H. Milton, our Chairman of the Board and Chief Executive Officer, has extensive knowledge of our industry and has successfully founded and developed other profitable businesses. Other members of our management team have broad expertise in content acquisition, sales and marketing, technology and finance, and have contributed to our record of growth in our core business and in acquiring and integrating companies in related businesses.

Our Strategy

Our vision is to be the world s preferred content provider of adult entertainment to consumers anywhere, at any time and across all distribution platforms and devices. We have developed the strategies described below to increase sales and operating margins while maintaining the quality of our products and services and the integrity of our brand name.

Develop strategic alliances and joint ventures with businesses outside of the adult entertainment industry to broaden our distribution channels. We are entering into strategic alliances and joint ventures with leading media companies outside of the adult entertainment industry to distribute our adult media content for use on popular and newly developing media formats, including revenue sharing relationships with cable and satellite television operators, telecoms and Internet service providers with significant market positions. We expect these initiatives to widen the scope of our distribution network, enabling us to reach new customers while supplying our partners and licensees with content.

To be at the forefront of the adult entertainment industry in adapting new technology and distribution channels such as wireless and IPTV[1] distribution of our content. By actively seeking out and utilizing advanced technologies such as broadband Internet, cable and satellite television, IPTV and wireless devices to distribute our content, we expect to increase revenues with minimal incremental cost.

To be able to deliver our entire movie library, including metadata, via any new format in order to facilitate distribution and provide unparalleled service. We have developed an extensive library of motion pictures and other pictorial content. Until recently, this library was archived on a master print, which would allow duplication in traditional media. New forms of electronic distribution provide us with an opportunity to use this content by distributing it through new forms of media, such as, Internet broadband, IPTV broadcasting and wireless devices.

Continue to increase and strengthen brand awareness. We have developed strong brand awareness within each of our magazines and videos targeted markets. We own the worldwide rights to all of our content. We seek to strengthen awareness of our brand name by consistently featuring the *Private* label prominently in our product packaging, cross-promoting our own products, selectively sponsoring sports and distributing under the *Private* label complementary or ancillary non-media products that are consistent with an adult entertainment lifestyle.

Our Principal Products and Markets

Movie Productions

Since 1992, we have acquired and distributed adult motion picture entertainment. These productions generally feature men and women in a variety of erotic and sexual situations, in hardcore and softcore versions. We maintain the ownership and copyrights of every movie we acquire. We expect to release more than 50 movie titles in 2009, with distribution through our worldwide network. As of December 31, 2008, our movie library contained 1,170 movie titles. These products are sold by both traditional and technologically advanced distributors, and wholesalers worldwide. Distributors include national video store and newsstand distribution networks, and Internet, IPTV, cable, satellite, mobile telephone network and hotel television operators.

Internet

We launched our first Internet website, *private.com*, in 1997. We now own a number of sites directed at specific customer bases, including *privatespeed.com* and *private.com/shop*. In January 2009 we expanded our Internet operations through the acquisition of Game Link LLC and its affiliate, companies engaged in digital distribution of adult content over the Internet and eCommerce development. We also generate incremental sales by licensing our trademarks and proprietary adult media content for use on the websites of other companies.

The Internet team has combined Private Media Group s extensive media library with the most advanced technology to take advantage of the growth of broadband Internet access and new distribution methods. Private has developed several key product offerings which include video on demand, live sex chat, adult personals and e-commerce.

Wireless - Mobile Entertainment

We launched our mobile content program in 2003 and it has been growing rapidly since. We generate revenues from wireless deals both on and off portal and our current principal market is Europe. Our product offering currently consist of games and rich-media mobile downloads including; MMS, wallpapers, screensavers, video clips and video streaming.

1 IPTV (Internet Protocol Television) describes a system where a digital television service is delivered to subscribing consumers using the Internet Protocol over a broadband connection.

Magazine Publications

We are the publisher of *Private*, an international X-rated magazine. *Private* was founded in 1965, and was the first full color, hardcore sex publication in the world. Today, we produce two X-rated magazines which are released bi-monthly: *Private,* and *Private Sex*. We distribute these magazines through newsstands and other retail outlets.

History

The parent company, Private Media Group, Inc., was originally incorporated in 1980 as a Utah corporation under the name Glacier Investment Company, Inc. for the purpose of acquiring or merging with an established company. In 1991, we changed our domicile to the State of Nevada. The parent company had no material business activity prior to its acquisition of Milcap Media Limited and Cine Craft Limited in June 1998.

On December 19, 1997 Private Media Group, Inc. entered into acquisition agreements with Milcap Media Limited and Cine Craft Limited to acquire all of their outstanding capital stock in exchange for 22,500,000 shares of Common Stock, 7,000,000 shares of the $4.00 Series A Preferred Stock, and 2,625,000 common stock purchase warrants. Private Media Group, Inc. completed these acquisitions on June 12, 1998. In connection with these acquisitions, in December 1997 the parent company changed its corporate name to Private Media Group, Inc. and declared a one for five reverse split of its Common Stock.

On January 28, 2000, we acquired all of the outstanding shares of Extasy Video B.V. for total consideration of Euro 3.2 million. The consideration consisted of 208,464 shares of common stock and warrants to purchase 208,464 shares of common stock. The warrants were exercisable during the period January 28, 2001 to January 28, 2004 at an exercise price of $9.63.

In May 2000, we authorized a three-for-one stock dividend on our common stock, which was distributed to holders of record of common stock on May 30, 2000.

As of January 1, 2001, we acquired Coldfair Holdings Ltd., a company incorporated and organized under the laws of the Republic of Cyprus, for a total consideration of Euro 1.5 million payable in 248,889 shares of common stock. Coldfair Holdings is our Internet company which is engaged in online marketing and sale of adult entertainment products and services.

Effective April 1, 2001, we acquired the inventory and certain contracts of our U.S. distributor, Private USA, in exchange for Euro 1.0 million and the assumption of Private USA s obligations under some contracts.

On April 8, 2001, Peach Entertainment Distribution AB (Sweden), a subsidiary of Private Media Group, Inc., sold its interest in Private Circle, Inc., a company engaged in the design, production and marketing of trendy casual apparel, for an adjusted consideration of Euro 2.9 million as of May 2001.

On December 31, 2002, we acquired all of the outstanding shares of Barbuda B.V., a company owning a building, for total consideration of Euro 10.0 million. The consideration consisted of cash and a note payable in the amount of Euro 6.6 million. The purpose of this transaction was to acquire this property as its European headquarters. Since the acquisition, the Company has been reevaluating its need for additional space and as of February 2005, the Company no longer owns this property.

On May 30, 2003 we acquired certain assets, including governmental film board approvals and distribution rights from its former Canadian distributor, Software Entertainment Ltd. In exchange for Euro 0.7 million.

On November 26, 2003 we entered into an Asset Purchase Agreement to acquire certain intangible assets from International Film Production and Distribution Limited, including certain rights and distribution and licensing agreements. The transaction closed on November 28, 2003. The consideration for the transaction was Euro 2.5 million.

On January 20, 2009 we expanded our Internet operations through the acquisition of Game Link LLC and its affiliate, companies engaged in digital distribution of adult content over the Internet and eCommerce development. The consideration for the transaction consisted of 8,534,309 shares of common stock, plus up to an additional 4,595,397 shares of common stock if the combined EBITDA of the digital media operations of Private (including Game Link) meet specified targets in 2009, 2010 and 2011.

INDUSTRY OVERVIEW

The adult entertainment industry has evolved rapidly during the past decades. In spite of often intense political campaigning, there has been a general trend towards wider acceptance of adult entertainment content among the general public and mainstream media channels. New technologies have lowered costs and changed the way in which adult content is produced, distributed and viewed. Lower costs, in particular, have lowered barriers to entry and increased competition in the adult entertainment industry. The trend toward wider acceptance of sexually-explicit material and ongoing technological developments has created a large and growing global market for adult content.

Historically, the adult entertainment industry has attracted a considerable level of government and regulatory attention primarily due to obscenity, which has led to limitations on either the explicitness of content or the availability. Traditionally, to view adult material, consumers were required to purchase movies in a public environment or to go to an adult movie theatre or peepshow.

Through a process of evolution rather than revolution the adult entertainment industry has become more acceptable over time, with a relaxation of the regulations and guidelines governing the industry. For example, in the United Kingdom, one of Europe s more restrictive countries with respect to adult entertainment, there has been a gradual relaxation of what is suitable for public viewing. The British Board of Film Classification, BBFC, has introduced the R18 category, allowing distribution of hardcore adult videos through licensed sex shops for the first time.

New technologies have helped to legitimize the industry and increase the size of the market. During the 1980s, the introduction of adult movies on videocassette and through broadcasting on cable and satellite television increased acceptance of adult media content by confining it to the privacy of the consumer s home. More recently, the Internet has become a primary distribution platform for both suppliers and consumers of adult media content providing low-cost delivery and increased privacy. Although currently under-exploited, third generation mobile and handheld devices are likely to increase the market even further in the future, making adult media content viewing mobile.

The production and distribution of adult media content is very competitive. Hundreds of companies are now producing and distributing movies to wholesalers and retailers, as well as directly to consumers. The low cost of high quality digital video cameras and equipment has significantly lowered the barrier to entry for production of adult media content. According to Adult Video News, annual worldwide release of adult movie titles peaked at 25,000 and is currently at 11,000 of which 4000 in US alone vs. 500 mainstream movies produced by Hollywood. The bulk of this production is represented by low quality, amateur productions, made for only a few thousand dollars, as opposed to the larger, professionally produced movies with high production values. Around 20 major producers, such as Private Media Group, Vivid, Video Company of America and Hustler Video, release most high budget adult movies. See Business-Competition. In addition, because it costs as little as $5,000 to establish an Internet presence, there is significant competition among distributors of adult media content over the Internet. The proliferation of websites distributing adult media content has itself fueled a greater and ongoing demand for the creation and licensing of new adult media content.

We believe that the U.S. adult entertainment market exceeds $12 billion annually. This covers memberships and subscriptions, Internet, escort services, magazines, sex clubs, telephone sex lines, IPTV, cable and satellite pay-per-view and video-on-demand programming, adult videos and toys and other related products and services.

DVDs

According to figures compiled by the DEG (Digital Entertainment Group - US) based on data from Consumer Electronics Association (CEA) retailers and manufacturers, an estimated 25 million DVD players were sold to U.S. consumers in 2008. Since launch in spring 1997, some 264 million DVD players, including set-top and portable DVD players, Home-Theater-in-a-Box systems, TV/DVD and DVD/VCR combination players, have been sold to consumers, bringing the number of DVD households to approximately 92 million (adjusting for households with more than one player). The DEG estimates that 63.5 percent of DVD owners have more than one player. Total consumer spending on home video in the US, including DVD/VHS - rental/sell through, has gone from $14.0 billion in 2000 to $22 billion in 2008.

In 2006, total sales and rentals of adult videos and DVDs in the United States were approximately $ 3.35 billion according to Adult Video News estimates.

Broadcasting

General growth in the PPV/VOD market in the US and Western Europe is expected to result in part from cable system digitization upgrades utilizing fiber-optic, digital compression technologies or other bandwidth expansion methods that provide cable operators additional channel capacity. Cable operators are shifting from analog to digital technology in order to upgrade their cable systems and to respond to competition from DBS (Digital Broadcast Satellite) providers who offer programming in a 100% digital environment. When implemented, digital compression technology increases channel capacity, improves audio and video quality, provides fully secure scrambled signals, allows advanced set-top boxes for increased interactivity, and provides for integrated electronic programming guides (EPG). Cable operators are also using their upgraded plants to provide their digital customers with VOD (Video-On-Demand) services. For the most part, the appeal of VOD to adult video consumers is no different than it is to consumers of other genres: VOD gives subscribers the opportunity to purchase movies impulsively, and the ability to watch movies exactly when, where and as often as they want. However, the ability to pause, rewind and fast-forward a VOD program essentially mimicking the functionality of a DVD may hold even more appeal for adult video consumers. In addition, broadband pipes and Internet protocol are allowing video-delivery upstarts to challenge cable players in the digital on-demand arena. IPTV[2]-based video-on-demand (IP-VOD), while still an emerging market, is beginning to gain traction and its potential is huge. Although IP-VOD is still in its absolute infancy and VOD via cable is the default delivery pipe at the moment, it is interesting to note that forecasts[3] see the global number of IPTV subscribers grow from 20.4 million in 2008 to 89.1 million in 2012.

In response to the development and rollout of IPTV and cable based TVOD, the Company is aggressively targeting all major TVOD platforms and we are currently in the process of rolling out our content on a large majority of platforms in Europe.

Adult services will serve as an important driver to cable and IPTV systems in their efforts to attract subscribers to digital services, including VOD. In 2006, adult content sales represented 30% of all on-demand type of service revenue in the United States, according to SNL Kagan.

Europe

Adoption of digital TV (DTV) is growing more rapidly than ever in Western Europe, driven by the success of new delivery platforms such as Digital Terrestrial (DTT) broadcasting and IP-based TV from telcos and other providers. Strategy Analytics estimated[4] that the number of households using some form of digital TV in Western Europe was 75 million in 2006, up from 56 million at the end of 2005. Strategy Analytics forecasts that by 2010, DTV will be used by almost 127 million households in the region close to 77 percent of all TV homes. The growth of DTT and IPTV threatens cable and satellite operators who have historically dominated pay TV in Europe and other regions. These new platforms will also spur millions of consumers to access TV programming from multiple sources, especially in countries where hybrid services combining free DTT channels with broadband-delivered IPTV content are being launched.

According to Global IPTV Forecasts made by MRG (Multimedia Research Group, Inc.), Europe continues to be the biggest market for IPTV, with France significantly leading the growth projections through its principal telcos. The number of IPTV subscribers in Europe is forecasted to grow from approximately 6.4 million in 2007 to 36.4 million in 2012, a compound annual growth rate of 42 percent. At present, a large majority of all new IPTV platforms include adult entertainment in their VOD offering and we have contracted with operators covering more than 70% of European IPTV subscribers.

2 IPTV (Internet Protocol Television) describes a system where a digital television service is using the Internet Protocol via broadband.
3 MRG, Inc. ¨ IPTV Global Forecast 2008 to 2012, Semiannual IPTV Global Forecast, October 2008.
4 Strategy Analytics - Digital TV Subscriber Market Forecast Data - Western Europe Aug 2006

United States

According to SNL-Kagan the number of digital households in the United States is expected to grow from 62 million in 2006 to 100 million by 2012. VOD availability is becoming increasingly widespread and is now on its way to becoming a mainstream content-delivery platform. Kagan research indicates that nearly 29 mil. cable homes had VOD by the end of 2006, a number that is on track to reach 59 mil. by the end of 2012. With respect to IP-VOD Kagan estimates the number of subscribers to IP-VOD services to increase from 300,000 in 2006 to nearly 8 million in 2012.

Kagan estimates that adult service revenue generated by IPTV, cable systems and DBS providers in 2006 was $843 million. As more cable operators add adult and distributors continue to expand their offerings, Kagan projects revenues from the adult category will grow to $1.3 billion by the year 2012.

Internet

The adult entertainment industry was among the first to commercially exploit the Internet as a distribution channel and is, together with gambling and online games, among the few industries which generate profit on the Internet. The Internet offers relative privacy for users, a seemingly endless selection of adult media content and can provide immediate delivery.

The use of the Internet for viewing adult media content has increased significantly. Broadband Internet access is transforming the way that millions of consumers use and pay for news, entertainment, music and other media. Consumers use their Internet high-speed, always-on broadband connections to access and pay for entertainment content, including adult content, and services. During the 12 months ended December 31, 2008, global broadband subscriptions were estimated to have grown by 14% to 411 million[5].

The increased availability of adult media content on the Internet has attracted considerable attention. Concerns have arisen with respect to child protection and the distribution of illegal material. In response to the issue of child protection, a number of software packages have become available that control the content that can be accessed from a personal computer. Products such as Surfcontrol, NetNanny, Websense and others can be employed to filter sites for inappropriate material, blocking access for unauthorized users.

5 Point Topic Ltd s (UK) World Broadband Statistics Q4/08.

VIDEO

Production

In 1992, we began releasing movies under the *Private* label. Our adult movies are in genres similar to our magazines and books under the titles listed in the table below. Normally, we spend between $ 50,000 and $ 150,000 per acquired movie. This amount excludes the computation of the post-production, master production, duplication and distribution costs. Generally, Milcap Media Group creates and designs all artwork for promotional items and packaging and contracts for printing services. Since 1999 all DVDs have been duplicated by independent laboratories. A number of our labels, including *Private Gold, Private Black Label, Private Movies, The Private Life of* and *Private Tropical* are released on a monthly or bimonthly basis.

We finance all the adult movies we acquire, and we contract with third-party movie producers on a flat fee basis. We have entered into agreements with some movie directors under which they have agreed to provide their services to us on an exclusive basis, generally for a period of one to three years. All producers assume production costs and obligations, including among other things, the delivery of rights, model releases and all production and performers related paperwork. The free lance producers deliver the movies on digital masters to us. Digital Masters are customized, dubbed, sub-titled and duplicated by our subsidiary Peach Entertainment Distribution and from there they are sent to different distributors and DVD duplication centers. Some distributors receive a master directly and do their own duplication. All marketing material and artwork for video covers is created at Milcap Media Group.

As of December 31, 2008, our movie library contained 1,268 movie titles. During 2009, we expect the total to increase by more than 50 titles. Almost all titles are available on DVD. We presently market our DVDs in over 40 countries.

MOVIE LIBRARY	**As of December 31,**	
	2008	**2007**
Title	**Nº of Titles**	**Nº of Titles**
Amanda s Private Diary	5	5
Best - End of Year	12	11
Best of by Private	98	80
Bukkakke	7	7
Cum on my face	7	7
Phantom Seducer	2	2
Gaia	6	6
Horny Housewives	9	9
Ionie Luvecoxxx	20	20
Mansize	13	13
Peepshow Special	12	12
Pirate Fetish Machine	32	30
Pirate Video	12	12
Pirate Video de Luxe	16	16
Private Auditions	10	2
Private Black Label	56	56
Private Blockbuster	4	1
Private Castings	53	53
Private Festish	4	
Private Films	28	28
Private Gold	101	96
Private Interactive	1	1
Private Lesbian	9	3
Private Lust Treasures	9	9

MOVIE LIBRARY	As of December 31,	
	2008	2007
Title	Nº of Titles	Nº of Titles
Private Man	14	14
Private Man - Stars	12	12
Private Movies	47	40
Private Porn Vacation	3	3
Private Reality Video	26	26
Private Specials	12	1
Private Sports	12	12
Private Stories	27	27
Private Superf*ckers	12	12
Private Exotic	4	3
Private Tropical	34	34
Private Video Magazine	26	26
Private X-Treme	37	37
Private XXX	39	38
Private-Ninn	4	4
Private-Penthouse Movies	12	12
The Best of the Year	12	12
The Matador Series	15	15
The Private Adventures of Pierre Woodman	10	10
The Private Life of	55	48
The Private Story of	9	9
Triple X Files	12	12
Triple X Video	32	32
Virtualia	6	6
When Pornstars Play	6	6
Erotica (soft titles)	264	240
Total	**1,268**	**1,170**

Distribution

We distribute our productions worldwide via digital masters and DVDs are sold or rented in video stores, sex shops, newsstands and other retail outlets, and where permitted, through direct mail. We do also sell DVDs directly to consumers via our website. We license our movies to IPTV, cable and satellite television networks and adult pay-per-view television channels. These licenses generally grant the operator a specific right of transmission and we retain the intellectual property rights of every production. We edit many of our new feature movie releases into several versions depending on the media through which they are to be distributed. Versions edited for cable, satellite and hotel television programming may be less sexually explicit than the versions edited for home video distribution.

DVDs

We believe we set a high standard for DVDs in the adult entertainment industry, with each DVD released by us possessing five language options as well as four other subtitled languages. We believe that our multi-language DVD format provides a significant competitive advantage for us because it attracts consumers worldwide and expands our international marketing and sales potential. This global format allows us to reduce our overall unit production costs and increase profit margins. Currently, the majority of DVDs released by our competitors in the United States and worldwide are produced in only one language since they either license titles country-by-country or manufacture each title in separate languages, thus losing out on economies of scale, which further drives down our competitors profit margins.

We have entered into distribution agreements in over 40 countries. Under these distribution agreements, and according to the territory, one of our subsidiaries, Peach Entertainment Distribution or Milcap Media Group, agrees to provide a specific minimum number of new titles each month during the term of the agreement, and a licensee normally serves as the exclusive distributor throughout its own country or language territory. Under the various distribution agreements, licensees are normally required to purchase a minimum number of units for each monthly period during the term of the agreement. In countries such as Germany, we have expanded our relationships with our national distributor by entering into exclusive multi-year, multi-product output agreements. In countries such as the Benelux countries and Spain, we have established local subsidiaries for the purpose of owning or controlling local distribution. In general, however, we believe that national distribution agreements enable us to have an ongoing branded presence in international markets and to generate higher and more consistent revenues, than we could achieve selling directly to retailers.

Broadcasting

Cable and satellite television has brought adult media content into the privacy of the home. Technological developments, in particular the evolution of digital broadcasting, has not only increased the number of channels that can be delivered directly to the home via satellite (DTH or DBS), IPTV and cable, but has also led to the development of on-demand technologies such as Video On Demand (VOD) and Near Video On Demand (NVOD). The development of these services is benefiting the adult entertainment industry by providing a greater number of special interest channels allowing platform providers to target niche audience and also provide premium tier, Pay-Per-View (PPV) and subscription services.

TV-Channels

Since launching our broadcasting business in 2000, we have rapidly expanded in Europe, Latin America and the United States. The broadcasting business was launched through an exclusive joint venture agreement with International Film Productions and Distributions, Ltd., (IFPD). IFPD was a European-based television broadcasting company associated with major content providers that specialized in the distribution of adult cable and satellite television channels. Under the joint venture agreement, IFPD was responsible for promoting and broadcasting two channels, namely Private Gold (hardcore) and Private Blue (soft core), globally. The agreement provided the Company with 65% of the gross profits generated from the broadcast of these channels. In 2003 the joint venture was dissolved and the Company acquired the channel names Private Gold and Private Blue, but continued licensing them to affiliated companies of IFPD under a two-year agreement with a minimum guarantee. The license was worldwide excluding North and Latin America and expired in 2005 when we entered into two new license agreements with RHF Productions Ltd for the UK and Playboy TV International for Europe excluding the UK.

The Private Gold channel was originally launched in Europe under an exclusive joint venture agreement with IFPD. As mentioned above, the Company later acquired the channel name and continued licensing it to an affiliate company of IFPD for a fixed fee. By the end of 2005, Private Gold had become the leading Adult Pay-TV channel in Europe and was distributed via satellite and cable in 25 countries in the region. In November 2005 the agreement with IFPD expired and the Company and Playboy TV International signed a five-year agreement to merge their two adult pay-TV channels, Private Gold and Spice Platinum, and thereby consolidating theirs market leadership in Europe. The new channel was launched under the name of Private Spice and under the terms of the agreement, Playboy TV International is operating, distributing and marketing the new channel and Private provides content, brand and marketing support. Prior to the merging of the two channels, Spice Platinum had rapidly become one of Europe s most sought after and fastest growing premium adult networks reaching in over 15 countries. In May 2006, the Private Spice Channel was launched in Europe and the new channel makes available unique and proprietary quality content, offering flexible language tailoring and market localization and platforms are be able to offer their viewers a unique channel developed and serviced by the world s leading adult television brands, while ensuring professional reliability and continuity. Since launching, the channel has been extremely successful and channel revenue for the six months ending December 2007 increased by 35% compared to the same period in 2006.

The Private Gold channel was also launched in Latin America in 2001, via the joint venture agreement with IFPD and under a distribution agreement with Pramer S.C.A. The agreement was terminated in 2005 and in May the same year, the Company partnered with Playboy TV Latin America, by signing an exclusive agreement to operate and distribute the Private branded channel throughout Latin America. Under the terms of the agreement, Playboy TV Latin America is operating and distributing the channel via its Pay TV distribution network. The channel is receivable in all of Latin America.

IPTV driven Video-on-Demand

While European broadband users are signing up for IPTV services in the hundreds of thousands each month, making Europe the biggest and fastest growing IPTV region in the world[6], we have successfully implemented part of our new media strategy and contracted for supplying content for TVOD[7] services to a total of 36 major platform operators in 18 countries in the region. During 2008 the European IPTV market grew by 50% to 11.3 million IPTV subscribers and by the end of the year we had gained more than 70% coverage with over 8.9 million subscribers. We expect this new broadcasting business to be main driver behind our future growth. Not only is this a rapidly expanding new business, but also a high-margin distribution channel with no additional investment requirements.

General Licensing

In Europe we license our content to channel operators. Typically we contract for a certain time period for a) a set quantity of specific titles, or b) access to our entire library for a limited quantity of unspecified titles. The operators distribute via Digital Terrestrial Television (DTT) and Cable & Satellite and are spread across Europe and include companies such as: Erotic Media ag, Sky Italy and Canal+.

In the United States, we recently partnered with New Frontier Media for the exclusive distribution of Private branded content to the U.S. broadcast market including video-on-demand, pay-per-view, IPTV and television. New Frontier Media s services reach over 139 million network homes and recently our content became available on the first video-on-demand platform in the US to more than six million subscribers via one of the biggest operators. Going forward, we expect additional video-on-demand platforms in the US to follow.

In-Room Entertainment

The Company also licenses the right to use its content to In-Room Entertainment operators.

WIRELESS MOBILE CONTENT

We generate revenues from wireless deals both on and off portal. Our ability to effectively use and re-use our content creates a high-margin business model for wireless since distribution costs are almost non-existent. The market currently consist of SMS, games and rich-media mobile downloads including; MMS, wallpapers, screensavers, video clips and video streaming. During 2008, the distribution of Private content continued to increase and by the end of the year it was available to more than 900 million handsets in 51 countries though 91 mobile operators. The markets of Asia and the Americas are still underexploited by us and therefore represent a significant growth potential. Furthermore, Mobile TV, increased penetration of 3G handsets and the implementation of age verification systems offer additional significant growth potential with both current and future operators in 2009 and beyond[8].

6 According to Global IPTV Forecasts made by MRG (Multimedia Research Group, Inc.), the number of global IPTV subscribers is estimated to grow from 13.5 million in 2007 to 92.8 million in 2012, a compound annual growth rate of 47 percent. Europe continues to be the biggest market for IPTV, with France significantly leading the growth projections through its principal telcos. The number of IPTV subscribers in Europe is forecasted to grow from approximately 6.4 million in 2007 to 36.4 million in 2012, a compound annual growth rate of 42 percent.

7 True Video On Demand - (TVOD) - TVOD is the ideal VOD service where individual users get immediate responses when interacting with the VOD system. With TVOD, the user can not only get instant access to the program online and watch it on TV, but also be able to do any VCR or DVD-like commands on the VOD system with the same quick response time as it is when working a VCR or DVD.

8 Juniper Research estimates in its white paper *Adult Content in the Palm of Your Hand (November 2007)* that the global mobile adult content market will increase from US$1.7 billion in 2007 to just over US$4.6 billion by 2012.

In addition, during 2007 we entered into an exclusive global partnership with Mobile Streams to distribute our premium adult content through their platform for off-portal mobile services. Mobile Streams is a premier global mobile music and media provider and through this partnership we are entering a new dimension of mobile content delivery. We believe the user behavior for mobile content will migrate from on-portal to off-portal and that this new business will be the principal revenue generator going forward.

INTERNET SERVICES

Overview

Private Media Group s Internet team has combined its extensive media library with the most advanced technology to take advantage of the growth of Internet access and new distribution methods. Private has developed several key product offerings which include a subscription based service, broadband video on demand sites, live sex chat service, adult personals, DVD rental service, and e-commerce shop. In January 2009 we expanded our Internet operations through the acquisition of Game Link LLC and its affiliate, companies engaged in digital distribution of adult content over the Internet and eCommerce development.

Key Products

Private.com (www.private.com) is the flagship site of Private Media Group s Internet offerings. The site offers access to high-quality adult content that includes full-length Private movies, photosets, sex-stories, a full library of Private magazines in image and downloadable PDF format, and third-party content. In addition, subscribers receive access to live webcam, live sex shows performed by couples, and adult personals. Premium content is also accessible through Private.com in a variety of different formats. The ability to purchase full-length DVD quality movies on a rental basis is available through Divx technology at a discounted rate for subscribers. One on one live chat is also accessible to members at a discounted rate. The site offers various payment methods to suit the ever-changing demands of the end-users that include credit card subscriptions, pay-per-minute dialers, debit cards, online checks, and SMS payments. All payments are made through a secured system and verification process that are in-line with the International and local e-commerce regulations. The Private.com website features the most advance technology to enable Private to protect its digital assets from theft and file sharing through usage of Microsoft digital rights encryption and protection. Private also goes the extra step to protect its library by digitally watermarking all images. Private.com acquires customers primarily through advertising in its DVDs, magazines and broadcast programming with minimal incremental cost. It also acquires new customers through its affiliate program Private Cash.

Private Shop (www.private.com/shop) offers a complete catalogue of Private products including Private videos and magazines, and adult toys available for purchase or downloading online. The site provides free pictures and free video clips to those who register with the shop. The site is built upon an extensive technical platform that utilizes real-time, secure transaction processing. In addition, the Shop is available in multi-lingual format and currency options based on a user s locale. In 2008, the average order value was US$105.

GameLink.com. On January 20, 2009 we expanded our Internet operations through the acquisition of the company Game Link LLC and its affiliates, companies engaged in digital distribution of adult content over the Internet and eCommerce development. GameLink is a leading US adult entertainment VOD and eCommerce platform through its GameLink.com website. The site s installed user base represents over one million domestic and international customers and it serves over 10,000 users daily. Including 60,000 video titles, GameLink has the largest library of digital and physical adult media and novelties in the United States. The Company offers VOD in multiple media formats including streaming and downloads to computers and iPhones. GameLink s infrastructure is the most robust in the industry and is highly flexible, customizable and scalable designed to support multiple retail strategies and products simultaneously. Additionally, through its related companies, GameLink offers third-party and white-label ecommerce solutions and development. For the year ended 2008 Gamelink and its affiliates reported net sales of USD 16.4 million.

The acquisition of GameLink is a significant development that will substantially contribute to our growth, while creating economies of scale. We have been establishing our digital strategy for the last year, and concluded that the combination of Private with a major online retailer and accomplished platform developer is the approach to achieving our goals in the rapidly changing business landscape. The combined content assets of Private and core competencies of GameLink offer a compelling new business model. We will be expanding our joint internet strategies globally with new formats and applications to be launched in 2009. Additionally, we will be developing improved interactive functionality for new media platforms such as IPTV and mobile, and maximizing our content monetization with the existing vast Private library as well as aggregation of select international studios offering a wide range of content and genres for all platform needs. With this expanded digital strategic focus we will be announcing a variety of compelling new initiatives during 2009.

MAGAZINE PUBLICATIONS

Our publishing operations include the publication of the adult magazines identified in the table below, special editions consisting of previously published material and occasional newsstand specials, calendars and paperback books. All of these magazines, together with local editions, are printed under various trade names and are distributed in over 40 countries. Our magazines feature pictures of men and women engaged in erotic and sexually explicit situations. During 2008 we distributed approximately 50,000 copies of our print publications per month at an average retail price of approximately (Euro) 11.50. Our current publications are *Private,* and *Private Sex* .

MAGAZINE LIBRARY	**As of December 31,**	
	2008	**2007**
Title	**Nº of Issues**	**Nº of Issues**
Private	210	204
Pirate	111	106
Triple-X	85	80
Private Sex	75	70
Private Man	4	4
Mansize	4	4
Special Editions	30	30
Best of Private (Book)	15	15
Special Editions (Book)	1	1
Total	**535**	**514**

	Quantities of Magazines Produced (Printed, not sold)	
Title	**2008**	**2007**
Private	211,931	223,200
Pirate	93,913	147,240
Triple-X	72,948	120,790
Private Sex	114,467	131,288
Special Editions		
Total	**493,259**	**622,518**

Our publications offer a variety of features and have gained a loyal customer base. We believe we have earned a reputation for excellence by providing a high standard of quality to the adult entertainment industry, while we maintain circulation leadership as the leading hardcore magazine publisher. All of our publications have long been known for their graphic excellence and features, and publish the work of top artists and photographers in the field. They are also renowned for their pictorials of beautiful people. Our magazines are the best selling in the industry while being among the highest priced.

All of our publications are printed by independent third parties. We have a longstanding relationship with several printers in Spain We believe that generally there is an adequate supply of printing services available to us at competitive prices, should the need for an alternative printer arise. All of our content acquisition and printing activities are coordinated through our operating facility maintained by our wholly owned subsidiary, Milcap Media Group.

Circulation

Our magazines have historically generated most of their revenues from firm sales distribution. However, during the past years distributors with rights to return has come to represent more than 50% of the distribution of our production. Single copy retail sales normally occur in adult book stores and newsstands. Newsstand retail sales are permitted in most of Europe and we distribute our magazines to newsstands in: Norway, Sweden, Finland, Denmark, the Netherlands, Germany, Austria, Switzerland, Belgium, France, Italy, Portugal and Spain.

Our magazines are distributed to newsstands and other public retail outlets through a network of national distributors, who maintain a local network of wholesale and retail distributors. We ship copies of each issue in bulk to our wholesalers, who distribute on to local retailers. Independent distributors who distribute our magazines do so under individual firm sales distribution agreements. Agreements with both national and independent distributors are normally subject to automatic yearly extensions unless either party terminates the arrangement.

Since 1998 we have sought to expand the use of our magazines content and other assets across different media formats. All issues of all our publications are available on our websites. Our magazines are also available for subscription on third party websites as electronic magazines.

Production, Distribution and Fulfillment

Several independent printers in Spain currently print most of our magazines, books, brochures and DVD covers. Printing costs vary based upon the price of component raw materials. The principal raw materials necessary for publication of our magazines are coated and uncoated paper. Paper prices are affected by a variety of factors, including demand, capacity, pulp supply and by general economic conditions. Our printers have a number of paper supply arrangements and we believe that those arrangements provide an adequate supply of paper for our needs. In any event, we believe that alternative sources are available at competitive prices. With respect to pre-press and related services, we currently use our own scanning facilities. We are also using the latest technologies in this field, such as digital imposition and computer-to-plate process technology, or CTP.

We print and ship all of our proprietary magazines from Barcelona, Spain. We determine the amount of printed publications bi-monthly with input from each of our national distributors. Most of our products are packaged and delivered directly by the printer or supplier, while Milcap Media Group provides warehousing, customer service and payment processing.

TRADEMARK LICENSING

Private Licensing is a division of Private Media Group which coordinates a range of products associated with the Private brand, which includes: the Private Clothing Line, Private Beverages (Private Energy Drink, Private Wines and Private Vodka). Other licensed product lines include novelties, accessories, lingerie, fragrances, leather goods, nutritional supplements, aphrodisiacs and condoms.

The carefully developed Private Center concept for retailers was introduced a few years ago. Through its Licensing Division, Private is offering a unique opportunity for adult specialist and other retailers to buy into the Private brand through licensing agreements to either upgrade their existing retail points of sale or develop new outlets in order to satisfy the increasingly sophisticated and broad demands of adult consumers. Licensees are required to follow guidelines set by Private and the product range on offer will span from traditional adult products such as sex toys, magazines and DVDs to lifestyle Private-branded products, ranging from street wear to lingerie. The Private brand, valued by consumers and retailers alike thanks to its enduring focus on quality and innovation, thereby continues to meet new consumer demands, in both niche markets and broader sectors, such as the ever increasing number of female customers.

PROPRIETARY RIGHTS

General

We believe that our branded magazine titles and logos are valuable assets and are vital to the success and future growth of our businesses. We have filed trademark registration applications with respect to most of our trade names and logos. We believe that the name recognition and image that we have developed in each of our markets significantly enhance customer response to our sales promotions. We intend to aggressively defend our trademarks throughout the world, and we constantly monitor the marketplace for counterfeit products. We initiate legal proceedings from time to time to prevent unauthorized use of our trademarks.

Piracy Problems

According to figures from the Motion Picture Association of America, annual losses from video piracy are an estimated $250 million a year in the United States alone, and close to $ 3.0 billion a year worldwide.

Piracy involving adult entertainment products and services is most prevalent in markets/territories where pornography is either illegal and/or the economy is poor. Several of these territories are typically located in Eastern Europe and the Far East. We believe that piracy is so prevalent in many of these territories that we cannot distribute our products there, as piracy undercuts our price structure and eliminates profit margins. It is very difficult to enforce our proprietary rights in these markets.

Another piracy problem concerns the Internet. We are currently unable to confirm that all mail order sites selling Private products actually sell our original products and not pirated copies. The problem stems from distribution procedures, which in the case of Internet, is straight from the Internet provider s order page to the consumer. Also, video streaming over the Internet renders it difficult for us to control the origin of what is shown.

Our legal counsel handles most piracy problems and attempts to resolve these matters or litigate them on a case-by-case basis.

COMPETITION

General Considerations

Our products compete with other products and services that utilize leisure time or disposable income of adult consumers. The businesses in which we compete are highly competitive and service-oriented. We have few long-term or exclusive service agreements with our customers. Business generation is based primarily on customer satisfaction with key factors in a purchase decision, including reliability, timeliness, quality and price. We believe that our extensive and longstanding international operations, our brand name, image and reputation, as well as the quality of our content and our distributors, provide a significant competitive advantage over many of our competitors.

Although we believe our magazines and videos are well-established in the adult entertainment industry, we compete with entities selling adult oriented products via any type of distribution network, including the Internet. Many of these products are similar to ours. Over the past few years, the adult entertainment industry has undergone significant change. Traditional producers of softcore content as well as mainstream providers of media content have shifted to producing hardcore content. As a result, we face greater competition to distribute hardcore content. This shift has also led to industry consolidation, creating fewer, more financially formidable competitors.

Magazines

We meet with minimal direct competition from other publishers of hardcore adult magazines and paperback books. We believe that our print publications are dissimilar to other adult publications in style and format. The only similar business of which we are aware was represented by Rodox N.V., a Dutch/ Danish corporation, which has discontinued its publishing operation. We do not believe there is presently any significant competition in this segment of our business. Magazines such as Playboy and Penthouse and similar print publications do not compete directly with our publications, since we consider them to be softcore publications. There are several hardcore publications in each country where our magazines are sold. In general, these are printed in limited editions and are of lower quality than our publications.

DVDs

The distribution of adult entertainment DVDs is a highly competitive business. Revenue generation for motion picture entertainment products depends, in part, upon general economic conditions, but the competitive position of a producer or distributor is still greatly affected by the quality of, and public response to, the entertainment product it makes available to the marketplace. Competition arises from established adult video producers and from independent companies distributing low-quality material.

Our primary competitors in the movie industry are adult motion picture studios, with in-house production and post-production capabilities. These include U.S. producers such as Video Company of America, Hustler, Vivid Film, Wicked Pictures and Evil Angel Productions. Some competitors are smaller, but locally or regionally they are capable of quickly identifying niche markets that could compete for our customers. In addition, we also compete with other forms of media, including broadcast, cable and satellite television, direct marketing, electronic media and adult entertainment websites.

Broadcasting

The distribution of adult movies on cable and satellite television systems and hotel pay-per-view systems is highly competitive. Competition in this area is increasing in line with increasing consumer demand for hardcore adult entertainment generally. Our strongest geographical market position for cable and television and distribution is in Europe and Latin America, with the channels, *Private Spice* and *Private Gold*, and licensing arrangements with established European television networks, such as Canal+ and SKY Italy, and IPTV platforms operated by international telcos.

In licensing, we experience competition from our DVD competitors. Our position in U.S. markets is not well established, and competition in this market is strong.

Internet

The Internet market for adult oriented content has expanded dramatically over the past years. Because it costs as little as $5,000 to establish an Internet presence, there is significant competition among distributors of adult media content over the Internet. There are numerous adult media content websites competing with ours, some of which are operated by companies that possess global distribution, broadcasting and branding. Historically pay sites have contained most of the adult media content on the Internet, but recently tube sites, offering free content, have become a serious threat to both the Internet and DVD distribution of adult entertainment.

EMPLOYEES

As of December 31, 2006, 2007 and 2008 we employed 137, 123 and 97 people, respectively. Our employees in Spain are represented by two labor unions and we have never experienced a work stoppage. We believe that we have a good relationship with our employees.

GOVERNMENT REGULATION

We operate in a highly regulated industry. This requires us to be socially aware and sensitive to government strictures, including laws and regulations designed to protect minors or which prohibit the distribution of obscene material. We take great care to comply with all applicable governmental laws and regulations in each jurisdiction where we conduct business. Moreover, we do not knowingly engage the services of any business or individual, including producers/directors, that does not adhere to the same standards. Since 1965, we have never been held to have violated any laws or regulations regarding obscenity or the protection of minors.

Regulation of the Adult Entertainment Industry in the U.S.

The following is a description of some of the laws and regulations in the United States which impact the adult entertainment industry. It is not an exhaustive description of all such laws. Moreover, we conduct business in over 35countries around the world, each of which has its own regulatory framework. This regulatory environment is constantly changing in the geographical areas in which we conduct business, and in some instances laws which are enacted are subsequently determined by the courts to be unconstitutional.

The Classification and Rating Administration of the Motion Picture Association of America, MPAA, a motion picture industry trade association, assigns ratings for age group suitability for theatrical and home video distribution of motion pictures. Submission of a motion picture to the MPAA for rating is voluntary, and we do not submit our motion pictures to the MPAA for review. However, with the exception of several titles which have been re-edited for cable television, most of the movies distributed by us, if so rated, would most likely fall into the NC-17 No Children Under 17 Admitted rating category because of their depiction of nudity and sexually explicit content.

The right to distribute adult videocassettes, magazines and DVD products in the United States is protected by the First and Fourteenth Amendments to the United States Constitution, which prohibits Congress or the several States from passing any law abridging the freedom of speech.

The First and Fourteenth Amendments, however, do not protect the dissemination of obscene material, and several states and communities in which our products are distributed have enacted laws regulating the distribution of obscene material, with some offenses designated as misdemeanors and others as felonies, depending on numerous factors. The consequences for violating these state statutes are as varied as the number of states enacting them. Similarly, specific U.S. federal regulations prohibit the dissemination of obscene material. The potential penalties for individuals (including directors, officers and employees) violating the Federal obscenity laws include fines, community service, probation, forfeiture of assets and incarceration. The range of possible sentences requires calculations under the Federal Sentencing Guidelines, and the amount of the fine and the length of the period of the incarceration under those guidelines are calculated based upon the retail value of the unprotected materials. Also taken into account in determining the amount of the fine, length of incarceration or other possible penalty are whether the person accepts responsibility for his or her actions, whether the person was a minimal or minor participant in the criminal activity, whether the person was an organizer, leader, manager or supervisor, whether multiple counts were involved, whether the person provided substantial assistance to the government, and whether the person has a prior criminal history. In addition Federal law provides for the forfeiture of: (1) any obscene material produced, transported, mailed, shipped or received in violation of the obscenity laws; (2) any property, real or personal, constituting or traceable to gross profits or other proceeds obtained from such offense; and (3) any property, real or personal, used or intended to be used to commit or to promote the commission of such offense, if the court in its discretion so determines, taking into consideration the nature, scope and proportionality of the use of the property in the offense.

With respect to the realm of potential penalties facing an organization such as ours, the forfeiture provisions detailed above apply to corporate assets falling under the statute. In addition, a fine may be imposed, the amount of which is tied to the pecuniary gain to the organization from the offense or determined by a fine table tied to the severity of the offense. Also factored into determining the amount of the fine are the number of individuals in the organization and whether an individual with substantial authority participated in, condoned, or was willfully ignorant of the offense; whether the organization had an effective program to prevent and detect violations of the law; and whether the organization cooperated in the investigation and accepted responsibility for its criminal conduct. In addition, the organization may be subject to a term of probation of up to five years.

Federal and state obscenity laws define the legality or illegality of materials by reference to the U.S. Supreme Court s three-prong test set forth in *Miller v. California*, 413 U.S. 1593 (1973). This test is used to evaluate whether materials are obscene and therefore subject to regulation. *Miller* provides that the following must be considered: (a) whether the average person, applying contemporary community standards would find that the work, taken as a whole, appeals to the prurient interest; (b) whether the work depicts or describes, in a patently offensive way, sexual conduct specifically defined by the applicable state law; and (c) whether the work, taken as a whole, lacks serious literary, artistic, political or scientific value. The Supreme Court has clarified the *Miller* test in recent years, advising that the prurient interest prong and patent offensiveness prong must be measured against the standards of an average person, applying contemporary community standards, while the value prong of the test is to be judged according to a reasonable person standard.

We are engaged in the wholesale distribution of our products to U.S. wholesalers and/or retailers. We have taken steps to ensure compliance with all Federal, State and local regulations regulating the content of motion pictures and print products, by staying abreast of all legal developments in the areas in which motion pictures and print products are distributed and by specifically avoiding distribution of motion pictures and print products in areas where the local standards clearly or potentially prohibit these products. In light of our efforts to review, regulate and restrict the distribution of our materials, we believe that the distribution of our products does not violate any statutes or regulations.

Many of the communities in the areas in which we offer or intend to offer products or franchises, have enacted zoning ordinances restricting the retail sale of adult entertainment products. We supply products only in locations where the retail sale of adult entertainment products is permitted.

In February 1996, the U.S. Congress passed the Telecommunications Act. Some provisions of the Telecommunications Act are directed exclusively at cable programming in general and adult cable programming in particular. In some cable systems, audio or momentary bits of video of premium or pay-per-view channels may accidentally become available to non-subscribing cable customers. This is called bleeding. The practical effect of Section 505 of the Telecommunications Act is to require many existing cable systems to employ additional blocking technology in every household in every cable system that offers adult programming, whether or not customers request it or need it, to prevent any possibility of bleeding, or to restrict the period during which the programming is transmitted from 10:00 p.m. to 6:00 a.m. Penalties for violation of the Telecommunications Act are significant and include fines and imprisonment. Surveying of cable operators and initial results indicate that most will choose to comply with Section 505 by restricting the hours of transmission. We believe that our revenues will be marginally adversely affected as a result of enforcement of Section 505. However, as digital technology (which is unaffected by Section 505) becomes more available, we believe that ultimately the impact will be insignificant.

As discussed above, federal and state government officials have targeted sin industries, such as tobacco, alcohol, and adult entertainment for special tax treatment and legislation. In 1996, U.S. Congress passed the Communications Decency Act of 1996, or the CDA. Recently, the U.S. Supreme Court, in ACLU v. Reno, held certain substantive provisions of the CDA unconstitutional. Businesses in the adult entertainment and programming industries expended millions of dollars in legal and other fees in overturning the CDA. Investors should understand that the adult entertainment industry may continue to be a target for legislation. In the event we must defend ourselves and/or join with other companies in the adult programming business to protect our rights, we may incur significant expenses that could have a material adverse effect on our business and operating results.

Child Pornography and Non-Mainstream Content

We believe that roughly 90% of the adult material produced and distributed over the past 15 years contains mainstream sexual acts between consenting adults. The rest could be classified as specialty material which does not contain explicit sex, but which still involves consenting adults (i.e. fetish, bondage, etc.). Mainstream sex acts means intercourse, oral sex, anal sex, group sex, etc. Our adult movies do not contain any depictions, let alone actual performances of rape, sex with coercion, animals, urination, defecation, violence, incest or child pornography.

Since 1990, the Free Speech Coalition has worked with the U.S. government to create a workable regulatory system designated to prevent minors from working in the adult industry. Child Protection Restoration and Penalties Enhancement Act of 1990 (18 U.S.C. section 2257) requires, in essence, that no one can work without having copies of their passport or driver s license, and a declaration under perjury of their age and true name, on file with a designated Custodian of Records, and available for inspection by law enforcement.

As indicated above, all of our products are all in compliance with 18 U.S.C. Section 2257 and all models performing in our productions are 18 years of age or older. We specifically require compliance from the third-party producers/directors to which we acquire our contents.

Internet Regulation

Government regulation of the Internet is a rapidly developing area and, therefore, adds additional uncertainty to our business. New laws or regulations relating to the Internet, or more aggressive application of existing laws, could decrease the growth of our websites, prevent us from making our content available in various jurisdictions or otherwise have a material adverse effect on our business, financial condition and operating results. These new laws or regulations could relate to liability for information retrieved from or transmitted over the Internet, taxation, user privacy and other matters relating to our products and services. For example, the U.S. government has recently enacted laws regarding website privacy, copyrights and taxation. Moreover, the application to the Internet of other existing laws governing issues such as intellectual property ownership and infringement, pornography, obscenity, libel, employment and personal privacy is uncertain and developing.

Regulation of the Internet outside the United States

We may also be subject to claims based upon the content that is available on our websites through links to other sites and in jurisdictions that we have not previously distributed content in. For example, a recent French ruling banning the sale of Nazi memorabilia in France suggests that website operators may be forced to undertake expensive security measures to block certain users or face significant fines. Implementing such security measures to reduce our exposure to this liability may require us to take steps that would substantially limit the attractiveness of our websites and/or their availability in various geographic areas, which could negatively impact their ability to generate revenue.

SEASONALITY

Our businesses are generally not seasonal in nature. However, June, July and August are typically impacted by smaller orders from some European and U.S. distributors, due to the holiday season.

AVAILABLE INFORMATION

As a public company, we are required to file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any of our materials on file with the SEC at the SEC s Public Reference Room at 100 F Street N.E., Washington, DC 20549. Our filings are available to the public over the Internet at the SEC s website at http://www.sec.gov. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. We also make available copies of our Forms 8-K, 10-K, 10-Q, Proxy Statement and Annual Report at no charge to investors through our website, http://www.prvt.com, as soon as reasonably practicable after filing such material with the SEC. Information on our website is not part of this Report.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below, together with all of the other information contained in this Annual Report on Form 10-K in evaluating our business and us. The risks and uncertainties below are not the only ones we face. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations. If any of the following risks actually occur, our business, financial condition or results of operations could be materially and adversely affected. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Our future capital requirements and needs for additional financing are uncertain. We believe that current and future available capital resources, including cash flow from operations, will be adequate to fund our working capital requirements based upon our present level of operations for the 12 month period following the date of this annual report. However, future events may cause us to seek additional capital sooner. If additional capital resources are required, these funds may not be available on favorable terms, or at all. If we raise additional capital through the sale of equity or convertible debt securities, the issuance of these securities could result in dilution to existing shareholders. The unavailability of funds could have a material adverse effect on our financial condition, results of operations and our ability to expand operations.

Our business involves the provision of sexually explicit content which can create negative publicity, lawsuits and boycotts. We are engaged in the business of providing adult-oriented, sexually explicit products worldwide. Many people regard our primary business as unwholesome. Various national and local governments, along with religious and children s advocacy groups, consistently propose and enact legislation to restrict the provision of, access to, and content of such entertainment. These groups also often file lawsuits against providers of adult entertainment, encourage boycotts against such providers and mount negative publicity campaigns. In this regard, our magazines, and some of our distribution outlets and advertisers, have from time to time been the target of groups who seek to limit the availability of our products because of their content. We expect to continue to be subject to these activities.

The adult-oriented content of our websites may also subject us to obscenity or other legal claims by third parties. We may also be subject to claims based upon the content that is available on our websites through links to other sites and in jurisdictions that we have not previously distributed content in. Implementing measures to reduce our exposure to this liability may require us to take steps that would substantially limit the attractiveness of our websites and/or their availability in various geographic areas, which could negatively impact their ability to generate revenue.

In addition, some investors, investment banks, market makers, lenders and others in the investment community may refuse to participate in the market for our common stock, financings or other activities due to the nature of our primary business. These refusals may negatively impact the value of our common stock and our opportunities to attract market support.

We face online security risks in connection with our Internet business. Online security breaches could materially adversely affect our business. 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. For example, events such as the November 2001 security breach of the Playboy.com website that allowed a computer hacker to steal customers credit card numbers could deter current and future subscribers from using or subscribing to our website. In offering online payment services, we will increasingly rely on technology licensed from third parties to provide the security and authentication necessary to effect secure transmission of confidential information, such as consumer credit card numbers. Advances in computer capabilities, new discoveries in the field of data encryption or other developments could compromise or breach the methods and procedures that we use to protect our consumers transaction data. In addition, experienced programmers may attempt to steal proprietary information or cause interruptions in our services. To prevent such developments we may need to expend significant capital and other resources to protect against these problems.

Continued imposition of tighter processing restrictions by credit card associations and acquiring banks would make it more difficult to generate revenues from our websites. Our ability to accept credit cards as a form of payment for our online products and services is critical to us. There are ongoing efforts by credit card associations to restrict the processing of credit cards for online adult-related content. To protect against such restrictions, we must invest heavily in new technologies to protect against fraud. Unlike a merchant handling a sales transaction in a non-Internet environment, e-commerce merchants are fully responsible for all fraud perpetrated against them.

Our ability to accept credit cards as a form of payment for our online products and services could be restricted or denied for many reasons, including:

- Visa Tier 1 capital ratio requirements for financial institutions have significantly reduced the total dollar sales volume of Visa credit card activity that any bank can process in any given month;
- if we experience excessive chargeback s and/or credits;
- if we experience excessive fraud ratios;
- if there is a breach of our security resulting in a theft of credit card data;
- if there is a change in policy of the acquiring banks and/or credit card associations with respect to the processing of credit card charges for adult-related content;
- tightening of credit card association chargeback regulations in international commerce;
- banks might choose not to accept accounts with adult-related content, in a similar manner to one bank in Spain which we previously used.

American Express has instituted a policy of not processing credit card charges for online, adult-related content. If other credit card processing companies were to implement a similar policy, this could have a material adverse effect on our business, results of operations and financial condition.

We outsource our production and distribution. We acquire still photography and motion pictures from independent producers/directors and we rely on third-party distributors to deliver our products to end-users through multiple distribution channels, including newsstands, the Internet and broadcasting. Our relationship with such producers/directors and distributors is contractually based. We cannot guarantee that our contracts with directors will be fulfilled or that we will enter into new ones, in which case we may not have adequate content for our magazines and movies. Also, we cannot guarantee that our contracts with distributors will be renewed, in which case we may not be able to sell new products through some or all channels or into some countries. Failure to secure new production contracts, to secure the fulfillment of current contracts or to maintain our current distribution contracts could have a material adverse effect on our business, results of operations and financial condition.

We are dependent upon key employees. Our future success depends, to a significant degree, on the continued services of our executive officers and other key personnel, including Berth Milton, Peter Cohen, Javier Sánchez and Johan Gillborg. We have not procured key-man life insurance and there is no guarantee that we will be able to obtain such insurance in the future should we so desire. Mr. Milton is the founder of our principal operating division, the Milcap Group, and has taken part in our management since the acquisition of the trademark Private in 1990. We cannot guarantee that we will be successful in retaining his services in the future. We do not presently have employment agreements with many of our executive officers or key personnel. The loss of the services of any of them or an inability to continue to attract, motivate and retain highly qualified and talented personnel, including software development technical personnel, could have a material adverse effect on our business and operating results.

Our business is highly competitive. We compete in all aspects of our business, including price, promptness of service and product quality. We compete with a number of other businesses, offering various adult-oriented leisure-time activities, including Playboy Enterprises, Inc., Vivid Entertainment, Larry Flynt Publications, Inc. (Hustler), Video Company of America and Beate Uhse AG. Some of our competitors have significantly greater market presence, name recognition and financial and technical resources than we do. In addition, these companies may develop products or services that are more effective than our products or services and/or they may be more successful than us in marketing their products or services. We believe that the adult entertainment market will continue to shift towards the use of explicit sexual content, our principal market, resulting in increased competition in this area of our business. In our Internet business, we compete with other adult media content websites as to the content of their programming and the subscription fees that are offered to members. In addition, if free adult media content on the Internet becomes more widely available, this may negatively impact our ability to attract fee-paying members. To the extent that current and potential competitors compete on the basis of price, this could result in lower margins for our products.

We are subject to rapidly changing technology. We are engaged in businesses that have undergone rapid technological change over the past few years. Therefore, we face risks inherent in businesses that are subject to rapid technological advancement and changes in consumer demands. This includes the possibility that a technology that we have invested in may become obsolete, requiring us to invest in new technology. For example, in the past we discontinued production of our CD-Rom lines and video cassette products in favor of DVDs. Our future success will depend, in part, on our ability to adapt to rapidly changing technologies, to enhance existing services and to develop and introduce a variety of new services to address changing demands of our consumers.

New technological discoveries may render our equipment uneconomical or obsolete. As technologies change, the equipment used in our markets may become obsolete. As a result, we subcontract and intend to continue to subcontract capital intensive or technically complex businesses such as editing, DVD replication and other similar businesses. However, we may not have access to these subcontractors when their services are required, and their services may not be available on favorable terms.

Increased government regulation in the United States or abroad could limit our ability to deliver content and expand our business. New laws or regulations relating to the Internet, or more aggressive application of existing laws, could decrease the growth of our websites, prevent us from making our content available in various jurisdictions or otherwise have a material adverse effect on our business, financial condition and operating results. These new laws or regulations could relate to liability for information retrieved from or transmitted over the Internet, taxation, user privacy and other matters relating to our products and services. For example, the U.S. government has recently enacted laws regarding website privacy, copyrights and taxation. Moreover, the application to the Internet of other existing laws governing issues such as intellectual property ownership and infringement, pornography, obscenity, libel, employment and personal privacy is uncertain and developing.

Cable system operators could also become subject to new governmental regulations that could further restrict their ability to broadcast our programming. If new regulations make it more difficult for cable operators to broadcast our programming, our operating performance would be adversely affected.

We face risks relating to our proprietary intellectual property rights. We rely on a combination of copyright and trademark laws, trade secrets, software security measures, license agreements and non-disclosure agreements to protect our proprietary products. Despite these precautions, it may be possible for unauthorized third parties to copy parts of, or otherwise obtain and use, our products without authorization, or to substantially use our concepts and market them, trading on our established customer base. Products sold over the Internet are particularly vulnerable to piracy, particularly in some developing countries. In addition, we cannot be certain that others will not develop substantially equivalent or superseding products, thereby reducing the value of our proprietary rights. Confidentiality agreements with our employees or license agreements with our customers may not provide meaningful protection for our proprietary information in the event of any unauthorized use or disclosure of that proprietary information.

We do not believe that our products infringe the proprietary rights of third parties, and we are not currently engaged in any intellectual property litigation or proceedings. Nonetheless, in the future we could become the subject of infringement claims or legal proceedings by third parties with respect to current or future products. In addition, we may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. We cannot be sure that any lawsuits or other actions brought by us will be successful or that we will not be found to infringe the intellectual property rights of third parties. In addition, to the extent we may desire, or are required, to obtain licenses to patents or proprietary rights of others, there can be no guarantee that any such licenses will be made available on terms acceptable to us, if at all.

Enforcement of civil liabilities against Private Media Group and its management may be difficult. Private Media Group, Inc. is a corporation organized under the laws of the State of Nevada. Our agent for service of process in the United States is Gateway Enterprises, Inc., whose address is 3230 Flamingo Road, Suite 156, Las Vegas, Nevada 89121. Presently, most of our directors and officers reside outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon them or to enforce, in courts outside the United States, judgments against these persons obtained in U.S. courts based upon the civil liability provisions of the U.S. federal securities laws. In addition, since a substantial portion of our assets are located outside the United States, a judgment obtained in the United States against us may not be fully collectible within the United States.

There are risks associated with our foreign operations. Most of our operations are conducted outside the United States. In addition, our growth strategy contemplates increased services to foreign customers and to domestic customers distributing programming to international markets. As a consequence of the global nature of our business, we will be exposed to market risks from changes in interest rates and foreign currency exchange rates that may adversely affect our results of operations and financial condition. By virtue of our significant operations outside the United States, we will be subject to the risks normally associated with cross-border business transactions and activities, including those relating to delayed payments from customers in some countries or difficulties in the collection of receivables generally.

In addition, we will be exposed to the risk of changes in social, political and economic conditions in the countries where we engage in business. Political and economic instability in these countries could adversely affect our business activities and operations. Unexpected changes in local regulatory requirements, tariffs and other trade barriers and price or exchange controls could limit operations and make the repatriation of profits difficult. In addition, the uncertainty of differing legal environments could limit our ability to effectively enforce our rights in some markets.

We are subject to risks relating to performers. Our movie, video and photo productions are subject to U.S. and foreign regulations which govern the terms and conditions under which sexually explicit media productions may occur. We have adopted practices and procedures intended to ensure compliance with these regulations. Although these measures are intended to protect us from liability under applicable U.S. and foreign laws governing sexually explicit media productions, we cannot guarantee that we will not be subject to successful legal attacks in the future.

We do not expect to pay dividends on our common stock in the foreseeable future. Although our shareholders may receive dividends if, as and when declared by our board of directors, we do not intend to pay dividends on our common stock in the foreseeable future. Therefore, you should not purchase our common stock if you need immediate or future income by way of dividends from your investment.

We may issue additional shares of our capital stock that could dilute the value of your shares of common stock. We are authorized to issue 110,000,000 shares of our capital stock, consisting of 100,000,000 shares of our common stock and 10,000,000 shares of our preferred stock. At March 27, 2009, 62,114,802 shares of our common stock and no shares of our preferred stock were issued and outstanding. In connection with our acquisition of Game Link, LLC and its affiliate on January 20, 2009, 8,534,308 shares of our common stock were issued and up to 4,595,397 shares of our common stock are issuable in the future. In addition, approximately 1,888,920 shares of our common stock were issuable upon the exercise of options or warrants.

Should we obtain additional financing, we may issue authorized and unissued shares of common stock at below current market prices or preferred stock that could dilute the earnings per share and book value of your shares of our common stock.

There are risks relating to the issuance of additional shares of preferred stock, including deterring attempts by third parties to acquire us. Our board of directors has the authority to issue up to 10,000,000 shares of preferred stock, none of which are currently issued and outstanding, and to determine their price, and other rights, preferences, privileges and restrictions without any further vote or action by our stockholders. The rights of the holders of common stock are subject to, and may be adversely affected by, the rights of the holders of any preferred stock, including preferred stock that we may issue in the future. If preferred stock is issued, it may rank senior to our common stock in respect of the right to receive dividends and to participate in distributions or payments in the event of our liquidation, dissolution or winding up. The provisions in our articles of incorporation authorizing preferred stock could delay, defer or prevent a change of control and could adversely affect the voting and other rights of holders of our common stock, including the loss of voting control to others, which could make it more difficult for a third party to acquire control of us.

We are controlled by existing management and shareholders. Our officers and directors beneficially own or control more than 50% of our issued and outstanding stock. These shareholders effectively exercise control over all matters requiring approval by our shareholders, including the election of directors and the approval of significant corporate transactions. Their interests may differ from the interests of other shareholders and, therefore, result in corporate decisions that may be disadvantageous to other shareholders. This concentration of ownership may also have the effect of delaying or preventing a change in control, which could have a material adverse effect on our stock price.

There may be adverse consequences to our shareholders and our business if our common stock ceases to be quoted on the NASDAQ Stock Market or a principal stock exchange. To continue to be listed on the NASDAQ Stock Market, we must maintain certain requirements. If we fail to satisfy one or more of the requirements, our common stock may be delisted. If our common stock is delisted, and does not become listed on another stock exchange, then it will be traded, if at all, in the over-the-counter market commonly referred to as the FINRA OTC Bulletin Board or the pink sheets. If this occurs, it may be more difficult for you to sell our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable

ITEM 2. PROPERTIES

Private Media Group maintains an office in the United States at 3230 Flamingo Road, Suite 156, Las Vegas, Nevada 89121.

Since October 2007, Milcap Media Group leases office space in Torre MAPFRE, located at Calle de la Marina 14-16, 08005 Barcelona, Spain, for a term of five years. Average monthly base rental expense is approximately $40,000. The office space is currently used primarily by our departments providing marketing and administration services to the group. In addition, the office space serves as the European headquarters of Private Media Group, Inc. The lease also requires us to pay our proportionate share of the building s real estate taxes and operating expenses.

In January 2008 Milcap Media Group partly renewed the lease for office space in the building located at Carretera de Rubi 22, 08173 Sant Cugat del Valles, Barcelona, Spain for a further term of five years. Average monthly base rental expense is approximately $ 29,000. The building is currently used by our operating departments engaged in providing distribution, production and post production services for the group. In addition, Milcap Media Group leases warehouse space also located on Carretera de Rubi. The lease expires upon six months notice and the average monthly base rental expense is approximately $ 23,000. We recognize the rent expense on a straight-line basis over the term of the leases. The leases also require us to pay our proportionate share of the building s real estate taxes and operating expenses.

In connection with the acquisition of Game Link LLC by the Company, we entered into a lease of an approximately 10,000 square feet building used by Game Link in San Francisco, California. The lease extends through December 31, 2011, has a base rent of $13,620 per month, and provides for Game Link to be responsible for property taxes and maintenance expenses during the term of the lease.

Currently, in addition to Barcelona, Spain, and San Francisco, California, the group s subsidiaries lease office space in Sweden, Stockholm and Montreal, Canada.

ITEM 3. LEGAL PROCEEDINGS

In December 1999 the Company received final notification from the Swedish Tax Authority assessing its subsidiary in Cyprus for the tax years 1995-1998 for a total amount of SEK 42,000,000 (approx. EUR 4.5 million) plus fines amounting to SEK 16,800,000 (approx. EUR 1.8 million) plus interest. The Swedish Tax Authority has taken the position that the subsidiary carried on business in Sweden from a permanent establishment during the period in question and should therefore be taxed on the income attributable to the permanent establishment. The Company is of the view that no permanent establishment is at hand in Sweden. However, the Administrative Court of Appeal has finally decided that a permanent establishment is at hand. The litigation is, however, still going on and the purpose is to finally decide the amounts to be attributed to the permanent establishment and thus being taxed in Sweden. In February 2009, the County Administrative Court reduced the assessment for the tax years 1995-1998 to a total amount of SEK 12,600,000 (approx. EUR 1.1 million) plus fines amounting to SEK 5,040,000 (approx. EUR 0.5 million) plus interest. However, as a matter of fact the tax claim on the Company has been extinguished according to Administrative Law. Only the claim related to the tax fine amounting to SEK 5,040,000 (approx. EUR 0.5 million) plus interest is valid. The Company has appealed the decision to the Administrative Court of Appeal. The final outcome of this litigation will not be known for several years. Due to the fact that the final outcome of this matter is still uncertain, and the relatively minor claim now at stake, no amounts have been provided in the Company s financial statements for this dispute.

We are from time to time a defendant in suits for defamation and violation of rights of privacy, many of which allege substantial or unspecified damages, which we vigorously defend.

We are presently engaged in litigation, most of which is generally incidental to the normal conduct of our business and is immaterial in amount. We believe that our reserves are adequate and that no such action will have a material adverse impact on our financial condition. However, there can be no assurance that our ultimate liability will not exceed our reserves.

Except as disclosed above, neither Private Media Group, Inc. nor its subsidiaries is involved in any other litigation or arbitration proceedings which could have a material influence on our financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our 2008 Annual Meeting of Shareholders was held on December 15, 2008. At the Annual Meeting each of our five nominees was elected to serve as a director until the next Annual Meeting of Shareholders. The election results were as follows:

Election of Five Directors:

Name	For	Withheld
Berth H. Milton	40,341,163	1,249,549
Bo Rodebrant	41,546,473	44,239
Lluis Torralba	41,546,473	44,239
Johan G. Carlberg	41,546,635	44,077
Daniel Sánchez	41,546,574	44,138

No other matter was submitted to a vote at the 2008 Annual Meeting.

PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Private Media Group, Inc. Common Stock

The common stock of Private Media Group, Inc. has traded on the NASDAQ National and Global Markets since February 1, 1999 under the symbol PRVT . Previously, our common stock traded on the FINRA (formerly NASD, Inc.) OTC Bulletin Board since March 29, 1996. The following table sets forth the range of representative high and low sales prices for the common stock for the periods indicated, as reported by the NASDAQ Stock Market. Quotations represent inter-dealer prices, do not include retail markups, markdowns or commissions and may not represent actual transactions.

	High	Low
Fiscal 2008:		
First Quarter	$ 2.18	$ 1.28
Second Quarter	$ 2.86	$ 1.22
Third Quarter	$ 1.65	$ 0.12
Fourth Quarter	$ 1.95	$ 1.01
Fiscal 2007:		
First Quarter	$ 4.02	$ 1.98
Second Quarter	$ 2.80	$ 1.96
Third Quarter	$ 2.30	$ 1.57
Fourth Quarter	$ 3.80	$ 1.47

On March 27, 2009, the last sales price reported on the NASDAQ Stock Market was $ 1.20. On October 20, 2008, there were 88 shareholders of record and approximately 1,769 beneficial owners of our common stock.

Dividend Policy

We did not pay any cash dividends during our last two fiscal years and we do not contemplate doing so in the near future. We currently intend to retain all earnings to finance the development and expansion of our operations, and do not anticipate paying cash dividends on our shares of common stock in the foreseeable future. Our future dividend policy will be determined by our Board of Directors on the basis of various factors, including results of operations, financial condition, business opportunities and capital requirements. The payment of dividends will also be subject to the requirements of Nevada Law, as well as restrictive financial covenants which may be required in credit agreements.

Sale of Unregistered Securities in the Fourth Quarter of 2008

During the three months ending December 31, 2008, the Company did not issue any unregistered securities.

Performance Graph

The following graph compares on a cumulative basis the yearly percentage change, assuming dividend reinvestment, over the five fiscal years in (a) the total shareholder return on common stock of Private Media Group, Inc. with (b) the total return on the Standard & Poors SmallCap 600 index and (c) the total return on a peer group. The Standard & Poor s SmallCap 600 index covers approximately 3% of the US domestic equities market and includes a total of 600 companies with a market capitalization ranging from $20 million to $2.3 billion. The average market capitalization per company is approximately $540 million. The peer group is an index weighted by the relative market capitalization of the following two companies, which were selected for being in an industry related to that of Private Media Group, Inc. (provider of adult content). The companies are Playboy and New Frontier Media. The comparisons in the graph are required by the SEC and are not intended to forecast or be indicative of possible future performance of Private Media Group, Inc. common stock.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN (*)

	2003	2004	2005	2006	2007	2008
Private Media Group, Inc.	100	196	112	186	100	57
S&P SmallCap 600 Index	100	122	130	148	146	99
Peer Group	100	79	81	77	57	15

(*) $ 100 invested on December 31, 2003 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

Stock Dividend

We implemented a 3:1 stock dividend whereby each holder of record of our common stock on May 30, 2000, received two additional shares of common stock for each share owned on the record date. Corresponding adjustments have been made to the warrants and options outstanding on the record date as well as the Series A Preferred Stock to reflect adjusted conversion and dividend terms. Accordingly, all share and per share values reflected have been adjusted to give effect to the stock dividend.

Transfer Agent

The transfer agent and registrar for our common stock is InterWest Transfer Co., Inc., 1981 East 4800 South, Suite 100, Salt Lake City, Utah 84117.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected consolidated financial information for the five years ended December 31, 2008. The selected financial information has been derived from our audited consolidated financial statements. This selected consolidated financial information should be read along with our historical consolidated financial statements and related notes, and Management s Discussion and Analysis of Financial Condition and Results of Operations included in or appearing elsewhere in this Report.

	Years ended December 31,					
	2008 USD	2008 EUR	2007 EUR	2006 EUR	2005 EUR	2004 EUR
	(in thousands, except per share data)					
Statement of Income Data:						
Net sales	27,315	19,667	24,990	29,197	27,771	35,612
Cost of sales	18,758	13,505	12,305	14,144	14,597	19,198
Gross Profit	8,557	6,161	12,685	15,053	13,175	16,415
Selling, general and administrative expenses	18,140	13,061	13,599	14,043	14,430	17,976
Gain on sale of building					1,279	
Operating income (loss)	(9,583)	(6,900)	(914)	1,010	24	(1,561)
Interest expense	449	323	272	583	742	768
Interest income	357	257	275	230	234	165
Income (loss) before income taxes	(9,674)	(6,965)	(911)	657	(484)	(2,164)
Income taxes (benefit) from continuing operations	(2,468)	(1,777)	(506)	(473)	(548)	(1,327)
Income (loss) from continuing operations	(7,206)	(5,188)	(405)	1,130	60	(837)
Discontinued operations:						
Loss from discontinued operations				(902)	(22)	
Income tax (benefit)				(251)	(8)	
Loss on discontinued operations				(651)	(14)	
Net income (loss)	(7,206)	(5,188)	(405)	479	50	(837)
Other Comprehensive Income:						
Foreign currency translation adjustments	(1,332)	(959)	(224)	(124)	(626)	(318)
Comprehensive income	(8,538)	(6,147)	(629)	355	(576)	(1,155)
Income (loss) applicable to common shareholders	(7,206)	(5,188)	(405)	479	50	(1,155)
Weighted average of shares outstanding:						
Basic	53,580,494	53,580,494	53,202,364	52,858,131	51,720,180	50,136,203
Diluted	N/A	N/A	N/A	53,483,094	53,155,311	N/A
Basic income (loss) per share from continuing operations	(0.13)	(0.10)	(0.01)	0.02	0.00	(0.02)
Fully diluted income (loss) per share from continuing operations	(0.13)	(0.10)	(0.01)	0.02	0.00	(0.02)
Basic income (loss) per share from discontinued operations				(0.01)	0.00	
Fully diluted income (loss) per share from discontinued operations				(0.01)	0.00	
Basic income (loss) per share	(0.13)	(0.10)	(0.01)	0.01	0.00	(0.02)
Fully diluted income (loss) per share	(0.13)	(0.10)	(0.01)	0.01	0.00	(0.02)

Dividends declared per common Share

	December 31,					
	2008 USD	2008 EUR	2007 EUR	2006 EUR	2005 EUR	2004 EUR
	(in thousands, except per share data)					
Balance Sheet Data:						
Cash and cash equivalents	766	552	1,599	2,329	3,112	3,261
Working capital	22,044	15,871	19,627	21,064	20,150	17,166
Total assets	70,637	50,859	58,056	56,866	58,901	62,205
Total debt	6,113	4,401	4,313	3,942	5,918	9,756
Total shareholders Equity	56,403	40,610	46,747	46,333	44,889	44,951

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this section together with the consolidated financial statements and the notes and the other financial data in this Report. The matters that we discuss in this section, with the exception of historical information, are forward-looking statements within the meaning of the Private Securities Reform Act of 1995. Such forward-looking statements are subject to risks, uncertainties and other factors which could cause our actual results to differ materially from those expressed or implied by such forward-looking statements. Potential risks and uncertainties relate to factors such as: (1) the timing of the introduction of new products and services and the extent of their acceptance in the market; (2) our expectations of growth in demand for our products and services; (3) our ability to successfully implement expansion and acquisition plans; (4) the impact of expansion on our revenue, cost basis and margins; (5) our ability to respond to changing technology and market conditions; (6) the effects of regulatory developments and legal proceedings with respect to our business; (7) the impact of exchange rate fluctuations; and (8) our ability to obtain additional financing.

Overview

We are an international provider of adult media content. We acquire still photography and motion pictures from independent producers/directors and process these images into products suitable for popular media formats such as print publications, DVDs and digital media content for Broadcasting, Mobile and Internet distribution. In addition to media content, we also market and distribute branded leisure and novelty products oriented to the adult entertainment lifestyle and generate additional sales through the licensing of our *Private* trademark to third parties.

In June 1998, we acquired Milcap Media Limited, its subsidiaries and Cine Craft. Prior to these acquisitions, we were a holding company. Milcap Media Limited, its subsidiaries and Cine Craft were the acquirees, but for accounting purposes they were deemed to be the acquirors. We became a U.S. reporting company following the 1998 acquisitions.

We operate in a highly competitive, service-oriented market and are subject to changes in business, economic and competitive conditions. Nearly all of our products compete with other products and services that utilize adult leisure time and disposable income.

We generate revenues primarily through:

- sales of movies on DVD;
- sales of adult feature magazines;
- Internet subscriptions and licensing;
- broadcasting movies through IPTV (Internet Protocol Television), cable, satellite and hotel television programming;
- sales of adult mobile content (wireless); and

content, brand name and trademark licensing.

The following table illustrates our net sales by product group for the periods indicated.

	Years ended December 31,		
	2006	**2007**	**2008**
	EUR	**EUR**	**EUR**
	(in thousands)		
Net sales by product group			
DVDs & Magazines	14,846	10,864	7,687
Internet	4,326	4,445	4,218
Broadcasting	8,057	7,086	5,805
Wireless	1,968	2,596	1,957
Total	29,197	24,990	19,667

Over time, we expect net sales from DVDs & magazines to continue to decline as a percentage of net sales in relation to total net sales from Internet, broadcasting and wireless. We expect net sales from Internet, wireless and broadcasting to grow during the coming years.

We recognize net sales on delivery (for further information, see Critical Accounting Estimates).

Even though we recognize net sales upon delivery, we generally provide extended payment terms to our distributors of between 90 and 180 days. Although our extended payment terms increase our exposure to accounts receivable write-offs, we believe our risk is minimized by our generally long-term relationships with our distributors. In addition, we view our extended payment terms as an investment in our distribution channels which are important to the growth of our business.

Our primary expenses include:

- acquisition of content for our library of photographs and videos;
- printing, processing and duplication costs; and
- selling, general and administrative expenses.

Our magazines and DVD covers are printed by independent third-party printers in Spain. We introduced DVDs as a motion picture medium in 1999. The production of each DVD master disc, prior to duplication, costs approximately $10,000. DVDs have a relatively low cost of duplication, inclusive of box and packaging, of approximately $1.00 per unit. Our DVDs are duplicated on an all region format, playable on both NTSC and PAL with multiple languages and sub-titles.

We released 87 titles on DVD during 2008, 101 titles on DVD during 2007, and 110 titles on DVD during 2006, including both new and archival material. We plan to release approximately 50 proprietary titles on DVDs in 2009.

Over the years, our cost of sales has been fluctuating relative to net sales due to our use of new mediums for our products, such as the Internet, DVD broadcasting and wireless. Internet, wireless and broadcasting sales has historically not carried any cost of sales and variations in these areas affect the overall cost of sales percentage in relation to sales. These new media provide us with additional sales of our existing content

We also incur significant intangible expenses in connection with the amortization of our library of photographs and movies and capitalized development costs, which include the Internet. We amortize these tangible and intangible assets on a straight-line basis for periods of between three and five years.

Restructuring

During the first quarter of 2008 restructuring plans were developed in response to the shift of the Company s business model from traditional physical delivery of our content to digital new media distribution. The plans consist of three main features: a) reorganizing distribution of physical products, b) reviewing and revising content requirements and related costs, and c) consolidating operations in line with our new business model.

With respect to the reorganization of distribution of physical products, we have outsourced our DVD distribution in France to a third party and re-organized our French subsidiary. As a result, starting 2009, we will make savings of EUR 0.5 million per year in overhead and we expect sales volumes to increase significantly. We are continuing to review our model for distribution of physical products and additional changes are expected.

With respect to revising content requirements and related costs we have analyzed sales statistics for newly produced content vs. compilations, reviewed demand for newly produced content from digital new media distribution vs. traditional physical delivery and analyzed sales statistics with respect to our content mix. The result of this review is a reduction in the average number of releases per month by 2.5, a change in the mix and an expected average saving in investment in video library of approximately EUR 0.5 million per quarter, starting in the second quarter of this year. We do not believe that the revised content strategy will have any impact on sales since our digital new media distribution is mainly dependent on our expansive library and not on new releases, unlike the traditional business. We have also renegotiated agreements with third parties relating to content acquisition and post-production cost.

We have also reviewed our magazine production and distribution and reduced the number of new publications from four to two, as from the third quarter 2008. We have replaced the two cancelled publications with back catalogue magazines. We do not believe this will have any material impact on sales since we distribute all our magazines together with back catalogue DVDs and research has indicated that consumers are primarily interested in the DVDs.

With respect to consolidating operations, we are reviewing all our processes in order to take advantage of technological advances and potential outsourcing opportunities, and in order to eliminate duplicate functions. During 2008 we have reduced the Company s headcount, including employees and temporary agency employees, by 26 to 97.

During 2009, we expect to reduce our selling administrative and general expense by EUR 2.6 million as a result of restructuring efforts.

We expect to continue to focus on cost reductions and expect additional restructuring actions in the near term.

Critical Accounting Estimates

General

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities revenues and expenses. On an ongoing basis, we evaluate our estimates, including those related to impairment of the library of photographs and videos and other long lived assets, allowances for bad debt, income taxes and contingencies and litigation. Accounts receivable and sales related to certain products are, in accordance with industry practice, subject to distributors right of return to unsold items. We base our estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. Management periodically reviews such estimates. Actual results may differ from these estimates as a result of unexpected changes in trends.

We believe the following critical accounting policies are significantly affected by judgments and estimates used in the preparation of our consolidated financial statements.

Recognition of Revenue

The Company sells magazines to wholesalers on firm sale basis and via national newsstand distributors with the right to return. Our magazines are multi-lingual and the principal magazine market is in Europe.

Revenues from the sale of magazines under agreements that grant distributors rights-of-return are recognized upon transfer of title, which generally occurs on delivery, net of an allowance for returned magazines. Distributors with the right to return are primarily national newsstand distributors. Most of our magazines are bi-monthly (six issues per year) and remain on sale at a newsstand for a period of two months. Normally, all unsolds are reported to us within a period of four to six months from delivery. There are normally two to four national newsstand distributors for all newspapers and periodicals operating in each country. A majority of our national newsstand distributors are members of Distripress, the international organization for publishers and distributors, and carry out the distribution of the largest national and international newspapers and periodicals, including: Financial Times, Herald Tribune, Time, Newsweek, Vogue, etc.

The Company uses specific return percentages per title and distributor based on estimates and historical data. The percentages vary from 50-80%. Higher percentages generally reflect newer markets and/or products. Percentages are reviewed on an on-going basis.

The magazines have an approximate retail price of EUR 11.50 (USD 16.90) per copy and are printed on glossy high-quality paper at a cost of EUR 1.25 (USD 1.84). They are often shrink-wrapped in order to comply with local regulation or guidance for the sale of adult publications. In view of the high retail price, the margin and the physical quality of the magazines and the fact that the content has a very long shelf-life since it is not particularly linked to time, trends, fashion or current events, the Company has always collected the returns from newsstands in order to make them available for sale again.

The Company has scheduled re-distribution of the returned magazines, via national newsstand distributors, as Megapacks or Superpacks (three different copies per pack) where the retail price is EUR 14.95 (USD 21.99). As the national newsstand distributors have the right to return, the packs come back to us and are then broken up in individual copies in order to be sent out in DVD packs, see below, or sold on firm sale basis to wholesalers as back numbers at a lower price than new issues.

The Company also operates scheduled re-distribution of returned magazines, via national newsstand distributors, together with DVDs as Magazine/DVD packs as a way of increasing DVD distribution. Since the national newsstand distributors have the right to return, the DVD packs are returned and the magazines are broken out in order to be sold on firm sale basis to wholesalers as back numbers at a lower price than new issues. The Company has historically sold all copies printed at an average price higher than, or equal, to cost.

Revenues from the sale of DVD products under consignment agreements with distributors are recognized based upon reported sales by the Company s distributors. Revenues from the sale of subscriptions to the Company s internet website are deferred and recognized ratably over the subscription period. Revenues from licensing of broadcasting rights to the Company s video and film library are recognized upon delivery when the following conditions have been met (i) license period of the arrangement has begun and the customer can begin its exploitation, exhibition, or sale (ii) the arrangement fee is fixed or determinable and (iii) collection of the arrangement fee is reasonably assured.

Revenues from IPTV (Internet Protocol Television), satellite & cable broadcasting are recognized based on sales reported each month by its IPTV, cable and satellite affiliates. The affiliates do not report actual monthly sales for each of their systems to the Company until approximately 60 90 days after the month of service ends. This practice requires management to make monthly revenue estimates based on historical experience for each affiliated system. Revenue is subsequently adjusted to reflect the actual amount earned upon receipt. Adjustments made to adjust revenue from estimated to actual have historically been immaterial.

Revenues from mobile content sales (wireless) are recognized based on sales reported each month by mobile operators via aggregators. The aggregators do not report actual monthly sales for each of their operators to the Company until approximately 60 90 days after the month of service ends. This practice requires management to make monthly revenue estimates based on historical experience for each affiliated system. Revenue is subsequently adjusted to reflect the actual amount earned upon receipt. Adjustments made to adjust revenue from estimated to actual have historically been immaterial.

Accounts receivable

We are required to estimate the collectability of our trade receivables and notes receivable. A considerable amount of judgment is required in assessing the ultimate realization of these receivables including the current credit-worthiness of each customer. Significant changes in required reserves have been recorded in the past and may occur in the future due to the current market environment.

Management reviews the allowance for doubtful accounts on at least a quarterly basis and adjusts the balance based on their estimate of the collectability of specific accounts as well as a reserve for a portion of other accounts which have been outstanding for more than 180 days. This estimate is based on historical losses and information about specific customers. After collection attempts have failed, the Company writes off the specific account.

Goodwill and Other Intangible Assets

On January 1, 2002 the Company adopted Financial Accounting Standards Board Statement (SFAS) No. 142, Goodwill and Other Intangible Assets . Under SFAS 142, goodwill and indefinite lived intangible assets will no longer be amortized but will be reviewed annually for impairment (or more frequently if indicators of impairment arise).

During 2002, the Company performed an initial impairment test of goodwill and indefinite lived intangible assets as of January 1, 2002. This generally required us to assess these assets for recoverability when events or circumstances indicate a potential impairment by estimating the undiscounted cash flows to be generated from the use of these assets. As a result of impairment reviews in 2008, the goodwill related to our video distribution company in the Benelux countries was reduced by EUR 293 thousand to EUR 1,342 thousand.

Other Intangible Assets represents the value attributable to certain acquisitions (see Note 7 to the consolidated financial statements). Amortization expense is calculated on a straight-line basis over 10 years.

Impairment of Long-Lived Assets

The Company periodically evaluates the carrying value of long-lived assets including its library of photographs and videos for potential impairment. Upon indication of impairment, the Company will record a loss on its long-lived assets if the undiscounted cash flows that are estimated to be generated by those assets are less than the related carrying value of the assets. An impairment loss is then measured as the amount by which the carrying value of the asset exceeds the estimated discounted future cash flows. Management s estimated future revenues are based upon assumptions about future demand and market conditions and additional write downs may be required if actual conditions are less favorable than those assumed.

Inventories

Inventories are valued at the lower of cost or market, with cost principally determined on an average basis. Inventories principally consist of DVD s, videocassettes and magazines held for sale or resale. The inventory is written down to the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional write-downs may be required.

Results of Operations

2008 compared to 2007

Net sales. Our net sales in 2008 were EUR 19.7 million compared to EUR 25.0 million in 2007, a decrease of EUR 5.3 million, or 21%. Net sales in general were affected by the weakening dollar by EUR 0.3 million

DVD & Magazine sales decreased EUR 3.2 million, or 29%, to EUR 7.7 million. The reduction in DVD & Magazine sales was primarily attributable to an industry wide decrease in DVD sales (see discussion under Outlook below). Due to the weakening dollar[9] and the restructuring of our web sites, Internet sales decreased EUR 0.2 million to EUR 4.4 million compared to the same period last year. Broadcasting sales decreased EUR 1.3 million, to EUR 5.8 million as a result of the absence of sales of EUR 2.25 million from a non-recurring title licensing deal for German speaking Europe in 2007 offset primarily by an increase in video on demand sales via IPTV. Wireless sales decreased EUR 0.6 million to EUR 2.0 million in the period as a result of a re-organization of content delivery structure. The re-organization was completed in the fall of 2008.

9 Our Internet sites collect a significant part of their sales from US customers.

Going forward, we expect Internet, Broadcasting and Wireless sales to increase (see discussion under *Outlook* below).

Net sales in general were affected by changes in exchange rates. The annual average dollar exchange rate for the fiscal year 2008 compared to 2007 decreased 7% which reduced all our sales in dollar by the same percentage. Fluctuations in exchange rates between the euro and the dollar can affect the comparability of our results from year to year. We translate our consolidated subsidiaries whose functional currency is not the euro into the euro for reporting purposes. Income statement amounts are translated into euros using the average exchange rate for the fiscal year. The balance sheet is translated at the year-end exchange rate.

Cost of Sales. Our cost of sales was EUR 13.5 million for 2008 compared to EUR 12.3 million for 2007, an increase of EUR 1.2 million, or 10%. Cost of sales as a percentage of sales was 69% for 2008 compared to 49% for 2007. We incur no cost of sales in dollars and subsequently we did not benefit from the weakening dollar in 2008 compared to 2007.

Included in cost of sales is printing, processing and duplication, amortization of library and Internet, broadcasting and wireless costs. Printing, processing and duplication cost was EUR 5.4 million for 2008 compared to EUR 4.1 million for 2007, an increase of EUR 1.3 million, or 32%. The increase was primarily the result of a program to reduce inventory of DVDs and magazines. Printing, processing and duplication cost as a percentage of DVD & Magazine sales was 70% for 2008 compared to 37% for 2007. The increase was the result of an increase in sales volume sold at a lower average price as part of the program to reduce inventory of DVDs and magazines. Amortization of library was EUR 6.3 million for 2008 compared to EUR 6.8 million for 2007, a decrease of EUR 0.5 million. Amortization of library does not vary with sales since it reflects the amortization of our investments in content which has been available for sale for a period of three to five years. The decrease was the result of lower amounts invested in content released during the period subject to amortization in 2008 compared to 2007. Internet, broadcasting and wireless costs was EUR 1.8 million for 2008 compared to EUR 1.4 million for 2008, an increase of EUR 0.4 million. Internet, Broadcasting and Wireless cost as a percentage of related sales was 15% for 2008 compared to 10% for the same period last year. The increase was primarily the result of increased Internet cost.

Gross Profit. Our gross profit for 2008 was EUR 6.2 million, or 31% of net sales, compared to EUR 12.7 million, or 51% of net sales for 2007. This represented a decrease of EUR 6.5 million, or 51%, compared to 2007. The decrease in gross profit of EUR 6.5 million was primarily the result of a EUR 4.5 million decrease in contribution to gross profit from DVD & Magazine sales, a EUR 2.5 million decrease in contribution to gross profit from Internet, Broadcasting and Wireless sales offset by the decrease in amortization of library of EUR 0.5 million. As the we are transitioning from traditional media to new media, our gross profit in 2008 has been impacted severally. However, during 2009, we expect gross profit to improve as new media sales is expected to increase and with low cost attached to it, positive impact on gross profit will be immediate.

Selling, general and administrative expenses. Our selling, general and administrative expenses were EUR 13.1 million for 2008 compared to EUR 13.6 million for 2007, a decrease of EUR 0.5 million. We attribute the decrease in selling, general and administrative expenses to a reduction in general expenses and bad debt provision of EUR 1.1 million and EUR 0.1 million, respectively, offset by an increase in depreciation and payroll of EUR 0.6 million and EUR 0.1 million, respectively.

Operating loss. We reported an operating loss of EUR 6.9 million for 2008 compared to EUR 0.9 million for 2007, an increase of EUR 6.0 million. The decrease in operating profit was primarily the result of the decrease in gross profit offset by reduced selling, general and administrative expenses.

Interest expense. Our interest expense was EUR 0.3 million for 2008, compared to EUR 0.3 million for 2007.

Income tax benefit. Our income tax benefit was EUR 1.8 million for 2008, compared to 0.5 million for 2007. The increase in income tax benefit is a result of higher losses being recorded in jurisdictions with higher corporate tax rates.

Net loss. Our net loss was EUR 5.2 million for 2008, compared to EUR 0.4 million for 2007. We attribute the decrease in net income in 2008 of EUR 4.8 million to increased operating loss offset by increased income tax benefit.

2007 compared to 2006

Net sales. Our net sales in 2007 were EUR 25.0 million compared to EUR 29.2 million in 2006, a decrease of EUR 4.2 million, or 14%. The decrease was the result of reduced DVD & Magazine and Broadcasting sales offset by increased Internet and Wireless sales. Net sales in general were affected by the weakening dollar by EUR 0.4 million

DVD & Magazine sales decreased EUR 4.0 million, or 27%, to EUR 10.9 million. The reduction in DVD & Magazine sales was primarily attributable to an industry wide decrease in DVD sales (see discussion under Outlook below). Despite the weakening dollar, Internet sales increased EUR 0.1 million to EUR 4.4 million, which represents an increase of 3% compared to the same period last year. Broadcasting sales decreased EUR 1.0 million, or 12%, to EUR 7.1 million. The decrease was primarily the result of the discontinuing of low margin pay-per-view sales in the US and last year non-recurring Pay-TV license sales in Europe totaling EUR 2.3 million offset by EUR 1.3 million from new broadcasting business primarily in Europe. Wireless sales increased EUR 0.6 million, or 32%, to EUR 2.6 million as a result our content being available with more operators.

Net sales in general were affected by changes in exchange rates. The annual average dollar exchange rate for the fiscal year 2007 compared to 2006 decreased 9% which reduced all our sales in dollar by the same percentage. Fluctuations in exchange rates between the euro and the dollar can affect the comparability of our results from year to year. We translate our consolidated subsidiaries whose functional currency is not the euro into the euro for reporting purposes. Income statement amounts are translated into euros using the average exchange rate for the fiscal year. The balance sheet is translated at the year-end exchange rate.

Cost of Sales. Our cost of sales was EUR 12.3 million for 2007 compared to EUR 14.1 million for 2006, a decrease of EUR 1.8 million, or 13%. Cost of sales as a percentage of sales was 49% for 2007, an increase of one percentage unit compared to 2006. We incur no cost of sales in dollars and subsequently we did not benefit from the weakening dollar in 2007 compared to 2006.

Included in cost of sales is printing, processing and duplication, amortization of library and Internet, broadcasting and wireless costs. Printing, processing and duplication cost was EUR 4.1 million for 2007 compared to EUR 5.6 million for 2006, a decrease of EUR 1.5 million, or 27%. The decrease was primarily the result of a decrease in sales of magazines and DVDs. Printing, processing and duplication cost as a percentage of DVD & Magazine sales was 37% for the 2007 compared to 38% for the same period last year. Amortization of library was EUR 6.8 million for 2007 compared to EUR 6.7 million for 2006, an increase of EUR 0.1 million, or 2%. Amortization of library does not vary with sales since it reflects the amortization of our investments in content which has been available for sale for a period of three to five years. The increase was the result of higher amounts invested in content released during the period subject to amortization in 2007 compared to 2006. Internet, broadcasting and wireless costs was EUR 1.4 million for 2007 compared to EUR 1.9 million for 2006, a decrease of EUR 0.5 million. Internet, Broadcasting and Wireless cost as a percentage of related sales was 10% for 2007 compared to 13% for the same period last year. The decrease was primarily related to reduced broadcasting transmission costs related to pay-per-view sales in the US.

Gross Profit. Our gross profit for 2007 was EUR 12.7 million, or 51% of net sales, compared to EUR 15.1 million, or 52% of net sales for 2006. This represented a decrease of EUR 2.4 million, or 16%, compared to 2006. Gross profit as a percentage of sales was down one percentage unit for 2007 compared to 2006. The decrease in gross profit of EUR 2.4 million was primarily the result of a EUR 2.5 million decrease in contribution to gross profit from DVD & Magazine sales offset by a EUR 0.2 million increase in contribution to gross profit from Internet, Broadcasting and Wireless sales. Our gross profit was affected by the weakening dollar in 2007 by EUR 0.4 million compared to 2006.

Selling, general and administrative expenses. Our selling, general and administrative expenses were EUR 13.6 million for 2007 compared to EUR 14.0 million for 2006, a decrease of EUR 0.4 million, or 3%. We attribute the decrease in selling, general and administrative expenses to a reduction in payroll, general expenses and depreciation of EUR 0.6 million offset by an increase in bad debt provision of EUR 0.2 million.

Operating profit/loss. We reported operating loss of EUR 0.9 million for 2007 compared to an operating profit of EUR 1.0 million for 2006, a decrease of EUR 1.9 million. The decrease in operating profit was primarily the result of the decrease in gross profit offset by reduced selling, general and administrative expenses.

Interest expense. Our interest expense was EUR 0.3 million for 2007, compared to EUR 0.6 million for 2006. The decrease is the result of less average borrowings outstanding in 2007 compared to 2006.

Income tax benefit from continuing operations. Our income tax benefit was EUR 0.5 million for 2007, compared to 0.5 million for 2006.

Income/loss from continuing operations. Loss from continuing operations was EUR 0.4 million for 2007, compared to an income of EUR 1.1 million for 2006. We attribute the decrease in 2007 of EUR 1.5 million to decreased operating profit offset by reduced interest expense.

Loss from discontinued operations. Our loss from discontinued operations was EUR 0.9 million for 2006.

Income tax benefit from discontinued operations. Our income tax benefit from discontinued operations was EUR 0.3 million in 2006.

Net Income/loss. Our net loss was EUR 0.4 million for 2007, compared to a net income of EUR 0.5 million for 2006. We attribute the decrease in net income in 2007 of EUR 0.9 million primarily to decreased income from continuing operations offset by decreased loss from discontinued operations.

Liquidity and Capital Resources

We generate cash from our operating activities, borrowings from third parties, the exercise of warrants and private sales of our equity securities. Our principal uses of cash typically include building our library of photographs and movies.

We reported a working capital surplus of EUR 15.9 million at December 31, 2008, a decrease of EUR 3.8 million compared to the year ended December 31, 2007. The decrease was attributable to a decrease in current assets offset by a decrease in current liabilities. We reported a working capital surplus of EUR 19.6 million at December 31, 2007, a decrease of EUR 1.4 million compared to the year ended December 31, 2006. The decrease was attributable to an increase in current liabilities and a decrease in current assets.

Operating Activities

Net cash provided by our operating activities was EUR 5.2 million for 2008 compared to EUR 7.6 million for 2007, and was primarily the result of net loss, as adjusted for non-cash transactions and uses of cash related to changes in operating assets and liabilities. We adjusted our net loss of EUR 5.2 million to reconcile it to net cash flows from operating activities. Adjustments included (1) depreciation of EUR 1.0 million, (2) bad debt provision of EUR 0.3 million, (3) amortization of other intangible assets of EUR 0.4 million and (4) amortization of photographs and videos of EUR 6.3 million which was offset by EUR 1.9 million from deferred income taxes, which resulted in an adjusted income of EUR 1.1 million. Changes in operating assets and liabilities added

EUR 4.1 million net through trade accounts receivable, inventories, prepaid expenses and other current assets and income taxes payable totaling EUR 5.7 million, offset by EUR 1.6 million from, related party receivable, accounts payable trade and accrued other liabilities. The decrease in cash provided by operating activities for 2008 compared to 2007 is primarily the result of net loss, as adjusted for non-cash transactions, offset by changes in operating assets and liabilities.

Net cash provided by our operating activities was EUR 7.6 million for 2007 compared to EUR 7.4 million for 2006, and was primarily the result of net loss, as adjusted for non-cash transactions, offset by uses of cash related to changes in operating assets and liabilities. We adjusted our net loss of EUR 0.4 million to reconcile it to net cash flows from operating activities. Adjustments included (1) depreciation of EUR 0.8 million, (2) bad debt provision of EUR 0.4 million, (3) amortization of other intangible assets of EUR 0.1 million and (4) amortization of photographs and videos of EUR 6.8 million which was offset by EUR 0.6 million from deferred income taxes, which resulted in an adjusted income of EUR 7.1 million. Changes in operating assets and liabilities added EUR 0.5 million net through inventories, accounts payable trade, accrued other liabilities and income taxes payable totaling EUR 1.5 million, offset by EUR 1.0 million from trade accounts receivable, related party receivable, prepaid expenses and other current assets. The increase in cash provided by operating activities for 2007 compared to 2006 is primarily the result of changes in operating assets and liabilities.

Net cash provided by our operating activities was EUR 7.4 million for 2006 compared to EUR 4.4 million for 2005, and was primarily the result of net income, as adjusted for non-cash transactions, offset by uses of cash related to changes in operating assets and liabilities. We adjusted our net income of EUR 0.5 million to reconcile it to net cash flows from operating activities. Adjustments included (1) depreciation of EUR 0.9 million, (2) convertible note adjustment of EUR 0.1 million, (3) bad debt provision of EUR 0.2 million, (4) amortization of goodwill and other intangible assets of EUR 0.1 million and (5) amortization of photographs and videos of EUR 6.7 million making a total of EUR 8.5 million which was offset by EUR 0.9 million from deferred income taxes, providing a net balance of EUR 7.6 million. Changes in operating assets and liabilities reduced the net balance by EUR 0.2 million through trade accounts receivable, related party receivable, accounts payable trade and accrued other liabilities totaling EUR 2.4 million, offset by EUR 2.1 million from inventories, prepaid expenses and other current assets and income taxes payable. The increase in cash provided by operating activities for 2006 compared to 2005 is the result of both net income and adjustments to reconcile net income to net cash flows from operating activities and changes in operating assets and liabilities.

Investing Activities

Net cash used in investing activities for the fiscal year ended December 31, 2008 was EUR 5.4 million. The investing activities were investment in library of photographs and videos of EUR 4.3 million, which were carried out in order to maintain the 2008 and 2009 release schedules for magazines, DVDs. In addition to investment in library of photographs and videos, EUR 1.1 million was invested in capital expenditures. The decrease over the comparable twelve-month 2007 period is principally due to decreased investment in both library and capital expenditures. The decrease in investment in library is the result of our restructuring plans, see above under *Restructuring*.

Net cash used in investing activities for the fiscal year ended December 31, 2007 was EUR 8.5 million. The investing activities were investment in library of photographs and videos of EUR 7.1 million, which were carried out in order to maintain the 2007 and 2008 release schedules for magazines, DVDs. In addition to investment in library of photographs and videos, EUR 1.4 million was invested in capital expenditures. The increase over the comparable twelve-month 2006 period is principally due to increased investment in the library and the absence of cash flows from note receivable and cash received from sale of building in 2006.

Net cash used in investing activities for the fiscal year ended December 31, 2006 was EUR 7.1 million. The investing activities were investment in library of photographs and videos of EUR 6.5 million, which were carried out in order to maintain the 2006 and 2007 release schedules for magazines, DVDs. In addition to investment in library of photographs and videos, EUR 1.4 million was invested in capital expenditures. The total cash used in investing activities was offset by EUR 0.2 million from sale of part of the building and 0.6 million from note receivable. The increase over the comparable twelve-month 2005 period is principally due to the lower cash flows from sale of building in 2006.

Financing Activities

Net cash provided by financing activities for the fiscal year ended December 31, 2008 was EUR 0.1 million, represented primarily by additions to short-term borrowings of EUR 0.4 million offset by EUR 0.3 million in repayments on short and long-term borrowings.

Net cash provided by financing activities for the fiscal year ended December 31, 2007 was EUR 0.4 million, represented primarily by additions to short-term borrowings of EUR 1.2 million as a result of increased bank line of credits offset by EUR 0.8 million in repayments on short and long-term borrowings. The main movements during the twelve-month period ended December 31, 2007 are described as follows: (1) The balance of EUR 0.5 million on the EUR 1.65 million loan from an institutional lender was reduced by EUR 0.4 million and as of December 31, 2007 the remaining balance on the loan was EUR 0.1 million. (2) The $4.0 million 7% Note held by Consipio Holding b.v. was reduced by EUR 0.4 million. As of December 31, 2007 the remaining balance on the Note was EUR 1.65 million. (3) The outstanding borrowings on our credit lines were increased by EUR 1.2 million and as of December 31, 2007 the outstanding balance was EUR 2.6 million.

Net cash used in financing activities for the fiscal year ended December 31, 2006 was EUR 0.9 million, represented primarily by EUR 1.0 million in repayments on short and long-term borrowings offset by EUR 0.1 million in cash provided by conversion of stock options. The main movements during the twelve-month period ended December 31, 2006 are described as follows: (1) The balance of EUR 1.0 million on the EUR 1.65 million loan from an institutional lender was reduced by EUR 0.4 million and as of December 31, 2006 the remaining balance on the loan was EUR 0.5 million. (2) The $4.0 million Note held by Consipio Holding b.v. was reduced by EUR 0.4 million. As of December 31, 2006 the remaining balance on the Note was EUR 2.1 million. (3) The balance of EUR 0.1 million on the EUR 4.2 million loan from an institutional lender was reduced by EUR 0.1 million in connection with the sale of the building and as of December 31, 2006 the loan was repaid in its entirety. (4) The outstanding borrowings on our credit lines was reduced by EUR 0.1 million and as of December 31, 2006 the outstanding balance was EUR 1.35 million.

Non-Cash Transactions

During 2006 convertible note holders converted the remaining principal of $1,325,000 on a $2.25 million Convertible Note. As of December 31, 2006, the Convertible Note was repaid in its entirety.

Contractual obligations

The table below describes the Company s future contractual obligations, including items not included in the consolidated balance sheet, as of December 31, 2008:

	Amounts due in				
	Less than one year EUR	One to three years EUR	Three to five years EUR (in thousands)	More than five years EUR	Total EUR
Debt:					
Banks[1]					
Non-institutional debt[1]	1,928				1,928
Total debt	1,928				1,928
Operating leases[2][3]	769	1,203	537		2,508
Capital lease obligations[3]	55	32			87
	2,751	1,235	537		4,523

(1) Does not include several credit lines with different institutions amounting to EUR 2,600 thousand which are individually renewable on an annual basis throughout the year.

(2) Includes rent for the Company s offices and warehouses.

(3) Amounts included in Note 15 in the financial statements.

Description of debt:

Non-institutional debt

In December 2001 the group s holding company, Private Media Group, Inc., borrowed $ 4.0 million from Commerzbank AG pursuant to a Note originally due on December 20, 2002. The Note bore interest at an annual rate of 7%, payable quarterly, with the entire principal amount and accrued interest originally due on December 20, 2002. The Note is guaranteed by Slingsby Enterprises Limited, an affiliate of Berth Milton, Private s Chairman, Chief Executive Officer and principal shareholder, and the guaranty is secured by 4,950,000 shares of Private Media Group, Inc. Common Stock. In December 2002 Commerzbank AG agreed to extend the maturity date of the Note to March 20, 2003.

In April 2003 the Note was acquired by Consipio Holding b.v. from Commerzbank AG, and Consipio and Private reached an agreement-in-principle with Consipio to extend the maturity of the Note until April 2008. However, Consipio and Private were unable to reach final agreement on other terms and conditions relating to the restructured Note. Accordingly, in December 2003 Consipio notified Private and Slingsby Enterprises that Private was in default under the Note, and demanded $3.4 million as payment in full of all outstanding principal and interest under the Note. The Company continued to make regular payments on the Note, including principal and accrued interest, through February 2008. In April 2008 Consipio requested Private to pay the remaining balance of the Note, without indicating the amount due. Private in turn requested that Consipio provide a statement of the amount due and the basis for its calculation. In response, Consipio demanded payment of $3,194,000 as settlement in full of the Note, to be received by May 9, 2008. This calculation was made using an interest rate of 9.9%, as opposed to the 7% rate provided under the original terms of the Note. Consipio also advised that if payment was not received on such date it would institute litigation, in which event Consipio would claim that the amount due under the Note should be denominated in Euro, rather than U.S. dollars. In August 2008 Consipio notified Private that the Note was in default and that it intended to exercise its rights under the Note and the pledge of shares by Slingsby of Private Common Stock. Private believes that the amount due under the Note at May 9, 2008, including accrued interest, was no more than $2.4 million, utilizing an interest rate of 7%. Private also believes it has valid claims and defenses against Consipio and its affiliates which may ultimately reduce all or a portion of its obligations relating to the Note. However, there are no assurances that either Private will be able to reach agreement with Consipio or that Private will ultimately prevail on its claims and defenses. In any event, the Company does not believe that the Note obligations will have a material adverse effect on the liquidity of the Company, as the Note is fully collateralized by 4,950,000 shares of Private Media Group, Inc. Common Stock pursuant to the guaranty agreement from Slingsby Enterprises Limited to the holder of the Note. As of December 31, 2008, the outstanding principal balance of the Note was $2,5 million (EUR 1.8 million).

Outlook

Going forward, we expect significant growth on our new media platforms, Internet, broadcasting and wireless. During the 2008, our new media platforms were responsible for 61% percent of our revenues. Following is a discussion highlighting some of the important factors of our business going forward, see also *Overview-Restructuring* above.

Broadcasting

We are successfully implementing our new media strategy for IPTV and to date we have contracted with 36 major platform operators in 18 countries in Europe. Currently we have gained 75% coverage of European IPTV market[10]. Going forward, we expect to increase our market coverage in this rapidly expanding market, which compared to traditional pay-TV generates substantially higher sales per subscriber at a considerably better margin.

In relation to Private branded TV channels carrying our content in Europe and Latin America our partners Playboy TV Latin America and Playboy TV International continue to improve distribution. In Q1 2008, Playboy TV Latin America increased the distribution significantly in Brazil, Argentina and Central America. In addition, we partnered with New Frontier Media in 2007 for the exclusive distribution of Private branded content to the U.S. broadcast market including video-on-demand, pay-per-view, IPTV and television. New Frontier Media s services reach over 139 million network homes. Going forward, we expect significant incremental video-on-demand coverage in the US.

During 2008, we have also noted a new emerging market for our content, the DTT (Digital Terrestrial Television) market. Faced with the imminent closure of analog TV services, a growing number of Western Europeans are opting for DTT as a replacement. Market analysis[11] forecasts DTT to be the primary TV Service in 44% of Western European Households by 2012. In July we made an agreement with Glamour Plus, the first nationwide adult pay-DTT channel in Italy and we expect to make additional deals across the EU on this new platform.

Wireless Adult Mobile Content

With respect to mobile content, we believe this market is still in its infancy. During 2007 the distribution of Private content increased by 67% and by the end of the year it was available to 906 million handsets in 36 countries via 86 operators. In 2008, we have been optimizing our content delivery network of aggregators in order to secure a more aggressive long-term growth. This has created periods of gap in distribution with several operators during, but in the fall of this year this process was completed and consequently we expect sales to increase significantly during 2009.

The markets of Asia and the Americas are still underexploited by us and therefore represent a significant growth potential. In addition, Mobile TV, increased penetration of 3G handsets and the implementation of age verification systems offer additional significant growth potential with both current and future operators in 2008 and beyond[12].

10 According to Global IPTV Forecasts made by MRG (Multimedia Research Group, Inc.), the number of global IPTV subscribers is estimated to grow from 13.5 million in 2007 to 92.8 million in 2012, a compound annual growth rate of 47 percent. Europe continues to be the biggest market for IPTV, with France significantly leading the growth projections through its principal telcos. The number of IPTV subscribers in Europe is forecasted to grow from approximately 6.4 million in 2007 to 36.4 million in 2012, a compound annual growth rate of 42 percent.

11 According to the new research brief, European DTT Services Snapshot published by ABI Research, June 2008.

12 Juniper Research estimates in its white paper Adult Content in the Palm of Your Hand (November 2007) that the global mobile adult content market will increase from US$1.7 billion in 2007 to just over US$4.6 billion by 2012.

Furthermore, we have entered into an exclusive global partnership with Mobile Streams to distribute our premium adult content through their platform for off-portal mobile services. Mobile Streams is a premier global mobile music and media provider and through this partnership we are entering a new dimension of mobile content delivery. During the first two quarters of 2008, the mobile site private.mobi was launched in a few selected European markets as part of the initial stage in the development of this strategic global partnership. We believe the user behavior for mobile content will migrate from on-portal to off-portal and that this new business will be the principal revenue generator going forward[13].

Internet

On January 20, 2009 we expanded our Internet operations through the acquisition of Game Link LLC and its affiliates, companies engaged in digital distribution of adult content over the Internet and eCommerce development. GameLink is a leading US adult entertainment VOD and eCommerce platform through its GameLink.com website. The site s installed user base represents over one million domestic and international customers and it serves over 10,000 users daily. Including 60,000 video titles, GameLink has the largest library of digital and physical adult media and novelties in the United States. The Company offers VOD in multiple media formats including streaming and downloads to computers and iPhones. GameLink s infrastructure is the most robust in the industry and is highly flexible, customizable and scalable designed to support multiple retail strategies and products simultaneously. Additionally, through its related companies, GameLink offers third-party and white-label ecommerce solutions and development. For the year ended 2008 Gamelink and its affiliates reported net sales of USD 16.4 million.

The acquisition of GameLink is a significant development that will substantially contribute to our growth, while creating economies of scale. We have been establishing our digital strategy for the last year, and concluded that the combination of Private with a major online retailer and accomplished platform developer is the approach to achieving our goals in the rapidly changing business landscape. The combined content assets of Private and core competencies of GameLink offer a compelling new business model. We will be expanding our joint internet strategies globally with new formats and applications to be launched in 2009. Additionally, we will be developing improved interactive functionality for new media platforms such as IPTV and mobile, and maximizing our content monetization with the existing vast Private library as well as aggregation of select international studios offering a wide range of content and genres for all platform needs. With this expanded digital strategic focus we will be announcing a variety of compelling new initiatives during 2009.

During the first half of 2009, we are launching 50 Internet niche sites aimed at diversifying our offering and increasing the proliferation of our content on the web alongside our flagship site, www.private.com. The niche sites form an important new network, delivering our content categorized according to genre and theme. The plan is to grow this network around three core sites to a total of over 100 niche sites in operation by the end of 2009. The sites are targeted to satisfy a variety of consumer interests with niche specific content sourced from our vast library and they are also offered to our affiliate network, www.privatecash.com. The niche site strategy is expected to generate significant incremental revenues and contribution to operating profit through substantially increasing shelf-space, traffic and conversion rates. In addition, it enables us to take advantage of additional up-selling and cross-selling opportunities. The new sites have been in development for over a year and are part of the ongoing evolution and growth of our global online diversification strategy.

DVDs & Magazines

As we further transition into global digital content delivery, DVD pricing and volume is being affected considerably and as a result the industry in general is experiencing a severe downturn in DVD sales. In view of the aforementioned, we continue to re-strategize our distribution of DVDs and Magazines to reduce any further negative impact of this downward DVD trend.

13 According to Informa Telecoms & Media, 70% of mobile content revenue will come from off-portal services in the next five years as mobile carriers join forces with off-portal providers to increase revenues. The use of off-portal services by mobile users is also increasing, particularly in the potentially lucrative adult content segment.

Liquidity

We expect that our available cash resources and cash generated from operations and the sale of real estate will be sufficient to meet our presently anticipated working capital and capital expenditure requirements for at least the next 12 months. However, we may need to raise additional funds to support more rapid expansion or respond to unanticipated requirements.

If additional funds are raised through the issuance of equity securities, our shareholders percentage ownership will be reduced, they may experience additional dilution, or these newly issued equity securities may have rights, preferences, or privileges senior to those of our current shareholders. Additional financing may not be available when needed on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, we may be unable to develop or enhance our products and services, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, which could harm our business.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not use derivative financial instruments for trading purposes and were never a party to any derivative, swap or option contracts. We do not hedge our interest rate or foreign currency exchange rate exposures.

As our cash and cash equivalent and our borrowings are primarily at fixed rates of interest our market risk related to fluctuations in interest rates is limited. Accordingly, a one percentage change in market interest rates would not have a material impact on our results of operations.

We transact our business in various currencies, principally the euro and the U.S dollar and certain other European Union currencies. We generally attempt to limit exposure to currency rate fluctuations by matching transaction currencies (revenues/expenses) to the functional currency of its operating subsidiaries. Our exposure to market risk for fluctuations in foreign currency exchange rates relates primarily to fluctuations in the euro versus the U.S dollar. We translate our consolidated subsidiaries whose functional currency is not the euro into the euro for reporting purposes. Income statement amounts are translated into euros using the average exchange rate for the fiscal year. The balance sheet is translated at the year-end exchange rate. Due to the significance of the results reported in dollars the impact of the euro/dollar exchange rate on our major categories of revenue and expense can be material.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our audited consolidated financial statements and related notes appear at the end of this Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A(T). CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the specified time periods. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to its management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, the Company s management evaluated, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company s disclosure controls and procedures. Based on the evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of December 31, 2008.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company s internal control over financial reporting that occurred during the Company s fiscal quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

The Company does not expect that its disclosure controls and procedures or its internal control over financial reporting will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

Management s Annual Report on Internal Control Over Financial Reporting

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. The 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 United States generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with United States 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 (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of the Company s assets that could have a material effect on the financial statements.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework . Based on this assessment, and on those criteria, management concluded that the Company s internal control over financial reporting was effective as of December 31, 2008.

This annual report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management s report in this annual report.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

Identification of Directors, Executive Officers and Key Employees

The following table sets forth all of the current directors, executive officers and key employees of Private Media Group, Inc., their age and the office they hold with Private Media Group or a subsidiary. Executive officers and employees serve at the discretion of the Board of Directors. All directors hold office until the next annual meeting of shareholders and until their successors have been duly elected and qualified.

Name	Age	Position With the Company or Subsidiary
Directors		
Berth H. Milton	53	President, Chief Executive Officer, Chairman of the Board and Director
Bo Rodebrant	56	Director
Lluis Torralba	40	Director
Johan G. Carlberg	49	Director
Daniel Sánchez	40	Director
Ilan Bunimovitz	53	Director, Executive Vice President of Online Media
Other Executive Officers and Key Employees		
Peter T. Cohen	53	Chief Operating Officer, Private Media Group, Inc.
Johan Gillborg	46	Secretary and Chief Financial Officer, Private Media Group, Inc.; Chairman, Private France S.A.; Chairman, Private Benelux; Administrator, Milcap Media Group
Javier Sánchez	47	Executive Vice President, Production and Operations of Milcap Media Group
Philip Christmas	48	Chief Financial Officer, Milcap Media Group

The following sets forth certain information with respect to the persons who are members of the Board of Directors, executive officers or key employees of Private Media Group, Inc.:

Berth H. Milton was appointed to the Board of Directors of the Company in February 1998 and was the Corporate Secretary from June 1998 until February 1999. In February 1999 Mr. Milton was appointed Chairman of the Board and Chief Executive Officer of Private, and served as Chief Executive Officer until May 2002. In November 2003 Mr. Milton was reappointed President and Chief Executive Officer of the Company. Mr. Milton was Administrator of Milcap Media Group from its inception until June 2000 and has been acting as an advisor to the Milcap Group since 1991. Mr. Milton is also active in several international industry and real estate projects and developments.

Bo Rodebrant was appointed as a Director of Private Media Group, Inc. in August 1998. Mr. Rodebrant has operated his own accountancy and management consulting services, R&S Ekonomiservice, since 1986. Prior to that time he co-founded an ice cream business, Hemglass, which was the largest of its kind in Stockholm, Sweden. The business was sold by Mr. Rodebrant in 1986. Mr. Rodebrant holds a degree in construction engineering which he received in 1974.

Lluis Torralba was appointed to the Board of Directors in June 2005. Mr. Torralba is a founding partner of Meriden IPM, an international portfolio management company, where he currently is managing private clients. From 1997 to 2004 he was responsible for the company s IT systems. Prior to 1997, he worked as an IT manager in Andorra. Mr. Torralba holds a Degree in Information Technology from Escola D informàtica d Andorra.

Johan G. Carlberg was appointed to the Board of Directors in October 2004. Mr. Carlberg has operated his own import, trading and consulting business in the textile and fashion industry since the seventies. Mr. Carlberg holds a Degree in Business from the Stockholm Institute of Business.

Daniel Sánchez was appointed to the Board of Directors in October 2004. Since January 2004, Mr. Sanchez has been promoting, as a founding partner, the launching of a new private venture capital firm. Prior to entering the venture capital field, he held the position as Deputy Managing Director at Electrodomésticos Taurus, a consumer electronics company, from 2002 to 2004. Between 1995 and 2002 he worked as a Manager in the field of mergers and acquisitions at Alpha Corporate, a well known international consultancy firm. Mr. Sanchez holds a Master s Degree in Business Administration from the University of Chicago.

Ilan Bunimovitz was appointed to the Board of Directors in March 2009 pursuant to his Employment Agreement with Private entered into in January 2009 in connection with the acquisition of Game Link LLC and its affiliate, companies engaged in the business of digital distribution of adult content over the Internet and online eCommerce development. Mr. Bunimovitz serves as Executive Vice President of the Group s Online Media Division. Mr. Bunimovitz was the founder, chief operating officer and co-owner of Game Link LLC prior to its acquisition by the Company, which he operated since its founding in 1993. Mr. Bunimovitz holds a Bachelor s Degree in Psychology from Bar-Ilan University, Israel.

Peter T. Cohen was appointed Chief Operating Officer of Private Media Group in November 2006. From 2003 to 2006 he was a Managing Partner of MPP Ventures LLC, a consultancy firm providing services to major entertainment companies with respect to strategies for digital content production and distribution on multi-media platforms. From 2001 to 2002 he served as Senior Executive Vice President of Media and Entertainment for BillboardLive. From 1997 to 2001 he held the position as Senior Vice President of Programming for The Box Music Network, a state of the art interactive music video channel distributed throughout the US and select international territories. Prior to this, Mr. Cohen held several senior executive positions at various other media/entertainment companies including HBO, CNN International, MuchMusic and ACTV Inc. Mr. Cohen has a Bachelor s degree in Human Ecology from The College of the Atlantic, Bar Harbor, Maine, USA.

Javier Sánchez was appointed Vice President of Operations of Milcap Media Group SLU (Spain) in November 2006. From August 1998 to November 2006 he held the position of Operations Manager of Milcap Media Group SLU. He has also been the Vice Director of Milcap Media Group SLU between 1993 and 1997. From 1988 to 1991 he was the Sales Director of a printing company in Barcelona. From 1984 to 1987 he was the Operations Manager of a printing company in Barcelona.

Johan Gillborg was appointed as Chief Financial Officer of Private Media Group, Inc. in August 1998 and has been the Chairman and Managing Director of Milcap Publishing Group AB from 1994 until January 2000. Mr. Gillborg joined the group in 1992 as Marketing Consultant. From 1991 to 1992 he operated his own business which acted as sub-contracting sales force for Securitas Direct of Sweden. From 1988 to 1990, Mr. Gillborg served as a general manager in the hotel business in the United Kingdom and Portugal. Mr. Gillborg holds a Bachelor s Degree in Business Administration from Schiller International University in London.

Philip Christmas was appointed Chief Financial Officer of Milcap Media Group SL, in August 2001. Prior to this time Mr. Christmas was employed by PricewaterhouseCoopers and its predecessor firm, Coopers & Lybrand, since 1988. While employed by PricewaterhouseCoopers he was responsible for carrying out audits of multinational and local companies and, more recently, he has provided transaction services to clients acquiring businesses in Spain. Mr. Christmas is a member of the Institute of Chartered Accountants of England and Wales and of ROAC (Official Register of Auditors) in Spain.

Certain Relationships

Effective March 1, 2009, the Company appointed Ilan Bunimovitz as a director to fill the newly created vacancy on the Board, to serve until the Company s next Annual Meeting of Shareholders. Mr. Bunimovitz was appointed as a director pursuant to his Employment Agreement with the Company and Game Link LLC, a subsidiary of the Company, entered into on January 20, 2009. Under the terms of the Employment Agreement the Company agreed to appoint Mr. Bunimovitz to its Board by March 1, 2009, and to nominate him to continue to serve as a director in 2009, 2010 and 2011 until such time as he ceases to be employed by the Company. The Employment Agreement was entered into in connection with the acquisition of Game Link LLC and its affiliate by the Company on January 20, 2009, companies engaged in the business of digital distribution of adult content over the Internet and online eCommerce development. Under a separate agreement entered into in connection with the acquisition of Game Link, Berth Milton has agreed to vote Private shares beneficially owned by him in favor of Mr. Bunimovitz s election to the Board of Directors in 2009, 2010 and 2011, so long as he continues to be employed by the Company.

No other director or executive officer serves pursuant to any arrangement or understanding between him or her and any other person. There are no family relationships between any of our directors or executive officers.

Audit Committee

We maintain an Audit Committee in accordance with applicable SEC and Nasdaq rules. The Audit Committee is currently comprised of Lluis Torralba, Johan Carlberg and Daniel Sánchez. All of the members of the Audit Committee are independent as defined in applicable Nasdaq listing requirements and SEC regulations, and each of them is able to read and understand fundamental financial statements. The Board has determined that Daniel Sánchez is an audit committee financial expert as defined under applicable SEC regulations. The Audit Committee reviews and recommends to the Board, as it deems necessary, the internal accounting and financial controls for the Company and the accounting principles and auditing practices and procedures to be employed in preparation and review of financial statements of the Company. The Audit Committee makes recommendations to the Board concerning the engagement of independent public accountants and the scope of the audit to be undertaken by such accountants. The Audit Committee has adopted a written Audit Committee Charter.

Code of Ethics

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. Our code of ethics is filed as Exhibit 14.1 to this Annual Report on Form 10-K. We intend to satisfy the disclosure requirements under Item 10 of Form 8-K, regarding an amendment to or waiver from our code of ethics, by posting the required information on our corporate Internet website at www.prvt.com or as otherwise permitted under applicable law.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of Forms 3, 4 and 5 furnished to Private covering its 2007 fiscal year filed under Section 16(a) of the Securities Exchange Act of 1934, each of Private s officers and directors complied with the reporting requirements under Section 16(a) for the 2008 fiscal year.

ITEM 11. EXECUTIVE COMPENSATION
COMPENSATION DISCUSSION AND ANALYSIS

Executive Compensation Policy and Objectives

Our policy in compensating executive officers, including the executive officers named in the Summary Compensation Table appearing below (the named executive officers), is to establish methods and levels of compensation that will

attract and retain highly qualified personnel

provide meaningful incentives to promote profitability and growth and reward superior performance.

To achieve these policies Private follows the basic principles that annual compensation should be competitive with similar companies and long term compensation should generally be linked to Private s return to shareholders. Private also believes that compensation for individual executives should be aligned to the performance of areas of the business over which the executive has the most control.

Executive compensation policies are implemented through a combination of annual and long-term methods of compensation. Compensation for the named executive officers includes

- base salary,
- eligibility to receive annual cash bonuses, and
- stock-based compensation in the form of stock options under the employee stock option plan.

These primary components are available for flexible use by Private in a manner that will effectively implement our stated objectives with respect to compensation arrangements for each of the executive officers. Each of these components is discussed in more detail below. When setting the compensation arrangements for each executive officer, the Compensation Committee considers these components individually, as well as on an aggregate (total compensation) basis. There is no pre-determined relationship between base salary of our executives and any of the other principal components of compensation. Each element of compensation is considered both individually and in terms of total overall compensation.

Primary Components of Executive Compensation.

Base Salary

The base salaries of our executive officers are set by the Compensation Committee (and in the case of the CEO, ratified by the independent directors) after consideration of a number of factors, including the executive s position, level of responsibility, tenure and performance. The Compensation Committee also considers the compensation levels of executives in comparable companies, along with the executive compensation recommendations made by our chief executive officer. In addition, the Compensation Committee evaluates whether the base salary levels of our executives are appropriate relative to our size and financial performance compared with the other companies reviewed. Relying primarily on these factors, the Compensation Committee sets the base salaries of our executive officers at levels designed to meet its objective of attracting and retaining highly qualified individuals. The Compensation Committee also believes that the continuity of leadership derived from the retention of well qualified executive officers is in the best interests of our shareholders. The base salaries of our executive officers are not set at any specific level as compared to the compensation levels of companies reviewed and the Compensation Committee does not assign relative weights or importance to any specific measure of the company s financial performance. During 2006, 2007 and 2008 base salary accounted for all the named executive officers direct cash compensation.

Effective September 2007 we increased Mr. Cohen s base compensation from USD $200,000 to EUR 200,000 per year, effectively resulting in an increase in Mr. Cohen s base compensation based upon current exchange rates. The increase was intended to reflect both the decrease in the value of the dollar against the euro and to adjust his compensation to reflect market conditions. There were modest increases in base compensation to other named executive officers to reflect increased cost of living.

Annual Cash Incentive Payment

The Compensation Committee considers the use of annual performance bonuses from time to time where appropriate, to motivate participants to achieve company growth and enhance shareholder value. The incentive bonus plan permits plan participants to receive a cash bonus that is tied to the company s financial performance during a specified fiscal year. We do not presently have in effect an annual cash bonus plan in effect with respect to any of the named executive officers other than for our Chief Operating Officer, Peter Cohen. Under the terms of his employment agreement, Mr. Cohen is eligible to receive an annual performance bonus, upon the achievement of specified goals in each fiscal year, commencing in 2007, based upon the amount of increase in annual operating income after 2006. The agreement provides for an annual bonus of between EUR 20,000 100,000, depending upon the amount of increase in operating income in the applicable fiscal year. No bonus was paid or accrued for 2007 or 2008 as the financial targets were not achieved. Information regarding this bonus plan is contained elsewhere in this Item 11 under the heading Employment Contracts, Termination of Employment Contracts and Change in Control Arrangements.

Long-Term Equity Based Compensation Awards

To date we have relied upon cash flow from operations as our principal source of working capital. As a result, we have placed special emphasis on equity-based compensation, in the form of options, to preserve our cash for operations. Long-term equity based compensation awards are granted to our executive officers pursuant to our employee stock option plan. The Compensation Committee believes that long-term equity based compensation awards are an effective incentive for senior management to increase the long-term value of the company s common stock as well as aiding the company in attracting and retaining senior management. These objectives are accomplished by making awards under the plan, thereby providing senior management with a proprietary interest in the continued growth and performance of the company and more closely aligning their interests with those of our shareholders. In addition, because options generally terminate within 90 days after the date an executive leaves the company (other than because of disability or retirement at age 65 or older), we believe that options are a useful incentive in promoting the retention of executives.

All determinations regarding the granting of options, including the amount, exercise price and terms of vesting, are made by the Compensation Committee after seeking input from management, subject to the approval of the full Board of Directors acting as the option committee under the employee stock option plan. The Compensation Committee makes long-term equity based compensation awards after a review of a number of factors, including length of service, the performance of the company, the relative levels of responsibility of the executive and his or her contributions to the business, including recommendations of supervisors, and prior option grants received by the executive. Awards may be granted to the same executive on more than one occasion.

Stock option grants may be subject to a vesting period based upon continued employment during the option term or may fully vest upon grant. The Compensation Committee may make grants at any particular time during the year, and the full board of directors approves such grants. The exercise price of the options must be at least equal to the fair market value of such shares on the date the stock option is granted or such later date as the option committee specifies.

No options were granted to any of the named executive officers in 2006, 2007 or 2008, as their current levels of overall compensation were considered adequate.

Other Benefits

We provide all eligible employees, including executive officers, with certain benefits, including paid time off and paid holiday programs. We do not presently maintain any deferred compensation or retirement plans.

Employment Agreements. We generally do not have long-term employment agreements with our executive officers.

Severance Agreements. We generally do not enter into severance agreements or similar agreements providing for payments upon termination of employment or change-in-control. Such agreements, when entered into, are negotiated on a case-by-case basis. Other than our agreement with Peter Cohen providing for up to three months of severance benefits, we have not entered into any severance agreements or termination agreements with any of the named executive officers. Information regarding our agreement with Mr. Cohen is contained elsewhere in this Item 11 under the heading Employment Contracts, Termination of Employment Contracts and Change in Control Arrangements.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis section included in this annual report. Based on this review and discussion, the Compensation Committee recommended to the board of directors that the Compensation Discussion and Analysis section be included in this annual report.

The Compensation Committee:

Berth H. Milton

The following table summarizes all compensation paid to (i) our Chief Executive Officer and Chief Financial Officer serving during 2008, and (ii) our other most highly compensated executive officers who were serving in such capacity at the end of 2008, other than the Chief Executive Officer and Chief Financial Officer, whose total compensation exceeded $100,000 in 2008, for services rendered in all capacities to Private Media Group for the three fiscal years ended December 31, 2006, December 31, 2007, and December 31, 2008. No other executive officer earned compensation in excess of $100,000 in 2008.

2008 Summary Compensation Table

Name and Principal Position During Fiscal 2008	Fiscal Year	Salary ($)(1)	Option Awards ($)(1) (2)	All Other Compensation ($)	Total ($)(1)
Berth H. Milton, President and CEO (3)	2008	253,000			253,000
	2007	141,000			141,000
Director, Chairman of the Board	2006	118,144			118,144
Johan Gillborg (4)	2008	205,000			205,000
	2007	191,000			191,000
Chief Financial Officer and Secretary, Private Media Group, Inc.; Chairman, Private France S.A.; Chairman, Private Benelux; Administrator, Milcap Media Group	2006	165,000			165,000
Peter T. Cohen (5)	2008	295,000			295,000
	2007	225,000		27,000(6)	252,000
Chief Operating Officer, Private Media Group, Inc.	2006	50,000		5,000(6)	55,000
Javier Sánchez (7)	2008	242,000			242,000
	2007	225,000			225,000
EVP, Production and Operations, Milcap Media Group	2006	205,000			205,000
Philip Christmas (8)	2008	154,000			154,000
	2007	137,000			137,000
Chief Financial Officer, Milcap Media Group	2006	117,500			117,500

(1) Salary amounts received in non-US currency have been converted into dollars using the average exchange rate for the applicable year.
(2) Reflects the amount recognized for financial statement reporting purposes for fiscal year 2008 in accordance with FAS 123(R) using the assumptions set forth in the footnote 17 to the financial statements included elsewhere in this Annual Report for stock option awards granted during and prior to 2007, assuming no forfeitures.
(3) Salary received in non-US currency, 110,510 euro in 2008, 102,500 euro in 2007 and 94,515 euro in 2006.
(4) Salary received in non-US currency, 139,000 euro in 2008, 139,000 euro in 2007 and 132,000 euro in 2006.
(5) Mr. Cohen was retained as a consultant in September 2006 and was appointed Chief Operating Officer in November 2006. Compensation for 2006 reflects compensation as consultant and Chief Operating Officer. Salary received in non-US currency, 200,000 euro in 2008 and 67,000 euro in 2007.
(6) In accordance with Mr. Cohen s employment agreement he received a 2,000 euro ($2,667) monthly relocation allowance for 12 months commencing in November 2006.
(7) Mr. Sánchez served as Chief Operating Officer of Private Media Group, Inc. from 1998 until November 2006, when Mr. Sánchez was appointed as Executive Vice President, Production and Operations of Milcap Media Group. Salary received in non-US currency, 164,000 euro in 2008, 164,000 euro in 2007 and 164,000 euro in 2006.
(8) Salary received in non-US currency, 104,200 euro in 2008, 100,000 euro in 2007 and 94,000 euro in 2006.

No bonuses or stock awards were granted to any of the named executive officers in 2008.

Compensation Committee Interlocks and Insider Participation

During the last fiscal year Mr. Milton has acted as the Compensation Committee. Mr. Milton served as our Chief Executive Officer during 2008. During the last fiscal year, none of our executive officers served on our Board of Directors or Compensation Committee of any other entity whose officers served either on our Board of Directors or Compensation Committee.

Grants of Plan-Based Awards in the Last Fiscal Year

There were no plan-based awards granted to the individuals named in the Summary Compensation Table above for the year ended December 31, 2008.

Outstanding Equity Awards at 2008 Fiscal Year-End

The following table summarizes certain information regarding the number and value of all options to purchase common stock of Private Media Group, Inc. held by the individuals named in the Summary Compensation Table at December 31, 2008. No stock awards or equity incentive plan awards were issued or outstanding during fiscal 2008.

2008 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

	Option Awards				
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date
Berth H. Milton	180,000			4.75	Mar 1, 2009
Javier Sánchez	180,000			4.75	Mar 1, 2009
Johan Gillborg	172,500			4.77	Mar 1, 2009
Javier Sánchez	500,000			5.00	Oct 7, 2009
Javier Sánchez					
Johan Gillborg					
Philip Christmas					
Peter T. Cohen					

Option Exercises and Stock Vesting During 2008

No stock options were exercised during 2008 by the individuals named in the Summary Compensation Table. No stock awards were issued or outstanding during fiscal 2008.

Employment Contracts, Termination of Employment Contracts and Change in Control Arrangements

We generally do not enter into long-term employment agreements with our executive officers. We generally do not enter into severance agreements or similar agreements providing for payments upon termination of employment or change-in-control. Such agreements, when entered into, are negotiated on a case-by-case basis. We have not entered into any severance agreements or termination agreements with any of the named executive officers other than with Peter Cohen, pursuant to an agreement negotiated with him in connection with his commencement of employment in 2006.

Effective November 2006, we entered into an employment agreement with Peter Cohen in connection with his employment by Private as its Chief Operating Officer. Mr. Cohen s employment is terminable upon not more than 30 days notice. We agreed to pay him a salary of $200,000 per annum plus certain relocation costs of up to EUR 24,000. Effective September 2007 his base salary of $200,000 per annum was increased to EUR 200,000 per annum. Mr. Cohen is also eligible to receive an annual performance bonus, upon the achievement of specified goals in each fiscal year, commencing in 2007, based upon the amount of increase in annual operating income after 2006. The agreement provides for an annual bonus of between EUR 20,000 100,000, depending upon the amount of increase in operating income in the applicable fiscal year. No bonus was paid or accrued for 2007 or 2008, as the financial targets were not achieved. If Mr. Cohen is terminated by Private other than for cause, he is entitled to a severance payment equal to one month of salary if terminated prior to October 30, 2007, and three months of salary if terminated at any time thereafter.

Director Compensation During 2008

The following table summarizes all compensation paid to our non-employee directors during 2008.

2008 DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)	Option Awards ($) (2) (5)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)	Total ($)(1)
Bo Rodebrant						
Lluis Torralba						
Johan G. Carlberg (3)	7,353		3,922			10,573
Daniel Sánchez (4)	14,706		10,733			25,439

(1) Fee earned in non-US currency have been converted into dollars using the average exchange rate for the applicable year.
(2) Reflects the amount recognized for financial statement reporting purposes for fiscal year 2008 in accordance with FAS 123(R) using the assumptions set forth in the footnote 17 to the financial statements included elsewhere in this Annual Report for stock option awards granted during and prior to 2008, assuming no forfeitures.
(3) The director earned 5,000 euro in non-US currency and, as of December 31, 2008, the director had 9,000 options outstanding.
(4) The director earned 10,000 euro in non-US currency and, as of December 31, 2008, the director had 30,000 options outstanding.
(5) In 2008 Messrs. Sánchez and Carlberg were each granted options to acquire 10,000 and 3,000 shares, respectively, of Private s common stock at an exercise price of $1.20 per share, being the fair market value of our common stock on the date of grant, which options vest in October 2009 and expire in October 2012. The fair market value of these options at the time of grant, computed in accordance with FAS 123(R), were $4,000 and $1,200 respectively.

Our Board of Directors may, at its discretion, compensate directors for attending board and committee meetings and reimburse the directors for out-of-pocket expenses incurred in connection with attending such meetings.

We have agreed to pay Daniel Sánchez and Lluis Torralba a fee of EUR 2,000, and Johan Carlberg a fee of EUR 1,000, for each board and committee meeting attended.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table presents certain information as of March 27, 2009, regarding the beneficial ownership of our common stock by:

- each of our directors and executive officers individually,
- all persons known by us to be beneficial owners of five percent or more of our common stock, and
- all of our directors and executive officers as a group.

Unless otherwise indicated in the footnotes below, the persons and entities named in the table have sole voting and investment power as to all shares beneficially owned.

Name and Address	Number of Shares Beneficially Owned (1)	Percent Beneficially Owned (1)
Berth H. Milton (2)	31,102,985	50.1%
Ilan Bunimovitz (3)	5,627,851	9.1%
Javier Sánchez (4)	530,000	*
Johan Gillborg (5)	105,000	*
Bo Rodebrant (6)		*
Daniel Sánchez (7)	30,000	*
Philip Christmas (8)		*
Johan G. Carlberg (9)	9,000	*
Lluis Torralba (10)		
Peter T. Cohen (11)		
All Executive Officers and Directors as a group (10 people) (12)	37,404,836	59.7%

* Denotes less than 1%

(1) Beneficial ownership is determined in accordance with rules of the U.S. Securities and Exchange Commission. The calculation of the percentage of beneficial ownership is based upon 62,114,802 shares of common stock outstanding on March 27, 2009. In computing the number of shares beneficially owned by any shareholder and the percentage ownership of such shareholder, shares of common stock which may be acquired by a such shareholder upon exercise or conversion of warrants or options which are currently exercisable or exercisable within 60 days of March 27, 2009, are deemed to be exercised and outstanding. Such shares, however, are not deemed outstanding for computing the beneficial ownership percentage of any other person. Except as indicated by footnote, to our knowledge, the persons named in the table above have the sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

(2) Includes 4,950,000 shares of common stock owned by Slingsby Enterprises Limited, of which Mr. Milton is the sole shareholder. These shares are pledged to a third party to secure payment of a loan from the third party to us. His address is c/o Milcap Media Group SLU, Calle de la Marina 14-16 Floor 18 Suite D, 08005 Barcelona, Spain.

(3) His address is c/o GameLink LLC, 537 Stevenson Street, San Francisco CA 94103, USA.

(4) Includes 500,000 shares issuable upon exercise of Options issued under the Employee Stock Option Plan. Mr. J. Sànchez address is c/o Milcap Media Group SLU, Calle de la Marina 14-16 Floor 18 Suite D, 08005 Barcelona, Spain.

(5) His address is c/o Milcap Media Group SLU, Calle de la Marina 14-16 Floor 18 Suite D, 08005 Barcelona, Spain.
(6) His address is c/o Milcap Media Group SLU, Calle de la Marina 14-16 Floor 18 Suite D, 08005 Barcelona, Spain.
(7) Includes 30,000 shares issuable upon exercise of Options issued under the Employee Stock Option Plan owned by Mr. D. Sánchez. His address is c/o Milcap Media Group SLU, Calle de la Marina 14-16 Floor 18 Suite D, 08005 Barcelona, Spain.
(8) His address is c/o Milcap Media Group SLU, Calle de la Marina 14-16 Floor 18 Suite D, 08005 Barcelona, Spain.
(9) Includes 9,000 shares issuable upon exercise of Options issued under the Employee Stock Option Plan owned by Mr. Carlberg. His address is c/o Milcap Media Group SLU, Calle de la Marina 14-16 Floor 18 Suite D, 08005 Barcelona, Spain.
(10) His address is c/o Milcap Media Group SLU, Calle de la Marina 14-16 Floor 18 Suite D, 08005 Barcelona, Spain.
(11) His address is c/o Milcap Media Group SLU, Calle de la Marina 14-16 Floor 18 Suite D, 08005 Barcelona, Spain.
(12) Includes 539,000 shares issuable upon exercise of outstanding Options under the Employee Stock Option Plan.

Equity Compensation Plan Information

On March 1, 1999 the Company adopted the 1999 Employee Stock Option Plan. In February 2003 the Plan was amended to provide for the issuance of up to 7,200,000 shares of the Company s common stock to employees, consultants and advisors of the company, and was approved by the shareholders. Full details of the Plan are included in note 17 to the financial statements and are summarized below as of December 31, 2008:

(a)	Number of securities to be issued upon exercise of outstanding options, warrants and rights	1,888,920
(b)	Weighted-average exercise price of outstanding options, warrants and rights	$ 4.99
(c)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in row (a) above)	2,971,294

We do not maintain any other equity compensation plans.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS
Related Transactions

In December 2001 the group s holding company, Private Media Group, Inc., borrowed $ 4.0 million from Commerzbank AG pursuant to a Note originally due on December 20, 2002. The Note bore interest at an annual rate of 7%, payable quarterly, with the entire principal amount and accrued interest originally due on December 20, 2002. The Note is guaranteed by Slingsby Enterprises Limited, an affiliate of Berth Milton, Private s Chairman, Chief Executive Officer and principal shareholder, and the guaranty is secured by 4,950,000 shares of Private Media Group, Inc. Common Stock. In December 2002 Commerzbank AG agreed to extend the maturity date of the Note to March 20, 2003. In April 2003 the Note was acquired by Consipio Holding b.v. from Commerzbank AG, and Consipio and Private reached an agreement-in-principle with Consipio to extend the maturity of the Note until April 2008. However, Consipio and Private were unable to reach final agreement on other terms and conditions relating to the restructured Note. Accordingly, in December 2003 Consipio notified Private and Slingsby Enterprises that Private was in default under the Note, and demanded $3.4 million as payment in full of all outstanding principal and interest under the Note. The Company continued to make regular payments on the Note, including principal and accrued interest, through February 2008. In April 2008 Consipio requested Private to pay the remaining balance of the Note, without indicating the amount due. Private in turn requested that Consipio provide a statement of the amount due and the basis for its calculation. In response, Consipio demanded payment of $3,194,000 as settlement in full of the Note, to be received by May 9, 2008. This calculation was made using an interest rate of 9.9%, as opposed to the 7% rate provided under the original terms of the Note. Consipio also advised that if payment was not received on such date it would institute litigation, in which event Consipio would claim that the amount due under the Note should be denominated in Euro, rather than U.S. dollars. In August 2008 Consipio notified Private that the Note was in default and that it intended to exercise its rights under the Note and the pledge of shares by Slingsby of Private Common Stock. Private believes that the amount due under the Note at May 9, 2008, including accrued interest, was no more than $2.4 million ($2.5 million at December 31, 2008), utilizing an interest rate of 7%. Private also believes it has valid claims and defenses against Consipio and its affiliates which may ultimately reduce all or a portion of its obligations relating to the Note. However, there are no assurances that either Private will be able to reach agreement with Consipio or that Private will ultimately prevail on its claims and defenses. In any event, the Company does not believe that the Note obligations will have a material adverse effect on the liquidity of the Company, as the Note is fully collateralized by 4,950,000 shares of Private Media Group, Inc. Common Stock pursuant to the guaranty agreement from Slingsby Enterprises Limited to the holder of the Note.

We have short-term loans to Slingsby Enterprises Limited, an entity controlled by Mr. Milton. The loans bear interest at the rate of EURIBOR+1% per annum and have no maturity date. During 2008 the highest amount outstanding was EUR 7.0 million. As of December 31, 2008, EUR 7.0 million remained outstanding on these loans, including interest. In connection with the acquisition of Game Link LLC on January 20, 2009, in order to induce the sellers to consummate the acquisition, the borrower entered into an agreement with the Company and the sellers with regard to the partial repayment of the loan. Under the agreement, in each of the fiscal years ended December 31, 2009, 2010, and 2011, the borrower is required to repay not less than EUR one million, either in cash or in Private common stock valued at its fair market value as determined by the disinterested directors of Private, to be applied first to accrued interest and then to principal of the loan.

In December 2007 the Company s principal shareholder and affiliates of the Company s principal shareholder agreed to guarantee a bank line of credit agreement of Euro 1.0 million entered into by one of the Company s European subsidiaries.

Ilan Bunimovitz was appointed as a director in March 2009 pursuant to his Employment Agreement with the Company and Game Link LLC, a subsidiary of the Company, entered into on January 20, 2009. The Employment Agreement was entered into in connection with the acquisition of Game Link LLC and eLine LLC by the Company on January 20, 2009, companies engaged in the business of digital distribution of adult content over the Internet and online eCommerce development. Mr. Bunimovitz was the founder and chief operating officer of Game Link LLC and an indirect co-owner of Game Link LLC and eLine, LLC. The Employment Agreement provides for Mr. Bunimovitz to serve as Executive Vice President of the consolidated Internet and Internet-related business conducted by the Company and its subsidiaries for a period of three years, subject to earlier termination by either party under specified circumstances. Under the terms of the Employment Agreement the Company agreed to appoint Mr. Bunimovitz to its Board by March 1, 2009, and to nominate him to continue to serve as a director in 2009, 2010 and 2011 until such time as he ceases to be employed by the Company. The Employment Agreement provides for Mr. Bunimovitz to receive an annual base salary of $281,828, $271,070 and $302,648 in the first, second and third years of the employment term. He is also entitled to receive stock options on the same terms as stock options granted to Berth Milton, the Company s Chairman, CEO and principal shareholder, during the term of the Employment Agreement, in an amount which is proportionate to the relative stock ownership as between Mr. Bunimovitz and Mr. Milton. If the Company terminates Mr. Bunimovitz s employment during the term of the Employment Agreement other than for cause, or if Mr. Bunimovitz terminates his employment with the Company for good reason, then Mr. Bunimovitz is entitled to continue to receive his monthly base salary for the remaining period of the three year term.

In consideration of the acquisition of Ilan Bunimovitz s interests in Game Link LLC and eLine LLC, he received 6,200,175 shares of the Company s common stock and he is entitled to receive up to an additional 3,338,556 shares of common stock if the combined EBITDA of the digital media operations of the Company and Game Link meet specified targets in 2009, 2010 and 2011. The total value of the shares received and to be received by Mr. Bunimovitz in connection with the acquisition, assuming the EBITDA targets are met in 2009, 2010 and 2011, is EUR 7,418,271 (USD 9,634,118), based on the closing price of the Company s common stock on January 20, 2009.

In connection with the acquisition by the Company of Game Link LLC and its affiliate, Game Link LLC entered into a lease agreement with 537 Stevenson Street L.L.C., a limited liability company which is 50% owned by Mr. Bunimovitz, providing for the lease by Game Link LLC of the land and building used by Game Link in San Francisco, California. The lease extends through December 31, 2011, has a base rent of $13,620 per month, and provides for Game Link to be responsible for property taxes and maintenance expenses during the term of the lease.

The foregoing transactions are believed to be on terms no less favorable to us than we could obtain from unaffiliated third parties on an arms-length basis.

Review and Approval of Related Party Transactions

Our Audit Committee is responsible for the review and approval of all related party transactions required to be disclosed to the public under SEC rules. This procedure, which is contained in the written charter of our Audit Committee, has been established by our Board of Directors in order to both meet the requirements of applicable Nasdaq rules requiring review and approval of related party transactions, and to serve the interests of our shareholders. In addition, we maintain a written Code of Ethics which requires all employees, including our officers, to disclose to the Audit Committee any material relationship or transaction that could reasonably be expected to give rise to a personal conflict of interest. Related party transactions are reviewed and approved by the Audit Committee on a case-by-case basis. Under existing, unwritten policy no related party transaction can be approved by the Audit Committee unless it is first determined that the terms of such transaction is on terms no less favorable to us than could be obtained from an unaffiliated third party on an arms-length basis and is otherwise in our best interest.

Director Independence

All of the members of our Board of Directors are independent as defined in Nasdaq Stock Market Rule 4200 other than Berth Milton, who is our Chief Executive Officer, and Ilan Bunimovitz.

Our Board of Directors has an Audit Committee and a Compensation Committee. Our Board of Directors does not have a formal nominating committee. Therefore, all decisions regarding director nominations are addressed by the entire Board of Directors. All of the members of the Audit Committee are independent under applicable SEC and Nasdaq listing rules. Mr. Milton is the only director who serves on the Compensation Committee who is not independent under applicable Nasdaq listing rules. Mr. Milton also participates in Board of Director deliberations regarding director nominations.

Under applicable Nasdaq listing rules we are a controlled company as Berth Milton beneficially owns more than 50% of our common stock. Therefore, we are exempt from Nasdaq rules which require that (i) compensation of executive officers be determined by either a majority of the independent directors or a Compensation Committee comprised solely of independent directors, and (ii) nomination of directors be made by either a majority of independent directors or a committee comprised solely of independent directors.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES
Fees Paid to BDO Audiberia

Following is information regarding fees billed by BDO Audiberia for services rendered to the Company in 2007 and 2008.

Audit Fees. The aggregate fees billed to the Company by the Company s principal accountant, BDO Audiberia, for the audit of the Company s annual financial statements and for the review of the financial statements included in the Company s quarterly reports on Form 10-Q totaled $170,000 and $130,000 in 2007 and 2008, respectively. Audit fees consist of fees for the audit and review of the Company s financial statements, statutory audits, consents and assistance with and review of documents filed with the SEC.

Audit-Related Fees. BDO Audiberia did not provide any assurance or related services which are not included under Audit Fees in 2007 and 2008, respectively.

Tax Fees. BDO Audiberia did not provide any tax compliance, tax advice, or tax planning services in 2007 and 2008, respectively.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee pre-approves all audit and permissible non-audit services provided by the Company s independent auditors. These services may include audit services, audit-related services, tax and other services. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis. During 2007 and 2008, all services provided by BDO Audiberia were pre-approved by the Audit Committee in accordance with this policy.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this Form 10-K:

1. Financial Statements.
See Consolidated Financial Statements.

2. Financial Statement Schedules.
See Schedule II.

3. Exhibits.
See Exhibit Index.

INDEX TO EXHIBITS

Exhibit No.	Description of Document
(5) 2.1	Agreement and Plan of Reorganization dated as of January 20, 2009, by and among Private Media Group, Inc., PRVT Acquisition Corp. I, PRVT Acquisition Corp. II, Game Link LLC, eLine, LLC, Mama s LLC, ThinkForward, Inc. GreenCine, Inc., Ilan Bunimovitz, Andrew Sullivan, Dennis Woo and Peter Marinac.
***3.1	Restated Articles of Incorporation
***3.2	Articles of Amendment to the Articles of Incorporation
(1)3.3	Amended and Restated Bylaws
*4.1	Specimen Common Stock Certificate.
*4.3	Certificate of Designation re Preferred Stock.
++4.4	Form of Securities Purchase Agreements dated as of September 10, 2003, entered into by the Company with each of Omicron Master Trust, Cranshire Capital L.P., and Solomon Strategic Holdings, Inc., including as exhibits thereto:
(a)	Exhibit A - Form of Convertible Note.
(b)	Exhibit B - Form of Series A Warrant.
(c)	Exhibit C - Form of Series B Warrant.
(d)	Exhibit D - Form of Registration Rights Agreement dated as of September 10, 2003.
(e)	Exhibit E - Form of Legal Opinion.
++4.5	Form of Securities Purchase Agreement dated as of September 10, 2003, entered into by the Company with CD Investment Partners, Ltd., including as exhibits thereto:
(a)	Exhibit A - Form of Convertible Note.
(b)	Exhibit B - Form of Series A Warrant.
(c)	Exhibit C - Form of Series B Warrant.
(c)	Exhibit D - Form of Registration Rights Agreement dated as of September 10, 2003.
(e)	Exhibit E - Form of Legal Opinion.
++4.6	Letter Agreement dated October 9, 2003, by and between the Company and CD Investment Partners, Ltd.
(3) 4.7	Letter Agreement dated November 19, 2007, by and between the Registrant and Horse Creek Entertainment AB.
(3) 4.8	Letter Agreement dated December 3, 2007, by and between the Registrant and Horse Creek Entertainment AB.
*10.1	Milcap Acquisition Agreement dated December 19, 1997
*10.2	Cinecraft Acquisition Agreement dated December 19, 1997
***10.3	7% Note Due 2002 from the Registrant to Commerzbank AK.
+++10.4	Amendment No.1 to the 7% Note Due 2002
+10.5	Share Purchase Agreement dated as of December 9, 2002, by and among Fraserside Holdings Limited, Luthares Investments N.V. and Stichting de Oude Waag.
(1) 10.6	Consulting Agreement dated September 29, 2006, by and between the Company and Peter Cohen, as amended by letter dated September 29, 2006.
(4) 10.7	Employment Agreement dated as of January 20, 2009, by and among Ilan Bunimovitz, Game Link LLC and Private Media Group, Inc.

(2)14.1	Code of Ethics
21	Subsidiaries.
23.1	Consent of BDO Audiberia
31.1	Certifications pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.
31.2	Certifications pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.
32.1	Certification of CEO and CFO Pursuant to 18 U.S.C. § 1350, as Adopted Pursuant to § 906 of the Sarbanes-Oxley Act of 2002.

* Incorporated by reference from the registrant s Registration Statement on Form SB-2 (SEC File No. 333-62075).

** Incorporated by reference from the registrant s Annual Report on Form 10-KSB for the year ended December 31, 1998.

*** Incorporated by reference from the registrant s Registration Statement on Form S-1 (SEC File No. 333-69654).

+ Incorporated by reference from the registrant s Form 8-K dated January 14, 2003.

++ Incorporated by reference from the Company s Registration Statement on Form S-3 (SEC File No. 333-109607) as filed with the U.S. Securities and Exchange Commission on October 10, 2003.

+++ Incorporated by reference from the registrant s Annual Report on Form 10-K for the year ended December 31, 2002.

(1) Incorporated by reference from the registrant s Annual Report on Form 10-K for the year ended December 31, 2006.

(2) Incorporated by reference from the registrant s Annual Report on Form 10-K for the year ended December 31, 2003.

(3) Incorporated by reference from the Company s Registration Statement on Form S-3 (SEC File No. 333-147964) as filed with the U.S. Securities and Exchange Commission on December 10, 2007.

(4) Incorporated by reference from the registrant s Interim Report on Form 8-K filed with the SEC on March 6, 2009.

(5) Incorporated by reference from the registrant s Interim Report on Form 8-K filed with the SEC on January 23, 2009. Schedules and exhibits to the Agreement have been omitted pursuant to Section 601(b)(2) of Regulation S-K. Private agrees to furnish supplementally a copy of any omitted schedule or exhibit upon the request of the SEC.

SIGNATURES

In accordance with the requirements of Section 13 or 15(d) of the Exchange Act, the registrant has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: April 15, 2009	**PRIVATE MEDIA GROUP, INC.**
	By: /s/ Berth H. Milton Berth H. Milton, Chief Executive Officer

In accordance with the requirements of the Exchange Act, the Report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Name	**Title**	**Date**
/s/ Berth H. Milton Berth H. Milton	Chairman of the Board and Chief Executive Officer, Director	April 15, 2009
/s/ Johan Gillborg Johan Gillborg	Chief Financial Officer, Chief Accounting Officer	April 15, 2009
/s/ Bo Rodebrant Bo Rodebrant	Director	April 15, 2009
Lluis Torralba	Director	April , 2009
/s/ Johan G. Carlberg Johan G. Carlberg	Director	April 15, 2009
/s/ Daniel Sánchez Daniel Sánchez	Director	April 15, 2009
Ilan Bunimovitz	Director	April , 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Shareholders of Private Media Group, Inc.

1. We have audited the accompanying consolidated balance sheets of Private Media Group, Inc. as of December 31, 2007 and 2008 and the related consolidated statements of income and comprehensive income, shareholders equity, and cash flows for the three years in the period ended December 31, 2008. We have also audited the schedule listed in the accompanying index. 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.

2. 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 and schedule are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule, 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.

3. In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Private Media Group, Inc. at December 31, 2007 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

4. Also, in our opinion, the schedule presents fairly, in all material responses, the information set forth therein.

/s/ BDO AUDIBERIA AUDITORES

BDO AUDIBERIA AUDITORES

Barcelona, Spain

April 6, 2009

PRIVATE MEDIA GROUP, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2007 EUR	December 31, 2008 EUR	December 31, 2008 USD
	(in thousands)		
ASSETS			
Cash and cash equivalents	1,599	552	766
Trade accounts receivable net (Note 3)	8,591	6,066	8,425
Related party receivable (Note 12)	6,740	7,038	9,776
Inventories - net (Note 4)	7,150	5,038	6,997
Deferred income tax asset (Note 11)	4,332	6,188	8,594
Prepaid expenses and other current assets	2,523	1,238	1,719
TOTAL CURRENT ASSETS	30,935	26,120	36,278
Library of photographs and videos - net (Note 6)	17,178	15,138	21,025
Property, plant and equipment - net (Note 5)	3,043	3,154	4,380
Other intangible assets (Note 7)	3,095	2,971	4,127
Goodwill	2,425	2,132	2,961
Other investments (Note 8)	1,022	1,022	1,419
Other assets	357	321	446
TOTAL ASSETS	58,056	50,859	70,637
LIABILITIES AND SHAREHOLDERS EQUITY			
Short-term borrowings (Note 9)	4,202	4,401	6,113
Current portion of long-term borrowings (Note 9)	111		
Accounts payable trade	4,912	3,816	5,300
Income taxes payable (Note 11)	990	1,087	1,510
Deferred income taxes (Note 11)	24	24	33
Accrued other liabilities (Note 10)	1,069	920	1,278
TOTAL LIABILITIES	11,308	10,249	14,234
SHAREHOLDERS EQUITY (Note 13)			
$4.00 Series A Convertible Preferred Stock 10,000,000 shares authorized, none issued and outstanding at December 31, 2007 and 2008, respectively			
Common Stock, $.001 par value, 100,000,000 shares authorized 53,580,494 and 53,580,494 issued and outstanding at December 31, 2007 and 2008, respectively	885	885	1,229
Additional paid-in capital	21,718	21,728	30,178
Retained earnings	27,262	22,074	30,659
Accumulated other comprehensive income	(3,118)	(4,077)	(5,663)
TOTAL SHAREHOLDERS EQUITY	46,747	40,610	56,403
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	58,055	50,859	70,638

See accompanying notes to consolidated financial statements.

PRIVATE MEDIA GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME

AND COMPREHENSIVE INCOME

	Years ended December 31, 2006 EUR	2007 EUR	2008 EUR	2008 USD
	(in thousands)			
Net sales	29,197	24,990	19,667	27,315
Cost of sales	14,144	12,305	13,505	18,758
Gross profit	15,053	12,685	6,161	8,557
Selling, general and administrative expenses	14,043	13,599	13,061	18,140
Operating income (loss)	1,010	(914)	(6,900)	(9,583)
Interest expense	583	272	323	449
Interest income	230	275	257	357
Income (loss) from continuing operations before income taxes	657	(911)	(6,965)	(9,674)
Income tax (benefit) from continuing operations	(473)	(506)	(1,777)	(2,468)
Income (loss) from continuing operations	1,130	(405)	(5,188)	(7,206)
Discontinued operations (Note 19)				
Loss from discontinued operations	(902)			
Income tax (benefit)	(251)			
Loss on discontinued operations	(651)			
Net income (loss)	479	(405)	(5,188)	(7,206)
Other comprehensive income:				
Foreign currency translation adjustments	(124)	(224)	(959)	(1,332)
Comprehensive income	355	(629)	(6,147)	(8,538)
Income (loss) per share from continuing operations:				
Basic	0.02	(0.01)	(0.10)	(0.13)
Diluted	0.02	(0.01)	(0.10)	(0.13)
Loss per share from discontinued operations:				
Basic	(0.01)			
Diluted	(0.01)			
Net income (loss) per share:				
Basic	0.01	(0.01)	(0.10)	(0.13)
Diluted	0.01	(0.01)	(0.10)	(0.13)

See accompanying notes to consolidated financial statements.

PRIVATE MEDIA GROUP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Common stock					
	Shares	Amounts EUR	Additional paid-in capital EUR	Retained earnings EUR	Accumulated other comprehensive income EUR	Total share-holders equity EUR
Balance at January 1, 2006	52,478,723	885	19,585	27,188	(2,769)	44,889
Repurchase of common stock	(42,935)		(152)			(152)
Conversion of bond principal into common stock	662,500		1,057			1,057
Conversion of bond interest into common stock	16,128		39			39
Conversion of options	33,750		79			79
Stock based compensation			67			67
Translation adjustment					(124)	(124)
Net income				479		479
Balance at December 31, 2006	53,148,166	885	20,675	27,667	(2,893)	46,334
Repurchase of common stock	(2,999)		(8)			(8)
Shares issued for investment (Note 8)	435,327		1,022			1,022
Stock based compensation			28			28
Translation adjustment					(224)	(224)
Net income				(405)		(405)
Balance at December 31, 2007	53,580,494	885	21,718	27,262	(3,118)	46,747
Stock based compensation			9			9
Translation adjustment					(959)	(959)
Net loss				(5,188)		(5,188)
Balance at December 31, 2008	53,580,494	885	21,727	22,074	(4,077)	40,610

See accompanying notes to consolidated financial statements.

PRIVATE MEDIA GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,			
	2006 EUR	2007 EUR	2008 EUR	2008 USD
		(in thousands)		
Cash flows from operating activities:				
Net income (loss)	479	(405)	(5,188)	(7,206)
Adjustment to reconcile net income to net cash flows provided by operating activities:				
Deferred income taxes	(890)	(636)	(1,856)	(2,578)
Depreciation	898	819	1,026	1,425
Stock based compensation	67	28	9	13
Convertible note adjustment	71			
Bad debt provision	209	367	333	463
Impairment of goodwill			293	407
Amortization of other intangible assets	124	124	124	172
Amortization of photographs and videos	6,691	6,832	6,332	8,794
Changes in operating assets and liabilities:				
Trade accounts receivable	(80)	(274)	2,192	3,044
Related party receivable	(535)	(317)	(298)	(414)
Inventories	1,505	1,124	2,112	2,933
Prepaid expenses and other current assets	334	(497)	1,285	1,785
Accounts payable trade	(1,123)	163	(1,096)	(1,522)
Income taxes payable	245	257	97	135
Accrued other liabilities	(628)	15	(149)	(207)
Net cash provided by operating activities	7,365	7,601	5,216	7,244
Cash flows used in investing activities:				
Investment in library of photographs and videos	(6,542)	(7,101)	(4,292)	(5,960)
Capital expenditures	(1,353)	(1,370)	(1,136)	(1,578)
Sale of part of building	225			
Investment in other assets	(46)	(7)	36	50
Note receivable	592			
Net cash used in investing activities	(7,124)	(8,478)	(5,392)	(7,488)
Cash flow provided by financing activities:				
Conversion of stock options and warrants	79			
Short-term borrowings - repayments	(450)	(399)	(166)	(230)
Long-term borrowings - repayments	(528)	(430)	(111)	(154)
Short-term borrowings - additions		1,200	365	507
Net cash (used in) provided by financing activities	(900)	371	88	122
Foreign currency translation adjustment	(124)	(224)	(959)	(1,332)
Net increase (decrease) in cash and cash equivalent	(783)	(730)	(1,047)	(1,454)
Cash and cash equivalents at beginning of the year	3,112	2,329	1,599	2,220
Cash and cash equivalents at end of the year	2,329	1,599	552	766
Cash paid for interest	408	244	162	224
Cash paid for taxes				

Repurchase of common stock (non-cash transaction)	152	8

See accompanying notes to consolidated financial statements.

PRIVATE MEDIA GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The company and basis of presentation

Private Media Group, Inc. (the Company) was originally incorporated on September 23, 1980 as Glacier Investment Company, Inc. under the laws of the State of Utah and, effective November 24, 1997, after a series of interim name changes, changed its name to Private Media Group Inc. Effective June 12, 1998 the Company acquired Cine Craft Limited (Cine Craft), a Gibraltar corporation and Milcap Media Limited (Milcap), a Republic of Cyprus corporation. Prior to the acquisitions the Company was a holding company with no operations. Milcap and its subsidiaries and Cine Craft operate under common control and are engaged in the acquisition, refinement and distribution of video and photo rights for adult feature magazines and movies (videocassettes and DVD s) through distributors and via the Internet. The acquisition was accounted for as a reverse acquisition whereby the Company was considered to be the acquiree even though legally it is the acquiror. Accordingly, the accompanying financial statements present the historical combined financial statements of Cine Craft and Milcap from January 1, 1998 through the acquisition date of June 12, 1998 and the consolidated financial statements of the Company, Cine Craft and Milcap since that date. Since the fair value of the net assets of the Company were equal to their net book values on June 12, 1998, the assets and liabilities of the Company remained at their historical cost following the acquisition. During the year ended December 31, 2000, the Company established two new wholly owned subsidiaries, one in Sweden (Peach Entertainment Distribution AB, Peach) and one in the Republic of Cyprus (Fraserside Holdings Ltd., Fraserside). These subsidiaries were formed to carry on the business of Milcap Publishing Group AB (Sweden) and Milcap (Cyprus), respectively.

Solely for the convenience of the reader, the accompanying consolidated financial statements as of December 31, 2008 and for the twelve months then ended have been translated into United States dollars (USD) at the rate of EUR 0.72 per USD 1.00 the Exchange Rate of the European Central Bank on December 31, 2008. The translations should not be construed as a representation that the amounts shown could have been, or could be, converted into US dollars at that or any other rate.

2. Summary of significant accounting policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Foreign Currency

The financial statements of the Company s operations based outside of the euro area have been translated into euro in accordance with SFAS 52. Management has determined that the functional currency for each of the Company s foreign operations is its applicable local currency. When translating functional currency financial statements into euro, year-end exchange rates are applied to the balance sheet accounts, while average annual rates are applied to income statement accounts. Translation gains and losses are recorded in other comprehensive income as a component of shareholders equity.

Transactions involving foreign currencies are translated into euro or functional currencies using exchange rates in effect at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at period end exchange rates and the resulting gain or loss is charged to income in the period.

Should the Company choose to pay dividends, although the Company s current intention is to re-invest the un-remitted earnings of its foreign subsidiaries, dividends would be declared and paid in euro.

The was no aggregate exchange impact included in determining net income for the year ended December 31, 2006. For the year ended December 31, 2007, the aggregate exchange loss included in determining net income amounted to EUR 33 thousand and for the year ended December 31, 2008, the aggregate exchange gain included in determining net income amounted to EUR 222 thousand.

PRIVATE MEDIA GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Recognition of Revenue

The Company s revenue recognition policies are in accordance with Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition in Financial Statements. Revenues from the sale of magazines, DVD s and other related products where distributors are not granted rights-of-return are recognized upon transfer of title, which generally occurs upon delivery.

The Company sells magazines to wholesalers on firm sale basis and via national newsstand distributors with the right to return. Our magazines are multi-lingual and the principal magazine market is in Europe.

Revenues from the sale of magazines under agreements that grant distributors rights-of-return are recognized upon transfer of title, which generally occurs on delivery, net of an allowance for returned magazines. Distributors with the right to return are primarily national newsstand distributors. Most of our magazines are bi-monthly (six issues per year) and remain on sale at a newsstand for a period of two months. Normally, all unsolds are reported to us within a period of four to six months from delivery. There are normally two to four national newsstand distributors for all newspapers and periodicals operating in each country. A majority of our national newsstand distributors are members of Distripress, the international organization for publishers and distributors, and carry out the distribution of the largest national and international newspapers and periodicals, including: Financial Times, Herald Tribune, Time, Newsweek, Vogue, etc.

The Company uses specific return percentages per title and distributor based on estimates and historical data. The percentages vary from 50-80%. Higher percentages generally reflect newer markets and/or products. Percentages are reviewed on an on-going basis.

The magazines have an approximate retail price of EUR 11.50 (USD 15.95) per copy and are printed on glossy high-quality paper at a cost of EUR 1.25 (USD 1.75). They are often shrink-wrapped in order to comply with local regulation or guidance for the sale of adult publications. In view of the high retail price, the margin and the physical quality of the magazines and the fact that the content has a very long shelf-life since it is not particularly linked to time, trends, fashion or current events, the Company has always collected the returns from newsstands in order to make them available for sale again.

The Company operates scheduled re-distribution of returned magazines, via national newsstand distributors, together with DVDs as Magazine/DVD packs as a way of increasing DVD distribution. Since the national newsstand distributors have the right to return, the DVD packs are returned and the magazines are broken out in order to be sold via an additional scheduled re-distribution as Megapacks and Superpacks (three different copies per pack). Returns from the sale of Megapacks and Superpacks are destroyed. The retail price for products sold via re-distribution vary between EUR 14.95-19.95 (USD 20.75-27.70).

Magazine returns not re-distributed as per above are sold on a firm sale basis to wholesalers as back numbers at a lower price than new issues. The Company has historically sold all returned copies at an average price higher than, or equal, to cost.

Revenues from the sale of DVD products under consignment agreements with distributors are recognized based upon reported sales by the Company s distributors. Revenues from the sale of subscriptions to the Company s internet website are deferred and recognized ratably over the subscription period. Revenues from licensing of broadcasting rights to the Company s video and film library are recognized upon delivery when the following conditions have been met (i) license period of the arrangement has begun and the customer can begin its exploitation, exhibition, or sale (ii) the arrangement fee is fixed or determinable and (iii) collection of the arrangement fee is reasonably assured.

Revenues from IPTV (Internet Protocol Television), satellite & cable broadcasting are recognized based on sales reported each month by its IPTV, cable and satellite affiliates. The affiliates do not report actual monthly sales for each of their systems to the Company until approximately 60 - 90 days after the month of service ends. This practice requires management to make monthly revenue estimates based on historical experience for each affiliated system. Revenue is subsequently adjusted to reflect the actual amount earned upon receipt. Adjustments made to adjust revenue from estimated to actual have historically been immaterial.

PRIVATE MEDIA GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revenues from mobile content sales (wireless) are recognized based on sales reported each month by mobile operators via aggregators. The aggregators do not report actual monthly sales for each of their operators to the Company until approximately 60 90 days after the month of service ends. This practice requires management to make monthly revenue estimates based on historical experience for each affiliated system. Revenue is subsequently adjusted to reflect the actual amount earned upon receipt. Adjustments made to adjust revenue from estimated to actual have historically been immaterial.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventories

Inventories are valued at the lower of cost or market, with cost principally determined on an average basis. Inventories principally consist of DVD s and magazines held for sale or resale.

Library of Photographs & Videos

The items in the library comprise our content used for distribution on various formats. Currently these are principally DVD, IPTV, cable & satellite television and broadband (for films) and magazines and Internet broadband (for photos). All our content is sold or licensed repeatedly, unlike inventory items which are sold only once. Furthermore the content is not only sold on one particular release, or issue, but is also re-edited and included for sale on compilations such as Best of.. titles and publications.

The film library is sold or licensed on various formats such as DVD, television, and Internet, in different markets and territories. The current rate of technological advance means that we are continually finding new distribution platforms for our content. Recent examples of this would be IPTV and broadcasting via digital cable and satellite television with pay-per-view (PPV) and video-on-demand (VOD) abilities. The film library includes: a) films, which represent the content, i.e., the edited movie including soundtrack. b) translations, sound dubbing, & sub-titles, which are required to customize each movie in terms of language for all territories, and c) Digital Manipulation for DVD Masters, which is required to digitize the movie and create menus and language options in order to produce a master to be used to duplicate DVDs from.

The photo library comprises purchased photographic material used for print and internet publications. Our photographic material is used initially in one issue of our four principal magazine titles. However it will normally subsequently be used in later special editions. The print publications are typically printed once and thereafter they are sold over a period of several years, as discussed later. Internet publications are sold via membership fees charged at the Company s websites. Photos are also licensed to other internet and print publishers.

The library of photographs and videos, including rights for photographs and videos as well as translation and dubbing of video material, is reflected at the lower of amortized cost or net realizable value. The cost is amortized on a straight-line basis over 3-5 years representing the estimated useful life of the asset, except for photos which are amortized on a sliding-scale basis over three years. Estimated future revenues are periodically reviewed and, revisions may be made to amortization rates or write-downs made to the asset s net realizable value as a result of significant changes in future revenue estimates. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and exploit in a manner consistent with realization of that income.

PRIVATE MEDIA GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property, Plant and Equipment

Property, plant and equipment are carried at cost and are generally depreciated using the straight-line method over the estimated useful lives of the assets. The useful lives range from 3-5 years.

In March 2000 the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board reached a consensus on Issue 00-2, *Accounting for Web Site Development Costs* (EITF 00-2). In accordance with the transition provisions of EITF 00-2, the Company has elected to apply this standard to website development costs incurred from January 1, 2000 forward. Capitalized website development costs including graphics and related software are being amortized on a straight-line basis over 5 years and are included in property, plant and equipment in the accompanying balance sheet (see Note 5).

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price paid over the fair value of the net assets of businesses acquired.

Other Intangible Assets represents the value attributable to: a) Customer base, which was acquired from two of the Company s former distributors in the U.S. and in Canada in 2001 and 2003, respectively, (see Note 7). The amortization expense is calculated on a straight-line basis over 10 years for each acquisition, and b) Broadcasting asset, which was acquired from International Film Production and Distribution Limited in 2003 (see Note 7). At the time of acquisition, the asset was deemed to have an indefinite life and is not subject to amortization.

In July 2001 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets (SFAS 142). SFAS 142 was required to be adopted by the company as of January 1, 2002. Under SFAS 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually for impairment (or more frequently if indicators of impairment arise). Further separable intangible assets that are not deemed to have an indefinite life will continue to amortized over their expected useful lives with no maximum life specified; whereas under prior rules a maximum life of 40 years was required.

During 2002, the Company performed the required initial impairment test of goodwill and indefinite lived intangible assets as of January 1, 2002. There was no effect on the earnings and financial position of the Company as a result of the impairment testing. The company performs periodic impairment reviews in order to ensure that its accounting treatment is in compliance with SFAS 142 Goodwill and Other Intangible Assets. As a result of impairment reviews in 2008, the goodwill related to our video distribution company in the Benelux countries was reduced by EUR 293 thousand to EUR 1,342 thousand.

Impairment of Long-Lived Assets

The Company evaluates the carrying value of its long-lived assets when events or circumstances indicate the carrying value may not be recoverable through the estimated undiscounted cash flows from the use of the asset. An impairment loss is then measured as the amount by which the carrying value of the asset exceeds its estimated fair value.

Advertising Costs

Advertising costs are charged to income as incurred. The total advertising costs were EUR 2,492 thousand, EUR 1,812 thousand and EUR 1,120 thousand for the years ended December 31, 2006, 2007 and 2008, respectively.

Shipping and Handling Costs

Shipping and handling costs related to the Company s products are recognized in cost of sales.

Income Taxes

The Company accounts for certain income and expense items differently for financial reporting purposes than for tax purposes. Provision for deferred taxes are made in recognition of such temporary differences, following the requirements of Financial Accounting Standards Board

Statement No. 109 *Accounting for Income Taxes*. The Company assesses the recoverability of deferred tax assets and records a valuation allowance when it believes it is not more likely than not that they will be recovered.

PRIVATE MEDIA GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash Equivalents

All highly liquid investments purchased with an original maturity of three months or less at the time of acquisition are considered to be cash equivalents.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and trade accounts receivable. The Company does not require collateral on these financial instruments.

Cash and cash equivalents are maintained principally with major financial institutions in Europe that have high credit standings and the Company s policy is to limit exposure to any one institution. Management attempts to limit credit risk on trade receivables mainly through establishment and monitoring of credit controls.

Basic and Diluted Earnings Per Share

Basic and diluted earnings per share is calculated in accordance with Financial Accounting Standards Board Statement No. 128, *Earnings per Shar*e (Note 14).

Fair Value of Financial Instruments.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments. The estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Accounts receivable and accounts payable: The carrying amounts reported in the balance sheet for accounts receivable and accounts payable approximate their fair values.

Long-and short-term debt: The carrying amounts of the Company s borrowings under its short-term credit arrangements approximate their fair value. The fair value of the Company s long-term debt and leasing contracts are estimated to be equivalent to their carrying values as the rates of interest in these contract represents rates available to the Company for similar types of arrangements.

Stock-Based Compensation

On January 1, 2006, the Company adopted the Statement of Financial Accounting Standards No. 123 (revised 2004) Share Based Payment , (SFAS 123(R)), which is a revision of SFAS 123. SFAS 123(R) supersedes APB 25, and amends SFAS No. 95, Statement of Cash Flows . Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated income statement based on their fair values. The Company adopted SFAS 123(R) using the modified-prospective method as proscribed in SFAS 123(R). Our consolidated financial statements as of December 31, 2007 and 2008 and the related consolidated statements of income and comprehensive income, shareholders´ equity, and cash flows for the three years in the period ended December 31, 2008 reflect the impact of adopting SFAS 123(R). Stock-based compensation cost recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation cost recognized in the consolidated financial statements during the twelve months ending December 31, 2006, 2007 and 2008 included compensation cost for stock-based compensation granted prior to, but not yet vested, as of December 31, 2005 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 148 and compensation cost for the stock-based payment awards granted subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with FAS 123(R). As

PRIVATE MEDIA GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

stock-based compensation cost recognized in the consolidated statement of income for the twelve months ending December 31, 2006, 2007 and 2008 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

3. Trade accounts receivable

Trade accounts receivable consist of the following:

	December 31,	
	2007 EUR	2008 EUR
	(in thousands)	
Trade accounts receivable	9,860	7,454
Allowance for doubtful accounts	(1,269)	(1,388)
Total trade accounts receivable, net	8,591	6,066

Management reviews the allowance for doubtful accounts on at least a quarterly basis and adjusts the balance based on their estimate of the collectability of specific accounts as well as a reserve for a portion of other accounts which have been outstanding for more than 180 days. This estimate is based on historical losses and information about specific customers. After collection attempts have failed, the Company writes off the specific account.

4. Inventories

Inventories consist of the following:

	December 31,	
	2007 EUR	2008 EUR
	(in thousands)	
Magazines for sale and resale	3,133	2,394
DVDs	3,737	2,330
Other	280	314
	7,150	5,038

5. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	December 31,	
	2007 EUR	2008 EUR
	(in thousands)	
Equipment & Furniture	9,835	10,063

Website Development	2,381	2,911
Production Database	577	957
Accumulated depreciation	(9,751)	(10,776)
Total Property, Plant and Equipment, net	3,043	3,154

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In March 2000 the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board reached a consensus on Issue 00-2, Accounting for Web Site Development Costs (EITF 00-2). EITF 00-2 requires that all costs incurred in the website planning stage should be expensed as incurred.

The EITF also concluded that costs incurred in the website application and infrastructure development stage (including the initial graphics) and costs relating to software used to operate a website are to be accounted for in accordance with Statement of Position No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (SOP 98-1) unless a plan exists or is being developed to market the website software externally.

The EITF further concluded that costs incurred to operate an existing website including training, administration, maintenance, and other costs should be expensed as incurred. However, costs incurred in the operation stage that involve providing additional functions or features to the website should be accounted for as, in effect, new software and the costs of upgrades and enhancements that add functionality being expensed or capitalized based on the guidance in SOP 98-1.

In accordance with the transition provisions of EITF 00-2, the Company has elected to apply this standard to website development costs incurred from January 1, 2000 forward and accordingly in the years ended December 31, 2007 and 2008 the Company has capitalized EUR 495 thousand and EUR 530 thousand respectively of costs related to the development of its website including graphics and related software.

6. Library of photographs & videos

Library of photographs & videos consist of the following:

	December 31,	
	2007	**2008**
	EUR	**EUR**
	(in thousands)	
Gross:		
Photographs	7,691	7,739
Videos	47,240	49,834
Translations, Sound Dubbing, & Sub-Titles	11,599	12,810
Digital Manipulation for DVD Masters	9,327	9,765
Digital Manipulation for Broadband Masters	584	584
	76,440	80,732
Less accumulated depreciation:		
Photographs	7,029	7,367
Videos	35,293	39,332
Translations, Sound Dubbing, & Sub-Titles	8,531	9,501
Digital Manipulation for DVD Masters	7,837	8,819
Digital Manipulation for Broadband Masters	572	576
	59,262	65,594
Net:		
Photographs	661	372
Videos	11,947	10,503
Translations, Sound Dubbing, & Sub-Titles	3,067	3,309
Digital Manipulation for DVD Masters	1,490	946
Digital Manipulation for Broadband Masters	12	8

	17,178	15,138

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7. Other Intangible Assets

Other intangible assets consist of the following:

	Years ended December 31,					
	2007	2008	2007	2008	2007	2008
	Broadcasting asset		Customer Base		Total	
	EUR	EUR	EUR	EUR	EUR	EUR
	(in thousands)					
Beginning of year	2,525	2,525	1,240	1,240	3,765	3,765
Acquisition value (cost)						
End of year	2,525	2,525	1,240	1,240	3,765	3,765
Accumulated amortization, beg			(546)	(670)	(546)	(670)
Amortization			(124)	(124)	(124)	(124)
Accumulated amortization, end			(670)	(794)	(670)	(794)
Net book value	2,525	2,525	570	446	3,095	2,971

Broadcasting asset is deemed to have an indefinite life and is not subject to amortization. The estimated amortization expense for customer base for the three years ended December 31, 2009 to 2011 is EUR 124 thousand per year. The estimated amortization expense the year ended December 31, 2012 is EUR 74.

8. Other investments

In November 2007 the Company entered into two agreements to acquire shares of Horse Creek Entertainment AB (publ), a mainstream content aggregator operating HomeTV (www.hometv.se), a broadband Video-On-Demand (VOD) platform in Scandinavia. In two private offerings the Company acquired: (1) 2,000,000 million common shares of Horse Creek Entertainment AB at SEK 1.95 per share and paid the subscription price for these shares by issuing 169,565 shares of our common stock to Horse Creek Entertainment AB; and (2) an additional 2,000,000 million common shares of Horse Creek Entertainment AB at SEK 2.80 per share together with stock purchase warrants entitling the Company to acquire an additional 2,000,000 shares at SEK 1.95 per share until November 2009, and paid the subscription price for the shares and warrants by issuing 265,762 shares of our common stock to Horse Creek Entertainment AB. Following the transaction the Company held 17.2% of the outstanding shares in Horse Creek Entertainment AB. The aggregate purchase price of EUR 1,021,978 was computed using applicable market rates at the time of the transaction and is recorded at cost under other investments. Horse Creek Entertainment AB is a business in an early development stage and the Company monitors the business regularly in order to access if any impairment to the asset value is required.

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9. Borrowings

Short- and long-term borrowings are comprised of the following:

	December 31, 2007 EUR	December 31, 2008 EUR
	(in thousands)	
Short-term borrowings:		
Banks	2,550	2,600
Non-institutional debt	1,652	1,801
	4,202	4,401
Current portion of long-term borrowings:		
Banks	111	
	111	

Banks

The Company s European subsidiaries have existing bank line of credit agreements under which these subsidiaries may borrow up to EUR 2.6 million. Borrowings under the lines of credit during 2008 were charged at interest rates of EURIBOR+1.0-1.5%.

In May 2003 Euro 1.65 million of a related party note payable was re-financed by an institutional lender at the same interest rate as on the note payable, EURIBOR + 1%. The loan is repayable in equal monthly installments over a four year period starting June 29, 2004. The loan is guaranteed by the Company s principal shareholder and affiliates of the Company s principal shareholder. As of December 31, 2008, the loan was repaid.

Non-institutional debt

In December 2001 the group s holding company, Private Media Group, Inc., borrowed $ 4.0 million from Commerzbank AG pursuant to a Note originally due on December 20, 2002. The Note bore interest at an annual rate of 7%, payable quarterly, with the entire principal amount and accrued interest originally due on December 20, 2002. The Note is guaranteed by Slingsby Enterprises Limited, an affiliate of Berth Milton, Private s Chairman, Chief Executive Officer and principal shareholder, and the guaranty is secured by 4,950,000 shares of Private Media Group, Inc. Common Stock. In December 2002 Commerzbank AG agreed to extend the maturity date of the Note to March 20, 2003.

In April 2003 the Note was acquired by Consipio Holding b.v. from Commerzbank AG, and Consipio and Private reached an agreement-in-principle with Consipio to extend the maturity of the Note until April 2008. However, Consipio and Private were unable to reach final agreement on other terms and conditions relating to the restructured Note. Accordingly, in December 2003 Consipio notified Private and Slingsby Enterprises that Private was in default under the Note, and demanded $3.4 million as payment in full of all outstanding principal and interest under the Note. The Company continued to make regular payments on the Note, including principal and accrued interest, through February 2008. In April 2008 Consipio requested Private to pay the remaining balance of the Note, without indicating the amount due. Private in turn requested that Consipio provide a statement of the amount due and the basis for its calculation. In response, Consipio demanded payment of $3,194,000 as settlement in full of the Note, to be received by May 9, 2008. This calculation was made using an interest rate of 9.9%, as opposed to the 7% rate provided under the original terms of the Note. Consipio also advised that if payment was not received on such date it would institute litigation, in which event Consipio would claim that the amount due under the Note should be denominated in Euro, rather than U.S. dollars. In August 2008 Consipio notified Private that the Note was in default and that it intended to exercise its rights under the Note and the pledge of shares by Slingsby of Private Common Stock. Private believes that the amount due under the Note at May 9, 2008, including accrued interest, was no more

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than $2.4 million, utilizing an interest rate of 7%. Private also believes it has valid claims and defenses against Consipio and its affiliates which may ultimately reduce all or a portion of its obligations relating to the Note. However, there are no assurances that either Private will be able to reach agreement with Consipio or that Private will ultimately prevail on its claims and defenses. In any event, the Company does not believe that the Note obligations will have a material adverse effect on the liquidity of the Company, as the Note is fully collateralized by 4,950,000 shares of Private Media Group, Inc. Common Stock pursuant to the guaranty agreement from Slingsby Enterprises Limited to the holder of the Note. As of December 31, 2008, the outstanding principal balance of the Note was $2,5 million (EUR 1.8 million).

10. Accrued other liabilities

Accrued other liabilities are comprised of the following:

	December 31,	
	2007	2008
	EUR	EUR
	(in thousands)	
Accrued expenses	91	35
Deferred income	423	305
Taxes and social security	330	342
Other	225	239
	1,069	920

11. Income taxes

Following is a summary of income before income taxes of U.S. and international operations:

	Years ended December 31,		
	2006	2007	2008
	EUR	EUR	EUR
	(in thousands)		
USA	(1,410)	(1,290)	(1,762)
International	1,165	379	(5,204)
	(245)	(911)	(6,966)

The provision for income taxes consisted of the following in the years ended December 31, 2006, 2007, and 2008:

	Years ended December 31,		
	2006	2007	2008
	EUR	EUR	EUR
	(in thousands)		
Current			
State	1	1	1
Foreign	165	128	78

Current tax expense	166	128	79
Deferred			
Federal	(570)	(177)	(684)
State	(94)	(29)	(112)
Foreign	(226)	(428)	(1,060)
Deferred tax expense/(benefit)	(890)	(634)	(1,856)
Income tax expense/(benefit)	(724)	(506)	(1,777)

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A reconciliation of income taxes determined using the United States corporate statutory rate of 35% to actual income taxes provided is as follows:

	Years ended December 31,		
	2006	**2007**	**2008**
US federal statutory income tax rate	35.00%	35.00%	35.00%
Aggregate effect of foreign tax rates	253.77%	34.37%	(8.43%)
Permanent differences			
Items not deductible for tax purposes	(15.78%)	(17.09%)	0.00%
Prior period adjustments	249.10%	52.27%	(1.80%)
Other	126.02%	5.33%	3.59%
Movement in valuation allowances	(353.44%)	(54.51%)	(2.87%)
Total tax provision	294.67%	55.38%	25.48%

In line with prior years, the Company has recognized a deferred tax asset for the Subpart F income that has been previously taxed at the US federal and state levels and not included in the US parent company s financial income. This portion of the deferred tax asset was offset in part by the recognition of a valuation allowance.

Deferred tax assets and liabilities reflect the future tax consequences of events that have already been recognized in the consolidated financial statements or income tax returns. At December 31, deferred tax assets and liabilities consisted of the following:

	December 31,	
	2007 EUR	**2008 EUR**
	(in thousands)	
Deferred Tax Assets:		
Provisions for sales returns	11	11
Provision for bad debts	72	111
Differences in fixed assets	179	204
Deferred expenses/revenues	(178)	(120)
NOL carryforwards	4,124	5,998
Investment in subsidiaries	1,251	1,463
Other	36	2
	5,494	7,669
Less: Valuation allowance	(1,163)	(1,482)
	4,332	6,188
Deferred Tax Liabilities:		
Spanish leasing benefits	(15)	(15)
Investment Incentives	(10)	(10)
Net deferred tax asset/(liability)	4,307	6,164

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Net Operating Loss Carryforward

The company s operating loss carry-forwards are described in the table below:

	Year ended December 31 2008 EUR (in thousands)
United States	6,609
Sweden	4,018
Cyprus	8,547
Spain	3,748
Holland	598
Italy	38
France	149
Canada	132
	23,839

Cyprus, the United States, and Spain are the jurisdictions in which nearly all of the NOLs have been generated. NOLs in Cyprus post-2000 may be carried forward indefinitely. The NOLs in the United States may be carried back 2 years and carried forward for 20 years, while the NOLs in Spain may only be carried forward for 15 years.

No provision has been made for United States federal and state taxes or foreign taxes that may result from future remittances of undistributed earnings of the Company s foreign subsidiaries because it is expected that all such earnings will be permanently reinvested in these foreign operations.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that companies recognize in their financial statements the impact of a tax position if that position more likely than not will be sustained on an audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition provisions. The Company adopted FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, no adjustment to retained earnings was made.

The Company s subsidiaries file income tax returns in numerous tax jurisdictions, including the United States, several U.S. states and several non-U.S. jurisdictions, primarily in Europe. The statute of limitations varies by the various jurisdictions in which we operate. Because of the number of jurisdictions in which we file tax returns, in any given year the statute of limitations in certain jurisdictions may lapse without examination within the 12-month period from the balance sheet date. Other than the recurring effect of changes in unrecognized tax benefits due to the lapse of the statute of limitations, none of which are expected to be individually significant, management believe there are no other reasonably possible changes that will significantly impact the amount of tax benefits recognized in the Company s financial statements within the 12-month period from the balance sheet date. The Company has substantially concluded all US Federal and State income tax matters for years up to and including 2003 and 2001 respectively, and all foreign income tax matters for years up to 2002.

The Company s practice is to recognize interest and penalties related to income tax matters in interest and other expenses respectively. Interest and penalties amounting to EUR 406 thousand were accrued as of December 31, 2008, of which EUR 65 thousand was recognized as interest expense during the year then ended.

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In December 1999 the Company received final notification from the Swedish Tax Authority assessing its subsidiary in Cyprus for the tax years 1995-1998 for a total amount of SEK 42,000,000 (approx. EUR 4.5 million) plus fines amounting to SEK 16,800,000 (approx. EUR 1.8 million) plus interest. The Swedish Tax Authority has taken the position that the subsidiary carried on business in Sweden from a permanent establishment during the period in question and should therefore be taxed on the income attributable to the permanent establishment. The Company is of the view that no permanent establishment is at hand in Sweden. However, the Administrative Court of Appeal has finally decided that a permanent establishment is at hand. The litigation is, however, still going on and the purpose is to finally decide the amounts to be attributed to the permanent establishment and thus being taxed in Sweden. In February 2009, the County Administrative Court reduced the assessment for the tax years 1995-1998 to a total amount of SEK 12,600,000 (approx. EUR 1.1 million) plus fines amounting to SEK 5,040,000 (approx. EUR 0.5 million) plus interest. However, as a matter of fact the tax claim on the Company has been extinguished according to Administrative Law. Only the claim related to the tax fine amounting to SEK 5,040,000 (approx. EUR 0.5 million) plus interest is valid. The Company has appealed the decision to the Administrative Court of Appeal. The final outcome of this litigation will not be known for several years. Due to the fact that the final outcome of this matter is still uncertain, and the relatively minor claim now at stake, no amounts have been provided in the Company s financial statements for this dispute.

12. Related party transactions

The Company has short-term loans receivable from an entity controlled by the Company s principal shareholder of EUR 6.7 million and EUR 7.0 million at December 31, 2007 and 2008 respectively. The loans bear interest at a rate of EURIBOR+1% payable annually. In connection with the acquisition of Game Link LLC and eLine LLC by the Company on January 20, 2009, in order to induce the sellers to consummate the acquisition, the borrower entered into an agreement with the Company and the sellers with regard to the partial repayment of the loan. Under the agreement, in each of the fiscal years ended December 31, 2009, 2010, and 2011, the borrower is required to repay not less than EUR one million, either in cash or in Private common stock valued at its fair market value as determined by the disinterested directors of Private, to be applied first to accrued interest and then to principal of the loan.

An affiliate of the Company s principal shareholder, has guaranteed a 7% Note due to Consipio, see Note 9. In addition, the Note is fully collateralized by 4,950,000 shares of Private Media Group, Inc. Common Stock pursuant to the same guaranty agreement. As of December 31, 2008, the outstanding balance on the Note was $2,5 million (EUR 1.8 million).

In December 2007 the Company s principal shareholder and affiliates of the Company s principal shareholder agreed to guarantee a bank line of credit agreement of Euro 1.0 million entered into by one of the Company s European subsidiaries. As of December 31, 2008, the credit facility was fully utilized.

13. Shareholders equity

Retained Earnings

The Company is a holding company with no significant operations of its own. Accordingly, the retained earnings of the Company represent the accumulated earnings of its foreign subsidiaries, principally Cine Craft Ltd, Milcap Media Ltd. and Fraserside Holdings Ltd. The ability of the Company to pay dividends is dependent on the transfer of accumulated earnings from these subsidiaries. The Company is not currently aware of any significant restrictions that would inhibit its ability to pay dividends should it choose to do so, although the Company s current intention is to re-invest the unremitted earnings of its foreign subsidiaries. In addition the Company is restricted from payment of dividends under the terms of its short-term note agreement (Note 9).

Common Stock

The Company is authorized to issue 100,000,000 shares of common stock. Holders of common stock are entitled to one vote per share. The common stock is not redeemable and has no conversion or pre-emptive rights.

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In June, 2000, the Company s shareholders and board of directors approved an increase in the Company s authorized capital stock, consisting of an increase in the number of authorized common shares from 50,000,000 to 100,000,000. This increase was effected in August 2001 upon the filing of a Certificate of Amendment of the Company s articles of incorporation with the Nevada Secretary of State.

During 2000 the Company s Board of Directors authorized the repurchase of up to 10% of the Company s outstanding common shares. Such purchases may be made from time to time in the open market for an indefinite period of time. As of December 31, 2008 no shares had been repurchased.

Preferred Stock

The Company is authorized to issue 10,000,000 shares of preferred stock with relative rights, preferences and limitations determined at the time of issuance.

14. Earnings (loss) per share

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	Years ended December 31,		
	2006	**2007**	**2008**
Numerator: (EUR in thousands)			
Income (loss) from continuing operations	1,130	(405)	(5,188)
Loss on discontinued operations	(651)		
Net income (loss)	479	(405)	(5,188)
Denominator:			
Denominator for basic earnings per share weighted average shares outstanding	52,858,131	53,202,364	53,580,494
Effect of dilutive securities:			
Common stock warrants, convertible notes, options and other dilutive securities	624,963	n/a	n/a
Denominator for diluted earnings per share weighted average shares and assumed conversions	53,483,094	n/a	n/a
Earnings (loss) per share from continuing operations (in EUR)			
Basic	0.02	(0.01)	(0.10)
Diluted	0.02	(0.01)	(0.10)
Earnings (loss) per share on discontinued operations (in EUR)			
Basic	(0.01)		
Diluted	(0.01)		
Earnings (loss) per share (in EUR)			
Basic	0.01	(0.01)	(0.10)
Diluted	0.01	(0.01)	(0.10)

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For 2007 and 2008 diluted impact of potentially dilutive securities is anti-dilutive therefore diluted and basic loss per share is EUR 0.01 and EUR 0.10, respectively. The equivalent of 110,893 and 6,033 common shares derived from dilutive securities such as options, warrants and convertible notes is excluded from the diluted earnings per share for 2007 and 2008 as they are anti-dilutive.

15. Commitments and contingent liabilities

The Company leases certain property and equipment under non-cancelable operating leases. Certain of these leases contain renewal options. Rental payments under these leases are charged to operations on a straight-line basis with any differential recognized as deferred rent in the balance sheet. The rental payments under these leases are charged to operations as incurred. Rental expense for the years ended December 31, 2006, 2007 and 2008 amounted to EUR 692 thousand, EUR 701 thousand and EUR 879 thousand, respectively.

Future minimum payments under non-cancelable leases as of December 31, 2008 are as follows:

Year	EUR (in thousands)
2009	769
2010	601
2011	601
2012	537
2013	
	2,508

16. Operations by geographical area

The Company operates in one business segment, which is the acquisition, refinement and distribution of video and photo rights for adult feature magazines, movies and the Internet.

Information concerning net sales from the Company s geographic locations is summarized as follows:

	Years ended December 31,		
	2006 EUR	2007 EUR (in thousands)	2008 EUR
Net Sales			
USA	1,160	851	550
Gibraltar	1,046	807	525
Cyprus	13,865	11,975	8,860
Sweden	13,909	8,515	6,441
Spain	18,835	16,098	14,670
France	827	650	325
Benelux	2,034	1,231	755
Canada	708	621	316
Eliminations	(23,186)	(15,758)	(12,775)
Total	29,197	24,990	19,667

Eliminations principally relates to inter-group revenue arising from trademark, license and distribution agreements between the Company s subsidiaries in the USA and Europe.

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Information on the Company s long-lived assets held in different geographic locations is summarized as follows:

	December 31, 2007 EUR	December 31, 2008 EUR
	(in thousands)	
Long-lived assets		
USA	1,269	1,192
Cyprus	19,355	17,636
Sweden	5,058	4,642
Spain	1,046	807
France	12	5
Benelux	19	10
Gibraltar	29	32
Canada	333	416
Total	27,121	24,739

One customer accounted for 14% of consolidated revenues for the year ended December 31, 2006. For the years ended 2007 and 2008, no customer accounted for more than 10% of consolidated revenues.

The following table illustrates our net sales by product group for the periods indicated.

	Years ended December 31, 2006 EUR	2007 EUR	2008 EUR
		(in thousands)	
Net sales by product group			
DVDs & Magazines	14,846	10,864	7,687
Internet	4,326	4,445	4,218
Broadcasting	8,057	7,086	5,805
Wireless	1,968	2,596	1,957
Total	29,197	24,990	19,667

17. Stock-based compensation

The Company has an Employee Stock Option Plan, see below. The compensation cost charged against income for the twelve month period ended December 31, 2008 was EUR 9 thousand, which is included in selling, general and administrative expense. The charge of compensation cost had no impact on tax since none of the option beneficiaries are taxable in the U.S. and tax rules are different in the beneficiaries respective tax jurisdictions.

Employee Stock Option Plan

The 1999 Employee Stock Option Plan (the Plan), which is shareholder approved, allows the Company to grant options to purchase common stock to designated employees, executive officers, directors, consultants, advisors and other corporate and divisional officers of Private Media Group. The Plan authorizes the Company to grant stock options exercisable for up to an aggregate of 7,200,000 shares of common stock. No stock options may be granted under the Plan after the Plan expires on March 1, 2009. The purchase price (exercise price) of option shares must be at least equal to the fair market value of such shares on the date the stock option is granted or such later date the Company may specify. The stock option is exercisable for a period of ten years from the date of grant or such shorter period as is determined by the Company. Each stock option may provide that it is exercisable in full or in cumulative or non-cumulative installments, and each stock option is exercisable from the date of grant or any later date specified in the option. Unless otherwise provided by the Company, an optionee may not exercise a stock option unless from the date of grant to the date of exercise the optionee remains continuously in the Company s employ.

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At December 31, 2008, options for 2,971,294 shares were available for future grant under the Plan. Share options become exercisable on their respective vesting dates with vesting terms determined by management and approved by the Company s compensation committee. Options granted under the Plan generally expire 5-10 years following the date of grant, certain options grants may have shorter lives.

The Company calculates the fair value of each option award on the date of grant using the Black-Scholes option pricing model. The following general assumptions are used: a) expected volatility is based on historical volatility of our stock, b) expected life is determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior, c) risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant and d) dividend yield is zero based on the Company s current dividend policy.

During the twelve-month periods ended December 31, 2006, 2007 and 2008 grants for 21,000 shares for each year, respectively, were made. The following assumptions were used in calculating the fair value:

	2006	2007	2008
Expected volatility	51%-62%	52%-55%	50%
Expected dividend yield			
Expected term (in years)	2.5	2.5	2.5
Risk-free interest rate	4.7%-5.1%	4.4%-4.9%	2.96%
Weighted average fair value	$ 1.57	$ 1.08	$ 0.40

A summary of stock option activity for the year ended December 31, 2008 is a follows:

	Number of Shares	Weighted-Average Exercise Price in USD	Weighted-Average Remaining Life in Years	Aggregate Intrinsic Value[14] in Thousands of USD
Outstanding January 1, 2008	2,111,920	5.04		
Granted	21,000	1.33		
Exercised				
Forfeited	244,000	5.20		
Outstanding December 31, 2008	1,888,920	4.99	0.4	
Exercisable December 31, 2008	1,875,920	5.02	0.4	

During 2007 and 2008 there were no options exercised under our stock option plan.

14 The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of our common stock for the options that were in-the-money at December 31, 2008.

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As of December 31, 2008, outstanding stock options consist of the following:

	Options Outstanding			Options Exercisable	
Exercise price range	**Options outstanding**	**Weighted average exercise price**	**Weighted average remaining life**	**Options exercisable**	**Weighted average exercise price**
1.19 - 3.77	356,875	2,42	0.5	343,875	2.47
4.17 - 6.00	1,242,920	4,81	0.4	1,242,920	4,81
7.16 - 11.71	289,125	8.94	0.2	289,125	8.94
1.19 11.71	1,888,920	4.99	0.4	1,875,920	5.02

As of December 31, 2008, there was USD 4 thousand of total unrecognized compensation cost related to nonvested option granted under the Plan. The cost is expected to be recognized over a weighted-average period of 0.8 years. The total fair value of all shares vested and outstanding at December 31, 2007 and 2008, was USD 4.6 million and USD 4.5 million, respectively.

18. Selected quarterly financial data (unaudited)

Selected quarterly financial data for the years ended December 31, 2008 and 2007 is summarized as follows:

	For the year 2008				
	First Quarter EUR	**Second Quarter EUR**	**Third Quarter EUR**	**Fourth Quarter EUR**	**Total EUR**
	(in thousands, except per share data)				
Net sales	5,251	5,200	4,557	4,658	19,667
Gross profit	1,855	1,638	1,188	1,480	6,161
Net income (loss)	(840)	(826)	(1,039)	(2,483)	(5,188)
Net income (loss) per share:					
Basic	(0.02)	(0.02)	(0.02)	(0.04)	(0.10)
Diluted	(0.02)	(0.02)	(0.02)	(0.04)	(0.10)
Weighted average shares outstanding:					
Basic	53,580,494	53,580,494	53,580,494	53,580,494	53,580,494
Diluted	n/a	n/a	n/a	n/a	n/a

	For the year 2007				
	First Quarter EUR	**Second Quarter EUR**	**Third Quarter EUR**	**Fourth Quarter EUR**	**Total EUR**
	(in thousands, except per share data)				
Net sales	5,420	6,031	7,453	6,086	24,990
Gross profit	2,248	3,031	3,457	3,948	12,685
Net income (loss)	(557)	23	457	(327)	(405)
Net income (loss) per share:					

Basic	(0.01)	0.00	0.01	(0.01)	(0.01)
Diluted	(0.01)	0.00	0.01	(0.01)	(0.01)
Weighted average shares outstanding:					
Basic	53,148,166	53,148,166	53,148,166	53,367,968	53,202,364
Diluted	n/a	53,216,639	53,164,670	n/a	53,313,257

PRIVATE MEDIA GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. Discontinued operations

In November 2006, the Company discontinued its operations with respect to the publishing and distribution of a monthly print publication. The publication was a non-adult entertainment publication and eight issues were published and distributed in Spain.

The loss on discontinued operations in 2006 consist of the following:

	Year ended December 31, 2006 EUR (in thousands)
Net sales	83
Cost of sales	419
Gross profit (loss)	(336)
Selling, general and administrative expenses	566
Operating loss	(902)
Income benefit	251
Loss on discontinued operations	(651)

20. Subsequent events

Acquisition

On January 20, 2009, Private completed the acquisition of the business of Game Link LLC and its affiliate, eLine, LLC, companies engaged in the business of digital distribution of adult content over the Internet and online eCommerce development. The acquisition was accomplished by the merger of two wholly owned subsidiaries of Private into the two parent companies of the acquired businesses, ThinkForward, Inc. and GreenCine, Inc. (referred to as the Game Link parent companies), under the Merger Agreement, with the shareholders of the Game Link parent companies receiving 8,534,309 shares of Private Common Stock in exchange for 100% of the common stock of the Game Link parent companies. In addition, the shareholders of the Game Link parent companies are entitled to receive up to an additional 4,595,397 shares of Private Common Stock if the combined EBITDA of the digital media operations of Private and Game Link meet specified targets in 2009, 2010 and 2011. The total value of the acquisition, assuming the EBITDA targets are met in 2009, 2010 and 2011, is EUR 10,210,972 (USD 13,261,002), based on the closing price of Private Common Stock on January 20, 2009. Following the acquisition the Game Link parent companies, Game Link and eLine will continue as wholly owned subsidiaries of Private. Most of the Private shares issued at the completion of the acquisition are subject to a lockup agreement until January 2010.

As part of the acquisition, the owners of Game Link LLC and e Line LLC have agreed to continue to be employed by Game Link for a period of three years following the acquisition, with either party having the right to terminate their employment agreement for specified reasons. The employment agreement with one of the owners, Ilan Bunimovitz, provides for him to be appointed to Private s Board of Directors by March 2009 and to serve as a director until 2012. For further information, please see our Current Report filed on Form 8-K with the SEC (www.sec.gov) on January 23, 2009.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. Recent accounting pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations (FAS 141(R)), to further enhance the accounting and financial reporting related to business combinations. FAS 141 (R) establishes principles and requirements for how the acquirer in a business combination (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree, (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141 (R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Therefore, the effects of the adoption of FAS 141 (R) will depend upon the extent and magnitude of acquisitions after December 31, 2008.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, (FAS 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 applies to other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. The Statement does not require any new fair value measurements and was originally effective beginning January 1, 2008. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2. FSP FAS 157-2 defers the effective date of FAS 157 until January 1, 2009 for non-financial assets and non-financial liabilities except those items recognized or disclosed at fair value on an annual or more frequently recurring basis.

We adopted SFAS No. 157 effective January 1, 2008 for financial assets and liabilities measured on a recurring basis. The Company has no level 2 or level 3 assets as all of the cash and cash equivalents are considered to be level 1, therefore there was no impact for the partial adoption of SFAS No. 157 on our consolidated financial statements. We do not expect the application of SFAS No. 157 to our non-financial assets and liabilities to have any material effect on our consolidated financial statements.

SCHEDULE II

PRIVATE MEDIA GROUP, INC.

VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

		Additions charged to			
Description	**Opening balance EUR**	**Costs and expenses EUR**	**Revenue (a) EUR**	**Deductions (b) EUR**	**Ending balance EUR**
Allowance deducted in the balance sheet from the asset to which it applies:					
Year ended December 31, 2008:					
Allowance for magazine returns	308		843	(945)	207
Allowance for doubtful accounts	1,269	333		(214)	1,389
Year ended December 31, 2007:					
Allowance for magazine returns	802		1,010	(1,504)	308
Allowance for doubtful accounts	1,124	367		(223)	1,268
Year ended December 31, 2006:					
Allowance for magazine returns	1,611		4,012	(4,821)	802
Allowance for doubtful accounts	961	209		(46)	1,124

Notes:

(a) Represents provisions for expected returns of magazines from national distribution networks which are charged to net revenues.
(b) Represents settlements on returns provisions previously recorded, and write-offs less recoveries on doubtful accounts.