KIT digital, Inc.
26 West 17th Street, 2nd Floor
New York, NY 10011, U.S.A.

PROSPECTUS

Published in Connection with the Admission of KIT digital, Inc.'s Common Stock to Listing and Trading at the Prague Stock Exchange

Pursuant to Article 36c of the Act no. 256/2004 Coll., on Undertaking on Capital Market, as amended (*zákon č. 256/2004 Sb., o podnikání na kapitálovém trhu, ve znění pozdějších předpisů*), the Czech National Bank (*Česká národní banka*) ("CNB") granted visa number [●] dated [●] on this Prospectus. This Prospectus has been prepared by the issuer and its signatory accepts the responsibility for its contents. In accordance with the provisions of Article 36(1) of the Act on Undertaking on Capital Market, the visa was granted after the CNB verified that the document was complete and comprehensible and that the information it contains are easy to analyze. It does not imply that the CNB endorses the proposed transaction nor that it has validated the accounting and financial information presented herein.

Copies of this Prospectus may be obtained free of charge from KIT digital, Inc. at the address indicated above and on the website of the Prague Stock Exchange (www.pse.cz).

NOTE TO THE PROSPECTUS

This Prospectus is published in connection with the admission of KIT digital, Inc.'s common Stock to listing and trading on the Prague Stock Exchange ("**PSE**").

The distribution of this Prospectus in certain jurisdictions may be restricted by law, and therefore persons into whose possession this Prospectus comes should inform themselves of and observe any such restrictions.

This Prospectus contains forward-looking statements concerning, among other things, the prospects for KIT digital, Inc.'s operations, which are subject to certain risks, uncertainties and assumptions. All statements, other than statements of historical facts, included or incorporated in this Prospectus regarding our strategy, future operations, financial position, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. There are a number of important factors that could cause our actual results to differ materially from those indicated by these forward-looking statements. These important factors include the factors that we identify in the documents we incorporate by reference in this Prospectus, as well as other information we include or incorporate by reference in this Prospectus. You should read these factors and other cautionary statements made in this Prospectus and in the documents we incorporate by reference as being applicable to all related forward-looking statements wherever they appear in the Prospectus and in the documents incorporated by reference.

This Prospectus, which contains material information concerning KIT digital, Inc., was established pursuant to Article 36 Act on Undertaking on Capital Market. Pursuant to Article 25 of Commission Regulation (EC) No 809/2004 of 29 April 2004, as amended (the "**Prospectus Regulation**"), this Prospectus is composed of the following parts in the following order:

(1) a table of contents;

(2) the summary provided for in Article 5(2) of Directive 2003/71/EC;

(3) the risk factors linked to the issuer and the type of security covered by the issue; and

(4) the cross-reference lists stipulated in Article 25.4 of the Prospectus Regulation presenting the information in the order stipulated in Annexes I and III of the Prospectus Regulation according to which the Prospectus is drawn up pursuant to Articles 3, 4, 5 and 6 thereof.

This Prospectus also contains in Chapter C: supplemental information concerning KIT digital, Inc. and its business. For a better understanding of the summary of the Prospectus in Chapter A, the reader should read the entire Prospectus, including Chapter C: Supplemental Information concerning KIT digital, Inc., contained on pages 39 – 72.

Further, the Prospectus contains the following documents filed by KIT digital, Inc. with the U.S. Securities and Exchange Commission (the "**SEC**") and other documents:

(a) Registration Statements

- Registration Statement on Form S-3 filed by KIT digital, Inc. with the SEC on May 24, 2011

(b) Annual Reports

- Annual Report on Form 10-K filed by KIT digital, Inc. with the SEC on March 17, 2011, and amendment No. 1 to Form 10-K on Form 10-K/A filed by KIT digital, Inc. with the SEC on May 2, 2011

- Annual Report on Form 10-K filed by KIT digital, Inc. with the SEC on April 5, 2010

- Annual Report on Form 10-K filed by KIT digital, Inc. with the SEC on April 15, 2009

(c) Quarterly Reports

- Quarterly Report on Form 10-Q filed by KIT digital, Inc. with the SEC on May 10, 2011

(d) Other Documents

- Subsidiaries of KIT digital, Inc.

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COMPANY REPRESENTATIVE FOR PROSPECTUS

1.1 Robin Smyth, Chief Financial Officer of KIT digital, Inc., acting for and on behalf of KIT digital, Inc.

1.2 I hereby declare, after taking all reasonable measures for this purpose and to the best of my knowledge, that the information contained in this Prospectus is in accordance with the facts and that the Prospectus makes no material omission.

Robin Smyth
Chief Financial Officer of KIT digital, Inc.

In New York on July 15, 2011

KAPITOLA A:
SHRNUTÍ PROSPEKTU

POZNÁMKA KE SHRNUTÍ PROSPEKTU

ČNB VISA ČÍSLO [●] ZE DNE [●] 2011

UVEŘEJNĚNO V SOUVISLOSTI S PŘIJETÍM KMENOVÝCH AKCIÍ SPOLEČNOSTI KIT DIGITAL, INC. K OBCHODOVÁNÍ NA BURZE CENNÝCH PAPÍRŮ PRAHA

Poznámka pro čtenáře

Toto shrnutí je třeba považovat za úvod k prospektu. Případné rozhodnutí investovat do cenných papírů by mělo být ze strany investora založeno na zvážení tohoto prospektu jako celku. Jestliže budou nároky související s informacemi uvedenými v prospektu posuzovány před soudem, může být žalující investor v souladu s národní legislativou členských států Evropského společenství nebo smluvních států smlouvy o Evropském hospodářském prostoru povinen nést náklady na vyhotovení překladu prospektu před zahájením příslušného soudního řízení. Osoby, které předložily toto shrnutí nebo jakýkoli jeho překlad, jsou za jeho správnost soukromoprávně odpovědné pouze v případě, že shrnutí je zavádějící, nepřesné nebo je při společném výkladu v rozporu s jinými částmi prospektu.

V následujícím textu je uveden souhrn některých informací uvedených v prospektu. Upozorňujeme, že si musíte pečlivě přečíst celý prospekt včetně rizikových faktorů, našich historických konsolidovaných finančních výkazů a komentářů k těmto finančním výkazům. Pokud z kontextu nevyplývá něco jiného, znamenají odkazy na "Společnost" a výrazy "my", "náš", "naše" a "KIT digital" uvedené v tomto prospektu odkazy na společnost KIT digital, Inc., registrovanou ve státě Delaware, Spojené státy americké, a současně na její dceřiné společnosti a předchůdce. Do května 2008 byla firma naší společnosti ROO Group, Inc ("**ROO**"). Veškeré peněžní částky uvedené v tomto prospektu jsou v tisících USD pokud není uvedeno jinak nebo pokud se nejedná o údaj o akciích nebo za akcii.

I. OBECNÝ POPIS SPOLEČNOSTI KIT DIGITAL, INC.

1.1 Úvod

KIT digital je předním poskytovatelem end-to-end softwarových řešení pro správu videoobsahu (VAMS) a souvisejících služeb. KIT Platform, naše tzv. cloud-based řešení dodávané v modelu 'software-as-a-service' (SaaS), umožňuje více než 2000 klientům z řad distributorů mediálního obsahu, firem a provozovatelů sítí vytvářet, spravovat a poskytovat jejich zákazníkům dodávky typu multi-screen a služby sociálních sítí bez ohledu na to, kde se právě nacházejí. Díky rozsáhlým zkušenostem v nejrůznějších oblastech od řízení tradičních vysílacích systémů až po tzv. "over-the-top" (OTT) video aplikace máme jedinečné postavení na trhu a jsme schopni dodávat komplexní video řešení (tzv. “lens to lens”) a poskytujeme našim klientům podporu pro sofistikovanější využívání služeb v oblasti interaktivních médií na bázi internetového protokolu. V rámci naší KIT Platform zákazníci využívají zejména službu distribuce videa na vyžádání konečným uživatelům, realizace interních firemních systémů včetně řešení pro korporátní komunikaci, lidské zdroje, školení, bezpečnost a dohled.

Modulární nastavení KIT Platformy umožňuje klientům zvolit si jedno ze tří softwarových řešení přizpůsobených jejich konkrétním potřebám, která nabízejí širokou řadu specifických vlastností, které vycházejí ze společného datového modelu a stejnou architekturu. Řešení KIT platformy zahrnují:

- **KIT Media** – pro tvořitele obsahu a distributory médií, včetně tradičních poskytovatelů vysílacích služeb, online vydavatelství, syndikátorů obsahu, a charitativních a sportovních organizacím

- **KIT Enterprise** – pro firmy, které se nezabývají distribucí mediálního obsahu, včetně spotřebitelských značek, firem z oblasti výrobního průmyslu, ze zdravotnického a farmaceutického sektoru, automobilového průmyslu a státních orgánů

- **KIT Operator** – pro provozovatele sítí, včetně telekomunikačních a kabelových operátorů, poskytovatelů internetového připojení a virtuálních operátorů (např. výrobců tzv. connected device)

Každé řešení v rámci KIT Platform využívá společnou řadu sdílených funkčních modulů a vychází z technického řešení, které používá modulární, dále rozšiřitelné podkomponenty a zajišťuje funkčnost prostřednictvím rozhraní pro programování aplikací (API). Tato základní metodika umožňuje další rozšiřování KIT Platform přidáváním nových komponentů a postupnou integrací řešení třetích stran. KIT Platform využívá tzv. cloud-based aplikací a služeb poskytování obsahu za účelem zajištění vysoké míry použitelnosti a minimalizace provozních nákladů a nákladů na údržbu.

Kromě řešení v rámci KIT Platform nabízíme řadu souvisejících odborných služeb podporujících správu video obsahu, se zaměřením na integraci systémů pro zachycování, transcoding, uchovávání, editaci a přehrávání videa v televizi a jiných vysílacích prostředích. Rovněž poskytujeme služby správy a řízení obsahu (jako lokalizační služby a packaging) a moderní digitální marketingové služby. Podle našich odhadů připadá více než 70% našich současných výnosů na poplatky související s KIT Platform a zbývající část připadá na odborné služby. Poplatky za využívání KIT Platform obvykle zákazníkům fakturujeme měsíčně a v některých případech čtvrtletně. Naše odborné služby fakturujeme buď na základě hodinových sazeb nebo jako částku za projekt. V současné době poskytujeme naše softwarová řešení a odborné služby v mezinárodním měřítku prostřednictvím naší centrály v Praze v České republice a našich hlavních kancelářích v Atlantě, Cambridge (Velká Británie), Chennai, Kolíně nad Rýnem, Dubaji, Londýně, Melbourne (Austrálie), Bombaji, New Yorku (ředitelství), Paříži, San Franciscu a Stockholmu. Dále máme dalších 9 prodejních zastoupení v dalších 7 zemích.

K datu tohoto Prospektu zahrnovala naše zákaznická základna přes 2000 firem z více než 40 zemí, například: Airbus, American Express, The Associated Press, BBC, Best Buy, Bristol-Myers Squibb, Disney-ABC, ESPN Star, FedEx, General Motors, Google, Hewlett-Packard, Home Depot, IMG Worldwide, MediaCorp, Microsoft, MTV, NBC Universal, News Corp, Telefónica, Verizon, Vodafone a Volkswagen. Naši klienti obvykle uzavírají dlouhodobé smlouvy, přičemž průměrná délka trvání smlouvy činí 24 měsíců a zahrnuje automatická prodloužení.

Řešení KIT Platform používají nároční a sofistikovaní klienti z řad firem. Zvláště vhodné je pro globální společnosti, které potřebují video obsah centrálně a bezpečně získávat a spravovat a zároveň jej zpřístupňovat a publikovat v různých zeměpisných oblastech, na různých typech zařízení, v různých jazycích a prostřednictvím různých protokolů. Tato možnost centrálního a bezpečného spravování video obsahu s možností jeho modifikace a široké distribuce se nazývá multi-point publishing. Jsme přesvědčeni, že KIT Platform má nejpokročilejší funkce multi-point publishingu na trhu.

Řešení, která nabízíme, rozdělujeme do tří hlavních vertikálních průmyslových segmentů: (i) distributoři médií, (ii) firmy obecně a (iii) poskytovatelé sítí. Toto rozdělení poskytuje organizační rámec k synchronizaci obchodních a provozních funkcí a umožňuje našemu týmu upevnit "thought leadership" a nezbytné odborné znalosti. Díky konzultativnímu přístupu zaměřenému na řešení jsme schopni podstatně zvyšovat hodnotu poskytovanou klientům v souvislosti se systémem pro správu a řízení workflow pro konkrétní odvětví a na základě toho budovat s klienty dlouhodobé vztahy a zvyšovat objem poskytovaných služeb a dosahovaných výnosů.

Naše obchodní činnost je rozdělena na tři velká nákladová a výnosová geografická střediska: (i) Evropa, Střední východ a Afrika (EMEA), (ii) Asie-Pacifik, a (iii) Amerika. Odhadujeme, že v prvním čtvrtletí roku 2011 bylo přibližně 50,1% našich současných výnosů vytvářeno v regionu EMEA, 25,2% v regionu Asie-Pacifik a 24,7% v regionu Amerika.

1.2 Obor podnikání společnosti KIT digital

Jsme přesvědčeni, že máme dobrou pozici, abychom mohli využít růstu v našem oboru podnikání. Očekává se, že růst v našem oboru bude globálně ovlivňován těmito faktory:

- konverzí analogových a tradičních digitálních video formátů na IP video;
- pokračujícím nárůstem množství a šíře video obsahu na bázi IP;
- rostoucí spotřebitelskou poptávkou po video obsahu na bázi IP;
- šířením širokopásmového připojení k internetu;
- expanzí a vývojem mobilních sítí s možností přenosu videa;
- nárůstem počtu zařízení připojených na internet; a
- rychlým nástupem širokopásmového připojení a přístupu k mobilním sítím na nově vznikajících trzích.

1.3 Růstová strategie

Naším cílem je posilovat naše postavení vedoucího poskytovatele podnikového softwaru na vyžádání pro správu video obsahu na bázi IP. Mezi hlavní prvky naší růstové strategie patří:

- dále posilovat naše vedoucí postavení v oblasti správy video obsahu na vyžádání na bázi IP – jsme přesvědčeni, že jsme největším mezinárodním poskytovatelem softwarových řešení pro správu IP video obsahu a že naše značka se stala synonymem pro špičkovou kvalitu v oboru, profesionalitu a podporu zákazníků;
- získávat nové zákazníky a území – agresivně se zaměřujeme na potenciální zákazníky, zejména prostřednictvím našich přímých obchodních zástupců, a jsme přesvědčeni, že pro naše řešení existují významné tržní příležitosti v Americe a na nově vznikajících trzích ve východní Evropě, na Středním východě, v jižní Asii a v oblasti Brazílie,Ruska, Indie a Číny;
- maximálně využívat stávající i nová strategická partnerství v oblasti dalšího prodeje s poskytovateli sítí na dodávání obsahu ("content delivery networks - **CDN**"), poskytovateli obsahu, systémovými integrátory a poskytovateli hardwaru, včetně spolupráce v oblasti prodeje a marketingu a vzájemného prodeje výrobků a služeb;
- zvýšit příjmy od našich stávajících klientů - budeme usilovat o navýšení příjmů od každého z našich zákazníků tím, že zvýšíme jejich využití naší platformy, dále navýšením základních licenčních

poplatků doprodejem dalších modulů KIT Platform, a aktivním prodejem doplňkových kreativních a technických integračních služeb;

- zlepšit naši produktovou nabídku - chceme dále vyvíjet schopnosti a vlastnosti naší KIT softwarové platformy tím, že budeme nadále investovat 7 a více procent našich hrubých příjmů do jeho probíhajícího výzkumu a vývoje; a
- dokončit probíhající akvizice, které rozšiřují naše pokrytí klientů a zeměpisných oblastí – hodláme i nadále usilovat o vybrané akvizice zvyšovat tak svůj podíl na trhu, rozšiřovat svou geografickou přítomnost a upevňovat své postavení předního poskytovatele špičkových řešení pro správu IP videa.

II. INFORMACE O PŘIJETÍ K OBCHODOVÁNÍ NA BURZE CENNÝCH PAPÍRŮ PRAHA, A.S. ("BCPP")

Emitent	KIT digital, Inc., společnost registrovaná ve státě Delaware, Spojené státy americké, se sídlem na adrese 26 West 17th Street, 2nd Floor, New York, NY 10011, Spojené státy americké.
Registrace na burze	Naše Kmenové akcie jsou přijaty k obchodování na trhu Nasdaq Global Select Market ("**Nasdaq**") pod symbolem "KITD". Dne 25. ledna 2010 BCPP schválila naši žádost o přijetí 14.174.853 kusů Kmenových akcií obchodovaných na trhu Nasdaq k obchodování na BCPP. Dne 9. března 2010 jsme ukončili veřejnou nabídku 1.541.624 kusů Kmenových akcií ve Spojených státech amerických ("**Nové kmenové akcie I.**"). Dne 22. března 2010 jsme prodali dalších 231.244 kusů Nových kmenových akcií I. prostřednictvím over-allotment opce poskytnuté upisovatelům v souvislosti s nabídkou Nových kmenových akcií I. Dne 27. dubna 2010 jsme ukončili veřejnou nabídku 4.230.770 kusů Kmenových akcií ve Spojených státech amerických ("**Nové kmenové akcie II.**"). Dne 6. června 2010 jsme prodali dalších 634.615 kusů Nových kmenových akcií II. prostřednictvím over-allotment opce poskytnuté upisovatelům v souvislosti s nabídkou Nových kmenových akcií II. Dne 24. listopadu 2010 jsme ukončili veřejnou nabídku 8.000.000 kusů Kmenových akcií ve Spojených státech amerických ("**Nové kmenové akcie III.**"). Dne 10. prosince 2010 jsme prodali dalších 1.200.000 kusů Nových kmenových akcií III. prostřednictvím over-allotment opce poskytnuté upisovatelům v souvislosti s nabídkou Nových kmenových akcií III. Ode dne přijetí svých akcií k obchodování na BCPP dne 25. ledna 2010 vydala společnost KIT Digital dalších 11.371.433 Kmenových akcií ("**Nové kmenové akcie IV.**"), a to v rámci programu odměňování z roku ("2004 Stock Option Plan") a plánu pobídek z roku 2008 ("2008 Incentive Stock Plan") (celkem 1.270.359 akcií), jako úhradu za nově nabyté podíly ve společnostech (celkem 10.059.635 akcií), nebo jako odměnu pro konzultanty a jiné subjekty (celkem 41.439 akcií).

	Podali jsme žádost o registraci a přijetí Nových kmenových akcií I., Nových kmenových akcií II., Nových kmenových akcií III. a Nových Kmenových akcií IV., tj. celkem 27.209.686 kusů Kmenových akcií, k obchodování na BCPP. (Nové kmenové akcie I., Nové kmenové akcie II., Nové kmenové akcie III. a Nové kmenové akcie IV. společně dále jen "**Nové kmenové akcie**"). Účelem přijetí k obchodování na BCPP je podpořit naši likviditu pro všechny investory a zajistit větší přístup ke Kmenovým akciím společnosti KIT digital manažerům evropských fondů, na které může být kladen požadavek, aby investovali pouze do trhů či měn Eurozóny.
Převodní zmocněnec a registrátor Kmenových akcií	Continental Stock Transfer & Trust Company.
Identifikace cenných papírů	Nové kmenové akcie v současnosti obchodované na trhu Nasdaq ("**Akcie na Nasdaq**") budou registrovány a obchodovány na BCPP pod symbolem "KITD". ISIN Akcií na Nasdaq je US4824702009, jejich CUSIP potom 482470200.
Autorizovaný kapitál	Náš autorizovaný kapitál se skládá z 80.000.000 kusů Kmenových akcií ve jmenovité hodnotě 0,0001 USD za akcii ("**Kmenové akcie**"). K 23. květnu 2011 bylo vydáno 41.384.539 kusů Kmenových akcií.
Autorizovaný, ale nevydaný kapitál	Zákony státu Delaware nevyžadují, aby akcionáři schvalovali případnou emisi autorizovaných akcií, s výjimkou některých fúzí, kterých se společnost může účastnit. Pravidla trhu Nasdaq však vyžadují, aby akcionáři schválili určité emise Kmenových akcií nebo cenných papírů konvertibilních na Kmenové akcie nebo za ně vyměnitelných, pokud přestavují ekvivalent nejméně 20% stávajícího objemu vydaných Kmenových akcií. Představenstvo společnosti KIT digital může tedy vydat bez schválení akcionářů nejvýše 38.615.461 kusů Kmenových akcií za cenu rovnající se nejméně nominální hodnotě 0,0001 USD za akcii. Při každé emisi Kmenových akcií je třeba splnit registrační požadavky podle pravidel SEC a případně uveřejnit prospekt, pokud tak vyžaduje zákon č. 256/2004 Sb., o podnikání na kapitálovém trhu, ve znění pozdějších předpisů, pokud se nejedná o některou z možných výjimek. Společnost má programy odměňování, podle nichž mohou být členům managementu a zaměstnancům společnosti poskytnuty Kmenové akcie. Závazky společnosti v této souvislosti mohou být splněny buď prostřednictvím Kmenových akcií držených společností, nebo prostřednictvím nově vydaných Kmenových akcií. K 23. květnu 2011 existovaly podle programu odměňování z roku 2004 ("2004 Stock Option Plan") a podle programu odměňování z roku 2008 ("2008 Incentive Stock Plan") opce na nákup 5.330.214 Kmenových akcií a warranty na nákup 1.577.226 Kmenových akcií (výkon těchto opcí a warrantů je možný výměnou za platbu ve prospěch naší společnosti). Výkon těchto opcí a warrantů a prodej Kmenových akcií vydaných na jejich základě by snížil procentní podíl stávajících akcionářů na hlasovacích právech a jejich stávající vlastnický podíl na naší společnosti. Výkon těchto opcí a warrantů lze s pravděpodobností očekávat tehdy, kdy budou naše Kmenové akcie obchodovány za vyšší cenu než je cena za výkon opcí a

warrantů.

Dividendová politika	Společnost KIT digital nevyplácela v letech 2007, 2008, 2009 nebo 2010 žádné dividendy. Společnost KIT digital nepředpokládá, že by v blízké budoucnosti vyplácela dividendy.
Den zahájení obchodování v Praze	Obchodování s Novými kmenovými akciemi na BCPP má být zahájeno dne 1. srpna 2011. Společnost KIT digital bude na BCPP obchodována kontinuálně.
Použití výtěžku	Společnost KIT digital použila či má v plánu použít podstatnou část čistého výtěžku z nabídky Nových kmenových akcií na financování akvizic či investic do konkurenčních nebo komplementárních podniků. Společnost KIT digital použila či může použít část čistého výtěžku z nabídky Nových kmenových akcií na odkoupení vyměnitelných dluhopisů (warrantů) vydaných v předchozích soukromých nabídkách od některých jejich držitelů, a dále na financování investic do konkurenčních nebo komplementárních produktů a technologií, provozního kapitálu a pro obecné firemní účely.
Měna obchodování	Obchody s Novými kmenovými akciemi budou na BCPP prováděny v českých korunách (kód: CZK).
Vypořádání	Vypořádání všech transakcí s Novými kmenovými akciemi na BCPP budou prováděna prostřednictvím vypořádacího systému Centrálního depozitáře.
Tržní kapitalizace	Na základě počtu 41.384.539 kusů Kmenových akcií v oběhu vydaných k 23. květnu 2011 a závěrečného kurzu Kmenových akcií na trhu Nasdaq dne 30. června 2011 (11,94 USD) činila tržní kapitalizace společnosti KIT digital cca 494.131.397 USD, což odpovídá cca 8.323.643.358 CZK při směnném kurzu ze dne 30. června 2011 (1 USD = 16,845 CZK).

III. HLAVNÍ AKCIONÁŘI

V následující tabulce jsou uvedeny informace o jednotlivých osobách, o nichž je společnosti KIT digital známo, že byly k 23. květnu 2011 nominálními majiteli 5% nebo většího počtu Kmenových akcií (pokud není uvedeno jinak).

		Nominální podíl na Kmenových akciích (včetně podílů na základě jiných cenných papírů)		
Jméno a adresa nominálního majitele		**Počet**		**Procento**
KIT Media Ltd. Mill Mall, Suite 6 Wickhams Cay 1 P.O. Box 3085 Road Town, Tortola, Britské Panenské		2.720.432[1]		6,6 %

[1] Kaleil Isaza Tuzman, předseda našeho statutárního orgánu a generální ředitel společnosti, vlastní kontrolní podíl ve společnosti KIT Media a dále hlasovací a dispoziční práva spojená s akciemi přímo vlastněnými společností KIT Media. Pro účely hlasování KIT Media ve skutečnosti vlastní 6,6 % našich vydaných akcií. Pro účely hlasování pan Isaza Tuzman tak vlastní efektivně 7,3 % našich vydaných akcií.

		Nominální podíl na Kmenových akciích (včetně podílů na základě jiných cenných papírů)		
Jméno a adresa nominálního majitele		**Počet**		**Procento**
ostrovy				
KIT Capital, Ltd. P.O. Box 112888 Dubaj, Spojené arabské emiráty		300.046[2]		*[3]
Kaleil Isaza Tuzman, součet výše uvedeného		3.020.478[4] [5]		7,3 %
Gavin Campion		118.145[6]		*
Robin Smyth		96.851[7]		*
Christopher Williams		12.147[8]		*
Daniel W. Hart		50.580[9]		*
Lars Kroijer		58.338[10]		*
Joseph E. Mullin III		8.171[11]		*
Santo Politi		965.587[12]		2,3%
Wayne Walker		53.523[13]		*
Všichni manažeři a vrcholní zaměstnanci jako skupina (9 osob)		4.383.819		10,6%

2 Představuje (a) 127.858 kmenových akcií, (b) 73.750 emitovatelných na základě uplatnění akciových opcí poskytnutých v rámci Opčního plánu pro rok 2004, (c) 62.813 kmenových akcií emitovatelných na základě uplatnění akciových opcí poskytnutých v rámci Plánu pobídek pro rok 2008 a (d) 35.625 kmenových akcií emitovatelných na základě RSUs v rámci Plánu pobídek pro rok 2008. Pan Isaza Tuzman má kontrolní podíl v KIT Capital a má hlasovací a dispoziční práva k akciím drženým přímo společností KIT Capital. Pro účely hlasování KIT Capital efektivně vlastní 0,3% našich vydaných akcií. Pro účely hlasování pan Isaza Tuzman efektivně vlastní 7,3% našich vydaných akcií.

3 *znamená podíl nižší než 1%.

4 Představuje (a) 127.858 kmenových akcií, (b) 73.750 emitovatelných na základě uplatnění akciových opcí poskytnutých v rámci Opčního plánu pro rok 2004, (c) 62.813 kmenových akcií emitovatelných na základě uplatnění akciových opcí poskytnutých v rámci Plánu pobídek pro rok 2008 a (d) 35.625 kmenových akcií emitovatelných na základě RSUs v rámci Plánu pobídek pro rok 2008. Pan Isaza Tuzman má kontrolní podíl v KIT Capital a má hlasovací a dispoziční práva k akciím drženým přímo společností KIT Capital. Pro účely hlasování KIT Capital efektivně vlastní 0,3% našich vydaných akcií. Pro účely hlasování pan Isaza Tuzman efektivně vlastní 7,3% našich vydaných akcií.

5 Kaleil Isaza Tuzman, předseda našeho statutárního orgánu a generální ředitel společnosti, vlastní kontrolní podíl ve společnosti KIT Media a dále hlasovací a dispoziční práva spojená s akciemi přímo vlastněnými společností KIT Media. Pro účely hlasování KIT Media ve skutečnosti vlastní 6,6 % našich vydaných akcií. Pro účely hlasování pan Isaza Tuzman tak vlastní efektivně 7,3 % našich vydaných akcií.

6 Představuje (a) 12.719 kmenových akcií, (b) 82.642 kmenových akcií emitovatelných na základě uplatnění akciových opcí poskytnutých v rámci Plánu pobídek pro rok 2008 a (c) 22.784 kmenových akcií emitovatelných na základě programu RSU (*Restricted Stock Unit*s) v rámci Plánu pobídek pro rok 2008. Pro účely hlasování pan Campion vlastní efektivně méně než 1 % našich vydaných akcií.

7 Představuje (a) 5.441 kmenových akcií, (b) 42.499 kmenových akcií emitovatelných na základě uplatnění akciových opcí poskytnutých v rámci Plánu pobídek pro rok 2008, (c) 34.286 kmenových akcií emitovatelných na základě uplatnění warrantů, které jsou platné do 30. března 2012, a (d) 14.625 kmenových akcií emitovatelných na základě programu RSU (*Restricted Stock Unit*s) v rámci Plánu pobídek pro rok 2008. Pro účely hlasování pan Smyth vlastní efektivně méně než 1 % našich vydaných akcií.

8 Představuje kmenové akcie emitovatelné na základě uplatnění akciových opcí poskytnutých v rámci Plánu pobídek pro rok 2008. Pro účely hlasování pan Williams efektivně nevlastní žádné naše vydané akcie.

9 Představuje kmenové akcie emitovatelné na základě uplatnění akciových opcí poskytnutých v rámci Plánu pobídek pro rok 2008, které lze v současnosti uplatnit. Pro účely hlasování pan Hart ve skutečnosti nevlastní žádné naše vydané akcie.

10 Představuje (a) 6,143 kmenových akcií a (b) 52,195 kmenových akcií emitovatelných v rámci Plánu pobídek pro rok 2008, které lze v současnosti uplatnit. Pro účely hlasování pan Kroijer vlastní méně než 1% vydaných akcií.

11 Představuje kmenové akcie emitovatelné v rámci Plánu pobídek pro rok 2008. Pro účely hlasování pan Mullin efektivně nevlastní žádné naše vydané akcie.

12 Představuje kmenové akcie. Santo Politi je řídícím partnerem Spark Management Partners, LLC, hlavním společníkem Spark Capital, LP, Spark Capital Founders' Fund, LP a Spark Member Fund, LP, přímých držitelů akcií. Hlasovací a dispoziční práva nad akciemi KIT jsou sdílena řídícími partnery Spark Management Partners, LLC. Pro účely hlasování pan Politi nepřímo vlastní 2,3% našich vydaných akcií.

13 Představuje (a) 1,118 kmenových akcií, a (b) 52,405 emitovatelných v rámci Plánu pobídek pro rok 2008. Pro účely hlasování pan Walker vlastní méně než 1% našich vydaných akcií.

Jméno a adresa nominálního majitele		Nominální podíl na Kmenových akciích (včetně podílů na základě jiných cenných papírů)		
		Počet		**Procento**
FMR LLC 82 Devonshire Street Boston, MA 02109, Spojené státy americké		5.268.770[14]		12,7 %
Wellington Management Company, LLP 75 State Street Boston, MA 02169, Spojené státy americké		2.792.668[15]		6,7 %
Zivar Investments Ltd. Geneva Place, 2nd floor 333 Waterfront Drive Road Town, Tortola, Britské Panenské ostrovy		1.998.880[16]		4,8 %

IV. RIZIKOVÉ FAKTORY

Níže je uveden souhrn některých rizik, nejistot a dalších faktorů, které by mohly ovlivnit naše budoucí výsledky. Podrobný popis těchto a dalších rizikových faktorů je uveden v Kapitole B ("Chapter B"). Níže uvedené rizikové faktory je třeba posuzovat v souvislosti s jinými rizikovými faktory a prognózami.

- V minulosti jsme vykazovali čisté roční ztráty a tento trend může pokračovat, což by mohlo negativně ovlivnit naši schopnost dosáhnout stanovených obchodních cílů.
- Naše podnikatelská činnost má krátkou historii, a proto nemůžeme zaručit dlouhodobý úspěšný výkon naší podnikatelské činnosti či realizaci našeho obchodního plánu.
- Jestliže nebudeme úspěšně vyvíjet nové softwarové produkty a řešení, může být naše podnikatelská činnost poškozena.
- Případné selhání hlavních součástí našich systémů a činností by mohlo vést k významnému narušení našich služeb zákazníkům, což by mohlo poškodit naši pověst, snížit naše výnosy nebo jinak poškodit naši podnikatelskou činnost.
- Závisíme na technologii, ke které nám třetí strany poskytují licenci. Jestliže tyto licence nebudeme schopni udržet, mohlo by to negativně ovlivnit naši podnikatelskou činnost a finanční situaci.
- Jestliže nebudeme adekvátně chránit naše práva duševního vlastnictví, můžeme utrpět ztrátu výnosu a naše podnikatelská činnost může být významně poškozena.
- Jestliže nebudeme schopni udržet si služby pana Kaleila Isazy Tuzmana nebo pana Gavina Campiona nebo jestliže nedokážeme úspěšně najímat kvalifikovaný personál, mohlo by se stát, že nebudeme moci pokračovat ve výkonu naší podnikatelské činnosti.
- Tržní cena Nových kmenových akcií může silně kolísat v důsledku působení mnoha různých faktorů.

[14] Podle informací uvedených v Příloze 13G/A předložené SEC dne 14. února 2011.

[15] Podle informací uvedených v Příloze 13G/A předložené SEC dne 14. února 2011.

[16] Podle informací uvedených v Příloze 13G, předložené SEC dne 5. května 2010 společnostmi Zivar Investments Ltd. a Abacus Trustees (Gibraltar) Limited. Společnost Abacus Trustees (Gibraltar) Limited je jediným akcionářem a správcem trustu, který vlastní společnost Zivar Investments Ltd. a může tak být pokládána za vlastníka hlasovacích a investičních práv ke Kmenovým akciím ve vlastnictví společnosti Zivar Investments Ltd.

- Vzhledem k tomu, že Nové kmenové akcie budou obchodovány na více než jedné burze, mohou být rozdílné i jejich ceny.

- Vzhledem k tomu, že Nové kmenové akcie budou registrovány na dvou různých burzách, možnost obchodování a likvidita bude rozdělena mezi dva trhy.

V. POSLEDNÍ VÝVOJ

Konsolidované příjmy vzrostly meziročně o částku 59.313 USD (tj. o 125%) z částky 47.284 USD za rok končící dnem 31. prosince 2009 na částku 106.597 USD za rok končící dnem 31. prosince 2010. Jedním z hlavních důvodů tohoto nárůstu je nárůst počtu zákazníků, zvýšené výdaje současných zákazníků a též příjmy ze získaných společností, které nebyly zahrnuty ve výsledcích předchozího období.

Dne 10. května 2011 společnost KIT digital zveřejnila finanční výsledky a nové smlouvy s klienty za třetí čtvrtletí končící dnem 31. března 2011. Příjmy v prvním čtvrtletí roku 2011 se zvýšily z částky 17.364 USD na částku 34.450 USD ve stejném čtvrtletí předchozího roku.

VI. FINANČNÍ ÚDAJE SPOLEČNOSTI KIT DIGITAL, INC. ZA ÚČETNÍ ROKY SKONČENÉ K 31. PROSINCI 2010, 2009 A 2008

Konsolidované finanční výkazy společnosti KIT digital uvedené v tomto prospektu byly sestaveny v souladu s účetními zásadami běžnými ve Spojených státech amerických ("**U.S. GAAP**"), tak jak bylo schváleno rozhodnutím Evropské komise ze dne 12. prosince 2008.

Výnosy vykazujeme v souladu s účetními standardy, které stanovují čtyři základní kritéria, jež musí být splněna před tím, než jsou výnosy vykázány: (i) přesvědčivá evidence o existenci ujednání; (ii) cena je pevná nebo stanovitelná; (iii) inkasovatelnost je přiměřeně zajištěna; a (iv) proběhla dodávka zboží nebo poskytnutí služeb. Výnosy vykazujeme po odečtení daně z obratu vyměřené státními orgány. Největší část výnosů Společnosti tvoří tržby z poskytování IP softwarových řešení pro správu obsahu, včetně poplatků za model "software-jako-služba" *(software-as-a-service, "SaaS")*, poplatků za užívání softwaru, licenčních poplatků, poplatků za instalaci/technickou podporu, archivování, hardwarové komponenty, poskytování obsahu a syndikaci obsahu. Naše řešení rovněž zahrnují služby technické integrace, navrhování rozhraní, branding, strategické plánování, kreativní produkci, online marketing, mediální plánování a analýzy užívání.

Následující vybrané finanční údaje společnosti KIT digital vycházejí z historických konsolidovaných finančních výkazů, jež jsou označeny níže, a je třeba je posuzovat v souvislosti s těmito konsolidovanými finančními výkazy a komentáři v nich uvedenými.

VYBRANÉ FINANČNÍ ÚDAJE ZA POSLEDNÍ TŘI ROKY (v tisících, s výjimkou údajů o akciích a za akcii)								
Výsledky hospodaření								
	Rok k 31. prosinci							
	2010			**2009**			**2008**	
Výnosy	$	106.597		$	47.284		$	23.401
Hrubý zisk		60.454			25.564			13.004
Provozní ztráta		(20.656)			(11.159)			(18.706)
Čistá ztráta před zdaněním		(34.742)			(18.828)			(18.966)
Čistá ztráta bez nekontrolního podílu		(35.260)			(19.942)			(19.082)
Čistá ztráta na akcii – základní a zředěná		1.63			3.03			7.55

Přehled o peněžních tocích								
	Rok k 31. prosinci							
	2010			2009			2008	
Čistý peněžní tok do provozní činnosti	$	(30.228)		$	(13.618)		$	(12.816)
Čistý peněžní tok do investiční činnosti		(22.363)			(9.723)			(11.715)
Čistý peněžní tok z finanční činnosti		189.046			24.576			20.352
Čisté zvýšení (snížení) peněžních prostředků a peněžních ekvivalentů		134.442			913			(4.311)
Stav peněžních prostředků a peněžních ekvivalentů na konci účetního roku		143.233			6.791			5.878

Aktiva jakož i závazky a vlastní jmění								
	Rok k 31. prosinci							
	2010			2009			2008	
Peněžní prostředky a peněžní ekvivalenty	$	143.233		$	6.791		$	5.878
Aktiva celkem		298.660			80.414			41.309
Závazky celkem		53.036			46.423			23.238
Vlastní jmění celkem		245.624			33.991			18.308

VII. FINANČNÍ ÚDAJE SPOLEČNOSTI KIT DIGITAL, INC. ZA OBDOBÍ TŘÍ MĚSÍCŮ KONČÍCÍ K 31. BŘEZNU 2011

Následující vybrané údaje z konsolidovaného výkazu činnosti za období tří měsíců končící k 31. březnu 2011, údaje z přehledu o peněžních tocích za období tří měsíců končící k 31. březnu 2011 a údaje z konsolidované rozvahy k 31. březnu 2011 a k 31. prosinci 2010 vycházejí z neauditovaných konsolidovaných finančních výkazů společnosti KIT digital uvedených na stránkách 3–21 Čtvrtletní zprávy předložené SEC společností KIT digital, Inc. na Formuláři 10-Q dne 10. května 2011 (viz Příloha VI).

VYBRANÉ ČTVRTLETNÍ FINANČNÍ ÚDAJE (v tisících, s výjimkou údajů za akcii – neauditováno)					
Výsledky hospodaření					
	Tříměsíční období k 31. březnu				
	2011			2010	
Výnosy	$	34.450		$	17.364
Hrubý zisk		21.976			10.813
Provozní ztráta		(14.649)			(7.078)
Čistá ztráta před zdaněním		(12.362)			(18.428)
Čistá ztráta	$	(12.501)		$	(18.442)
Čistá ztráta na akcii – základní a zředěná		(0,34)			(1,33)

Přehled o peněžních tocích					
	Tříměsíční období k 31. březnu				
	2011			2010	
Čistý peněžní tok do provozní činnosti	$	(9.065)		$	(5.479)
Čistý peněžní tok do investiční činnosti		(23.378)			(5.820)
Čistý peněžní tok z finanční činnosti		(59)			42.651
Čisté zvýšení (snížení) peněžních prostředků a peněžních ekvivalentů		(31.568)			31.032
Stav peněžních prostředků a peněžních ekvivalentů na konci účetního období		109.665			37.823

Závazky a vlastní jmění					
	31. března 2011 (neauditováno)			31. prosince 2010 (A)	
Peněžní prostředky a peněžní ekvivalenty	$	109.665		$	143.233
Aktiva celkem		352.515			298.660
Závazky celkem		68.248			53.036
Vlastní jmění celkem		284.267			245.624

VIII. ZVEŘEJNĚNÉ DOKUMENTY

SEC předkládáme roční, čtvrtletní a průběžné výkazy, zprávy pro akcionáře a další informace. SEC má internetové stránky http://www.sec.gov, na nichž jsou uvedeny výkazy, zprávy pro akcionáře, informační výkazy a další údaje týkající se podatelů, kteří předkládají výkazy v elektronické formě, tedy i naší společnosti. Internetové stránky naší společnosti jsou na adrese www.kitd.com a elektronickou brožuru o nabídkách našich produktů si můžete stáhnout na www.kitd.com/brochure.pdf. Výše zmíněné dokumenty, které předkládáme SEC, jsou k dispozici na internetové adrese http://ir.kitd.com/phoenix.zhtml?c=144912&p=irol-sec. Zároveň budou v míře požadované příslušnými právními předpisy poskytovány ČNB, která tyto informace v souladu s příslušnými předpisy zveřejňuje. Obsah našich internetových stránek ani brožury není součástí tohoto prospektu a při posuzování tohoto prospektu by neměl být brán v úvahu.

Kopie našich podání si můžete také zdarma vyžádat na naší adrese nebo na uvedeném telefonním čísle:

KIT digital, Inc.
26 West 17th Street, 2nd Floor
New York, NY 10011, Spojené státy americké
K rukám: Kaleil Isaza Tuzman
Chairman and Chief Executive Officer
+1 (212) 661-4111

CHAPTER A:
PROSPECTUS SUMMARY

NOTE TO THE PROSPECTUS SUMMARY

VISA NUMBER [●] DATED [●], 2011 OF THE CNB

PUBLISHED IN CONNECTION WITH THE ADMISSION OF KIT DIGITAL, INC.'S COMMON STOCK TO LISTING AND TRADING AT THE PRAGUE STOCK EXCHANGE

Note to the reader

This summary should be read as an introduction to the Prospectus. Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in a prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States of the European Community or States party to the European Economic Area Agreement, have to bear the costs of translating the prospectus before the legal proceedings are initiated. Civil liability attaches to the persons who presented the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read with other parts of the prospectus.

The following is a summary of some of the information contained in this Prospectus. We urge you to read this entire document carefully, including the risk factors, our historical consolidated financial statements and the notes to those financial statements. Unless the context requires otherwise, references in this Prospectus to the "Company", "we", "us", "our" and "KIT digital" are to KIT digital, Inc., a Delaware corporation, and its subsidiaries and predecessors collectively. Prior to May 2008, our corporate name was ROO Group, Inc ("**ROO**"). Any monetary amount referred to in this Prospectus are in thousands of USD, unless indicated otherwise or unless the amount refers to shares or value per share.

I. GENERAL DESCRIPTION OF KIT DIGITAL, INC.

1.1 Introduction

KIT digital is a premium provider of end-to-end video asset management software (VAMS) and related services. The KIT Platform, our cloud-based solution delivered primarily in a software-as-a-service (SaaS) model, enables over 2,000 media distributor, enterprise and network operator clients to create, manage and deliver multi-screen video and social engagement experiences to audiences wherever they are. With deep experience that runs the gamut from traditional broadcast systems engineering to "over-the-top" (OTT) social video applications, we are uniquely positioned to deliver truly complete video solutions, from the lens of the camera to the eye of the audience ("lens to lens"), and guide our clients into the future of Internet Protocol (IP)-based interactive media. Our clients' use of the KIT Platform includes end-consumer focused live and on-demand video distribution, as well as internal corporate deployments, including corporate communications, human resources, training, security and surveillance.

The KIT Platform's modular approach enables customers to select from three industry-tailored software solutions with a broad set of features that share a common data model and architecture. KIT's platform solutions include:

- **KIT Media** – for content creators and media distributers, including traditional broadcasters, online publishers, content syndicators, faith-based and sports organizations

- **KIT Enterprise** – for non-media enterprises, including consumer brands, manufacturing, healthcare and pharmaceuticals, automotive and government entities

- **KIT Operator** – for network operators, including telecommunications carriers, cable operators, internet service providers and virtual network operators (e.g. connected device manufacturers)

Each KIT Platform solution utilizes a common set of shared functional modules and follows an underlying technical design philosophy that employs modular, extensible subcomponents and exposes functionality via standards-based APIs (application programming interfaces). This core methodology allows the KIT Platform to be extended through the addition of new, discrete components as well as integration with third-party solutions. The KIT Platform leverages cloud-based application and content delivery services to ensure a high degree of scalability, while minimizing operational and maintenance costs.

In addition to our KIT Platform solutions, we offer a range of related professional services supporting the wider value chain of video with a focus on systems integration for the capture, transcoding, storage, editing and play-out of video in film, television and other broadcasting environments. We also provide content services (such as localization and packaging) and advanced digital marketing services. We estimate that over 70% of our current revenues are generated by KIT Platform-related fees, with the remainder directly related to professional services. For KIT Platform use, we generally invoice customers monthly, and occasionally on a quarterly basis. For our professional services, we bill either on an hourly or project basis. We currently provide our software solutions and professional services internationally through our operational headquarters in Prague, Czech Republic, and our principal offices in Atlanta, Cambridge (UK), Chennai, Cologne, Dubai, London, Melbourne (Australia), Mumbai, New York (executive office), Paris, San Francisco and Stockholm. We have 9 other sales representative offices in an additional 7 countries.

As of the date of this Prospectus, our customer base consisted of 2,000+ enterprise customers from over 40 countries, including Airbus, American Express, The Associated Press, BBC, Best Buy, Bristol-Myers Squibb, Disney-ABC, ESPN Star, FedEx, General Motors, Google, Hewlett-Packard, Home Depot, IMG Worldwide, MediaCorp, Microsoft, MTV, NBC Universal, News Corp, Telefónica, Verizon, Vodafone and Volkswagen. Our clients usually enter into long-term contracts. Our average remaining contract length is approximately 24 months, with automatic renewal features.

The KIT Platform is used by demanding and sophisticated corporate clients, and is particularly appropriate for global corporations that need to centrally and securely produce and manage video content, while also providing content access and publishing to multiple geographical locations, on multiple device types, in different languages and across multiple network protocols. This ability to centrally and securely administer video content while allowing it to be modified and distributed broadly is known as multi-point publishing. We believe that the KIT Platform has the most advanced multi-point publishing capabilities in the market today.

We align our business and the solutions we offer into three primary vertical industry segments: (i) media distributors, (ii) general corporate enterprises and (iii) network operators. This provides an organizational framework to synchronize commercial and operational functions and enables our team to foster deep industry specific thought leadership and subject matter expertise. Using a consultative, solution-oriented approach to the market allows us to significantly increase the value we are able to provide to our clients by offering industry-specific workflow management and establishing deeper, longer lasting relationships, resulting in more business and higher margin revenue.

We manage our business across three major geographical profit and loss centers: (i) Europe, Middle East and Africa (EMEA), (ii) Asia-Pacific, and (iii) the Americas. We estimate that during the first quarter of 2011, 50.1% of our revenues were generated in the EMEA region, 25.2% of our revenues were generated in the Asia-Pacific region, and 24.7% of our revenues were generated in the Americas region.

1.2 KIT digital's Industry

We believe we are well positioned to take advantage of the growth within the Internet Protocol (IP)-based VAMS industry. Our industry's growth globally is expected to be driven by:

- the conversion of analog and traditional digital video formats to IP video;
- the continuing rise in the amount and breadth of IP-based video content;
- changes in consumer behavior and the growing consumer demand for IP-based video content;
- the proliferation of broadband Internet connections;
- the expansion and evolution of video-capable mobile networks;
- the increase of Internet-connected devices; and
- the rapid "catch-up" of emerging markets broadband and mobile network access.

1.3 Growth Strategies

Our objective is to enhance our position as the leading provider of video technology and services. Key elements of our growth strategy include:

- invest in sales, marketing and branding to expand upon our leadership in cloud-based video-asset management — we estimate that we are the largest international provider of software solutions for managing IP video content and it is our intention to continue to build our brand in such a way that is synonymous with ‘‘industrial grade’’ quality, professionalism and customer support;
- pursue new customers and territories — we are aggressively targeting potential customers through our direct sales force and believe that there are substantial market opportunities for our solutions in the Americas, Asia and Europe, as well as the BRIC markets;
- leverage existing and new strategic reselling partnerships with content delivery networks (CDNs), systems integration companies, hardware providers and other participants in the video management value chain, including collaborative sales and marketing efforts and the reselling of each other's products and services;
- increase revenue from our existing client base — we seek to increase revenue from each of our customers by increasing their usage of our platform, increasing basic license fees by up-selling additional modules of the KIT Platform, and actively selling complementary creative and technical integration services;
- enhance our product offering — we intend to further develop our KIT software platform's capabilities and features by continuing to invest 7%+ of our gross revenues in ongoing research and development; and

- complete accretive acquisitions which expand our client and geographical footprint — we intend to continue to pursue selected acquisitions that consolidate market share, expand our geographical footprint and customer reach, and further our position as the leading provider of enterprise-grade IP-based video management solutions.

II. INFORMATION RELATING TO ADMISSION TO LISTING AND TRADING ON PSE

Issuer	KIT digital, Inc., a Delaware corporation, with its principal executive offices at 26 West 17th Street, 2nd Floor, New York, NY 10011, U.S.A.
Stock Exchange Listing	Our Common Stock is listed on the Nasdaq Global Select Market ("**Nasdaq**") under the symbol "KITD". On January 25, 2010, the PSE admitted 14,174,853 shares of Common Stock to trading on the PSE. On March 9, 2010, we completed an underwritten public offering of 1,541,624 shares of Common Stock in the United States ("**New Common Stock I.**"). On March 22, 2010 we sold 231,244 additional shares of New Common Stock I. pursuant to the over-allotment granted to the underwriters in the connection with such offering of the New Common Stock I. On April 27, 2010, we completed an underwritten public offering of 4,230,770 shares of Common Stock in the United States ("**New Common Stock II.**"). On June 6, 2010 we sold 634,615 additional shares of New Common Stock II. pursuant to the over-allotment granted to the underwriters in the connection with such offering of the New Common Stock II. On November 24, 2010, we completed an underwritten public offering of 8,000,000 shares of Common Stock in the United States ("**New Common Stock III.**"). On December 10, 2010 we sold 1,200,000 additional shares of New Common Stock III. pursuant to the over-allotment granted to the underwriters in the connection with such offering of the New Common Stock III. Since the admission of its shares of common stock to trading on the PSE on January 25, 2010, KIT digital has issued an aggregate of 11,371,433 additional shares of Common Stock ("**New Common Stock IV.**"), either within the 2004 Stock Option Plan or the 2008 Incentive Stock Plan (a total of 1,270,359 shares), or as a consideration for shares in companies acquired in that period (a total of 10,059,635 shares), or for consulting and other similar services (a total of 41,439 shares). We have applied for admission to listing and trading of the New Common Stock I., the New Common Stock II., the New Common Stock III. and the New Common Stock IV. (the New Common Stock I., the New Common Stock II., the New Common Stock III. and the New Common Stock IV. together as "**New Common Stock**") on the PSE, representing in total up to 27,209,686 shares of Common Stock. The PSE listing is intended to promote additional liquidity for all investors and provide greater access to KIT digital's Common Stock among

	European fund managers who may be required to invest in Euro-zone markets or currencies only.
Transfer Agent and Registrar for Common Stock	Continental Stock Transfer & Trust Company.
Securities Identification Code	The shares of New Common Stock currently listed on Nasdaq ("**Nasdaq Shares**") will be listed and traded on the PSE under symbol "KITD". The ISIN for the Nasdaq Shares is US4824702009. The CUSIP number of the Nasdaq Shares is 482470200.
Authorized Capital	Our authorized capital stock consists of 80,000,000 shares of Common Stock, par value $0.0001 per share (the "**Common Stock**"). As of May 23, 2011, 41,384,539 shares of Common Stock were issued and outstanding.
Authorized but Unissued Capital Stock	Delaware law does not require stockholder approval for any issuance of authorized shares other than in connection with certain mergers to which we may be a party. However, the Nasdaq rules require stockholder approval of certain issuances of Common Stock or securities convertible into or exchangeable for Common Stock equal to or exceeding 20% of the then outstanding number of our Common Stock. Accordingly, KIT digital's board of directors may issue up to a maximum of an additional 38,615,461 shares of Common Stock at a price equal to or higher than the par value of $0.0001 per share without authorization from the stockholders. Any issue of Common Stock would give rise to a registration requirement under the SEC rules, and may also require the publication of a prospectus under of the Act no. 256/2004 Coll., on Undertaking on Capital Market, as amended, absent any available exemption. The Company has equity compensation plans under which Common Stock may be provided to directors and employees of the Company. The Company's obligations in this respect may be satisfied either by Common Stock held in treasury or by newly issued Common Stock. As of May 23, 2011, we had outstanding under our 2004 Stock Option Plan and 2008 Incentive Stock Plan stock options to purchase 5,330,214 shares of Common Stock and outstanding warrants to purchase 1,577,226 shares of Common Stock (for which cash would need to be remitted to us for exercise). The exercise of the stock options and warrants and the sales of Common Stock issuable pursuant to them, would reduce a stockholder's percentage voting and ownership interest in our company. The stock options and warrants are likely to be exercised when our Common stock is trading at a price that is higher than the exercise price of these stock options and warrants.
Dividend Policy	KIT digital did not pay any cash dividends in 2007, 2008, 2009 and 2010. KIT digital does not anticipate paying cash dividends in the foreseeable future.
First Prague Trading Date	Trading in the New Common Stock on the PSE is expected to start on August 1, 2011. KIT digital will be continuously traded on the PSE.

Use of Proceeds	KIT digital has used, or plans to use, a significant portion of the net proceeds from the offering of the New Common Stock to finance the costs of acquiring or investing in competitive and complementary businesses. KIT digital has used, or may use, a portion of the net proceeds from the offering of the New Common Stock to purchase outstanding warrants issued in prior private placement financings from certain warrant holders. In addition KIT digital intends to use a portion of the net proceeds for working capital and general corporate purposes.
Currency of Trading	Trading of our New Common Stock on the PSE will be in Czech Koruna (code: CZK).
Settlement	Settlement of any transactions on New Common Stock on the PSE is expected to occur through the book-entry facilities of the Central Depositary.
Market Capitalization	Based on 41,384,539 shares of Common Stock issued and outstanding as of May 23, 2011, and the closing price of the Common Stock on the Nasdaq on June 30, 2011 (USD 11.94), KIT digital had a market capitalization of approximately USD 494,131,397, which, based on the exchange rate on June 30, 2011 (USD 1 = CZK 16.845), corresponds to approximately CZK 8,323,643,358.

III. MAJOR SHAREHOLDERS

The following table shows information for each person known by KIT digital to beneficially own 5% or more of the outstanding Common Stock, as of May 23, 2011 (except as otherwise indicated).

Name and Address of Beneficial Owner	Shares of Common Stock (Including Shares Underlying Other Securities) Beneficially Owned	
	Number	**Percent**
KIT Media Ltd. Mill Mall, Suite 6 Wickhams Cay 1 P.O. Box 3085 Road Town, Tortola, British Virgin Islands	2,720,432[17]	6.6%
KIT Capital, Ltd. P.O. Box 112888 Dubai, United Arab Emirates	300,046[18]	*[19]
Kaleil Isaza Tuzman, sum of above	3,020,478[20] [21]	7.3%

17 Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, holds a controlling interest in KIT Media and holds the voting and dispositive power of the shares directly held by KIT Media. For purposes of voting, on an actual basis, KIT Media owns 6.6% of our outstanding shares. For purposes of voting, on an actual basis, Mr. Isaza Tuzman owns 7.3% of our outstanding shares.

18 Represents (a) 127,858 shares of common stock, (b) 73,750 shares of common stock issuable upon the exercise of stock options granted under the 2004 Stock Option Plan, (c) 62,813 shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Stock Plan and (d) 35,625 shares of common stock issuable under RSUs under the 2008 Incentive Stock Plan. Mr. Isaza Tuzman holds a controlling interest in KIT Capital and holds the voting and dispositive power of the shares directly held by KIT Capital. For purposes of voting, on an actual basis, KIT Capital owns 0.3% of our outstanding shares. For purposes of voting, on an actual basis, Mr. Isaza Tuzman owns 7.3% of our outstanding shares.

19 * means less than 1%.

20 Represents (a) 127,858 shares of common stock, (b) 73,750 shares of common stock issuable upon the exercise of stock options granted under the 2004 Stock Option Plan, (c) 62,813 shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Stock Plan and (d) 35,625 shares of common stock issuable under RSUs under the

Name and Address of Beneficial Owner		Shares of Common Stock (Including Shares Underlying Other Securities) Beneficially Owned		
		Number		Percent
Gavin Campion		118,145[22]		*
Robin Smyth		96,851[23]		*
Christopher Williams		12,147[24]		*
Daniel W. Hart		50,580[25]		*
Lars Kroijer		58,338[26]		*
Joseph E. Mullin III		8,171[27]		*
Santo Politi		965,587[28]		2.3%
Wayne Walker		53,523[29]		*
All directors and executive officers as a group (9 persons)		4,383,819		10.6%
FMR LLC 82 Devonshire Street Boston, MA 02109, U.S.A.		5,268,770[30]		12.7%
Wellington Management Company, LLP 75 State Street Boston, MA 02169, U.S.A.		2,792,668[31]		6.7%
Zivar Investments Ltd. Geneva Place, 2nd floor 333 Waterfront Drive Road Town, Tortola, British Virgin Islands		1,998,880[32]		4.8%

2008 Incentive Stock Plan. Mr. Isaza Tuzman holds a controlling interest in KIT Capital and holds the voting and dispositive power of the shares directly held by KIT Capital. For purposes of voting, on an actual basis, KIT Capital owns 0.3% of our outstanding shares. For purposes of voting, on an actual basis, Mr. Isaza Tuzman owns 7.3% of our outstanding shares.

21 Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, holds a controlling interest in KIT Media and holds the voting and dispositive power of the shares directly held by KIT Media. For purposes of voting, on an actual basis, KIT Media owns 6.6% of our outstanding shares. For purposes of voting, on an actual basis, Mr. Isaza Tuzman owns 7.3% of our outstanding shares.

22 Represents (a) 12,719 shares of common stock, (b) 82,642 shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Stock Plan and (c) 22,784 shares of common stock issuable under RSUs under the 2008 Incentive Stock Plan. For purposes of voting, on an actual basis, Mr. Campion owns less than 1% of our outstanding shares.

23 Represents (a) 5,441 shares of common stock, (b) 42,499 shares of common stock issuable upon exercise of stock options granted under the 2008 Incentive Stock Plan, (c) 34,286 shares of common stock issuable upon exercise of warrants and have an expiration date of March 30, 2012 and (d) 14,625 shares of common stock issuable under RSUs under the 2008 Incentive Stock Plan. For purposes of voting, on an actual basis, Mr. Smyth owns less than 1% of our outstanding shares.

24 Represents shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Stock Plan. For purposes of voting, on an actual basis, Mr. Williams owns no outstanding shares.

25 Represents shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Stock Plan, which are currently exercisable. For purposes of voting, on an actual basis, Mr. Hart owns no outstanding shares.

26 Represents (a) 6,143 shares of common stock and (b) 52,195 shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Stock Plan. For purposes of voting, on an actual basis, Mr. Kroijer owns less than 1% of our outstanding shares.

27 Represents shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Stock Plan. For purposes of voting, on an actual basis, Mr. Mullin owns no outstanding shares.

28 Represents shares of common stock. Santo Politi is a managing member of Spark Management Partners, LLC, the general partner of Spark Capital, LP, Spark Capital Founders' Fund, LP and Spark Member Fund, LP, the direct holders of the stock. Voting and investment power over the Issuer's stock is shared by managing members of Spark Management Partners, LLC. For purposes of voting, on an actual basis, Mr. Politi indirectly owns 2.3% of our outstanding shares.

29 Represents (a) 1,118 shares of common stock and (b) 52,405 shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Stock Plan. For purposes of voting, on an actual basis, Mr. Walker owns less than 1% of our outstanding shares.

30 Based on the information contained in the Schedule 13G/A filed with SEC on February 14, 2011.

31 Based on the information contained in the Schedule 13G/A filed with SEC on February 14, 2011.

32 Based on the information contained in the Schedule 13G filed with SEC on May 5, 2010 jointly by Zivar Investments Ltd. and Abacus Trustees (Gibraltar) Limited. Abacus Trustees (Gibraltar) Limited is the sole shareholder and trustee of the trust that owns Zivar Investments Ltd. and may be deemed to have voting and investment power over the shares of Common Stock held by Zivar Investments Ltd.

IV. RISK FACTORS

Set forth below are summaries of certain of the risks, uncertainties and other factors that may affect our future results. The full description of these and other risk factors is included in Chapter B.

- We have a history of annual net losses which may continue and which may negatively impact our ability to achieve our business objectives.
- Our operations have limited histories and therefore we cannot ensure the long-term successful operation of our business or the execution of our business plan.
- If we do not successfully develop new software products and solutions, our business may be harmed.
- Any failure of major elements of our systems and operations could lead to significant disruptions in our ability to serve customers, which could damage our reputation, reduce our revenues or otherwise harm our business.
- We license technology from third parties. If we are unable to maintain these licenses, our operations and financial condition may be negatively impacted.
- If we do not adequately protect our intellectual property rights, we may experience a loss of revenue and our operations may be materially harmed.
- If we are unable to retain the services of Kaleil Isaza Tuzman or Gavin Campion or if we are unable to successfully recruit qualified personnel, we may not be able to continue operations.
- The market price of the New Common Stock may fluctuate widely in response to different factors.
- The shares of New Common Stock are traded on more than one exchange and this may result in price variations.
- As the New Common Stock are to be listed on two exchanges, trading and liquidity will be split among two markets

V. RECENT DEVELOPMENTS

Consolidated revenue increased by USD 59,313 from USD 47,284 for the year ended December 31, 2009 to USD 106,597 for the year ended December 31, 2010, an increase of 125%. The increase is principally due to an increase in customers, increased spending by existing customers, and revenue from the acquired companies not included in prior period results.

On May 10, 2011, KIT digital reported financial results and new client contracts for the first quarter ended March 31, 2011. Revenue in the first quarter of 2011 increased to USD 34,450 from USD 17,364 in the same quarter a year ago.

VI. FINANCIAL INFORMATION CONCERNING KIT DIGITAL, INC. FOR THE FISCAL YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

The consolidated financial statements of KIT digital set out in this Prospectus have been prepared in accordance with accounting principles generally accepted in the United States of America ("**U.S. GAAP**"), as authorized by the decision of the European Commission of December 12, 2008.

We recognize revenue in accordance with the accounting standard, which requires that four basic criteria be met before revenue can be recognized: (i) persuasive evidence that an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) product delivery has occurred or services have been rendered. We recognize revenue, net of sales taxes assessed by any governmental authority. The Company's material revenue streams are related to the delivery of IP video software solutions, including software-as-a-service ("SaaS") fees, software usage fees, enterprise license fees, set-up/support services, storage, hardware components, content delivery and content syndication.

The following selected financial data of KIT digital have been derived from the historical consolidated financial statements referred to below and should be read in conjunction with such consolidated financial statements and the notes included therein.

SELECTED THREE YEAR FINANCIAL DATA
(In thousands, except share and per share data)

Results of Operations

	Years ended December 31					
	2010		2009		2008	
Revenue	$	106,597	$	47,284	$	23,401
Gross profit		60,454		25,564		13,004
Loss from operations		(20,656)		(11,159)		(18,706)
Net loss before income taxes		(34,742)		(18,828)		(18,966)
Net loss before non-controlling interest		(35,260)		(19,942)		(19,082)
Basic and diluted net loss per share		1.63		3.03		7.55

Cash Flow

	Years ended December 31					
	2010		2009		2008	
Net cash used by operating activities	$	(30,228)	$	(13,618)	$	(12,816)
Net cash used by investing activities		(22,363)		(9,723)		(11,715)
Net cash provided by financing activities		189,046		24,576		20,352
Net increase (decrease) in cash and cash equivalents		134,442		913		(4,311)
Cash and cash equivalents – end of year		143,233		6,791		5,878

Assets as well as Liabilities and Stockholders' Equity

	Years ended December 31					
	2010		2009		2008	
Cash and cash equivalents	$	143,233	$	6,791	$	5,878
Total assets		298,660		80,414		41,309
Total liabilities		53,036		46,423		23,238
Total stockholders' equity		245,624		33,991		18,308

VII. FINANCIAL INFORMATION CONCERNING KIT DIGITAL, INC. FOR THE QUARTER ENDED MARCH 31, 2011

The following selected consolidated statements of operations data for the three months ended March 31, 2011, and cash flow data for the three months ended March 31, 2011, and consolidated balance sheet data at March 31, 2011 and December 31, 2010, are derived from KIT digital's unaudited consolidated financial statements, which are contained on pages 3 – 21 of Quarterly Report on Form 10-Q filed by KIT digital, Inc. with the SEC on May 10, 2011 (see Exhibit VI).

SELECTED QUARTERLY FINANCIAL DATA
(In thousands, except per share data – Unaudited)

Results of Operations

	Three Months Ended March 31			
	2011		2010	
Revenue	$	34,450	$	17,364
Gross profit		21,976		10,813
Loss from operations		(14,649)		(7,078)
Net loss before income taxes		(12,362)		(18,428)
Net loss		(12,501)		(18,442)
Basic and diluted net loss per share		(0.34)		(1.33)

Cash Flow

	Three Months Ended March 2011			
	2011		2010	
Net cash used by operating activities	$	(9,065)	$	(5,479)
Net cash used by investing activities		(23,378)		(5,820)
Net cash provided by financing activities		(59)		42,651
Net increase (decrease) in cash and cash equivalents		(31,568)		31,032
Cash and cash equivalents – end of period		109,665		37,823

Assets as well as Liabilities and Stockholders' Equity

	March 31, 2011 (Unaudited)		December 31, 2010 (A)	
Cash and cash equivalents	$	109,665	$	143,233
Total assets		352,515		298,660
Total liabilities		68,248		53,036
Total stockholders' equity		284,267		245,624

VIII. DOCUMENTS ON DISPLAY

We file annual, quarterly and current reports, proxy statements and other information with the SEC. The SEC maintains a website, http://www.sec.gov, which contains reports, proxy statements and information statements and other information regarding registrants that file electronically with the SEC, including us. We maintain a corporate website at www.kitd.com and an electronic brochure of our product offerings can be downloaded at www.kitd.com/brochure.pdf. Our SEC filings can be downloaded on our website at http://ir.kitd.com/phoenix.zhtml?c=144912&p=irol-sec and shall be furnished to the extent required by law to the CNB which makes such information public in accordance with applicable rules. Neither the content of our website nor our brochure is part of this Prospectus and should not be relied upon with respect to this Prospectus.

You may also request a copy of our filings at no cost by writing or telephoning us at:

KIT digital, Inc.
26 West 17th Street, 2nd Floor
New York, NY 10011, U.S.A.
Attention: Kaleil Isaza Tuzman
Chairman and Chief Executive Officer
+1 (212) 661-4111

CHAPTER B:
RISK FACTORS

An investment in our Common Stock involves a high degree of risk. Additional risks not presently known to us or which we consider immaterial based on information currently available to us may also materially adversely affect us. If any of the events anticipated by the risks described occur, our results of operations and financial condition could be adversely affected, which could result in a decline in the market price of our Common Stock, causing you to lose all or part of your investment.

I. RISKS RELATED TO OUR BUSINESS

We have a history of annual net losses which may continue and which may negatively impact our ability to achieve our business objectives.

For the year ended December 31, 2010, we had revenue of USD 106.6 million and a net loss available to common stockholders of USD 35.3 million. At December 31, 2010, we had total stockholders' equity of USD 245.6 million, an increase of USD 211.6 million from December 31, 2009. At December 31, 2010, we had revenue of USD 106.6 million, compared to revenue of USD 47.3 million, an increase of USD 59.3 million from December 31, 2009. At December 31, 2010, we had a net loss available to Common Stockholders of USD 35.3 million, an increase of USD 15.4 million from December 31, 2009. There can be no assurance that, even if our revenue increases, future operations will result in net income. Our failure to increase our revenues or improve our gross margins will harm our business. We may not be able to sustain or increase profitability on a quarterly or annual basis in the future. If our revenues grow more slowly than we anticipate, our gross margins fail to improve or our operating expenses exceed our expectations, our operating results will suffer. The prices we charge for our Internet software and services may decrease, which would reduce our revenues and gross margins and harm our business. If we are unable to sell our solutions at acceptable prices relative to our costs, or if we fail to develop and introduce on a timely basis new products from which we can derive additional revenues, our financial results will suffer.

Our operating subsidiaries have limited operating histories and therefore we cannot ensure the long-term successful operation of our business or the execution of our business plan.

Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by growing companies in new and rapidly evolving markets, such as the digital media software markets in which we operate. We must meet many challenges including:

- establishing and maintaining broad market acceptance of our products and services and converting that acceptance into direct and indirect sources of revenue;
- establishing and maintaining adoption of our technology on a wide variety of platforms and devices;
- timely and successfully developing new products, product features and services and increasing the functionality and features of existing products and services;
- developing services and products that result in high degrees of corporate client satisfaction and high levels of end-customer usage;

- successfully responding to competition, including competition from emerging technologies and solutions; and

- developing and maintaining strategic relationships to enhance the distribution, features, content and utility of our products and services and

- identifying, attracting and retaining talented technical and creative services staff at reasonable market compensation rates in the markets in which we employ.

Our business strategy may be unsuccessful and we may be unable to address the risks we face in a cost-effective manner, if at all. If we are unable to successfully address these risks our business will be harmed.

Our resources may not be sufficient to manage our expected growth; failure to properly manage our potential growth would be detrimental to our business.

We may fail to adequately manage our anticipated future growth. Any growth in our operations will place a significant strain on our administrative, financial and operational resources, and increase demands on our management and on our operational and administrative systems, controls and other resources. We cannot assure you that our existing personnel, systems, procedures or controls will be adequate to support our operations in the future or that we will be able to successfully implement appropriate measures consistent with our growth strategy. As part of this growth, we may have to implement new operational and financial systems, procedures and controls to expand, train and manage our employee base and maintain close coordination among our technical, accounting, finance, marketing and sales staff. We cannot guarantee that we will be able to do so, or that if we are able to do so, we will be able to effectively integrate them into our existing staff and systems. There may be greater strain on our systems mainly because we have acquired a number of businesses over the last 24 months and have had to devote significant management time and expense to the ongoing integration and alignment of management, systems, controls and marketing. To the extent we acquire other businesses, we will also need to integrate and assimilate new operations, technologies and personnel. If we are unable to manage growth effectively, such as if our sales and marketing efforts exceed our capacity to install, maintain and service our products or if new employees are unable to achieve performance levels, our business, operating results and financial condition could be materially and adversely affected.

If other market participants in the general video management market enter into social media and IP-based VAMs, we may be negatively impacted.

If dedicated firmware vendors and systems integrators were to enter into our space, they may have longer operating histories, greater name recognition, more employees and significantly greater financial, technical, marketing, public relations and distribution resources than we do. The competitive environment may require us to make changes in our products, pricing, licensing, services or marketing to maintain and extend our current brand and technology. Price concessions or the emergence of other pricing, licensing and distribution strategies or technology solutions of competitors may reduce our revenue, margins or market share. Other changes we have to make in response to competition could cause us to expend significant financial and other resources, disrupt our operations, strain relationships with partners, release products and enhancements before they are thoroughly tested or result in customer dissatisfaction, any of which could harm our operating results and stock price.

Our competitors may have greater financial and other resources than we do and those advantages could make it difficult for us to compete with them.

The market for IP video content management is relatively new and constantly changing. We expect that competition in this industry will intensify. Increased competition may result in price reductions, reduced margins, loss of customers and changes in our business and marketing strategies, any of which could harm our business. Current and potential competitors may have longer operating histories, greater name recognition, more employees and significantly greater financial, technical, marketing, public relations and distribution resources than we do. In addition, new competitors with potentially unique or more desirable products or services may enter the market at any time. The competitive environment may require us to make changes in our products, pricing, licensing, services or marketing to maintain and extend our current brand and technology. Price concessions or the emergence of other pricing, licensing and distribution strategies or technology solutions of competitors may reduce our revenue, margins or market share. Other changes we have to make in response to competition could cause us to expend significant financial and other resources, disrupt our operations, strain relationships with partners, release products and enhancements before they are thoroughly tested or result in customer dissatisfaction, any of which could harm our operating results and stock price.

If we do not successfully develop new software products and solutions, our business may be harmed.

Our business and operating results may be harmed if we fail to expand our software and services suite (either through internal product or capability development initiatives or through strategic partnerships and acquisitions) in such a way that achieves widespread market acceptance or that generates significant revenue and gross profits to offset our operating and other costs. We may not successfully identify, develop and market new product and service opportunities in a timely manner. If we introduce new products and services, they may not attain broad market acceptance or contribute meaningfully to our revenue or profitability. Competitive or technological developments may require us to make substantial, unanticipated investments in new products and technologies. Because the markets for our solutions are subject to rapid change, we may need to expand and/or evolve our product and service offerings quickly. Delays and cost overruns could affect our ability to respond to technological changes, evolving industry standards, competitive developments or customer requirements and harm our business and operating results.

We may be subject to legal liability for providing third-party products, services or content.

We have certain arrangements to offer third-party products, services, content or advertising via distribution on our websites. We may be subject to claims concerning these products, services, content or advertising by virtue of our involvement in marketing, branding, broadcasting or providing access to them, even if we do not ourselves host, operate or provide access to these products, services, content or advertising. While our agreements with these parties most often provide that we will be indemnified against such liabilities, such indemnification may not be adequate or available. It is also possible that if any information provided directly by us contains errors or is otherwise negligently provided to users, third parties could make claims against us. Investigating and defending any of these types of claims is expensive, even if the claims do not result in liability. While to date we have not been subject to material claims, if any potential claims do result in liability, we could be required to pay damages or other penalties, which could harm our business and operating results.

Any failure of major elements of our systems and operations could lead to significant disruptions in our ability to serve customers, which could damage our reputation, reduce our revenues or otherwise harm our business.

Our business is dependent upon providing our customers with fast, efficient and reliable services. A reduction in the performance, reliability or availability of our network infrastructure may harm our ability to distribute our software to our customers, as well as our reputation and ability to attract and retain customers and content providers. Our systems and operations are susceptible to, and could be damaged or interrupted by outages caused by fire, flood, power loss, telecommunications failure, Internet or mobile network breakdown, earthquake and similar events. Our systems are also subject to human error, security breaches, power losses, computer viruses, break-ins, "denial of service" attacks, sabotage, intentional acts of vandalism and tampering designed to disrupt our computer systems and network communications, and our systems could be subject to greater vulnerability in periods of high employee turnover. A sudden and significant increase in traffic on our customers' websites or demand from mobile users could strain the capacity of the software, hardware and telecommunications systems that we deploy or use. This could lead to slower response times or system failures. Our failure to protect our network against damage from any of these events could harm our business.

Our operations also depend on web browsers, ISPs (Internet service providers) and mobile networks to provide our clients' end-users access to websites, IPTV and mobile content. Many of these providers have experienced outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to our systems. Any such outage, delay or difficulty could adversely affect our ability to effectively provide our software and services, which would harm our business.

We depend on various third parties to maintain much of our content delivery, storage and computer hardware operations. If the third parties' hardware or operations fail, our business will be harmed.

A portion of our content delivery, storage and computer hardware operations are operated or safeguarded by third parties such as Akamai Technologies, Equinix, Internap, Limelight, RRSat, Satlink and various other content delivery and transport, hosting and telecommunications providers. If these providers' operations, networks, hardware or security systems fail — particularly if they fail in unison — our reputation and business may suffer. A problem with, or failure of, these systems and operations could result in interruptions or increases in response times for our customers. If we cannot maintain our system in the event of unexpected occurrences, make necessary modifications and/or improvements to the technology, such deficiencies could have a material adverse effect upon our business, financial condition and results of operations.

We license technology from third parties. If we are unable to maintain these licenses, our operations and financial condition may be negatively impacted.

We license technology from third parties. The loss of, or our inability to maintain, these licenses could result in increased costs or delay sales of our software and services. We anticipate that we will continue to license technology from third parties in the future. This technology may not continue to be available on commercially reasonable terms, if at all. Although we do not believe that we are substantially dependent on any individual licensed technology, some of the component technologies that we license from third parties could be difficult for us to replace. The impairment of these third-party relationships, especially if this impairment were to occur in unison, could result in delays in the delivery of our software and services until equivalent technology, if available, is identified, licensed and integrated. This delay could adversely affect our operating results and financial condition.

We depend on content licensed to us by third parties. If we are unable to maintain these licenses, our operations and financial condition may be negatively impacted.

We rely on content provided by third parties to increase market acceptance of our products and services. Currently, our major third-party content providers are ABC News, The Associated Press, Fox and Reuters. If third parties do not develop or offer compelling content to be delivered over the Internet or wireless data networks, or grant necessary licenses to us or our customers to distribute such content, our business will be harmed and our products and services may not achieve or sustain broad market acceptance. We rely on third-party content providers to develop and offer content in formats that can be delivered using our products. We also rely entirely on third-party content for programming and content offerings. In some cases, we pay fees to obtain content for these services. We cannot guarantee that third-party content providers will continue to support our technology or offer compelling content in our formats, nor can we guarantee that we will be able to secure licenses to third-party content or that such licenses will be available at commercially reasonable rates, to encourage and sustain broad market acceptance of our products and services. The failure to do so could negatively impact our business operations and financial condition.

Certain of our service delivery and content handling services are subject to industry regulations, certifications and approvals.

The commercialization of certain of the service delivery and content handling services we provide at times require or are made more costly due to industry acceptance and regulatory processes, such as ISO certification and strict content security handling standards for Hollywood studios. If we are unable to obtain or retain these or other formal and informal industry certifications in a timely manner, or at all, our operating results could be adversely affected.

If we do not adequately protect our intellectual property rights, we may experience a loss of revenue and our operations may be materially harmed.

We have not made a practice of registering patents or copyrights on the software and technology we have developed. We believe our intellectual property is protected by the long-term usage precedent for our software solutions, and we rely upon confidentiality agreements signed by our employees, consultants and third parties, and trade secret laws of general applicability, as an ongoing safeguard for our software and technology. We cannot assure you that we can adequately protect our intellectual property or successfully prosecute potential infringement of our intellectual property rights. Also, we cannot assure you that others will not assert rights in, or ownership of, trademarks and other proprietary rights of ours or that we will be able to successfully resolve these types of conflicts to our satisfaction. Our failure to protect our intellectual property rights may result in a loss of revenue and could materially harm our operations and financial condition.

If we are unable to retain the services of Kaleil Isaza Tuzman or Gavin Campion or if we are unable to successfully recruit qualified personnel, we may not be able to continue operations.

Our success depends to a significant extent upon the continued service of Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, and Gavin Campion, our President. The loss of the services of Messrs. Isaza Tuzman or Campion could have a material adverse effect on our growth, revenues and prospective business. We have entered into an executive management agreement with KIT Capital, Ltd., an entity controlled by Mr. Isaza Tuzman, including the services of Mr. Isaza Tuzman and other KIT Capital personnel, pursuant to which Mr. Isaza Tuzman serves as our Chief Executive Officer, for a term of three years which expired in April 2011. This agreement is currently being negotiated for renewal. During the negotiations, Mr. Tuzman continues to serve as Chief Executive Officer. We have also entered into an employment agreement with Mr. Campion. While we expect both Messrs. Isaza Tuzman and Campion to renew their employment arrangements with us under substantially similar terms, if either Mr. Isaza Tuzman or Mr. Campion were to resign or we are unable to retain either of their services beyond the term of their respective agreement with us, the loss could result in loss of sales, delays in new product development and diversion of management resources, and we could face high costs and substantial difficulty in hiring a qualified successor and could experience a loss in productivity while any such successor obtains the necessary training and experience. In addition, in order to successfully implement and manage our business plan, we are dependent upon, among other things, successfully recruiting qualified personnel who are familiar with the specific issues facing the IP video enablement industry. In particular, we must hire and retain experienced management personnel to help us continue to grow and manage our business, and skilled software engineers to further our research and development efforts. Competition for qualified personnel is intense. If we do not succeed in attracting new personnel or in retaining and motivating our current personnel, our business could be harmed.

We may not have successfully integrated recent acquisitions, to realize the full benefits of the combined business.

Our acquisitions involve the integration of businesses that have previously operated separately. The difficulties of combining the operations of these businesses include:

- the challenge of effecting technical integration while carrying on the ongoing businesses;

- the necessity of coordinating geographically separate organizations; and

- effective integration of personnel with diverse business backgrounds.

The process of completing the integration of these businesses could cause an interruption of, or loss of momentum in, the activities of our company and the loss of key personnel. The multinational nature of our operations can make it especially challenging to successfully integrate our recent acquisitions. The diversion of management's attention and any delays or difficulties encountered in connection with the acquisitions and the integration of these operations could have an adverse effect on our business, financial condition or results of operations.

Our growth strategy depends, in part, on our acquiring businesses, products and technologies and expanding their existing operations, which we may be unable to do.

Our growth strategy is based, in part, on our ability to acquire or invest in businesses, products and technologies. The success of this acquisition strategy will depend, in part, on our ability to accomplish the following:

- identify suitable businesses or assets to buy;

- complete the purchase of those businesses on terms acceptable to us;

- complete the acquisition(s) in the time frame and within the budget we expect; and

- improve the results of operations of each of the businesses that we buy and successfully integrate its operations on an accretive basis.

There can be no assurance that we will be successful in any or all of the steps above. Our failure to successfully implement our acquisition strategy could have an adverse effect on other aspects of our business strategy and our business in general. We may not be able to find appropriate acquisition candidates, accretively acquire those candidates that we identify or integrate acquired businesses effectively and profitably.

We may be subject to legal liability for providing third-party content.

We have certain arrangements to offer third-party content via certain of our clients' websites. We may be subject to claims concerning this content by virtue of our involvement in marketing, branding, broadcasting or providing access to it, even if we do not ourselves directly host, operate or provide access to these products, services, content or advertising. While our agreements with these parties most often provide that we will be indemnified against such liabilities, such indemnification may not be adequate or available. Investigating and defending any of these types of claims can be expensive, even if the claims do not result in liability. While to date we have not been subject to material claims, if any potential claims do result in liability, we could be required to pay damages or other penalties, which could harm our business and operating results.

Fluctuations in foreign currency exchange rates affect our operating results in U.S. dollar terms.

A portion of our revenues arises from international operations. Revenues generated and expenses incurred by our international subsidiaries are often denominated in the currencies of the local countries. While we seek to roughly match client revenues with associated costs of delivery and client service, our consolidated U.S. dollar financial statements are subject to fluctuations due to changes in exchange rates as the financial results of our international subsidiaries are translated from local currencies into U.S. dollars. In addition, our financial results are subject to changes in exchange rates that impact the settlement of transactions in non-local currencies.

We may be required to record a significant charge to earnings if our goodwill or amortizable intangible assets become impaired.

We are required under generally accepted accounting principles to test goodwill for impairment at least annually and to review our amortizable intangible assets for impairment when events or changes in circumstance indicate the carrying value may not be recoverable. Factors that could lead to impairment of goodwill and amortizable intangible assets include significant adverse changes in the business climate and declines in the financial condition of our business. We have recorded and may be required in the future to record additional charges to earnings if a portion of our goodwill or amortizable intangible assets becomes impaired. Any such charge would adversely impact our results.

Our international operations are subject to increased risks which could harm our business, operating results and financial condition.

In addition to uncertainty about our ability to continue to generate revenues from our foreign operations and expand our international market position, there are risks inherent in doing business internationally, including:

- trade barriers and changes in trade regulations;
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;
- the need to comply with varied local laws and regulations;
- longer payment cycles;
- possible credit risk and higher levels of payment fraud;
- profit repatriation restrictions and foreign currency exchange restrictions;
- political or social unrest, economic instability or human rights issues;
- geopolitical events, including acts of war and terrorism;
- import or export regulations;
- compliance with U.S. laws (such as the Foreign Corrupt Practices Act), and local laws prohibiting corrupt payments to government officials;
- laws and business practices that favor local competitors or prohibit foreign ownership of certain businesses; and
- different and more stringent user protection, data protection, privacy and other laws.

Violations of complex foreign and U.S. laws and regulations that apply to our international operations could result in fines, criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business and damage to our reputation.

Although we have implemented policies and procedures designed to promote compliance with these laws, there can be no assurance that our employees, contractors or agents will not violate our policies. These risks inherent in our international operations and expansion increase our costs of doing business internationally and could result in harm to our business, operating results and financial condition.

II. RISKS RELATED TO OUR SECURITIES

Our historic stock price has been volatile and the future market price for our Common Stock is likely to continue to be volatile. This may make it difficult for you to sell our Common Stock for a positive return on your investment.

The public market for our Common Stock has historically been volatile. Any future market price for our shares is likely to continue to be volatile. This price volatility may make it more difficult for you to sell shares when you want at prices you find attractive. The stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of specific companies. Broad market factors and the investing public's negative perception of our business may reduce our stock price, regardless of our operating performance. Further, the market for our common stock is limited and we cannot assure you that a larger market will ever be developed or maintained. We cannot predict the effect that this offering will have on the volume or trading price of our Common Stock. We cannot provide assurance that a stockholder will be able to sell shares acquired in this offering at a price equal to or greater than the offering price. Market fluctuations and volatility, as well as general economic, market and political conditions, could reduce our market price. As a result, these factors may make it more difficult or impossible for you to sell our Common Stock for a positive return on your investment.

Our actual results may vary from our preliminary first quarter 2011 results and the variances may be material.

This Prospectus contains certain preliminary unaudited financial results for revenue and net loss for our first quarter ended March 31, 2011. Upon completion of our auditors' review of the results for the quarter ended March 31, 2011, it is possible significant changes to such preliminary results may be necessary. Finally, such preliminary unaudited financial results do not reflect all of our material financial information as of and for the three months ended March 31, 2011, and we therefore caution you not to place undue reliance on them.

We may continue to be unable to timely file certain periodic reports with the SEC.

We did not timely file with the SEC our annual report on Form 10-K for the year ended December 31, 2009 or our quarterly reports on Form 10-Q for the quarters ended September 30, 2009 and March 31, 2010 and September 30, 2010. All of these reports were ultimately filed during the five or 15-day permitted extension periods provided by the Securities Exchange Act of 1934. In addition, as a result of acquisitions completed by us, we continue to be delayed in the preparation of our financial reports due to the ongoing integration of multiple financial reporting systems. If we are not able to file any future period report, in the time specified by the Exchange Act, which filing periods will even be shortened in our next fiscal year because we will be an "accelerated filer", we could lose our eligibility to use Form S-3 for future capital raises, and that could impair our ability to conduct these kinds of public offerings of our stock. Our inability to timely file periodic reports in the future could materially and adversely affect our financial condition and results of operations.

Shares of Common Stock issuable upon exercise of our outstanding stock options and warrants may adversely affect the market price of our Common Stock.

As of May 23, 2011, we had outstanding under our 2004 Stock Option Plan and 2008 Incentive Stock Plan stock options to purchase 5,330,214 shares of Common Stock and outstanding warrants to purchase 1,577,226 shares of Common Stock (for which cash would need to be remitted to us for exercise). The exercise of the stock options and warrants and the sales of Common Stock issuable pursuant to them, would reduce a stockholder's percentage voting and ownership interest in our company. The stock options and warrants are likely to be exercised when our common stock is trading at a price that is higher than the exercise price of these stock options and warrants.

The large number of shares eligible for future sale may adversely affect the market price of our Common Stock.

The sale, or availability for sale, of a substantial number of shares of Common Stock in the public market could materially adversely affect the market price of our Common Stock and could impair our ability to raise capital through the sale of our equity securities. As of May 23, 2011, there were 41,384,539 shares of our Common Stock issued and outstanding. Substantially all of these shares are freely transferable. Our executive officers and directors own (of record) approximately 3,839,298 shares of common stock, or 9.28% of our outstanding shares, which would be eligible for resale, subject to the volume and manner of sale limitations of Rule 144 under the Securities Act.

Our shares of Common Stock are traded on more than one exchange and this may result in price variations.

Our Common Stock is listed for trading on the Nasdaq Global Select Market and on the PSE. The trading prices of our shares on these two exchanges may differ due to spreads between functional trading currencies, different trading hours and other factors, and this may cause confusion to investors seeking to buy or sell our shares.

We have provisions in our certificate of incorporation that substantially eliminate the personal liability of members of our board of directors for violations of their fiduciary duty of care as a director and that allow us to indemnify our officers and directors. This could make it very difficult for you to bring any legal actions against our directors for such violations or could require us to pay any amounts incurred by our directors in any such actions.

Pursuant to our certificate of incorporation, members of our board of directors will have no liability for violations of their fiduciary duty of care as a director, except in limited circumstances. This means that you may be unable to prevail in a legal action against our directors even if you believe they have breached their fiduciary duty of care. In addition, our certificate of incorporation allows us to indemnify our directors from and against any and all expenses or liabilities arising from or in connection with their serving in such capacities with us. This means that if you were able to enforce an action against our directors or officers, in all likelihood we would be required to pay any expenses they incurred in defending the lawsuit and any judgment or settlement they otherwise would be required to pay.

Since some members of our board of directors are not residents of the United States and certain of our assets are located outside of the United States, you may not be able to enforce any U.S. judgment for claims you may bring against such directors or assets.

Four members of our board of directors are primary residents of either Australia, the Czech Republic, the United Arab Emirates or the United Kingdom, and a material portion of our assets and a substantial portion of the assets of these directors are located outside the United States. As a result, it may be more difficult for you to enforce a lawsuit within the United States against these non-U.S. residents than if they were residents of the United States. Also, it may be more difficult for you to enforce any judgment obtained in the United States against our assets or the assets of our non-U.S. resident directors located outside the United States than if these assets were located within the United States. We cannot assure you that foreign courts would enforce liabilities predicated on U.S. federal securities laws in original actions commenced in such foreign jurisdiction, or judgments of U.S. courts obtained in actions based upon the civil liability provisions of U.S. federal securities laws.

Our officers and directors have significant voting power and may take actions that may not be in the best interests of other stockholders.

Our executive officers and directors currently beneficially own 10.6% of our Common Stock. If these stockholders act together, they will be able to exert significant control over our management and affairs requiring stockholder approval, including approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our Common Stock. This concentration of ownership may not be in the best interests of all of our stockholders.

We do not anticipate paying dividends in the foreseeable future; you should not buy our stock if you expect dividends.

We currently intend to retain our future earnings to support operations and to finance expansion and, therefore, we do not anticipate paying any cash dividends on our capital stock in the foreseeable future. You should not buy our stock if you are expecting to receive cash dividends.

The New Common Stock will be traded in Czech Koruna and thus the stock price may be negatively affected by adverse development of the exchange rate of Czech Koruna vis-à-vis the U.S. Dollar, Euro or other major world currencies. In addition, the market price of the New Common Stock may fluctuate widely in response to different factors.

The market price of the New Common Stock may be subject to wide fluctuations in response to many factors. Stock markets have from time to time experienced extreme price and volume volatility which could adversely affect the market price of the New Common Stock. The market price of the New Common Stock may fluctuate significantly in response to a number of factors, many of which are beyond our control, including: variations in operating results in our reporting periods; divergence in financial results from stock market expectations; changes in financial estimates by securities analysts; changes in market valuation of similar companies; a perception that other market sectors may have higher growth prospects; announcements of significant contracts, acquisitions, strategic alliances, joint ventures or capital commitments; legislative changes in KIT digital's sector; any shortfall in revenues or net income or any increase in losses from levels expected by securities analysts; future issues or sales of the New Common Stock ; and general stock market price and volume fluctuations. Any of these events could result in a material decline in the price of the New Common Stock.

Furthermore, the Czech securities market is influenced by economic developments and volatility in other emerging securities markets. Investors' reactions to developments in one country may have adverse effects on the market price of securities of companies located in other countries. Negative economic developments, such as rising fiscal or trade deficits, or a default on sovereign debt, in other emerging securities markets may affect investors' confidence and cause increased volatility of the trading price of the New Common Stock.

An active trading market may not develop or be sustained in the future.

Although the Issuer has applied to the PSE for admission of the New Common Stock to trading on its market for listed securities, the Issuer can give no assurance that an active trading market for the New Common Stock will develop on the PSE, or, if developed, can be sustained. If an active trading market is not developed or maintained, the liquidity and trading price of the New Common Stock could be adversely affected.

The PSE is substantially smaller and less liquid than Nasdaq.

According to the PSE, shares representing 27 companies were registered for trading on the PSE with a market capitalization of approximately CZK 1,012 billion (EUR 41.6 billion) as of the date of this Prospectus. The equity securities of 15 companies registered for trading on the main market of the PSE represented 76% of the total equity market capitalization as of market close on June 30, 2011. Accordingly, a very small number of companies represent the gross majority of the market capitalization and trading volumes of the PSE. There is no assurance that the New Common Stock, even though expected to be listed on the main market of the PSE, will be actively traded on this exchange, and if they are not, this is likely to increase their price volatility and/or adversely affect the price and liquidity of the New Common Stock on the PSE.

As the Nasdaq Shares are to be listed on two exchanges, trading and liquidity will be split among two markets, and it is likely that the PSE will not become the principal place of trading of the Nasdaq Shares.

The trading of the Nasdaq Shares and liquidity will be divided between PSE and Nasdaq. The Nasdaq Shares will be quoted and traded in U.S. Dollars on Nasdaq and Czech Koruna on the PSE. The Nasdaq Shares traded on Nasdaq will settle and clear through the Depositary Trust Company in the United States. The share trading in the PSE will settle and clear through the Central Depositary. Differences in settlement and clearing systems, trading currencies, transaction costs and other factors may hinder the ability of shares to move among these two exchanges. In addition, it is uncertain as to which exchange will be the principal trading place by value or volume. This could adversely affect the trading of the Nasdaq Shares on these exchanges and increase their price volatility and/or adversely affect the price and liquidity of the Nasdaq Shares on these exchanges.

Future sales of the New Common Stock could depress the market price of the New Common Stock and could dilute interests of existing shareholders.

Sales of a substantial number of the New Common Stock could result in a lower market price of the New Common Stock by introducing a significant increase in the supply of the New Common Stock to the market. The increased supply could cause the market price of the New Common Stock to decline significantly. Subsequent equity offers may also reduce the percentage ownership of KIT digital’s existing shareholders. Moreover, newly issued shares may have rights, preferences or privileges senior to those the New Common Stock.

III. MARKET RISK FACTORS

We conduct our operations in the following primary functional currencies: the United States dollar, the British pound, the Australian dollar, the Swedish krona and the Czech koruna. We currently do not hedge any of our foreign currency exposures and are therefore subject to the risk of exchange rate fluctuations. However, we attempt to employ a "natural hedge" by matching as much as possible in like currencies our client revenues with associated client delivery costs. We invoice our international customers primarily in U.S. dollars, British pounds, Australian dollars, Euros, Swedish kronor, Czech koruna and Australian dollars.

We are exposed to foreign exchange rate fluctuations as the financial results of foreign subsidiaries are translated into U.S. dollars in consolidation and as our foreign currency consumer receipts are converted into U.S. dollars. Our exposure to foreign exchange rate fluctuations also arises from payables and receivables to and from our foreign subsidiaries, vendors and customers.

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. We place our cash and cash equivalents with high credit quality institutions to limit credit exposure, and from time to time, obtain collateral for our accounts where we deem prudent and is feasible. We believe that no significant concentration of credit risk exists with respect to these investments.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the wide variety of our customers who are dispersed across many geographic regions. We routinely assess the financial strength of customers and, based upon factors concerning credit risk, we establish an allowance for uncollectible accounts. Our management believes that accounts receivable credit risk exposure beyond such allowance is limited.

CHAPTER C:
SUPPLEMENTAL INFORMATION CONCERNING KIT DIGITAL, INC.

I. RIGHTS RELATED TO THE SECURITIES

1.1 Type and the Class of the Securities, Including the Security Identification Code

As of the date of this Prospectus, the authorized capital stock of KIT digital consisted of 80,000,000 shares of Common Stock, par value USD 0.0001 per share. As of May 23, 2011, 41,384,539 shares of Common Stock were issued and outstanding.

The Nasdaq Shares will be listed and trade on the PSE under the symbol "KITD". The ISIN for the Nasdaq Shares is US4824702009. The CUSIP number for the Nasdaq Shares is 482470200.

Subject to compliance with the applicable securities laws and regulations of the CNB and the SEC, the listing requirements of the PSE and the settlement procedures of the Central Depositary, the New Common Stock will trade under the CUSIP and ISIN numbers assigned to the Nasdaq shares.

1.2 Legislation and Authorization Under Which the Securities Have Been Created; Purpose

Our Common Stock was created under the General Corporation Law of the State of Delaware, as codified in Title 8, Chapter 1 of the Delaware Code (the "**DGCL**"). On February 1, 2010, our Board of Directors approved the issuance of the New Common Stock I. On April 21, 2010, our Board of Directors approved the issuance of the New Common Stock II. On November 17, 2010, our Board of Directors approved the issuance of the New Common Stock III.

Pursuant to Article Third of its Certificate of Incorporation, the purpose of KIT digital is to engage in any lawful act or activity for which corporations may be organized under the DGCL.

1.3 Form of Securities, Name and Address of the Entity in Charge of Keeping the Records

In general, stockholders may hold Common Stock either in certificated (i.e., paper), direct registered (i.e., held in book-entry with the transfer agent) or street name (i.e., held in book-entry through a broker) form. The transfer agent and registrar for the Common Stock is Continental Stock Transfer & Trust Company ("**CSTTC**").

CSTTC can be contacted through the web at www.continentalstock.com, by telephone at +1 (212) 509-4000 (ext. 206), by e-mail at: cstmail@continentalstock.com, or by mail at: 17 Battery Place, New York, NY 10004, U.S.A.

The New Common Stock will be held solely in book-entry form. Settlement of any transactions on the PSE shall occur through the book-entry facilities of the Central Depositary (Postal address: Rybná 14, 100 05 Prague 1, Czech Republic).

1.4 Currency of the Securities Issue

Trading of our Common Stock on the PSE will be in Czech koruna.

1.5 Rights Attached to the Common Stock

Dividend Rights. KIT digital did not pay any cash dividends in 2008, 2009 or 2010. KIT digital does not anticipate paying cash dividends in the foreseeable future. KIT digital currently intends to retain any future earnings to fund the development and growth of its business. Holders of Common Stock are entitled to receive dividends ratably when, as, and if declared by the board of directors out of funds legally available therefore.

Voting Rights. Holders of Common Stock are entitled to one vote for each share held of record on each matter submitted to a vote of stockholders. There is no cumulative voting for election of directors. Accordingly, the holders of a majority of our outstanding shares of Common Stock entitled to vote in any election of directors can elect all of the directors standing for election, if they should so choose. Pursuant to Section 3 of KIT digital's bylaws, a director's term extends until the next annual meeting of stockholders and until such director's successor has been elected and qualified.

The annual meeting shall be held on the date fixed, from time to time, by the directors, provided, that each successive annual meeting shall be held on a date within thirteen months after the date of the preceding annual meeting. A special meeting shall be held on the date fixed by the directors except when the DGCL confers the right to fix the date upon stockholders.

Annual meetings may be called by the directors or by any officer instructed by the directors to call the meeting or by the President. Special meetings may be called in like manner except when the directors are required by the DGCL to call a meeting, or except when the stockholders are entitled by the DGCL to demand the call of a meeting.

The notice of all meetings shall be in writing, shall state the place, date, and hour of the meeting, and shall state the name and capacity of the person issuing the same.

Pursuant to Section 242 of the DGCL, after a corporation has received payment for any of its capital stock, it may amend its certificate of incorporation, from time to time, in any and as many respects as may be desired, so long as its certificate of incorporation as amended would contain only such provisions as it would be lawful and proper to insert in an original certificate of incorporation filed at the time of the filing of the amendment; and, if a change in stock or the rights of stockholders, or an exchange, reclassification, subdivision, combination or cancellation of stock or rights of stockholders is to be made, such provisions as may be necessary to effect such change, exchange, reclassification, subdivision, combination or cancellation. In particular, and without limitation upon such general power of amendment, a corporation may amend its certificate of incorporation, from time to time, so as:

- to change its corporate name; or
- to change, substitute, enlarge or diminish the nature of its business or its corporate powers and purposes; or
- to increase or decrease its authorized capital stock or to reclassify the same, by changing the number, par value, designations, preferences, or relative, participating, optional, or other special rights of the shares, or the qualifications, limitations or restrictions of such rights, or by changing shares with par value into shares without par value, or shares without par value into shares with par value either with or without increasing or decreasing the number of shares, or by subdividing or combining the outstanding shares of any class or series of a class of shares into a greater or lesser number of outstanding shares; or
- to cancel or otherwise affect the right of the holders of the shares of any class to receive dividends which have accrued but have not been declared; or

- to create new classes of stock having rights and preferences either prior and superior or subordinate and inferior to the stock of any class then authorized, whether issued or unissued; or
- to change the period of its duration.

Any or all such changes or alterations may be effected by one certificate of amendment.

The board of directors shall adopt a resolution setting forth the amendment proposed, declaring its advisability and either calling a special meeting of the stockholders entitled to vote in respect thereof for the consideration of such amendment or directing that the amendment proposed be considered at the next annual meeting of the stockholders. Such special or annual meeting shall be called and held upon notice. The notice shall set forth such amendment in full or a brief summary of the changes to be effected thereby, as the directors shall deem advisable. At the meeting, a vote of the stockholders entitled to vote thereon shall be taken for and against the proposed amendment. If a majority of the outstanding stock entitled to vote thereon, and a majority of the outstanding stock of each class entitled to vote thereon as a class, has been voted in favor of the amendment, a certificate setting forth the amendment and certifying that such amendment has been duly adopted in accordance with Section 242 of the DGCL shall be executed, acknowledged and filed and shall become effective.

Right to Receive Liquidation Distributions. Upon liquidation, dissolution or winding-up of KIT digital, the assets legally available for distribution to stockholders are distributable ratably among the holders of the Common Stock outstanding at that time after payment of liabilities and any liquidation preferences on any outstanding preferred stock.

No Preemptive, Redemptive or Conversion Provisions. The Common Stock is not entitled to preemptive rights and is not subject to conversion or redemption.

1.6 General Provisions Applying to Business Combinations

KIT digital is subject to Section 203 of the DGCL, concerning corporate takeovers. This section prevents many Delaware corporations from engaging in a "business combination" with any "interested stockholder", under specified circumstances. For these purposes, a business combination includes a merger or sale of more than 10% of our assets, and an interested stockholder includes a stockholder who owns 15% or more of our outstanding voting stock, as well as affiliates and associates of these persons. Under these provisions, this type of business combination is prohibited for three years following the date that the stockholder became an interested stockholder unless:

- the transaction in which the stockholder became an interested stockholder is approved by the board of directors prior to the date the interested stockholder attained that status;
- upon consummation of the transaction that resulted in the stockholder’s becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction was commenced, excluding those shares owned by persons who are directors and also officers; or
- on or subsequent to that date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

In general, Section 203 defines a business combination to include:

- any merger or consolidation involving the corporation and the interested stockholder;

- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;
- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;
- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock or any class or series of the corporation beneficially owned by the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

A Delaware corporation, such as KIT digital, may "opt out" of this provision with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from a stockholders' amendment approved by at least a majority of the outstanding voting shares. However, KIT digital has not "opted out" of this provision. Section 203 could prohibit or delay mergers or other takeover or change-in-control attempts and, accordingly, may discourage attempts to acquire KIT digital.

In addition, since KIT digital's Common Stock is listed on the Nasdaq, the Company is also subject to Section 14(d) of the Exchange Act, which applies to all tender offers for Exchange Act registered equity securities made by parties other than the target (or affiliates of the target), so long as upon consummation of the tender offer the bidder would beneficially own more than 5% of the class of securities subject to the offer, and the SEC rules promulgated thereunder.

1.7 Mandatory Squeeze-Out Rules in Relation to the Securities

Section 253 of the DGCL authorizes the board of directors of a Delaware corporation that owns 90% or more of each of the outstanding classes of stock of a subsidiary that are entitled to vote on a merger to merge the subsidiary into itself without any requirement for action to be taken by the board of directors or the stockholders of the subsidiary.

1.8 Foreign Currency Exchange Rate Hedging, Etc.

KIT digital is subject to a variety of market risks, including risks related to foreign currency exchange rates. For a description of these market risks, please see page 38 (Market Risk Factors) in Chapter B above.

1.9 Use of Proceeds

When offering the New Common Stock I, New Common Stock II and New Common Stock III, we estimated the net proceeds of approximately USD 153 million. We intended to use these net proceeds for the following purposes:

Application of Net Proceeds[33]	Approximate USD Amount	Approximate Percentage of Net Proceeds
Potential Acquisitions	127,124	83%
Working capital and general corporate purposes	11,592	8%
Repurchase of outstanding warrants	13,800	9%
Total	**152,516**	**100%**

Within the offering of the New Common Stock I, New Common Stock II and New Common Stock III, we actually received net proceeds of approximately USD 177 million. The actual net proceeds include proceeds from the shares over-allotted in respect of the New Common Stock I, New the Common Stock II and the New Common Stock III.

We used, or plan to use, a significant portion of these proceeds to finance acquisitions of, or investments in, competitive and complementary businesses, products and technologies as a part of our growth strategy. We currently have no commitments or agreements with respect to any such acquisitions or investments.

We used, or plan to use, a portion of these proceeds as a working capital reserve to more effectively compete in client bid proposals where net cash and bond requirements are often demanded by clients.

We used, or plan to use, a significant portion of these proceeds to repurchase outstanding warrants issued in prior private placement financing from certain warrant holders. Any residual proceeds, if any, were, or will be, used to finance acquisitions of, or investments in, competitive and complementary businesses, products and technologies as a part of our growth strategy. Any additional net proceeds were, or would be, used for working capital and general corporate purposes including amounts required to pay for continuing research and development expense, salaries, professional fees, public reporting costs, office-related expenses and other corporate expense.

Pending the above uses, we invested, or plan to invest, most of these net proceeds in short-term, investment-grade, interest-bearing securities.

Since the admission of our shares of common stock to trading on the PSE on January 25, 2010, we have used the New Common Stock IV within the 2004 Stock Option Plan or the 2008 Incentive Stock Plan (a total of 1,270,359 shares), or as a consideration for shares in companies acquired in that period (a total of 10,059,635 shares), or for consulting and other similar services (a total of 41,439 shares).

1.10 Reasons for the PSE listing

KIT digital is attracting greater numbers of investors based outside of the United States, particularly in Europe. The PSE listing is intended to promote additional liquidity for all investors and provide greater access to KIT digital's shares among European fund managers who may be required to invest in Euro-zone markets or currencies only.

1.11 Market Capitalization

Based on 41,384,539 shares of Common Stock issued and outstanding as of May 23, 2011, and the closing price of the Common Stock on the Nasdaq on June 30, 2011 (USD 11.94), KIT digital had a

[33] Our estimates of the net proceeds did not include estimates of proceeds from shares over-allotted in respect of the New Common Stock I, New the Common Stock II and the New Common Stock III.

market capitalization of approximately USD 494,131,397, which, based on the exchange rate on June 30, 2011 (USD 1 = CZK 16.845), corresponds to approximately CZK 8,323,643,358.

1.12 Recent Business Acquisitions

(i) 2011 Acquisitions

Polymedia Acquisition

On May 17, 2011, pursuant to a Sale and Purchase Agreement, dated March 15, 2011, we acquired from TXT e-Solutions S.p.A. ("TXT") all of the outstanding capital stock of Polymedia S.p.A., an Italian joint stock company ("Polymedia"). Headquartered in Milan, Italy with sales representative offices in several other European cities, Polymedia provides major network operators, broadcasters, media portals and industrial enterprises across Europe, North Africa and the Middle East with hosted IP video platform solutions that manage the entire lifecycle of video content from acquisition to distribution. Polymedia's solutions have particularly deep capabilities in metadata-related workflow and third-party software integration. Polymedia's approximately 90 clients include Telecom Italia, Mediaset, Sky Germany, RAI, Telecinco, FastWeb, Vodafone Italia, RCS, Ericsson and Belgacom.

The purchase price for the acquisition of all of Polymedia's outstanding capital stock was 24,746,000 Euros, consisting of 12,373,000 Euros in cash, and 12,373,000 Euros represented by 1,178,381 shares of our common stock (the "Consideration Shares"). The number of Consideration Shares was calculated based on the volume weighted average price of our common stock during the 45 consecutive trading days ending on the fifth trading day immediately preceding the date of the Sale and Purchase Agreement, which equaled 10.50 Euros (or $14.59) per share (the "Final Average Closing Price").

We also agreed in the Sale and Purchase Agreement, provided Polymedia reaches specified revenue and gross margin targets over the first two years post-closing, to issue up to 3,000,000 Euros in additional shares of our common stock to TXT.

Of the Consideration Shares issued to TXT at closing, 354,286 shares of common stock are being held in an escrow account for a period of up to 12 months following the closing to cover any losses or damages we may incur by reason of any misrepresentation or breach of warranty by TXT under the Sale and Purchase Agreement.

We agreed to prepare and promptly file a shelf registration statement with the U.S. Securities and Exchange Commission ("SEC") under the Securities Act of 1933 covering the resale of the Consideration Shares issued to TXT at closing, and thereafter use our best efforts to have the registration statement declared effective within 45 days following the closing date (or 120 days following the closing date in the event the registration statement is reviewed by the SEC) and to keep it effective for one year after the closing date. If we fail to have the registration statement declared effective within the specified time periods, as well as in the events we fail to maintain the effectiveness of the registration statement throughout the period of one year after the closing date referred to above or the trading of our common stock on Nasdaq is suspended, TXT has the right to require us to repurchase for cash the shares of common stock TXT received in the acquisition at a price in an amount equal to the product of (i) the number of Consideration Shares to be repurchased by us and (ii) the Final Average Closing Price.

The acquisition process is still pending and no summary of the preliminary estimated fair values of the assets to be acquired and liabilities to be assumed can thus be provided.

ioko365 Acquisition

On May 3, 2011, pursuant to a Securities Purchase Agreement, dated as of April 11, 2011, we acquired all of the outstanding capital stock of ioko365 Limited, a private company incorporated in England and Wales with principal offices in San Diego, California and London, England, for total prospective net consideration of approximately $79.4 million, including future performance-based incentive payments.

Ioko provides end-to-end managed cloud-based platform solutions for multi-screen video delivery over connected Internet Protocol (IP) devices to tier-one telecommunication, cable, media and entertainment companies around the world, with a particular focus on North American, Northern European and Australasian markets.

Based on the closing price of our shares of common stock of $11.51 on April 8, 2011, the total gross consideration paid upfront for ioko was approximately $91.4 million, comprised of $74.0 million in cash and 1,509,804 restricted shares of our common stock. After adjusting for approximately $19.0 million of cash and approximately $9.0 million of additional positive net working capital on ioko's balance sheet at closing, the net upfront consideration paid for ioko was approximately $63.4 million on a debt-free and cash-free basis.

The net upfront consideration of $63.4 million is exclusive of performance-based earn-outs, incentive and personnel retention payments, which are estimated not to exceed $16.0 million over a period of 30 months after closing, payable in restricted shares of our common stock. Therefore, prospective net consideration over time is expected not to exceed $79.4 million in total.

We expect to assume a small amount of short-term debt in order to finance ioko's accounts receivables.

Prior to the acquisition, neither ioko nor its stockholders had any material relationship or association with us. The purchase price was determined as a result of arm’s length negotiations between the parties.

We issued the shares of our common stock in the acquisition pursuant to an exemption from registration under Regulation S promulgated under the Securities Act. The shares of common stock offered in the acquisition have not been registered under the Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

The acquisition process is still pending and no summary of the preliminary estimated fair values of the assets to be acquired and liabilities to be assumed can thus be provided.

WWB Acquisition

On February 21, 2011, we acquired the assets of Worldwide Broadcast Systems Inc. (“WWB”), a United States based company engaged in providing broadcast video systems integration to customers in South and Central America, in exchange for $1,900 in cash and 23,514 shares of our common stock valued at a price of $13.25 (with a discount of $33 due to the restriction on the sale of these shares for 6 months), for a total of $279. Additionally, the cost includes a fair value for contingent consideration of $4,505, which will be based on a percentage of revenue over a three-year period after closing, which is included in the Balance Sheet in “Acquisition Liability, net of current”. We have allocated the aggregate cost of the acquisition to WWB’s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$ 89
Goodwill	$ 6,595
Total assets acquired	**$ 6,684**
Current liabilities	**$ (-)**
Net assets acquired	**$ 6,684**

The results of operations of WWB for the period from February 22, 2011 to March 31, 2011 have been included in the Consolidated Statements of Operations.

KickApps Acquisition

On January 28, 2011, we acquired KickApps Corporation, a Delaware corporation ("KickApps"), a provider of solutions that enable the creation and management of next generation video-based Web experiences, in exchange for $4,027 in cash and 3,010,296 shares of our common stock valued at a price of $13.55 (with a discount of $11,981 due to the restriction on the sale of these shares), for a total of $28,808. We are holding 528,507 shares of the merger consideration in escrow for a period not to exceed 15 months following the merger to cover any warranty claims related to undisclosed commercial or tax liabilities or litigation. All of our common stock issued in exchange for KickApps is subject to contractual restrictions on transfer, with 60% of such stock being released from this restriction on the first anniversary of the merger and the balance on the second anniversary of the merger. We have allocated the aggregate cost of the acquisition to KickApps' net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$ 2,356
Property and equipment	$ 1,326
Intangible assets – internally developed software	$ 500
Intangible assets - customer lists	$ 2,500
Goodwill	$ 28,906
Total assets acquired	**$ 35,588**
Current liabilities	**$ (2,753)**
Net assets acquired	**$ 32,835**

The results of operations of KickApps for the period from January 29, 2011 to March 31, 2011 have been included in the Consolidated Statements of Operations.

Kewego Acquisition

On January 26, 2011, we acquired Kewego S.A., a société anonyme organized under the laws of France ("Kewego"), a provider of professional IP-based, multi-screen video asset management solutions for IP connected devices, including PCs, mobile phones, iPads, connected TVs and gaming consoles, in exchange for $11,965 in cash and 1,411,704 shares of our common stock valued at a price of $14.36 (with a discount of $4,320 due to the restriction on the sale of these shares for 1 year), for a total of $15,952. We have allocated the aggregate cost of the acquisition to Kewego’s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$ 10,063
Property and equipment	$ 388
Intangible assets – developed software	$ 500
Intangible assets - customer list	$ 2,001
Goodwill	$ 21,332
Total assets acquired	**$ 34,284**
Current liabilities	**$ (6,367)**
Net assets acquired	**$ 27,917**

The results of operations of Kewego for the period from January 27, 2011 to March 31, 2011 have been included in the Consolidated Statements of Operations.

Kyte Acquisition

On January 25, 2011, we acquired decentraltv Corporation, a Delaware corporation doing business as Kyte (“Kyte”), a cloud-based publishing platform that enables companies to deliver live and on-demand video experiences to websites, mobile devices and connected TVs, in exchange for $3,605 in cash and 189,348 shares of our common stock at a price of $13.91 (with a discount of $265 due to the restriction on the sale of these shares for 6 months), for a total of $2,369. Additionally, the cost included contingent consideration of $1,000 to be paid on the one-year anniversary of the acquisition in cash and stock to former Kyte stockholders if specified financial milestones are achieved by that business, which is included in the Balance Sheet in “Acquisition Liability, net of current”. We will hold 56,803 shares of the consideration in escrow for a period of one year to secure certain indemnification obligations. We have allocated the aggregate cost of the acquisition to Kyte’s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$ 464
Property and equipment	$ 71
Intangible assets – developed software	$ 1,000
Intangible assets - customer list	$ 400
Goodwill	$ 5,137
Total assets acquired	**$ 7,072**
Current liabilities	**$ (98)**
Net assets acquired	**$ 6,974**

The results of operations of Kyte for the period from January 26, 2011 to March 31, 2011 have been included in the Consolidated Statements of Operations.

(ii) 2010 Acquisitions

Multicast Media Technologies Acquisition

In late March 2010, we acquired Multicast Media Technologies, Inc., a United States company engaged in live event broadcasting, internet video and targeted multimedia communications ("Multicast"), in exchange for 1,312,034 shares of our common stock (the "Merger Shares") and $4,746 in cash (the "Cash Consideration"). We valued the 1,312,034 shares at a share price of $12.24 with a discount of $3,132 due to the restriction on the sale of these shares for a total value of $12,927. The merger consideration was subject to adjustment upwards or downwards to the extent that the closing working capital of Multicast was greater or less than zero and subject to the final fair valuation of Merger Shares. Total consideration was $17,272. The Cash Consideration and Merger Shares were delivered as follows: (i) $4,000 in cash and 842,500 shares of our stock promptly following the closing; and (ii) a "holdback amount" of an additional $746 in cash and 469,534 shares of KIT digital common stock, less any amount used by KIT digital to offset negative working capital and satisfy indemnity claims as described below, will be delivered to such stockholders not later than one year after the closing or such later date as all indemnity claims have been resolved. Of the total "holdback amount," $712 in cash and 196,798 Merger Shares were used to offset any negative working capital balance of Multicast as of the effective date of the merger. The remaining $34 in cash and 272,736 Merger Shares being held back by KIT digital will be used to indemnify KIT digital against any breaches of representations, warranties and covenants by Multicast, as well as against certain additional specified liabilities. The Company has allocated the aggregate cost of the acquisition to Multicast's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded to goodwill.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$ 984
Property and equipment	$ 1,123
Intangible assets – developed software	$ 562
Intangible assets - customer lists	$ 3,087
Intangible assets – trademarks	$ 100
Goodwill	$ 18,810
Total assets acquired	**$ 24,666**
Current liabilities and assumed debt	**$ (6,998)**
Net assets acquired	**$ 17,668**

The results of operations of Multicast for the period from March 16, 2010 to December 31, 2010 have been included in the Consolidated Statements of Operations.

Benchmark Broadcast Systems Acquisition

On May 14, 2010, we acquired Benchmark Broadcast Systems Pte. Ltd., a Singapore company engaged in providing asset management solutions and integration of broadcast video systems, and subsidiaries (“Benchmark”), in exchange for 353,744 shares of our common stock and approximately $4,905 in cash (the “Cash Consideration”) at the time of acquisition. We valued the 353,744 shares at a share price of $13.80 with a discount of $976 due to the restriction on the sale of these shares for a total value of $3,906. The cost of the acquisition of Benchmark was valued at $15,762. Additionally, the cost includes $1,119 for the working capital due to the seller and a fair value of the contingent consideration of $8,378 estimated to be due after one year or two years from closing based on a percentage of revenue and meeting earnings targets. Of these amounts, $2,115 is included in the Balance Sheet in “Acquisition liability” and $7,382 is in the Balance Sheet in “Acquisition liability, net of current.” Pursuant to the agreement, we put $2,000 into escrow for potential future obligations, which is included in “Restricted Cash” in the Balance Sheet as of December 31, 2010. We have allocated the aggregate cost of the acquisition to Benchmark’s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the preliminary values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$ 2,523
Property and equipment	$ 166
Intangible assets –customer list	$ 200
Intangible assets - back log	$ 1,100
Goodwill	$ 16,842
Total assets acquired	**$ 20,831**
Deferred tax liability	**$ (211)**
Current liabilities and assumed debt	**$ (4,858)**
Net assets acquired	**$ 15,762**

The results of operations of Benchmark for the period from May 14, 2010 to December 31, 2010 have been included in the Consolidated Statements of Operations

Visual Connection Acquisition Amendment

In June 2010, we paid $2,900 in cash and issued 122,911 shares of our common stock valued at $1,250 to the former shareholders of Visual Connection a.s. ("Visual"), pursuant to an amendment to the Visual Share Purchase Agreement dated October 5, 2008 and in satisfaction of all remaining earn-out provisions. We have recorded an increase of $3,075 to "Goodwill" in the Balance Sheet as of September 30, 2010 and a reduction of $1,075 of the previously recorded contingent liability.

Accela Communications Acquisition

On September 8, 2010, we acquired Accela Communications, Inc., a United States company engaged in providing on-demand, video-based enablement and measurement tools ("Accela"), in exchange for 332,764 shares of our common stock valued at a share price of $9.27 with a discount of $604 due to the restriction on the sale of these shares for a total value of $2,481 and approximately $2,936 in cash at the time of acquisition, which included $1,106 in cash paid to debtors of Accela. Additionally, the cost includes an offset of $108 due to KIT for the working capital adjustment, which is included in the Balance Sheet in "Other current assets". Total consideration was $5,417. We have allocated the aggregate cost of the acquisition to Accela's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$ 880
Property and equipment	$ 172
Intangible assets – software	$ 190
Intangible assets - customer list	$ 860
Intangible assets - trademark	$ 10
Goodwill	$ 4,531
Total assets acquired	**$ 6,643**
Deferred tax liability	**$ (203)**
Current liabilities and assumed debt	**$ (1,468)**
Net assets acquired	**$ 4,972**

The results of operations of Accela for the period from September 8, 2010 to December 31, 2010 have been included in the Consolidated Statements of Operations.

Megahertz Broadcast Systems Acquisition

On September 8, 2010, we acquired the assets of Megahertz Broadcast Systems, a United Kingdom company engaged in providing broadcast video systems integration ("Megahertz"), in exchange for $3,251 in cash at the time of acquisition. Additionally, the cost included $507 due to the seller for the working capital adjustment, which has been paid prior to December 31, 2010. We have allocated the aggregate cost of the acquisition to Megahertz's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$ 1,110
Property and equipment	$ 165
Intangible assets – backlog	$ 276
Intangible assets - customer list	$ 399
Intangible assets - customer list	$ 23
Goodwill	$ 844
Total assets acquired	**$ 2,817**
Current liabilities	**$ (1,099)**
Net assets acquired	**$ 1,718**

The results of operations of Megahertz for the period from September 8, 2010 to December 31, 2010 have been included in the Consolidated Statements of Operations.

Brickbox Digital Media Acquisition

On September 21, 2010, we acquired Brickbox Digital Media s.r.o., a Czech company engaged in providing digital video asset management solutions, and its international subsidiaries (“Brickbox”), in exchange for 339,476 shares of our common stock valued at a share price of $11.00 with a discount of $731 due to the restriction on the sale of these shares for a total value of $3,003 and approximately $7,600 in cash at the time of acquisition. Additionally, the cost includes a fair value for contingent consideration of $3,023 which will be based on 10 percent of revenue and meeting earnings targets over a four-year period after closing, which is included in the Balance Sheet in “Acquisition liability, net of current”. We have allocated the aggregate cost of the acquisition to Brickbox’s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill. On May 22, 2011, we have made a single payment of USD 3,000,000, represented by 265,262 shares of our common stock, to the former owners of Brickbox Digital Media s.r.o. to settle any and all deferred purchase price payments required to be made by KIT digital under the Securities Purchase Agreement dated September 21, 2010.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$ 2,797
Property and equipment	$ 908
Intangible assets - customer list	$ 3,000
Intangible assets - noncompete	$ 100
Goodwill	$ 9,013
Total assets acquired	**$ 15,818**
Deferred tax liability	**$ (654)**
Current liabilities and assumed debt	**$ (3,027)**
Net assets acquired	**$ 12,137**

The results of operations of Brickbox for the period from September 21, 2010 to December 21, 2010 have been included in the Consolidated Statements of Operations.

(iii) 2009 Acquisitions

Reality Group Acquisition

On March 6, 2009, we acquired the remaining 49% outstanding share capital that we did not previously own in subsidiary Reality Group Pty. Ltd., an Australian marketing communications firm, in consideration of the issuance of 90,073 shares of common stock for a total purchase price of $631 which is recorded as a reduction to additional paid-in capital. The remaining balance of the non-controlling interest of $237 is recorded as part of the acquisition and recorded as additional paid-in capital.

Narrowstep Acquisition

On April 8, 2009, we acquired certain of the operating assets and assumed specified liabilities of Narrowstep, Inc., a United States and United Kingdom based internet TV platform company ("Narrowstep") in exchange for 25,000 shares of restricted common stock valued at $213. The Company has allocated the aggregate cost of the acquisition to net tangible and identifiable intangible assets based on their estimated fair values.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of the Narrowstep acquisition (April 8, 2009).

Current assets	$ 670
Property and equipment	$ 296
Intangible assets - customer lists	$ 313
Total assets acquired	**$ 1,279**
Current liabilities	$ 1,040
Total liabilities assumed	**$ 1,040**
Net assets acquired	**$ 239**
Gain on bargain purchase	**$ 26**

A gain on bargain purchase of $26 was recorded to other income in the year ended December 31, 2009 in the consolidated statements of operations and comprehensive loss.

The FeedRoom Acquisition

On October 1, 2009, we acquired The FeedRoom, Inc., a United States company engaged in online video communications ("FeedRoom") in exchange for 948,636 shares of KIT digital common stock (the "Merger Shares") and an additional 363,636 shares of our common stock issued in exchange for a $4,000 indirect investment in us by certain stockholders of FeedRoom immediately prior to the closing of the merger. The KIT digital common stock was issued to such stockholders at an effective price of $11.00 per share for a total purchase price of $12,631. The Merger Shares were delivered as follows: (i) 937,398 shares on closing; and (ii) 374,602 shares which will be retained by us for one year after the closing. The Company has allocated the aggregate cost of the acquisition to FeedRoom's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded to goodwill.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition (October 1, 2009).

Current assets	$ 1,832
Property and equipment	$ 1,166
Intangible assets – developed software	$ 200
Intangible assets - customer list	$ 1,600
Goodwill	$ 11,075
Total assets acquired	**$ 15,873**
Current liabilities	**$ 2,228**
Net assets acquired	**$ 13,645**

The results of operations of FeedRoom for the period from October 1, 2009 to December 31, 2009 have been included in the consolidated statements of operations and comprehensive loss.

Nunet Acquisition

On October 1, 2009, we acquired all Nunet AG, a German company engaged in video management for broadband, IPTV and mobile ("Nunet") for an aggregate purchase price of EUR 7,647, consisting of: a cash payment of $8,048 (EUR 5,400) paid at closing; a convertible promissory note of EUR 1,663 due March 31, 2011; and another convertible promissory note of EUR 584 due June 30, 2010. These convertible promissory notes have since been converted into 339,540 shares of common stock valued at $3,321 and purchased by an unrelated party. This acquisition expands our client base with major international mobile network operators and enhances our platform with mobile capabilities. An additional $430 (EUR 300) was paid to the former owner at closing to cover brokers, introducing parties, management incentives and other transaction-related costs. This amount was expensed and is included in merger and acquisition and investor relations expenses in the consolidated statement of operations and comprehensive loss. The Company has allocated the aggregate cost of the acquisition to Nunet's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded to goodwill.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition (October 1, 2009).

Current assets	$ 2,167
Property and equipment	$ 1,917
Intangible assets – developed software	$ 439
Intangible assets - customer lists	$ 1,316
Goodwill	$ 8,888
Total assets acquired	**$ 14,727**
Current liabilities	$ 2,049
Capital leases	$ 1,124
Total liabilities assumed	**$ 3,173**
Net assets acquired	**$ 11,554**

The results of operations of Nunet for the period from October 1, 2009 to December 31, 2009 have been included in the consolidated statements of operations and comprehensive loss.

Juzou Acquisition

In November 2008, we purchased specified assets of Extreme Mobile Services Limited (also known as Juzou), a company formed under the laws of the United Kingdom. Juzou's business involves content management and web services with live streaming capabilities. Under an Asset Purchase Agreement, dated November 15, 2008, we acquired the Juzou trademark and system and ongoing client and other operating contracts. The total purchase price of the assets was $800, payable in shares of our common stock based on meeting specified financial and operating targets over the ensuing two-year period, which has subsequently been amended in August 2009 to $570. At closing, we issued 13,715 shares of our common stock to Juzou valued at $120 against the total purchase price of which $104 was recorded as software. In September 2009, we paid $150 in cash and issued 10,559 shares valued at $90, which was recorded as software. In December 2009, we issued 7,165 shares valued at $70 for the consideration 12 months from closing, which was recorded as software.

1.13 Legal Proceedings

In December 2007, two former consultants of ROO Media Corporation (ROO Media) (currently KIT Media Corporation) sued that entity together with ROO Group, Inc. (now KIT digital, Inc.) and its founder and former Vice Chairman and ROO Media's former President and Chief Operating Officer in New York Supreme Court, New York County, New York, alleging breach of an oral employment agreement, fraudulent inducement and other claims relating to the plaintiffs' employment at ROO Media. In March 2009, the court dismissed all of plaintiffs' claims except their breach of contract claim on the grounds that it is based on an alleged oral agreement, which plaintiffs may be able to prove. Defendants have answered the complaint, denying liability, and the case is now in discovery. We believe that there is no merit to this suit, and we intend to continue to defend vigorously.

In November 2007, our wholly-owned subsidiary, ROO HD, Inc., now KIT HD, Inc. ("KIT HD"), was named as the defendant in a purported class action lawsuit entitled Julie Vittengl et al. vs. ROO HD, Inc., in New York Supreme Court, Saratoga County, New York. The suit, brought by four former employees of Wurld Media, Inc. ("Wurld"), purportedly on behalf of themselves and "others similarly situated," claims that KIT HD's acquisition of certain assets of Wurld was a fraudulent conveyance and that KIT HD is the alter-ego of Wurld. Plaintiffs seek the appointment of a receiver to take charge of our property in constructive trust for plaintiffs and payment of plaintiffs' unpaid wages and costs of suit, both in an unspecified dollar amount. KIT HD filed its answer to the complaint in January 2008. In December 2009, plaintiffs served an amended complaint, dropping the class action allegations and adding us as a defendant; otherwise, it is essentially the same as its predecessor. In February 2010, we and KIT HD answered the amended complaint, and the case may shortly enter into discovery. We believe that the suit is without merit, and we and KIT HD intend to defend ourselves vigorously.

In May 2009, a former employee of Wurld filed suit against ten shareholders of Wurld, Wurld, ROO HD (now KIT HD), and ROO Group, Inc. (now KIT digital, Inc.), in New York Supreme Court, Albany County, New York. Plaintiff seeks to hold the ten largest shareholders of Wurld liable under Business Corporation Law § 630, for USD 100 in wages that Wurld allegedly failed to pay plaintiff. She further asserts a variety of claims based on the allegation that KIT HD's acquisition of certain assets of Wurld was a fraudulent conveyance, and that KIT HD is the successor to Wurld and liable for Wurld's debts. Based on these allegations, plaintiff seeks payment of her wages, the (unspecified) fair market value of her shares of stock in Wurld, rescission of the asset purchase agreement between Wurld and KIT HD, plus attorney's fees. In October 2009, the court dismissed plaintiff's claims against three shareholder/defendants on the grounds that BCL § 630 does not apply to Wurld because it is not a New York corporation, a decision that plaintiff is appealing. We and KIT HD have been served and answered, and the case is now in discovery. We believe that this lawsuit is without merit, and if necessary we intend to defend ourselves vigorously.

1.14 Related Party Transactions

In December 2007, KIT digital entered into an agreement with KIT Capital, a company beneficially controlled and led by Kaleil Isaza Tuzman, KIT digital's Chairman and Chief Executive Officer, under which KIT Capital has provided KIT digital managerial services. The total amount paid to KIT Capital and included in KIT digital's results of operations in the year ended December 31, 2010 and 2009 were USD 569 and USD 508, respectively.

On May 1, 2009, KIT digital issued a convertible interim promissory note up to a maximum of USD 5,000 to KIT Media, Ltd. of which KIT digital received gross proceeds of USD 2,250 in the quarter ended June 30, 2009 and USD 1,100 in the quarter ended September 30, 2009. Interest is payable monthly in arrears at 8% and matures on April 30, 2010. Interest of USD 51 was calculated and paid during 2009. A debt discount of USD 442 was recorded related to this debt and was amortized through the repayment date of August 18, 2009. As of August 18, 2009, these notes were repaid from the proceeds of the public offering.

On August 18, 2009, KIT Media, Ltd., KIT digital's largest single stockholder, controlled by Kaleil Isaza Tuzman, KIT digital's Chairman and Chief Executive Officer, purchased USD 4,004 of Common Stock (572,000 shares) in the August 18, 2009 offering, in part through the repayment of an interim note payable by KIT digital in the amount of USD 3,350. All shares sold to KIT Media were at the same price and on the same terms as the other investors in this offering. Gavin Campion, KIT digital's President, is also an investor in KIT Media, as are several members of KIT digital's board of directors.

KIT Media purchased USD 1,750 of Common Stock (179,856 shares) in the March 9, 2010 offering at the same price and on the same terms as the other investors in this offering.

KIT Capital purchased USD 1,300 of Common Stock (100,000 shares) in the April 27, 2010 offering at the same price and on the same terms as the other investors in this offering.

On March 7, 2010, our board of directors approved the repurchase of certain outstanding warrants with exercise prices below the then-current market price from certain warrant holders (who had acquired the warrants in May 2008 private placement financings), including KIT Media, an entity controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer and Wellington Management Company

(“Wellington”), an entity with greater than a 10% holding in KIT digital’s outstanding common stock at the time of the transaction. KIT Media and Wellington were at the time considered related parties of the Company. The terms of the warrant repurchase were identical for KIT Media and Wellington, and the negotiation of such terms was led by Wellington. The Company offered to purchase and cancel these warrants at 133% of the intrinsic value of the warrants (but because intrinsic value was based on a 20-day trailing volume weighted average price of the underlying common stock at the time, the ultimate purchase price of the warrants ended up being below the actual intrinsic value at the date of purchase.). These warrants with anti-ratchet dilution provisions totalling 3,030,747 were cancelled effective on March 31, 2010. Total payments for the settlement of these warrants was USD 22,232 and a loss of USD 1,665 was recorded in the derivative expense in the statement of operations. These warrants were included in the warrant buyback liability as at March 31, 2010 and were paid after such date. We also repurchased and cancelled another 403,577 warrants with anti-ratchet dilution provisions during the year ended December 31, 2010, at varying prices, from parties other than KIT Media and Wellington, for USD 1,342.

In April 2010, the Company repurchased and cancelled a warrant to purchase 47,143 shares from Robin Smyth, our Chief Financial Officer. The terms of the warrant repurchase were identical to Wellington and KIT Media, the negotiation of which terms was led by Wellington, and has been described herein.

1.15 Research and Development

Our research and development personnel are dedicated to undertaking efforts to enhance and improve our existing services and create new services in response to our customers’ needs and market demand for software tools to manage and deliver IP-video. Accordingly, we have invested, and intend to continue to invest, significant time and resources in our development activities to establish and maintain ourselves as a leader in providing optimized IP-based video solutions that address the business needs of our customers. As of December 31, 2010, we had over 100 employees involved in tasks related to research and development. While our reported research and development expenses were USD 4.1 million and USD 4.7 million for the years ended December 31, 2010 and 2009, respectively, these figures are related primarily to acquisition accounting and the actual estimated level of past and future research and development expenditure in our business is approximately 7-9% of gross revenues. As a practice, we generally do not capitalize research and development, and these amounts are expensed.

II. FINANCIAL DATA

2.1 Statement of Capitalization and Indebtedness as of December 31, 2010

The below tables are derived from Annual Report on Form 10-K filed by KIT digital, Inc. with the SEC on March 17, 2011 (see Exhibit III).

2.1.1 Capitalization and Indebtedness (in thousands USD) as of December 31, 2010

Total current debt	**$**	2,317
- Guaranteed		-
- Secured		2,317
- Unguaranteed / Unsecured		-
Total non-current debt (excluding current portion of long-term debt)	$	4,302
- Guaranteed		-
- Secured		4,302
- Unguaranteed / Unsecured	$	-
Stockholders' equity		-
a. Share capital and additional paid-in capital	$	375,581
b. Legal reserve		-
c. Total other reserves		-
- Accumulated deficit		(129,203)
- Accumulated other comprehensive loss		(754)
Total stockholders' equity	$	245,624

2.1.2 Net Indebtedness (in thousands USD) as of December 31, 2010

A.+B.	Cash and cash equivalents	**$**	143,233
C.	Investments		1,050
D.	**Liquidity** (A) + (B) + (C)	**$**	144,283
E.	**Current financial receivable**		-
F.	Current bank debt	$	-
G.	Current portion of non-current debt		608
H.	Other current financial debt		1,709
I.	**Other financial debt** (F) + (G) + (H)	**$**	2,317
J.	**Net current financial indebtedness** (I) – (E) – (D)	**$**	(141,966)
K.	Non-current bank loans		4,302
L.	Bonds issued		-
M.	Other non-current loans		-
N.	**Non-current financial indebtedness** (K) + (L) + (M)	**$**	4,302
O.	**Net financial indebtedness** (J) + (N)	**$**	(137,664)

As of the date of this Prospectus, there have been no material changes in the financial information relating to KIT digital's capitalization and indebtedness, as contained in the tables above in this Section II.

2.1.3 Commitments and Contingencies

Leases - The Company is a party to a number of non-cancelable lease agreements primarily involving office premises, motor vehicles and computer equipment. Included in capital leases are equipment and motor vehicle leases which are generally for three to five year periods. Included in operating leases are office premises, equipment and motor vehicle leases which are generally for two to five year periods.

The following is a schedule of future minimum payments under capital leases and operating leases as of December 31, 2010.

Periods January to December unless stated otherwise	**Capital**	**Operating Property**	**Total**
2011	$ 667	$ 2,856	$ 3,523
2012	$133	$ 1,846	$ 1,979
2013	$ 10	$ 873	$ 883
2014	$7	$ 253	$ 260
2015	$ 5	$ 38	$ 43
Thereafter	$ -	$ 2	$ 2
Total Minimum Lease Payments	**$ 822**	**$ 5,868**	**$ 6,690**
Less Amount Representing Interest	**$ (39)**		
Total Obligations Under Capital Leases	**$ 783**		

Rent expense amounted to $2,003 and $1,694 for the years ended December 31, 2010 and 2009, respectively.

Employment Agreements - On December 18, 2007, the Company entered into the Management Agreement with KIT Capital for a term commencing on January 9, 2008 and terminating on January 9, 2011, unless sooner terminated or mutually extended. This agreement has been extended until March 31, 2011 to facilitate discussions with respect to renewing the agreement or entering into a similar agreement. The Management Agreement provided for an aggregate compensation for KIT Capital as follows: (i) $51 monthly (which has been subsequently adjusted downwards at various dates based on the headcount), which includes the cost of at least three employees inclusive of benefits and taxes, (ii) signing incentive payment of $69, (iii) an incentive bonus equal to the greater of (x) the preceding twelve months' base compensation or (y) the previous month's monthly installment of base compensation multiplied by twelve if the Company shall achieve 2 consecutive quarters of profitability or the Company's total monthly revenue equals or exceeds $6,000, and (iv) a "phantom stock plan " for 60,000 shares that vest over a 36-month period. The Management Agreement provides that upon termination of the Management Agreement or after the Management Agreement's expiration date for any reason except cause (as defined in the Management Agreement), the Company shall pay KIT Capital, in addition to any other payments due hereunder, a cash severance payment equal to the greater of (i) the total amount paid to

KIT Capital during the preceding twelve months, including base compensation and all bonuses, and (ii) the previous month's monthly installment of base compensation multiplied by twelve.

2.2 Financial Information Concerning KIT digital, Inc. For the Fiscal Years Ended December 31, 2010, 2009 and 2008

The consolidated financial statements of KIT digital set out in this Prospectus have been prepared in accordance with accounting principles generally accepted in the United States of America ("**U.S. GAAP**"), as authorized by the decision of the European Commission of December 12, 2008.

The following selected financial data of KIT digital have been derived from the historical consolidated financial statements referred to below and should be read in conjunction with such consolidated financial statements and the notes included therein, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations appearing on pages 28 – 34 of Annual Report on Form 10-K filed by KIT digital, Inc. with the SEC on March 17, 2011 (see Exhibit III) and on pages 22 – 28 of Annual Report on Form 10-K filed by KIT digital, Inc. with the SEC on April 5, 2010 (see Exhibit II).

For the audited consolidated balance sheets of KIT digital as of December 31, 2010, 2009 and 2008, and the related consolidated statements of income, cash flows, and stockholders' equity for each of the years in the period ended December 31, 2010 and the report of the Independent Registered Public Accounting Firm with respect to such consolidated financial statements, the reader's attention is called to Annual Report on Form 10-K filed by KIT digital, Inc. with the SEC on March 17, 2011 (see Exhibit III) and Form 10-K filed by KIT digital, Inc. with the SEC on April 5, 2010 (see Exhibit II).

SELECTED THREE YEAR FINANCIAL DATA
(In thousands, except share and per share data)

Results of Operations						
	Years ended December 31					
	2010		**2009**		**2008**	
Revenue	$	106,597	$	47,284	$	23,401
Gross profit		60,454		25,564		13,004
Loss from operations		(20,656)		(11,159)		(18,706)
Net loss before income taxes		(34,742)		(18,828)		(18,966)
Net loss before non-controlling interest		(35,260)		(19,942)		(19,082)
Basic and diluted net loss per share		1.63		3.03		7.55

Cash Flow						
	Years ended December 31					
	2010		**2009**		**2008**	
Net cash used by operating activities	$	(30,228)	$	(13,618)	$	(12,816)
Net cash used by investing activities		(22,363)		(9,723)		(11,715)
Net cash provided by financing activities		189,046		24,576		20,352
Net increase (decrease) in cash and cash equivalents		134,442		913		(4,311)
Cash and cash equivalents – end of year		143,233		6,791		5,878

Assets as well as Liabilities and Stockholders' Equity						
	Years ended December 31					
	2010		**2009**		**2008**	
Cash and cash equivalents	$	143,233	$	6,791	$	5,878
Total assets		298,660		80,414		41,309

Total liabilities		53,036		46,423		23,238
Total stockholders' equity		245,624		33,991		18,308

2.3 Financial Information Concerning KIT digital, Inc. For the Three Months Ended March 31, 2011

The following selected consolidated statements of operations data for the three and nine months ended March 31, 2011, cash flow data for the three months ended March 31, 2011, and consolidated balance sheet data at March 31, 2011, are derived from KIT digital's unaudited consolidated financial statements, which are contained on pages 2 – 21 of Quarterly Report on Form 10-Q filed by KIT digital, Inc. with the SEC on May 10, 2011 (see Exhibit VI).

SELECTED QUARTERLY FINANCIAL DATA (In thousands, except per share data – Unaudited)					
Results of Operations					
	Three Months Ended March 31				
	2011			**2010**	
Revenue	$	34,450		$	17,364
Gross profit		21,976			10,814
Loss from operations		(14,649)			(7,078)
Net loss before income taxes		(12,362)			(18,428)
Net loss		(12,501)			(18,442)
Basic and diluted net loss per share		(0.34)			(1.33)

Cash Flow					
	Three Months Ended March 31				
	2011			**2010**	
Net cash used by operating activities	$	(9,065)		$	(5,479)
Net cash used by investing activities		(23,378)			(5,820)
Net cash provided by financing activities		(59)			42,651
Net increase (decrease) in cash and cash equivalents		(31,568)			31,032
Cash and cash equivalents – end of period		109,665			37,823

Assets as well as Liabilities and Stockholders' Equity					
	March 31, 2011 (Unaudited)			**December 31, 2010 (A)**	
Cash and cash equivalents	$	109,665		$	143,233
Total assets		352,515			298,660
Total liabilities		68,248			53,036
Total stockholders' equity		352,515			298,660

2.4 Independent Registered Public Accounting Firms

Since October 2, 2009, the independent registered public accounting firm of KIT digital is Grant Thornton LLP, 666 Third Avenue, New York, NY 10017, U.S.A. Grant Thornton LLP is registered with the Public

Company Accounting Oversight Board (United States) and a member of the American Institute of Certified Public Accountants. The selection of Grant Thornton LLP as Kit digital's independent registered public accountants for the year ending December 31, 2010 was ratified by KIT digital's stockholders on September 30, 2010 and filed under Current Report on Form 8-K filed by KIT digital, Inc. with the SEC on October 6, 2010.

Before that date; the independent registered public accounting firm of KIT digital and ROO was MSPC (formerly known as Moore Stephens, P.C.), 340 North Avenue, 3rd Floor, Cranford, NJ 07016, U.S.A. MSPC is registered with the Public Company Accounting Oversight Board (United States) and a member of the American Institute of Certified Public Accountants.

III. CORPORATE INFORMATION

3.1 Incorporation and Registration Number

KIT digital was incorporated under the laws of the State of Delaware in August 1998, and commenced operations in our current line of business in December 2003. KIT digital's principal executive offices are located at 26 West 17th Street, 2nd Floor New York, NY 10011 and its telephone number is +1 (212) 661-4111. KIT digital's operational headquarters is located in Prague, Czech Republic.

KIT digital’s United States Internal Revenue Service Employer Identification Number is 11-3447894. KIT digital’s registration number with the Delaware Secretary of State is 2931986.

3.2 Organization history

In May 2008, KIT digital completed a private placement of 2,142,858 shares of its Common Stock at a price of USD 7.00 per share, and warrants to purchase 2,142,858 shares of Common Stock at an exercise price of USD 11.90 per share, resulting in aggregate gross cash proceeds of USD 15,000. These warrants included an anti-dilution ratchet provision; as a result, the strike price became USD 7.00 per share as a result of the August 2009 public equity offering described below. In the private placement, KIT Media purchased 1,008,572 shares of Common Stock and warrants to purchase a like number of shares of Common Stock. All shares sold to KIT Media were at the same price and on the same terms as the other investors in the offering. Gavin Campion, KIT digital's President, is also an investor in KIT Media, as are two other members of KIT digital's board of directors.

In August 2009, KIT digital completed the sale of 4,554,000 shares of its Common Stock at a price of USD 7.00 per share in a public offering and contemporaneous listing on the Nasdaq Global Market, in which 4,004,000 shares were sold by KIT digital and 550,000 shares were sold by certain existing, unaffiliated stockholders. The gross proceeds of the Common Stock sold by KIT digital were USD 28,028. KIT digital did not receive any proceeds from the sale of shares by the selling stockholders. KIT digital issued to the underwriters 44,067 warrants to purchase shares of Common Stock with an exercise price of USD 8.40 per share exercisable for a period of five years and were valued under the Black-Scholes model as USD 181. In connection with the public offering, KIT digital received net cash proceeds of approximately USD 26,090 after underwriting discounts, commissions and fees, legal fees and expenses, and other fees. KIT Media, Ltd., controlled by Kaleil Isaza Tuzman, KIT digital's Chairman and Chief Executive Officer, purchased USD 4,004 of Common Stock (572,000 shares) in the August 2009 offering, in part through the conversion into Common Stock of an interim note payable by KIT Digital in the amount of USD 3,350. All shares sold to KIT Media were at the same price and on the same terms as the other investors in this offering.

On January 26, 2010, KIT digital completed an underwritten public offering of 2,980,000 shares of its Common Stock, pursuant to its shelf registration statement on Form S-3, which was originally filed and declared effective in October 2009, and related prospectus supplement dated January 21, 2010. KIT digital sold such shares in the offering at a price of USD 10.50 per share and received USD 31,290 in gross proceeds and approximately USD 28,890 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses. The impact of the public offering increased KIT digital's total stockholders' equity by USD 28,890. As part of the offering, KIT digital granted the underwriters an over-allotment option to purchase an additional 447,000 shares of Common Stock at the same price per share through February 20, 2010. KIT digital subsequently sold 350,000 additional shares of Common Stock pursuant to the over-allotment option on February 23, 2010, and received $3,675 in gross proceeds and approximately USD 3,433 in net proceeds.

On March 7, 2010, KIT digital's board of directors approved the repurchase of certain outstanding warrants with exercise prices below the then-current market price from certain warrant holders (who had acquired the warrants in the May 2008 private placement financing), including KIT Media, an entity controlled by Kaleil Isaza Tuzman, KIT digital's Chairman and Chief Executive Officer and Wellington Management Company ("Wellington"), an entity with greater than a 10% holding in KIT digital's outstanding common stock at the time of the transaction. KIT Media and Wellington were at the time considered related parties of KIT digital. The terms of the warrant repurchase were identical for KIT Media and Wellington, and the negotiation of such terms was led by Wellington. KIT digital offered to purchase and cancel these warrants at 133% of the intrinsic value of the warrants (but because intrinsic value was based on a 20-day trailing volume weighted average price of the underlying common stock at the time, the ultimate purchase price of the warrants ended up being below the actual intrinsic value at the date of purchase). These warrants with anti-ratchet dilution provisions totaling 3,030,747 were cancelled effective on March 31, 2010. These warrants were included in the warrant buyback liability as at March 31, 2010 and were paid after such date. KIT digital also repurchased and cancelled another 403,577 warrants with anti-ratchet dilution provisions during the year ended December 31, 2010, at varying prices, from parties other than KIT Media and Wellington, for USD 1,342.

On March 9, 2010, KIT digital completed an underwritten public offering of 1,541,624 shares of its Common Stock, pursuant to its shelf registration statement on Form S-3, which was originally filed and declared effective in February 2010, and related prospectus supplement dated March 4, 2010. KIT digital sold such shares in the offering at a price of USD 9.73 per share and received USD 15,000 in gross proceeds and approximately USD 14,075 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses. The impact of the public offering increased KIT digital's total stockholders' equity by USD 14,075. KIT digital subsequently sold 231,244 additional shares of Common Stock pursuant to an underwriters' over-allotment option on March 22, 2010, and received USD 2,250 in gross proceeds and approximately USD 2,087 in net proceeds.

On April 27, 2010, KIT digital completed an underwritten public offering of 4,230,770 shares of its Common Stock, pursuant to its shelf registration statement on Form S-3, which was originally filed and declared effective in February 2010, and related prospectus supplement dated April 22, 2010. KIT digital sold such shares in the offering at a price of USD 13.00 per share and received USD 55,000 in gross proceeds and approximately USD 50,574 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses. KIT digital subsequently sold 634,615 additional shares of Common Stock pursuant to an underwriters' over-allotment option on May 6, 2010, and received USD 8,250 in gross proceeds and approximately USD 7,628 in net proceeds. KIT Capital purchased USD 1,300 of common stock (100,000 shares) in the April 2010 offering at the same price and on the same terms as the other investors in the offering.

On October 22, 2010, the U.S. Securities and Exchange Commission declared effective the registration statement on Form S-3 of KIT digital, Inc. filed on October 13, 2010. The registration statement permits KIT digital to issue, in one or more offerings, shares of Common Stock at an aggregate offering price not to exceed USD 250,000.

On November 24, 2010, KIT digital completed an underwritten public offering of 8,000,000 shares of its Common Stock, pursuant to its shelf registration statement on Form S-3 (No. 333-169918), which was originally filed and declared effective in October 2010, and related prospectus supplement dated

November 19, 2010. KIT digital sold shares at a price of USD 12.00 per share and received USD 96,000 in gross proceeds and approximately USD 89,489 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses. KIT digital subsequently sold 1,200,000 additional shares of Common Stock pursuant to an underwriters' over-allotment option on December 10, 2010, and received USD 14,400 in gross proceeds and approximately USD 13,449 in net proceeds.

On December 24, 2010, KIT digital sold a portion of its business focusing on certain professional services and non-SaaS activities, allowing management to sharpen its focus on its core KIT Platform offerings. Activities spun out include certain encoding services and broadcast equipment installation services. The sale price of the transaction was approximately USD 12,000, including the repayment of outstanding loans to KIT digital.

Since the admission of 14,174,853 shares of common stock to trading on the Main Market of the PSE on January 25, 2010, KIT digital has issued 11,371,433 shares of common stock in addition to the shares issued and sold within the public offerings described above. The additional shares include 10,059,635 shares issued as a partial or full consideration for the shares in other companies KIT digital acquired during that period (for details see Chapter C, section 1.12 (*Recent business acquisitions*) above) as well as 1,270,359 shares issued upon exercise of various warrants and stock options by their holders during that period (for details on the 2004 Stock Option Plan and the 2008 Incentive Stock Plan see Exhibit V, pgs. 12 and 13) and 41,439 shares issued as consideration for consulting and other similar services.

IV. DIRECTORS AND EXECUTIVE OFFICERS

Name	**Age**	**Position**
Kaleil Isaza Tuzman	39	Chairman of the Board and Chief Executive Officer
Gavin Campion	38	President and Director
Robin Smyth	57	Chief Financial Officer and Director
Christopher Williams	52	Executive Vice President, Product Development and Director
Daniel W. Hart	37	Director
Lars Kroijer	39	Director
Wayne Walker	52	Director
Joseph E. Mullin III	37	Director
Santo Politi	45	Director

For at least the previous five years, none of the directors or executive officers of KIT digital has:

(a) been convicted in relation to fraudulent offenses;

(b) been associated with any bankruptcies, receiverships or liquidations when acting in their capacity of directors or executive officers of KIT digital; or

(c) been subject to any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies) or ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

There are no family relationships among any of the executive officers and directors listed above.

KIT digital does not have a supervisory board.

V. BUSINESS OVERVIEW AND COMPETITION

5.1 Business Overview

KIT digital is a premium provider of end-to-end video asset management software (VAMS) and related services. The KIT Platform, our cloud-based solution delivered primarily in a software-as-a-service (SaaS) model, enables over 2,000 media distributor, enterprise and network operator clients to create, manage and deliver multi-screen video and social engagement experiences to audiences wherever they are. With deep experience that runs the gamut from traditional broadcast systems engineering to "over-the-top" (OTT) social video applications, we are uniquely positioned to deliver truly complete video solutions, from the lens of the camera to the eye of the audience ("lens to lens"), and guide our clients into the future of Internet Protocol (IP)-based interactive media. Our clients' use of the KIT Platform includes end-consumer focused live and on-demand video distribution, as well as internal corporate deployments, including corporate communications, human resources, training, security and surveillance.

The KIT Platform's modular approach enables customers to select from three industry-tailored software solutions with a broad set of features that share a common data model and architecture. KIT's platform solutions include:

- **KIT Media** – for content creators and media distributers, including traditional broadcasters, online publishers, content syndicators, faith-based and sports organizations;

- **KIT Enterprise** – for non-media enterprises, including consumer brands, manufacturing, healthcare and pharmaceuticals, automotive and government entities; and

- **KIT Operator** – for network operators, including telecommunications carriers, cable operators, internet service providers and virtual network operators (e.g. connected device manufacturers).

Each KIT Platform solution utilizes a common set of shared functional modules and follows an underlying technical design philosophy that employs modular, extensible subcomponents and exposes functionality via standards-based APIs (application programming interfaces). This core methodology allows the KIT Platform to be extended through the addition of new, discrete components as well as integration with third-party solutions. The KIT Platform leverages cloud-based application and content delivery services to ensure a high degree of scalability, while minimizing operational and maintenance costs.

In addition to our KIT Platform solutions, we offer a range of related professional services supporting the wider value chain of video with a focus on systems integration for the capture, transcoding, storage, editing and play-out of video in film, television and other broadcasting environments. We also provide content services (such as localization and packaging) and advanced digital marketing services. We estimate that over 70% of our current revenues are generated by KIT Platform-related fees, with the remainder directly related to professional services. For KIT Platform use, we generally invoice customers monthly, and occasionally on a quarterly basis. For our professional services, we bill either on an hourly or project basis. We currently provide our software solutions and professional services internationally through our operational headquarters in Prague, Czech Republic, and our principal offices in Atlanta, Cambridge (UK), Chennai, Cologne, Dubai, London, Melbourne (Australia), Mumbai, New York (executive office), Paris, San Francisco and Stockholm. We have 9 other sales representative offices in additional 7 countries.

As of March 15, 2011, our customer base consisted of 2,000+ enterprise customers from over 40 countries, including Airbus, American Express, The Associated Press, BBC, Best Buy, Bristol-Myers Squibb, Disney-ABC, ESPN Star, FedEx, General Motors, Google, Hewlett-Packard, Home Depot, IMG Worldwide, MediaCorp, Microsoft, MTV, NBC Universal, News Corp, Telefónica, Verizon, Vodafone and

Volkswagen. Our clients usually enter into long-term contracts. Our average remaining contract length is approximately 24 months, with automatic renewal features.

The KIT Platform is used by demanding and sophisticated corporate clients, and is particularly appropriate for global corporations that need to centrally and securely produce and manage video content, while also providing content access and publishing to multiple geographical locations, on multiple device types, in different languages and across multiple network protocols. This ability to centrally and securely administer video content while allowing it to be modified and distributed broadly is known as multi-point publishing. We believe that the KIT Platform has the most advanced multi-point publishing capabilities in the market today.

We align our business and the solutions we offer into three primary vertical industry segments: (i) media distributors, (ii) general corporate enterprises and (iii) network operators. This provides an organizational framework to synchronize commercial and operational functions and enables our team to foster deep industry specific thought leadership and subject matter expertise. Using a consultative, solution-oriented approach to the market allows us to significantly increase the value we are able to provide to our clients by offering industry-specific workflow management and establishing deeper, longer lasting relationships, resulting in more business and higher margin revenue.

We manage our business across three major geographical profit and loss centers: (i) Europe, Middle East and Africa (EMEA), (ii) Asia-Pacific, and (iii) the Americas. We estimate that during the first quarter of 2011, 50.1% of our revenues were generated in the EMEA region, 25.2% of our revenues were generated in the Asia-Pacific region, and 24.7% of our revenues were generated in the Americas region. The following table shows a breakdown of total revenue by the geographic regions for the last three years:

	EMEA		**Asia-Pacific**		**Americas**		**Total**	
	USD	**%**	**USD**	**%**	**USD**	**%**	**USD**	**%**
2010	57,517	54%	26,489	24,8%	22,591	21,2%	106,597	100%
2009	33,106	70%	10,501	22,2%	3,677	7,8%	47,284	100%
2008	10,580	45,2%	10,928	46,7%	1,893	8,1%	23,401	100%

5.2. Competition

KIT digital's management believes that few competitors currently provide the range of technology and services provided by KIT digital, but there are a number of competitors that provide certain elements of the products and services we offer, including video asset management and enablement and video-centric integration, interface design and creative services.

There are a number of companies that offer competing tools for enabling video content for consumption via the Internet, mobile networks and connected TVs, including but not limited to Deltatre, thePlatform, Arvato Mobile, Polymedia, Vision IPTV, Extend Media, Saffron Digital, Irdeto, Qumu, and Tvinci. There are myriad broadcast systems integration companies and interactive marketing agencies globally, many of which have some expertise in IP-based video systems.

KIT digital's management believes that the barriers to entry for the industry in which KIT digital operates include: (i) the intellectual property, timeframe and costs to develop commercially robust, feature-rich video content management platforms for online, mobile and IPTV networks, (ii) established enterprise-class business relationships and (iii) the time and resources involved to train and develop sales, account management and professional services staff with IP video and social media expertise.

VI. MAJOR SHAREHOLDERS

The following table shows information for each person known by KIT digital to beneficially own 5% or more of the outstanding Common Stock, as of May 23, 2011 (except as otherwise indicated).

Name and Address of Beneficial Owner		Shares of Common Stock (Including Shares Underlying Other Securities) Beneficially Owned		
		Number		**Percent**
KIT Media Ltd. Mill Mall, Suite 6 Wickhams Cay 1 P.O. Box 3085 Road Town, Tortola, British Virgin Islands		2,720,432[34]		6.6%
KIT Capital, Ltd. P.O. Box 112888 Dubai, United Arab Emirates		300,046[35]		*[36]
Kaleil Isaza Tuzman, sum of above		3,020,478[37] [38]		7.3%
Gavin Campion		118,145[39]		*
Robin Smyth		96,851[40]		*
Christopher Williams		12,147[41]		*
Daniel W. Hart		50,580[42]		*

34 Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, holds a controlling interest in KIT Media and holds the voting and dispositive power of the shares directly held by KIT Media. For purposes of voting, on an actual basis, KIT Media owns 6.6% of our outstanding shares. For purposes of voting, on an actual basis, Mr. Isaza Tuzman owns 7.3% of our outstanding shares.

35 Represents (a) 127,858 shares of common stock, (b) 73,750 shares of common stock issuable upon the exercise of stock options granted under the 2004 Stock Option Plan, (c) 62,813 shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Stock Plan and (d) 35,625 shares of common stock issuable under RSUs under the 2008 Incentive Stock Plan. Mr. Isaza Tuzman holds a controlling interest in KIT Capital and holds the voting and dispositive power of the shares directly held by KIT Capital. For purposes of voting, on an actual basis, KIT Capital owns 0.3% of our outstanding shares. For purposes of voting, on an actual basis, Mr. Isaza Tuzman owns 7.3% of our outstanding shares.

36 * means less than 1%

37 Represents (a) 127,858 shares of common stock, (b) 73,750 shares of common stock issuable upon the exercise of stock options granted under the 2004 Stock Option Plan, (c) 62,813 shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Stock Plan and (d) 35,625 shares of common stock issuable under RSUs under the 2008 Incentive Stock Plan. Mr. Isaza Tuzman holds a controlling interest in KIT Capital and holds the voting and dispositive power of the shares directly held by KIT Capital. For purposes of voting, on an actual basis, KIT Capital owns 0.3% of our outstanding shares. For purposes of voting, on an actual basis, Mr. Isaza Tuzman owns 7.3% of our outstanding shares.

38 Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, holds a controlling interest in KIT Media and holds the voting and dispositive power of the shares directly held by KIT Media. For purposes of voting, on an actual basis, KIT Media owns 6.6% of our outstanding shares. For purposes of voting, on an actual basis, Mr. Isaza Tuzman owns 7.3% of our outstanding shares.

39 Represents (a) 12,719 shares of common stock, (b) 82,642 shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Stock Plan and (c) 22,784 shares of common stock issuable under RSUs under the 2008 Incentive Stock Plan. For purposes of voting, on an actual basis, Mr. Campion owns less than 1% of our outstanding shares.

40 Represents (a) 5,441 shares of common stock, (b) 42,499 shares of common stock issuable upon exercise of stock options granted under the 2008 Incentive Stock Plan, (c) 34,286 shares of common stock issuable upon exercise of warrants and have an expiration date of March 30, 2012 and (d) 14,625 shares of common stock issuable under RSUs under the 2008 Incentive Stock Plan. For purposes of voting, on an actual basis, Mr. Smyth owns less than 1% of our outstanding shares.

41 Represents shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Stock Plan. For purposes of voting, on an actual basis, Mr. Williams owns no outstanding shares.

42 Represents shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Stock Plan, which are currently exercisable. For purposes of voting, on an actual basis, Mr. Hart owns no outstanding shares.

Name and Address of Beneficial Owner		Shares of Common Stock (Including Shares Underlying Other Securities) Beneficially Owned — Number		Percent
Lars Kroijer		58,338[43]		*
Joseph E. Mullin III		8,171[44]		*
Santo Politi		965,587[45]		2.3%
Wayne Walker		53,523[46]		*
All directors and executive officers as a group (9 persons)		4,383,819		10.6%
FMR LLC 82 Devonshire Street Boston, MA 02109, U.S.A.		5,268,770[47]		12.7%
Wellington Management Company, LLP 75 State Street Boston, MA 02169, U.S.A.		2,792,668[48]		6.7%
Zivar Investments Ltd. Geneva Place, 2nd floor 333 Waterfront Drive Road Town, Tortola, British Virgin Islands		1,998,880[49]		4.8%

VII. EMPLOYEES

As of the date of this Prospectus, we employ 243 employees in the United States and 609 employees outside the United States, i.e. a total of 852 employees. The below table sets forth historical information regarding the approximate number of KIT digital's employees and their geographic breakdown for each of the fiscal years ended December 31, 2010, 2009 and 2008:

		2010		2009		2008
United States		120		55		61
International		600		270		111
Total		**720**		**325**		**172**

43 Represents (a) 6,143 shares of common stock and (b) 52,195 shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Stock Plan. For purposes of voting, on an actual basis, Mr. Kroijer owns less than 1% of our outstanding shares.

44 Represents shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Stock Plan. For purposes of voting, on an actual basis, Mr. Mullin owns no outstanding shares.

45 Represents shares of common stock. Santo Politi is a managing member of Spark Management Partners, LLC, the general partner of Spark Capital, LP, Spark Capital Founders' Fund, LP and Spark Member Fund, LP, the direct holders of the stock. Voting and investment power over the Issuer's stock is shared by managing members of Spark Management Partners, LLC. For purposes of voting, on an actual basis, Mr. Politi indirectly owns 2.3% of our outstanding shares.

46 Represents (a) 1,118 shares of common stock and (b) 52,405 shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Stock Plan. For purposes of voting, on an actual basis, Mr. Walker owns less than 1% of our outstanding shares.

47 Based on the information contained in the Schedule 13G/A filed with SEC on February 14, 2011.

48 Based on the information contained in the Schedule 13G/A filed with SEC on February 14, 2011.

49 Based on the information contained in the Schedule 13G filed with SEC on May 5, 2010 jointly by Zivar Investments Ltd. and Abacus Trustees (Gibraltar) Limited. Abacus Trustees (Gibraltar) Limited is the sole shareholder and trustee of the trust that owns Zivar Investments Ltd. and may be deemed to have voting and investment power over the shares of Common Stock held by Zivar Investments Ltd.

VIII. ADMISSION TO TRADING AND DEALING ARRANGEMENTS

8.1 Listing and Trading

Our shares of Common Stock are listed on Nasdaq. We have applied for admission to listing and trading of the New Common Stock on the main market of the PSE.

With respect to the listing on the PSE, the approval of the admission and trading is expected to be granted on or about July 28, 2011. Official trading on the PSE is expected to commence on or about August 1, 2011, or as soon as possible thereafter.

With respect to the planned listing of the New Common Stock on the PSE, all trades with the New Common Stock will be settled and cleared through the Central Depositary. As noted above, the Central Depositary is a 100% subsidiary of the PSE and acts as the clearing and settlement system of the PSE.

8.2 Settlement and Delivery of the New Common Stock

The interests in the New Common Stock traded on the PSE will be in book-entry form and must be held through participants of Central Depositary, or on the applicant's own account opened with the Central Depositary directly or indirectly through participants or sub-participants of Clearstream.

The persons shown in the records of Clearstream or the Central Depositary, as the case may be, as the holders of the New Common Stock will, in principle, not have the New Common Stock registered in their names, will not receive or be entitled to receive physical delivery of definitive certificates evidencing interests in the New Common Stock and will not be considered registered owners or holders thereof.

Those who hold interests in the New Common Stock through either of Clearstream or the Central Depositary, as the case may be, will only be able to transfer their interests in accordance with the rules and procedures of such clearing systems.

Settlement (delivery and payment) of transactions on the PSE will only be effected through the Central Depositary. The Central Depositary is an accountholder with Clearstream and interests in the New Common Stock held by the Central Depositary will be recorded on its account. As a result, the Central Depositary will hold all the interests in the New Common Stock to be settled for transactions on the PSE. The Central Depositary will hold interests in the New Common Stock for the benefit of the Central Depositary accountholders and will record interests of the Central Depositary accountholders in the New Common Stock in book-entry form.

IX. ORGANIZATIONAL STRUCTURE

KIT digital is the parent company of KIT digital group. KIT digital holds, directly or indirectly, the capital and voting rights of each of the subsidiaries and affiliates listed in Exhibit VII.

X. WORKING CAPITAL STATEMENT

As of the date of this Prospectus, KIT digital anticipates that its cash, cash equivalents and cash flows from its operating activities will be sufficient to meet its present working capital needs (including debt service) and capital expenditures.

XI. SUMMARY OF MATERIAL CONTRACTS

On November 19, 2010, KIT digital entered into an underwriting agreement with Roth Capital Partners, LLC acting as the representative of the several underwriters. Pursuant to the terms and conditions of the underwriting agreement, KIT digital agreed to sell 8,000,000 shares of its Common Stock, par value USD 0.0001 per share at a price to the public of USD 12.00 per share. Pursuant to the underwriting agreement, KIT digital granted the underwriters an option to purchase up to an additional 1,200,000 shares of its Common Stock within 30 days after the date of the underwriting agreement to cover over-allotments, if any.

On April 22, 2010, KIT digital entered into an underwriting agreement with Roth Capital Partners, LLC, acting as the representative of the several underwriters, for the sale by KIT digital to the public of 4,230,770 shares of its Common Stock, par value USD 0.0001 per share. The underwritten shares are being sold to the public at a price of USD 13.00 per share. Pursuant to the underwriting agreement, KIT digital granted the underwriters an option to purchase up to an additional 683,773 shares of its Common Stock within 30 days after the date of the underwriting agreement to cover over-allotments, if any.

On March 4, 2010, KIT digital entered into an underwriting agreement with Roth Capital Partners, LLC acting as the underwriter, for the sale by KIT digital to the public of 1,541,624 shares of its Common Stock, par value USD 0.0001 per share. The underwritten shares were sold to the public at a price of USD 9.73 per share. Pursuant to the underwriting agreement, KIT digital granted the underwriters an option to purchase up to an additional 231,244 shares of its Common Stock within 30 days after the date of the underwriting agreement to cover over-allotments, if any.

The above underwriting agreements contain customary representations, warranties and covenants by KIT digital. They also provide for customary indemnification by each of KIT digital and the underwriters for losses or damages arising out of or in connection with the sale of shares.

XII. TAX CONSEQUENCES

Set out below are the main Czech tax consequences likely to apply to Czech investors who will hold Common Stock under Czech Act no. 586/1992 Coll., on Income Taxes, as amended (the "**CITA**"), in force as of June 30, 2011, and the Czech-US Income Tax Treaty signed on September 16, 1993 and published under the Notice of the Ministry of Foreign Affairs of the Czech Republic no. 32/1994 Coll. (the "**Czech-US Tax Treaty**"). The tax regime described below may be modified by subsequent laws or regulations, which should be followed by the investors with the help of their usual advisor.

Please note that the information set out below is only a summary of the applicable Czech tax regime. Each particular situation should be carefully analyzed by a tax advisor, especially regarding tax residence and the possible impact of citizenship.

12.1 Individual Investors who are Czech Tax Residents Holding Common Stock as a Private Investment

Pursuant to Article 13 of the Czech-US Tax Treaty capital gains realized by individuals on sale of stock in US companies are generally taxable in the country of residence of the individuals.

In accordance with Section 10 of the CITA, capital gains realized upon the disposal of Common Stock will be subject to personal income tax at a flat rate of 15% unless the exemption under Section 4 of the CITA applies.

Taxable income is computed as the difference between the revenue earned on disposal of the Common Stock and related costs (in principle, the costs of acquisition of the Common Stock). Tax is settled on an annual basis via an annual tax return, which must generally be filed by March 31 of the calendar year following the year in which the income was earned (this also being the deadline for paying the relevant income tax liability).

In the case of an individual investor who is a Czech tax resident who does not hold the Common Stock as business property, any loss incurred on sale of the Common Stock will generally be tax non deductible - except for a situation when such loss is deducted against other taxable capital gains derived by the individual investor from the sale of securities in the given tax period.

Capital gain from disposal of the Common Stock is exempt from Czech personal income tax provided that:

(i) the period between acquisition and subsequent sale of the Common Stock exceeds six months;

(ii) an individual investor who is a Czech tax resident has not held more than 5% of the registered capital or voting rights in KIT digital within the period of 24 months prior to disposal; and

(iii) the Common Stock has not been booked by the individual investor as business property at any point prior to the disposal.

If the condition under (ii) above is not met, an exemption from the personal income tax is applicable only for sales of the Common Stock realized after five years following their acquisition. Special conditions apply to Common Stock which have been booked as business property of an individual investor who is a Czech tax resident prior to disposal.

Receipts from disposal of the Common Stock qualifying for a personal income tax exemption do not need to be reported in Czech personal income tax returns.

12.2 Czech Tax Resident Shareholders that are Legal Entities and Subject to Corporate Tax

Pursuant to Article 13 of the Czech-US Tax Treaty, as a general rule, capital gains realized upon the disposal of Common Stock will be included in the taxable income of companies taxable at the ordinary corporate tax rate of the 19% (provided that such income is derived in the tax periods starting on or after January 1, 2010). A specific tax treatment would apply in the case where Common Stock would qualify for the participation exemption. Pursuant to Sections 19(1)(ze) and 19(3) of the CITA the following conditions must be met in order to qualify for the participation exemption:

- the capital gain must be realized by a parent company established or effectively managed in the Czech Republic;
- the Czech parent company must have the legal form of a limited liability company, a joint stock company or a co-operative under Czech commercial law;
- the parent company must have held at least 10% of the registered capital of KIT digital for at least 12 months;
- KIT digital must not be in the process of liquidation;
- KIT digital must be a resident of the US under the Czech-US Tax Treaty;
- KIT digital must have the legal form comparable to a limited liability company, a joint stock company or a co-operative under Czech commercial law;

- KIT digital must be subject to a corporate income tax at the rate not lower than 12%.

According to the provisions of Section 19(1)(ze) and 19(3) of the CITA net gains realized upon disposal of Common Stock qualifying for participation exemption are exempt from corporate income tax.

Most Czech tax resident shareholders that are legal entities and subject to corporate tax and who are treated as accounting units within the meaning of Czech accounting laws and subject to Czech accounting standards for businesses (e.g. most companies other than financial institutions) or to Czech accounting standards for financial institutions (e.g. banks, insurance companies, etc.) who hold the Common Stock for trading will be required to revaluate the Common Stock to fair value for accounting purposes. Any resulting revaluation differences will be accounted for as income or expense in the profit and loss account. Such income is generally taxable and the corresponding expense is generally tax deductible for Czech corporate income tax purposes provided that the general conditions for tax deductibility are met.

12.3 Withholding Tax

Whether received in the Czech Republic or abroad, dividend payments (if any) made in respect of the Common Stock received by Czech tax residents must be included in the income taxable base. Dividends received by the individual investor who is a Czech tax resident will be included in the general tax base subject to 15% personal income tax rate. Dividends received by Czech tax resident shareholders that are legal entities and subject to corporate tax will be included in the special tax base subject to 15% corporate income tax rate, unless they qualify for the participation exemptions as listed in 12.2 above.

In accordance with Article 10(2) of the Czech-US Tax Treaty, dividend payments (if any) made on Common Stock to a Czech shareholder, whether an individual or a legal entity, will generally be subject to a US withholding tax at the rate of 15%. However, as the Central Depositary is not a qualified intermediary, the dividend payments will be subject to US withholding tax at the US statutory rate of 30%. A Czech shareholder may seek appropriate relief, if any, directly from the US tax authority with respect to amounts withheld at a rate greater than 15% of the dividend payments. The Czech taxpayer will be entitled to claim a credit for such US withholding tax on the taxpayer's Czech tax return subject to the limitations stipulated by the Czech-US Tax Treaty and Czech internal law.

As of the date of this Prospectus, Citibank, N.A. acts as custodian for Clearstream with respect to securities of KIT digital that are admitted for trading and is thus responsible for remitting the US withholding tax prior to transmitting the dividend payments, net of US withholding tax, on behalf of KIT digital to Clearstream.

12.4 Other Taxes and Duties

No Czech taxes of a documentary nature, such as capital tax, stamp or registration tax or duty, are payable by or on behalf of a holder of shares of Common Stock by reason only of the purchase, ownership or disposal of such Common Stock.

XIII. DOCUMENTS ON DISPLAY

We file annual, quarterly and current reports, proxy statements and other information with the SEC. The SEC maintains a website, *http://www.sec.gov*, which contains reports, proxy statements and information statements and other information regarding registrants that file electronically with the SEC, including us. We maintain a corporate website at *www.kitd.com* and an electronic brochure of our product offerings can be downloaded at *www.kitd.com/brochure.pdf.* Our SEC filings can be downloaded on our website at *http://ir.kitd.com/phoenix.zhtml?c=144912&p=irol-sec* and shall be furnished to the extent required by law to the CNB which makes such information public in accordance with applicable rules. Neither the content of our website nor our brochure is part of this Prospectus and should not be relied upon with respect to this listing.

You may also request a copy of our filings at no cost by writing or telephoning us at:

KIT digital, Inc.
26 West 17th Street, 2nd Floor
New York, NY 10011, U.S.A.
Attention: Kaleil Isaza Tuzman
Chairman and Chief Executive Officer
+1 (212) 661-4111

ANNEX I

MINIMUM DISCLOSURE REQUIREMENTS FOR THE SHARE REGISTRATION DOCUMENT (SCHEDULE)

(Page numbering refers to the page contained in the relevant document)

Item #	**Item contents**	**Chapter/Exhibit**	**Page/Section**
1.	**PERSONS RESPONSIBLE**		
1.1.	All persons responsible for the information given in the prospectus	Prospectus	6 (Company Representative for Prospectus)
1.2.	A declaration by those responsible for the prospectus	Prospectus	6 (Company Representative for Prospectus)
2.	**STATUTORY AUDITORS**		
2.1.	Names and addresses of the issuer's auditors	Chapter C	60 – 61 (2.4 Independent Registered Public Accounting Firms)
2.2.	If auditors have resigned, been removed or not been re-appointed during the period covered by the historical financial information, indicate details if material.	Not applicable	Not applicable
3.	**SELECTED FINANCIAL INFORMATION**		
3.1.	Selected historical financial information	Chapter C	57 – 61 (II. Financial Data)
4.	**RISK FACTORS**	Chapter B	All pages
5.	**INFORMATION ABOUT THE ISSUER**		
5.1.	**<u>History and Development of the Issuer</u>**		
5.1.1.	The legal and commercial name of the issuer	Prospectus	Cover Page
5.1.2	The place of registration of the issuer and its registration number	Chapter C	61 (3.1 Incorporation and Registration Number)
5.1.3	The date of incorporation and the length of life of the issuer, except where indefinite	Chapter C	61 (3.1 Incorporation and Registration Number)
5.1.4	The domicile and legal form of the issuer, the legislation under which the issuer operates, its country of incorporation, as well as the address and telephone number	Chapter C	61 (3.1 Incorporation and Registration Number)
5.1.5	Important events in the development of the issuer's business	Chapter C	All pages
5.2.	**<u>Investments</u>**		

Item #	Item contents	Chapter/Exhibit	Page/Section
5.2.1.	A description (including the amount) of the issuer's principal investments for each financial year for the period covered by the historical financial information up to the date of the prospectus	Chapter C	44 – 54 (1.12 Recent Business Acquisitions)
5.2.2.	A description of the issuer's principal investments that are in progress	Chapter C	44 – 45 (1.12 Recent Business Acquisitions: Polymedia Acquisition and ioko365 Acquisition)
5.2.3	Information concerning the issuer's principal future investments on which its management bodies have already made firm commitments	Not Applicable	Not Applicable
6.	**BUSINESS OVERVIEW**		
6.1.	**Principal Activities**		
6.1.1	A description of, and key factors relating to, the nature of the issuer's operations and its principal activities	Chapter C	64 – 66 (V. Business Overview and Competition)
6.2.	Principal markets	Chapter C	64 – 66 (V. Business Overview and Competition)
6.3.	Where the information given pursuant to items 6.1. and 6.2. has been influenced by exceptional factors, mention that fact	Not applicable	Not applicable
6.4.	The extent to which the issuer is dependent, on patents or licenses, industrial, commercial or financial contracts or new manufacturing processes	Chapter B	31 – 32 (Risk Factors– "We depend on various third parties…", "We license technology from third parties…", "We depend on content licensed to us by third parties…" and "If we do not adequately protect our intellectual property rights…")
6.5.	Issuer's competitive position	Chapter C	65 – 66 (5.2 Competition)

Item #	Item contents	Chapter/Exhibit	Page/Section
7.	**ORGANIZATIONAL STRUCTURE**		
7.1.	Description of the group	Exhibit VII	All Pages
7.2.	A list of the issuer's significant subsidiaries	Exhibit VII	All Pages
8.	**PROPERTY, PLANTS AND EQUIPMENT**		
8.1.	Information regarding any existing or planned material tangible fixed assets	Exhibit III	F-24 (Property and Equipment)
8.2.	Environmental issues that may affect the issuer's utilization of the tangible fixed assets	Not Applicable	Not Applicable
9.	**OPERATING AND FINANCIAL REVIEW**		
9.1.	Financial condition	Exhibit III	28 – 34 (Management's Discussion and Analysis of Financial Condition and Results of Operations)
9.2.	**Operating Results**		
9.2.1.	Significant factors materially affecting the issuer's income from operations	Exhibit I	14 – 20 (Management's Discussion and Analysis of Financial Condition and Results of Operations)
		Exhibit II	22 – 29 (Management's Discussion and Analysis of Financial Condition and Results of Operations)
		Exhibit III	28 – 33 (Management's Discussion and Analysis of Financial Condition and Results of Operations)
9.2.2	Material changes in net sales or revenues	Exhibit III	31 (Revenue)
9.2.3.	Governmental, economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, directly or indirectly, the issuer's operations	Chapter B	34 (Risk Factors – "Our international operations…" and "Violations of complex foreign…")
		Exhibit III	17 (Government Regulation)
		Exhibit III	34 (Quantitative and Qualitative Disclosure about Market Risk)

Item #	Item contents	Chapter/Exhibit	Page/Section
10.	**CAPITAL RESOURCES**		
10.1.	Issuer's capital resources	Exhibit III	33 (Liquidity and Capital Resources)
10.2.	Narrative description of the issuer's cash flows	Exhibit III	33 (Liquidity and Capital Resources)
10.3.	Information on the borrowing requirements and funding structure of the issuer	Exhibit III	33 (Liquidity and Capital Resources) 33 (Interest Expense) F-26 (Notes Payable)
10.4.	Information regarding any restrictions on the use of capital resources	Chapter C	40 (Dividend Rights)
		Exhibit III	25 (Paragraph beginning "We do not anticipate paying dividends…") 28 (Dividend Policy)
10.5.	Information regarding the anticipated sources of funds needed to fulfill commitments referred to in items 5.2.3. and 8.1.	Chapter C	42 - 43 (1.9 Use of Proceeds; 1.10 Reasons for the PSE listing)
		Exhibit III	33 (Liquidity and Capital Resources)
11.	**RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES**	Chapter B	30 (Risk Factors – "If we do not successfully develop …") 31 (Risk Factors – "We depend on various third parties to …") 31 (Risk Factors – "We license technology from third parties…") 31 (Risk Factors – "We depend on content licensed…") 32 (Risk Factors – "If we do not adequately protect…") 32 (Risk Factors – "If we are unable to retain…")
		Chapter C	56 (1.15 Research and Development)
12.	**TREND INFORMATION**		
12.1.	Significant trends that affected production, sales and inventory, and costs and selling prices since the end of the last financial year to the date of the prospectus	Chapter B	All pages
		Chapter C	65 – 66 (5.2 Competition)

Item #	Item contents	Chapter/Exhibit	Page/Section
		Exhibit III	16 (Our Industry)
12.2.	Trends, uncertainties or events that are likely to affect the issuer for at least the current financial year	Chapter B	All pages
		Exhibit III	16 (Our Industry) 17 (Government Regulation)
13.	**PROFIT FORECASTS OR ESTIMATES**	Not applicable	Not applicable
14.	**ADMINISTRATIVE, MANAGEMENT, SUPERVISORY BODIES AND SENIOR MANAGEMENT**		
14.1.	Names, business addresses and functions in the issuer of the following persons and an indication of the principal activities performed by them outside the issuer where these are significant with respect to that issuer: a) members of the administrative, management or supervisory bodies;	Chapter C	63 (IV. Directors and Executive Officers)
		Exhibit V	1 – 4 (Directors and Executive Officers)
	b) partners with unlimited liability, in the case of a limited partnership with a share capital;	Not applicable	Not applicable
	c) founders, if the issuer has been established for fewer than five years; and	Not applicable	Not applicable
	(b) any convictions in relation to fraudulent offences for at least the previous five years; (c) details of any bankruptcies, receiverships or liquidations with which a person described in (a) and (d) of the first subparagraph who was acting in the capacity of any of the positions set out in (a) and (d) of the first subparagraph was associated for at least the previous five years; (d) details of any official public incrimination and/or sanctions of such person by statutory or regulatory authorities (including designated professional bodies) and whether such person has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer for at least the previous five years. If there is no such information to be disclosed, a statement to that effect is to be made.	Exhibit V	1- 4 (Directors and Executive Officers)
		Chapter C	63 (IV. Directors and Executive Officers)
14.2.	Administrative, management, and supervisory bodies and senior management conflicts of interests	Chapter C	55 – 56 (1.14 Related Party Transactions) 58 – 59 (2.1.3 Commitments and Contingencies, paragraph beginning "*Employment Agreements*")
15.	**REMUNERATION AND BENEFITS**		

Item #	Item contents	Chapter/Exhibit	Page/Section
15.1.	The amount of remuneration paid to the members of the administrative, management, supervisory and senior management bodies or to the general managers of the issuer	Exhibit V	10 (Item 11. Executive Compensation) 16 (Equity Compensation)
15.2.	The total amounts set aside or accrued by the issuer or its subsidiaries to provide pension, retirement or similar benefits to the above persons	Not applicable	Not applicable
16.	**Board Practices**		
16.1.	Date of expiration of the current term of office, if applicable, and the period during which the person has served in that office	Chapter C	40 - 41 (Paragraph beginning, "*Voting Rights. Holders of Common Stock*…")
		Exhibit V	1 - 4 (Item 10. Directors and Executive Officers)
16.2.	Information about members of the administrative, management or supervisory bodies' service contracts with the issuer or any of its subsidiaries providing for benefits upon termination of employment	Exhibit V	11 (Item 10. Directors and Executive Officers)
16.3.	Information about the issuer's audit committee and remuneration committee, including the names of committee members and a summary of the of the terms of reference under which the committee operates	Exhibit V	4 (Item 10. Audit Committee; Compensation Committee; Nominations and Corporate Governance Committee)
16.4.	Compliance with corporate governance regime(s)	Exhibit V	5 - 6 (Item 10. Audit Committee; Compensation Committee; Nominations and Corporate Governance Committee) 8 (Item 10. Compliance with Section 16(a) of the Securities Exchange Act of 1934) 18 (Item 11. Code of Ethics)
17.	**EMPLOYEES**		
17.1.	Number of employees	Chapter C	67 (VII. Employees)
17.2.	Shareholdings and stock options with respect to each person referred to in points (a) and (d) of the first subparagraph of item 14.1.	Chapter C	66 – 67 (VI. Major Shareholders)
		Exhibit III	F 32 – F33 (Stock-Based Compensation)
		Exhibit V	9 – 17 (Item 11. KIT digital 2004 Stock Option Plan; KIT digital 2008 Incentive Stock Plan; Grants under the

Item #	Item contents	Chapter/Exhibit	Page/Section
			2008 Incentive Stock Plan)
17.3	Description of any arrangements for involving the employees in the capital of the issuer	Exhibit III	F–33 – F-34 (Stock Based Compensation)
		Exhibit V	9 – 17 (Item 11. KIT digital 2004 stock Option Plan; KIT digital 2008 Incentive Stock Plan; Grants under the 2008 Incentive Stock Plan)
18.	**Major Stockholders**		
18.1.	Name of any stockholders who are not members of administrative and/or management bodies	Chapter C	66 – 67 (VI. Major Shareholders)
18.2.	Whether the issuer's major stockholders have different voting rights	Chapter C	40 – 41 (Voting Rights)
18.3.	Information on the persons directly or indirectly controlling the issuer	Chapter C	66 – 67 (VI. Major Shareholders)
		Chapter C	55 – 56 (1.14 Related Party Transactions)
18.4.	Agreement known to the issuer that may result in a change in control of the issuer	Not applicable	Not applicable
19.	**RELATED PARTY TRANSACTIONS**	Chapter C	55 – 56 (1.14 Related Party Transactions)
		Exhibit III	F - 24 (Note 6. Related Party Transactions)
20.	**FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES**		
20.1.	Historical Financial Information Consolidated balance sheets of KIT digital as of December 31, 2010, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the year ended December 31, 2010	Exhibit III	F-3 (Consolidated Balance Sheets) F-4 (Consolidated Statements of Operations and Comprehensive Loss) F-5 – F-6 (Consolidated Statements of Stockholders' Equity) F-7 – F-8 (Consolidated Statements of Cash Flows) F-9 – F-36 (Notes to Consolidated Financial

Item #	Item contents	Chapter/Exhibit	Page/Section
			Statements)
	Consolidated balance sheets of KIT digital as of December 31, 2009 and 2008, the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2009	Exhibit II	F-4 (Consolidated Balance Sheets) F-5 (Consolidated Statements of Operations and Comprehensive Loss) F-6 – F-7 (Consolidated Statements of Stockholders' Equity) F-8 – F-9 (Consolidated Statements of Cash Flows) F- 9 – F-28 (Notes to Consolidated Financial Statements)
20.2.	Pro forma financial information	Not applicable	Not applicable
20.3.	Financial statements Consolidated balance sheets of KIT digital as of December 31, 2010, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the year ended December 31, 2010	Exhibit III	F-3 (Consolidated Balance Sheets) F-4 (Consolidated Statements of Operations and Comprehensive Loss) F-5 – F-6 (Consolidated Statements of Stockholders' Equity) F-7 – F-8 (Consolidated Statements of Cash Flows) F-9 – F-38 (Notes to Consolidated Financial Statements)
	Consolidated balance sheets of KIT digital as of December 31, 2009 and 2008, the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2009	Exhibit II	F-4 (Consolidated Balance Sheets) F-5 (Consolidated Statements of Operations and Comprehensive Loss) F-6 – F-7 (Consolidated Statements of Stockholders' Equity) F-8 – F-9 (Consolidated Statements of Cash Flows) F- 9 – F-38 (Notes to Consolidated Financial Statements)
20.4.	**Auditing of historical annual financial information**		

Item #	Item contents	Chapter/Exhibit	Page/Section
20.4.1.	Statement that the historical financial information has been audited Report of Independent Registered Public Accounting Firm on consolidated balance sheets of KIT digital as of December 31, 2010, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the year ended December 31, 2010	Exhibit III	F-2 (Report of Independent Registered Public Accounting Firm)
	Report of Independent Registered Public Accounting Firm on consolidated balance sheets of KIT digital as of December 31, 2009 and 2008, the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2009	Exhibit II	F-2 (Report of Independent Registered Public Accounting Firm)
20.4.2.	Indication of other information in the prospectus which has been audited by the auditors	Not applicable	Not applicable
20.4.3.	Unaudited financial data in prospectus	Chapter C	60 (2.3 Financial Information Concerning KIT digital, Inc. for the Three Months Ended March 31, 2011)
20.5.	**Age of latest financial information**		
20.5.1.	The last year of audited financial information	Exhibit III	F-2 (Report of Independent Registered Public Accounting Firm)
20.6.	**Interim and other financial information**		
20.6.1.	Quarterly or half yearly financial information since the date of the last audited financial statements	Chapter C	60 (2.3 Financial Information Concerning KIT digital, Inc. for the Three Months Ended March 31, 2011)
20.6.2.	Interim financial information	Chapter C	60 (2.3 Financial Information Concerning KIT digital, Inc. for the Three Months Ended March 31, 2011)
20.7.	**Dividend policy**	Chapter C	40 (Dividend Rights)
20.7.1.	The amount of the dividend per share for each financial year for the period covered by the historical financial information	Chapter C	40 (Dividend Rights)
		Exhibit III	28 (Dividend Policy)
20.8.	Legal and arbitration proceedings	Chapter C	54 – 55 (1.13 Legal Proceedings)

Item #	Item contents	Chapter/Exhibit	Page/Section
20.9.	Significant change in the issuer's financial or trading position	Chapter C	42 - 43 (1.9 Use of Proceeds; 1.10 Reasons for the PSE listing; 1.11 Market Capitalization)
		Exhibit III	F-11 (Cash and Cash Equivalents) F-8 (Fair Value of Financial Instruments; Risk Concentrations) F-12 (Derivative Financial Instruments)
21.	**ADDITIONAL INFORMATION**		
21.1.	**Share Capital**		
21.1.1.	The amount of issued capital	Chapter C	39 (1.1 Type and the Class of the Securities, Including the Security Identification Code)
21.1.2.	Shares not representing capital	Not applicable	Not applicable
21.1.3.	Shares in the issuer held by the issuer or subsidiaries	Not applicable	Not applicable
21.1.4.	The amount of any convertible securities, exchangeable securities or securities with warrants, with an indication of the conditions governing and the procedures for conversion, exchange or subscription	Exhibit III	F-3 (Consolidated Statements of Stockholders Equity) F-12 (Derivative Financial Instruments)
		Exhibit V	9 – 17 (Item 11. KIT digital 2004 stock Option Plan; KIT digital 2008 Incentive Stock Plan; Grants under the 2008 Incentive Stock Plan)
21.1.5.	Information about and terms of any acquisition rights and or obligations over authorized but unissued capital or an undertaking to increase the capital	Exhibit III	F – 32 (Paragraph beginning, "Also included in no-cash compensation…")
21.1.6.	Information about any capital of any member of the group which is under option or agreed conditionally or unconditionally to be put under option	Exhibit III	F-13 (Stock-Based Compensation) F-32 – F – 33 (Stock-Based Compensation)
		Exhibit V	9 – 17 (Item 11. KIT digital 2004 stock Option Plan; KIT digital 2008 Incentive Stock

Item #	Item contents	Chapter/Exhibit	Page/Section
			Plan; Grants under the 2008 Incentive Stock Plan)
21.1.7.	A history of share capital for the period covered by the historical financial information	Exhibit II	F-6 – F-7 (Consolidated Statements of Stockholders' Equity)
		Exhibit III	F-5 – F-6 (Consolidated Statements of Stockholders' Equity)
21.2.	**<u>Memorandum and Articles of Association</u>**		
21.2.1.	Issuer's objects and purposes	Chapter C	39 (1.2 Legislation and Authorization Under Which the Securities Have Been Created; Purpose)
21.2.2	A summary of any provisions of the issuer's articles of association, statutes, charter or bylaws with respect to the members of the administrative, management and supervisory bodies	Exhibit IV	II-1, (Item 15 Indemnification of Directors and Officers)
21.2.3.	A description of the rights, preferences and restrictions attaching to each class of the existing shares	Chapter C	39 – 41 (1.5 Rights Attached to the Common Stock)
21.2.4.	What action is necessary to change the rights of holders of the shares	Chapter C	40 – 41 (Voting Rights)
21.2.5.	Conditions governing the manner in which annual general meetings and extraordinary general meetings of stockholders are called	Chapter C	40 – 41 (Voting Rights)
21.2.6.	Provisions of the issuer's articles of association, statutes, charter or bylaws that would have an effect of delaying, deferring or preventing a change in control of the issuer	Chapter C	41 - 42 (1.6 General Provisions Applying to Business Combinations)
21.2.7.	An indication of the articles of association, statutes, charter or bylaw provisions, if any, governing the ownership threshold above which stockholder ownership must be disclosed	Not applicable	Not applicable
21.2.8.	A description of the conditions imposed by the memorandum and articles of association statutes, charter or bylaw governing changes in the capital, where such conditions are more stringent than is required by law	Not applicable	Not applicable
22.	**MATERIAL CONTRACTS**		
	Summary of material contracts	Chapter C	69 (XI. Summary of Material Contracts)
		Chapter C	44 – 54 (1.12 – Recent Business Acquisitions)
23.	**THIRD PARTY INFORMATION AND STATEMENT BY EXPERTS AND DECLARATIONS OF ANY INTEREST**		
23.1.	Where a statement or report attributed to a person as an expert is included in the Registration Document, provide such person's name, business address, qualifications and	Not applicable	Not applicable

Item #	Item contents	Chapter/Exhibit	Page/Section
	material interest if any in the issuer		
23.2.	Where information has been sourced from a third party, provide a confirmation that this information has been accurately reproduced	Not applicable	Not applicable
24.	**DOCUMENTS ON DISPLAY**	Chapter C	71 – 72 (XIII. Documents on Display)
25.	**INFORMATION ON HOLDINGS**	Chapter C	68 (IX. Organizational Structure)

ANNEX II

MINIMUM DISCLOSURE REQUIREMENTS FOR THE SHARE SECURITIES NOTE (SCHEDULE)

(Page numbering refers to the page contained in the relevant documents)

Item #	**Item contents**	**Chapter/Exhibit**	**Page/Section**
1.	**PERSONS RESPONSIBLE**		
1.1.	All persons responsible for the information given in the prospectus.	Prospectus	6 (Company Representative for Prospectus)
1.2.	A declaration by those responsible for the prospectus.	Prospectus	6 (Company Representative for Prospectus)
2.	**RISK FACTORS**	Chapter B	All pages
3.	**KEY INFORMATION**		
3.1	Working capital statement	Chapter C	68 (X. Working Capital Statement)
3.2	Capitalization and indebtedness	Chapter C	57 – 59 (2.1. Statement of Capitalization and Indebtedness as of December 31, 2010)
3.3	Interest of natural and legal persons involved in the issue/offer	Not applicable	Not applicable
3.4	Reasons for the offer and use of proceeds	Chapter C	42 – 43 (1.9 Use of Proceeds; 1.10 Reasons for the PSE listing)
4.	**INFORMATION CONCERNING THE SECURITIES TO BE OFFERED/ ADMITTED TO TRADING**		
4.1	Type and the class of the securities being offered, including the security identification code.	Chapter C	39 (1.1 Type and the Class of the Securities, Including the Security Identification Code)
4.2	Legislation under which the securities have been created.	Chapter C	39 (1.2 Legislation and Authorization Under Which the Securities Have Been Created; Purpose)
4.3	Form of securities, name and address of the entity in charge of keeping the records.	Chapter C	39 (1.3 Form of Securities, Name and Address of the Entity In Charge of Keeping the Records)
4.4	Currency of the securities issue.	Chapter C	39 (1.4 Currency of the Securities Issue)
4.5	Rights attached to the securities	Chapter C	39 – 41 (1.5 Rights

Item #	Item contents	Chapter/Exhibit	Page/Section
			Attached to the Common Stock)
4.6	Statement of the resolutions, authorizations and approvals by virtue of which the securities have been or will be created and/or issued.	Chapter C	39 (1.2 Legislation and Authorization Under Which the Securities Have Been Created; Purpose)
4.7	Expected issue date of the securities.	Not applicable	Not applicable
4.8	Description of any restrictions on the free transferability of the securities.	Not applicable	Not applicable
4.9	Mandatory takeover bids and/or squeeze-out and sell-out rules in relation to the securities.	Chapter C	41 – 42 (1.6 General Provisions Applying to Business Combinations and 1.7 Mandatory Squeeze-Out Rules in Relation to the Securities)
4.10	An indication of public takeover bids by third parties in respect of the issuer's equity, which have occurred during the last financial year and the current financial year.	Not applicable	Not applicable
4.11	Information on taxes on the income from the securities withheld at source	Chapter C	68 - 71 (XII. Tax Consequences)
5.	**TERMS AND CONDITIONS OF THE OFFER**		
5.1	**Conditions, offer statistics, expected timetable and action required to apply for the offer**		
5.1.1	Conditions to which the offer is subject.	Not applicable	Not applicable
5.1.2	Total amount of the issue/offer.	Not applicable	Not applicable
5.1.3	Time period during which the offer will be open and description of the application process.	Not applicable	Not applicable
5.1.4	Circumstances under which the offer may be revoked or suspended and whether revocation can occur after dealing has begun.	Not applicable	Not applicable
5.1.5	Possibility to reduce subscriptions and the manner for refunding excess amount paid by applicants.	Not applicable	Not applicable
5.1.6	Minimum and/or maximum amount of application.	Not applicable	Not applicable
5.1.7	Period during which an application may be withdrawn.	Not applicable	Not applicable
5.1.8	Method and time limits for paying up the securities and for delivery of the securities.	Not applicable	Not applicable
5.1.9	Manner and date in which results of the offer are to be made public.	Not applicable	Not applicable
5.1.10	Procedure for the exercise of any right of pre-emption.	Not applicable	Not applicable

Item #	Item contents	Chapter/Exhibit	Page/Section
5.2	**Plan of distribution and allotment**		
5.2.1.	The various categories of potential investors to which the securities are offered.	Not applicable	Not applicable
5.2.2.	Indication of whether major shareholders or members of the issuer's management, supervisory or administrative bodies intended to subscribe in the offer, or whether any person intends to subscribe for more than five per cent of the offer.	Not applicable	Not applicable
5.2.3.	Pre-allotment Disclosure:		
a)	The division into tranches of the offer;	Not applicable	Not applicable
b)	The conditions under which the claw-back may be used;	Not applicable	Not applicable
c)	The allotment method or methods to be used for the retail and issuer's employee tranche;	Not applicable	Not applicable
d)	Pre-determined preferential treatment to be accorded to certain classes of investors or certain affinity groups.	Not applicable	Not applicable
e)	Whether the treatment of subscriptions or bids to subscribe in the allotment may be determined on the basis of which firm they are made through or by;	Not applicable	Not applicable
f)	A target minimum individual allotment if any within the retail tranche;	Not applicable	Not applicable
g)	The conditions for the closing of the offer as well as the date on which the offer may be closed at the earliest;	Not applicable	Not applicable
h)	Whether or not multiple subscriptions are admitted.	Not applicable	Not applicable
5.2.4.	Process for notification to applicants of the amount allotted.	Not applicable	Not applicable
5.2.5.	Over-allotment and 'green shoe':	Not applicable	Not applicable
a)	The existence and size of any over-allotment facility and/or 'green shoe'.	Not applicable	Not applicable
b)	The existence period of the over-allotment facility and/or 'green shoe'.	Not applicable	Not applicable
c)	Any conditions for the use of the over-allotment facility or exercise of the 'green shoe'.	Not applicable	Not applicable
5.3	**Pricing**		
5.3.1.	An indication of the price at which the securities will be offered.	Not applicable	Not applicable
5.3.2.	Process for the disclosure of the offer price.	Not applicable	Not applicable
5.3.3.	If the issuer's equity holders have pre-emptive purchase rights and this right is restricted or withdrawn.	Not applicable	Not applicable
5.3.4	Where there is or could be a material disparity between the public offer price and the effective cash cost to members of the administrative, management or supervisory bodies or senior management, or affiliated persons, of securities acquired by them in transactions	Not applicable	Not applicable

Item #	Item contents	Chapter/Exhibit	Page/Section
	during the past year.		
5.4.	**Placing and Underwriting**		
5.4.1	Name and address of the co-coordinator(s) of the global offer.	Not applicable	Not applicable
5.4.2	Name and address of any paying agents and depository agents in each country.	Not applicable	Not applicable
5.4.3.	Name and address of the entities agreeing to underwrite the issue on a firm commitment basis.	Not applicable	Not applicable
5.4.4.	When the underwriting agreement has been or will be reached.	Not applicable	Not applicable
6.	**ADMISSION TO TRADING AND DEALING ARRANGEMENTS**		
6.1	Whether the securities offered are or will be the object of an application for admission to trading.	Chapter C	68 (8.1 Listing and Trading)
6.2	Regulated markets or equivalent markets on which securities of the same class of the securities to be offered or admitted to trading are already admitted to trading.	Chapter C	68 (8.1 Listing and Trading)
6.3	Simultaneous private placement.	Chapter C	68 (8.1 Listing and Trading)
6.4	Details of the entities which have a firm commitment to act as intermediaries in secondary trading, providing liquidity.	Not applicable	Not applicable
6.5	**Stabilization**		
6.5.1.	The fact that stabilization may be undertaken, that there is no assurance that it will be undertaken and that it may be stopped at any time,	Not applicable	Not applicable
6.5.2.	The beginning and the end of the period during which stabilization may occur,	Not applicable	Not applicable
6.5.3.	Identity of the stabilization manager	Not applicable	Not applicable
6.5.4.	The fact that stabilization transactions may result in a market price that is higher than would otherwise prevail.	Not applicable	Not applicable
7.	**SELLING SECURITIES HOLDERS**		
7.1.	Name and business address of the person or entity offering to sell the securities.	Not applicable	Not applicable
7.2.	The number and class of securities being offered by each of the selling security holders.	Not applicable	Not applicable
7.3.	Lock-up agreements	Not applicable	Not applicable
8.	**EXPENSE OF THE ISSUE/OFFER**		
8.1.	The total net proceeds and an estimate of the total expenses of the issue/offer.	Not applicable	Not applicable
9.	**DILUTION**		
9.1.	The amount and percentage of immediate dilution resulting from the offer.	Not applicable	Not applicable

Item #	Item contents	Chapter/Exhibit	Page/Section
9.2.	In the case of a subscription offer to existing equity holders, the amount and percentage of immediate dilution if they do not subscribe to the new offer.	Not applicable	Not applicable
10.	**ADDITIONAL INFORMATION**		
10.1.	If advisors connected with an issue are mentioned in the Securities Note, a statement of the capacity in which the advisors have acted.	Not applicable	Not applicable
10.2.	An indication of other information in the Securities Note which has been audited or reviewed by statutory auditors.	Not applicable	Not applicable
10.3.	Where a statement or report attributed to a person as an expert is included in the Securities Note, provide such persons' name, business address, qualifications and material interest if any in the issuer.	Not applicable	Not applicable
10.4.	Where information has been sourced from a third party.	Not applicable	Not applicable

EXHIBIT I

ANNUAL REPORT ON FORM 10-K FILED BY KIT DIGITAL, INC. WITH THE SEC ON APRIL 15, 2009

10-K 1 v146280_10k.htm

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

FORM 10-K

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

For the fiscal year ended December 31, 2008 Commission file number: 000-25659

KIT digital, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**11-3447894**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
168 Fifth Avenue, Suite 301 **New York, New York**	**10010**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(646) 502-7484**

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $0.001 per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☑

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

Yes ☐ No ☑

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

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

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

☐ Large accelerated filer	☐ Non-accelerated filer
☐ Accelerated filer	☑ Smaller reporting company

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

The aggregate market value of the common equity held by non-affiliates of the registrant was $24,861,523 as of June 30, 2008.

Number of shares outstanding of the registrant's common stock as of April 10, 2009: 4,586,700 shares.

KIT digital, Inc.

2008 FORM 10-K ANNUAL REPORT

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PART I

ITEM 1. BUSINESS

Overview of Our Business

KIT digital provides enterprise clients an end-to-end technology platform for managing Internet Protocol (“IP”)-based video, including ingestion, transcoding, storage, metatagging, localization, editing/repurposing, search optimization, advertising, syndication and unicast distribution. KIT digital’s “VX” software is used to manage consumer-focused video distribution for content owners, distributors and network providers, and is used to manage corporate video assets and video-based marketing programs for enterprises in the retail/franchising, consumer & packaged goods, financial services, automotive and government segments. The KIT VX solution allows for the management of IP-based video assets for consumption across the “3 screens”: the computer internet browser, mobile device and television sets enabled to view programming delivered via the internet called Internet Protocol Television or (“IPTV”). We offer creative interface design, branding, strategic planning and technical integration professional services to complement and enhance the use of our VX software platform. Our clients can also also access approximately 100 KIT-syndicated channels and 40,000 KIT-syndicated videos.

KIT digital has hundreds of clients from over 30 countries. Our clients include ABC Disney, Associated Press, General Motors, Google, IMG, Kmart, Nasdaq, News Corp, RCS, Telefonica and Verizon.

We have principal offices in Dubai, Melbourne (Australia), Prague, Toronto, Stockholm, New York and London, with sales or representative offices in Bogota, Buenos Aires, Cairo and Singapore.

Corporate Information

Our registered headquarters is located at 168 Fifth Avenue, Suite 301, New York, New York 10010, and our telephone number is +1 (646) 502-7484. We maintain a corporate website at www.kitd.com. The contents of our website are not part of this annual report.

On March 6, 2009, we filed a certificate of amendment of our certificate of incorporation to (i) effect a 1-for-35 reverse stock split of our common stock; (ii) decrease the total number of shares of common stock authorized to be issued from 500,000,000 shares to 30,000,000 shares; and (iii) eliminate the authorization of a class of preferred stock. The changes made by the certificate of amendment were effective on March 9, 2009. We presently have 4,586,700 outstanding shares of common stock. Effective March 9, 2009, our ticker symbol on the OTC Bulletin Board was changed to “KDGL” from “KITD.”

All share numbers and prices appearing in this annual report have been adjusted to reflect the 1-for-35 reverse stock split of our outstanding shares of common stock, except where otherwise indicated.

Organizational History

We were originally incorporated in Delaware in August 1998 under the name Virilitec Industries, Inc. For approximately five years prior to December 2003, Virilitec engaged in unrelated business activities.

In December 2003, Virilitec completed a reverse merger transaction with our legal predecessor, ROO Media Corporation (“ROO Media”), a Delaware corporation formed in March 2001, which was substantially engaged in our present line of business. During 2001 and 2002, ROO Media focused on developing and refining its products and solutions, commencing commercial sales of its solutions in late 2003. ROO Media originally developed a technology platform designed to provide a cost effective, robust and scalable solution to manage and syndicate video content over the Internet. In February 2004, we changed our corporate name to ROO Group, Inc.

In December 2007, we entered into an agreement with KIT Capital, Ltd. (“KIT Capital”), a company beneficially controlled and led by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, under which KIT Capital has provided us managerial services and substantial equity investment (see “Employment and Management Agreements” below). In May 2008, we again changed our corporate name to our present name, KIT digital, Inc.

In May 2008, we completed a private placement of 2,142,858 shares of our common stock at a price of $7.00 per share, and warrants to purchase 2,142,858 shares of common stock at an exercise price of $11.90 per share, resulting in aggregate gross cash proceeds of $15,000,000. In the private placement, KIT Media, Ltd. (“KIT Media”), a company controlled by Mr. Isaza Tuzman and affiliated with KIT Capital, purchased 1,008,572 shares of common stock and warrants to purchase a like number of shares of common stock.

In addition to its investment of $7,060,000 in the May 2008 private placement, KIT Media purchased 892,858 shares of common stock at a price of $5.60 per share (for total gross cash proceeds to us of $5,000,000) during the course of 2008, pursuant to KIT Capital's December 2007 agreement with us. In conjunction with the purchase of these shares, KIT Media acquired warrants to purchase 580,358 shares of common stock at an exercise price of $11.90 per share, subject to the occurrence of certain events that could potentially reduce the exercise price to $5.60 per share.

KIT Media and KIT Capital currently own approximately 41.85% of our outstanding shares of common stock.

During 2008, we acquired the remaining 49% minority interest of one of our subsidiaries. We also completed two primary acquisitions and one minor acquisition, allowing us to complement our geographical coverage, and service and technology offerings.

Recent Business Acquisitions

Sputnik Acquisition

On May 14, 2008, the Company finalized its purchase of the original 51% interest in Sputnik Agency Pty. Ltd. ("Sputnik") and acquired the remaining 49% of that entity, for consideration paid of $4,563,000. A total of $3,530,000 was paid in cash to the sellers, $751,000 was applied against outstanding loans by the Company's 51%-owned subsidiary Reality Group Pty. Ltd. ("Reality") to Sputnik's selling shareholders, and $282,000 was deposited in escrow against certain potential liabilities. In November 2008, the escrow was released to Sputnik's selling shareholders. Therefore, the aggregate cost of the acquisition was $4,656,000, which includes $93,000 in legal costs related to the acquisition.

Sputnik's sellers and certain of its employees entered into employment agreements providing, among other things, for their continued employment with Sputnik and /or Reality and certain restrictive covenants.

Kamera Acquisition

On May 19, 2008, we acquired 100% of Kamera Content AB, ("Kamera") a Stockholm, Sweden-based company in the business of managing, developing and syndicating video content for mobile and online distribution. Through its proprietary software, transcoding and content distribution protocols, Kamera enables corporate clients such as Associated Press, ABC News, Vodafone, MSN, Orange, Telefonica, O2, Hutchinson and China Mobile to deliver IP video to their customers over mobile and online networks.

On closing, we paid $4,500,000 less certain amounts previously owed to us by Kamera, to the shareholders of Kamera. Pursuant to the terms of the transaction, we paid an additional $1,500,000 in consideration in March 2009, and the Kamera shareholders may be entitled to up to an additional $4,500,000 of consideration payable in 2009 and 2010, subject to the achievement of certain performance tests. The contingent consideration is payable in our publicly traded shares, valued at current market prices or cash, as we determine. The performance criteria relate to retention of staff and clients, and the maintenance and growth of client revenue and our mobile revenue over the two years ending March 31, 2010.

Kamera's software and technical services have become integrated into the Company's VX software platform.

Morpheum Acquisition

On August 31, 2008, we acquired 100% of Morpheum Internet Services Pty. Ltd. ("Morpheum") , a Melbourne, Australia-based company, for consideration paid at closing of $734,000, plus $56,000 in legal and consulting costs related to the acquisition for an aggregate cost of $790,000. Morpheum is one of Asia's leading providers of web-based content management systems ("CMS"). Morpheum's software, LanternCMS, has become integrated into the Company's VX software platform.

Visual Connection Acquisition

On October 5, 2008, through our wholly-owned subsidiary, KIT digital FZ-LLC, we acquired 100% of Visual Connection, a.s., Czech Republic-based company ("Visual") specializing in the supply and delivery of comprehensive IPTV solutions. Visual's clients include television and radio stations, graphics publishers, audiovisual production and post production houses, governmental entities, education companies, telephone companies and healthcare providers.

Taking into account certain adjustments made to the original Visual Share Purchase Agreement made in March 2009, the purchase price of Visual was:

(a) $1,180,000 in cash;

(b) $1,500,000 in shares of our common stock for a total of 163,043 shares, which are restricted for sale for 12 months thereafter;

(c) potential earn-out payment aggregating to $3,225,000 in shares of our common stock (determined based on the the higher of (i) the 20-day trailing weighted average closing price per share prior to the respective payment date, and (ii) a price "floor" of $7.70 per share), payable in three equal installments of $1,075,000, 12, 18 and 24 months following closing, subject in each case to achievement of certain levels of the Company's net revenues and EBITDA. and the retention of key Visual personnel; and

(d) an additional potential earn-out of $2,100,000 of shares of our common stock (determined based on the the higher of (i) the 20-day trailing weighted average closing price per share prior to the respective payment date, or (ii) a price "floor" of $7.70 per share), for achieving certain other net revenues and EBITDA targets over the 24 month period following closing.

KIT retains the right to substitute payments in cash for all potential issuances of common stock described above, irrespective of the trading price of our common stock.

Purchase of Reality Minority Interest

On March 6, 2009, we acquired the 49% of Reality we did not already own, in consideration for issuing the sellers 90,073 shares of our common stock, valued at $631,000 at the time of issuance.

Operations Strategy

During 2008, we made significant successful changes to the operations of our business, including: (a) implementation of company-wide focus on enterprise software sales and related services; (b) elimination of non-core activities related to network advertising, ad sales, peer-to-peer networking, content production and consumer portals; (c) reduction of overall general and administrative cost structure; (d) hiring of key management, technical and sales personnel; (e) implementation of a company-wide sales commissions program; (f) improved efficiency and reductions in variable costs such as storage and streaming services; (g) initial integration of various product modules from acquired entities into integrated VX software suite; (h) consolidation of technical development personnel in Prague and Toronto; and (i) relocation of operational headquarters from New York to Dubai.

We are focused on the ongoing integration of our regional offices and products units. Operational initiatives begun and continuing in 2009 include: (i) increased standardization of client contracts; (ii) improvement of existing company-wide sales commissions program; (iii) regional expansion and salesforce development in Asia; (iv) improvement of behavioral analytics and report-routing capabilities on the VX platform; (v) development of "off-deck" mobile publishing and delivery capabilities; and (vi) introduction of inter-departmental invoicing and cost-based accounting.

Intellectual Property

We depend on a portion of technology licensed to us by third parties and a portion owned and developed by us. We license technology from third parties, including software that is integrated with internally-developed software and used in our products to perform certain functions.

Products and Services

Our KIT VX technology platform allows enterprise clients to more effectively manage IP-based video assets, for use in browser, mobile handset and IPTV set-top box environments. VX is comprised of modular capabilities, administered by our proprietary content management system. Our standard product offering within VX includes:

- Ingestion (including satellite or IP-based signal capture)
- Transcoding
- Content meta-tagging and editing tools
- Storage
- Online and mobile video players
- Integration with ad-serving platforms
- Payment gateway integration
- Search engine optimization
- Optical character, speech-to-text and facial recognition
- Streaming and delivery
- Dashboard usage metrics

Our professional services offering includes strategic planning, interface design and deployment, brand positioning and merchandising, content repurposing and syndication, systems integration, and deployment of IP-based recording and editing suites.

Competition

Our industry is characterized primarily by the expansion of the Internet as a means to store, manipulate and deliver video. This expansion is in turn driven by increased broadband and 3G mobile network penetration globally.

We believe that few competitors provide the range of functionality provided by our VX software suite, but there are a number of competitors that provide certain elements of the products and services we offer, including:

- Video content management and enablement; and
- Video-centric interface design and creative services.

We believe the key barriers to entry for the industry in which we operate are: (i) the intellectual property, timeframe and costs to develop commercially robust, feature-rich video content management platforms for online, mobile and IPTV networks, (ii) established enterprise-class business relationships and (iii) the time and resources involved to train and develop interface design, creative services and technical integration professional services staff with IP video expertise.

Video content management and enablement. There are a number of companies that offer competing tools for enabling video content for consumption via the Internet and mobile networks, including The Platform, Brightcove, Saffron Digital, Onstream Media, Silverback Media, Entriq and The FeedRoom.

Video-centric interface design and creative services. There are myriad interactive marketing agencies globally, many of which have some expertise in IP-based video-centric design.

We believe that we set ourselves apart from our competitors via:

- The breadth and depth of the VX suite functionality;

- Our global client and sales footprint, including multicultural and multilingual client services (as opposed to United States focus only);

- Our integrated online, mobile and IPV set-top box video content enablement capability (as opposed to online only), and

- Our multi-format content syndication and repurposing capability; and

- Our creative services and integration capabilities (as opposed to software provision only).

Government Regulation

We are subject to risks associated with governmental regulation and legal uncertainties. Few existing laws or regulations specifically apply to the Internet, other than laws and regulations generally applicable to businesses. Many laws and regulations, however, are pending and may be adopted in the United States, individual states and local jurisdictions and other countries with respect to the Internet. These laws may relate to many areas that impact our business, including content issues (such as obscenity, indecency and defamation), caching of content by server products, and the convergence of traditional communication services with Internet communications, including the future availability of broadband transmission capability and wireless networks. These types of regulations are likely to differ between countries and other political and geographic divisions. Other countries and political organizations are likely to impose or favor more and different regulation than that which has been proposed in the United States, thus furthering the complexity of regulation. The adoption of such laws or regulations, and uncertainties associated with their validity, interpretation, applicability and enforcement, may affect the available distribution channels for and costs associated with our products and services, and may affect the growth of the Internet. Such laws or regulations may harm our business. Our products and services may also become subject to investigation and regulation of foreign data protection authorities, including those in the European Union. Such activities could result in additional product and distribution costs for us in order to comply with such regulation.

Research and Development

We continue to pursue opportunities to improve and expand our products and services and have dedicated resources which continue to review and enhance our technology platform and the products and solutions we offer. Currently, research and development is conducted internally, as well as through outsourcing agreements. We plan to consider opportunities to expand our current content categories to offer specific lifestyle, children’s content, sport, science and educational content. We also explore opportunities including both internal product development initiatives, as well as partnership opportunities with best-in-class providers of technology such as Akamai, Viewdle and Pando Networks to further enhance our distribution and technological infrastructure, and maintain our competitive position. We cannot assure you, however, that we will achieve our research and development goals.

Employees

As of April 1, 2009, we had a total of 172 full-time employees, 16 part-time employees and 10 consultants based in Asia, Europe, the Middle East and the Americas. We consider our relations with our employees and consultants to be good. We have no labor unions.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below as well as other information provided to you in this annual report, including information in the section of this document entitled “Forward-Looking Statements.” The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently believe are 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 adversely affected, the value of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business

We have a history of losses which may continue and which may negatively impact our ability to achieve our business objectives.

We have incurred losses since our inception. For the years ended December 31, 2008 and 2007, we generated revenue of $23,401,000 and $13,929,000, respectively, and incurred net losses of $18,975,000 and $34,564,000, respectively. At December 31, 2008, we had working capital of $2,011,000 (total current assets less total current liabilities not including the acquisition liabilities payable in stock) and an accumulated deficit of $82,499,000. There can be no assurance that future operations will be profitable. A failure to increase our revenues significantly or improve our gross margins will harm our business. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis in the future. If our revenues do not grow at an appropriate rate, our gross margins erode or do not improve, or our operating expenses increase at a rate greater than our revenue increase, our operating results will suffer. The prices we charge for our products and services may decrease, which would reduce our revenues and harm our business. If we are unable to sell our products or services at acceptable prices relative to our costs, or if we fail to develop and introduce on a timely basis new products and services from which we can derive additional revenues, our financial results will suffer.

Our operating units have limited operating histories and we cannot ensure the long-term successful operation of our business.

Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by growing companies in new and rapidly evolving markets, such as the digital media software markets, in which we operate. We must meet many challenges including:

- Establishing and maintaining broad market acceptance of our products and services, and converting that acceptance into direct and indirect sources of revenue;
- Establishing and maintaining adoption of our technology on a wide variety of platforms and devices;
- Timely and successfully developing new products, product features and services, and increasing the functionality and features of existing products and services;
- Developing services and products that result in high degrees of customer satisfaction and high levels of customer usage;
- Successfully responding to competition, including competition from emerging technologies and solutions;
- Developing and maintaining strategic relationships to enhance the distribution, features, content and utility of our products and services; and
- Identifying, attracting and retaining talented technical and creative services staff at reasonable compensation levels.

Our business strategy may be unsuccessful and we may be unable to address the risks we face in a cost-effective manner, if at all. If we are unable to successfully address these risks, our business will be harmed.

Our resources may not be sufficient to manage our expected growth; failure to properly manage our potential growth would be detrimental to our business.

We may fail to adequately manage our anticipated future growth. Any growth in our operations may place a significant strain on our administrative, financial and operational resources, and increase demands on our management and on our operational and administrative systems, controls and other resources. We cannot assure you that our existing personnel, systems, procedures or controls will be adequate to support our operations in the future or that we will be able to successfully implement appropriate measures consistent with our growth strategy. As part of this growth, we may have to implement new operational and financial systems, procedures and controls to expand, train and manage our employee base, and maintain close coordination among our technical, accounting, finance, marketing, sales and editorial staff. We cannot guarantee that we will be able to do so, or that if we are able to do so, we will be able to effectively integrate them into our existing staff and systems. There may be greater strain on our systems mainly because we have acquired several businesses over the last 15 months and have had to devote significant management time and expense to the ongoing integration and alignment of management, systems, controls and marketing. To the extent we acquire other businesses, we will also need to integrate and assimilate new operations, technologies and personnel. If we are unable to manage growth effectively, such as if our sales and marketing efforts exceed our capacity to install, maintain and service our products or if new employees are unable to achieve performance levels, our business, operating results and financial condition could be materially adversely affected.

If we do not successfully develop new products and services, our business will be harmed.

Our business and operating results would be harmed if we fail to expand our suite of products and services (either through internal product or capability development initiatives or through partnerships with best-in-class providers of digital media technologies) that achieve widespread market acceptance or that fail to generate significant revenue or gross profits to offset our operating and other costs. We may not successfully identify, develop and market new product and service opportunities in a timely manner. If we introduce new products and services, they may not attain broad market acceptance or contribute meaningfully to our revenue or profitability. Competitive or technological developments may require us to make substantial, unanticipated investments in new products and technologies or in new strategic partnerships, and we may not have sufficient resources to make these investments. Because the markets for our products and services are subject to rapid change, we must expand and/or evolve our product and service offerings quickly. Delays and cost overruns could affect our ability to respond to technological changes, evolving industry standards, competitive developments or customer requirements.

If use of the Internet or wireless data market does not continue to grow, or if the Internet or wireless infrastructure cannot support demands placed on it by continued growth, our business will be harmed.

The growth of our business depends on the continued growth of the Internet as a medium for media consumption, communications, electronic commerce and advertising, and also on the growth of the wireless data market, including the growth of devices with multimedia capability. Our business will be harmed if these markets and usage do not continue to grow, particularly as a source of media information and entertainment and as a vehicle for commerce in goods and services, or if widespread adoption of technology to access data and multimedia content on wireless devices does not occur. If Internet usage and the wireless data market grow, the Internet and wireless infrastructure may not be able to support the demands placed on it by such growth, specifically the demands of delivering high-quality media content. If this were to occur, our business and financial condition would be harmed.

We may be subject to legal liability for providing third-party products, services or content.

We have arrangements to offer third-party products, services, content or advertising via distribution on our websites. We may be subject to claims concerning these products, services, content or advertising by virtue of our involvement in marketing, branding, broadcasting or providing access to them, even if we do not ourselves host, operate, or provide access to these products, services, content or advertising. While our agreements with these parties often provide that we will be indemnified against such liabilities, such indemnification may not be adequate. It is also possible that if any information provided directly by us contains errors or is otherwise negligently provided to users, third parties could make claims against us. Investigating and defending any of these types of claims is expensive, even if the claims do not result in liability. While to date we have not been subject to material claims, if any potential claims do result in liability, we could be required to pay damages or other penalties, which could harm our business and our operating results.

Our competitors may be larger and have greater financial and other resources than we do and those advantages could make it difficult for us to compete with them.

The market for software and services for media delivery over the Internet is relatively new and constantly changing. We expect that competition will continue to intensify. Increased competition may result in price reductions, reduced margins, loss of customers, and changes in our business and marketing strategies, any of which could harm our business. Current and potential competitors may have longer operating histories, greater name recognition, more employees and significantly greater financial, technical, marketing, public relations and distribution resources than we do. In addition, new competitors with potentially unique or more desirable products or services may enter the market at any time. The competitive environment may require us to make changes in our products, pricing, licensing, services or marketing to maintain and extend our current brand and technology. Price concessions or the emergence of other pricing, licensing and distribution strategies or technology solutions of competitors may reduce our revenue, margins or market share, any of which will harm our business. Other changes we have to make in response to competition could cause us to expend significant financial and other resources, disrupt our operations, strain relationships with partners, or release products and enhancements before they are thoroughly tested, any of which could harm our operating results and stock price.

Any failure of our network could lead to significant disruptions in our services business, which could damage our reputation, reduce our revenues or otherwise harm our business.

Our business is dependent upon providing our customers with fast, efficient and reliable services. A reduction in the performance, reliability or availability of our websites and network infrastructure may harm our ability to distribute our products and services to our clients, as well as our reputation and ability to attract and retain clients, customers, advertisers and content providers. Our systems and operations are susceptible to, and could be damaged or interrupted by outages caused by fire, flood, power loss, telecommunications failure, Internet or mobile network breakdown, earthquake and similar events. Our systems are also subject to human error, security breaches, power losses, computer viruses, break-ins, “denial of service” attacks, sabotage, intentional acts of vandalism and tampering designed to disrupt our computer systems, websites and network communications, and our systems could be subject to greater vulnerability in periods of high employee turnover. A sudden and significant increase in traffic on our websites or demand from the mobile users could strain the capacity of the software, hardware and telecommunications systems that we deploy or use. This could lead to slower response times or system failures. Our failure to protect our network against damage from any of these events will harm our business.

Our operations also depend on receipt of timely feeds from our content providers, and any failure or delay in the transmission or receipt of such feeds could disrupt our operations. We also depend on web browsers, Internet service providers ("ISPs") and online service providers to provide Internet users access to our websites and the websites of our customers on which we display advertising. Many of these providers have experienced significant outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to our systems.

We depend on various third parties to maintain our communications hardware and perform most of our computer hardware operations. If the third parties' hardware and operations fail, our business will be harmed.

Substantially all of our communications hardware and most of our computer hardware operations are operated by third parties. If any of these providers' hardware and operations fail, our reputation and business will suffer. We do not have complete backup systems for these operations. We have a limited disaster recovery plan in the event of damage from fire, floods, hurricanes, earthquakes, power loss, telecommunications failures, break-ins and similar events. Our operations are dependent on our ability to protect our computer systems against these unexpected adverse events. If any of the foregoing occurs, we may experience a complete system shutdown. We have service level agreements in place with some telecommunication providers. A problem with, or failure of, our communications hardware or operations could result in interruptions or increases in response times on the Internet sites of our customers. If we cannot maintain our system in the event of unexpected occurrences, make necessary modifications and/or improvements to the technology, such deficiencies could have a material adverse effect upon our business, financial condition and results of operations.

We depend on technology licensed to us by third parties. If we are unable to maintain these licenses, our operations and financial condition will be materially adversely affected.

We license technology from third parties, including software that is integrated with internally developed software and used in our products to perform key functions. The loss of, or our inability to maintain, these licenses could result in increased costs or delay sales of our products. We anticipate that we will continue to license technology from third parties in the future. This technology may not continue to be available on commercially reasonable terms, if at all. Although we do not believe that we are substantially dependent on any individual licensed technology, some of the software that we license from third parties could be difficult for us to replace. The loss of any of these technology licenses could result in delays in the license of our products until equivalent technology, if available, is developed or identified, licensed and integrated. The use of additional third-party software would require us to negotiate license agreements with other parties, which could result in higher royalty payments and a loss of product differentiation.

We depend on content licensed to us by third parties. If we are unable to maintain these licenses, our operations and financial condition will be materially adversely affected.

We rely on content provided by third parties to increase market acceptance of our products and services. Currently, our major third-party content providers are Associated Press, ABC News, IMG, Reuters and Fox. If third parties do not develop or offer compelling content to be delivered over the Internet or wireless data market, or grant necessary licenses to us or our customers to distribute or perform such content, our business will be harmed and our products and services may not achieve or sustain broad market acceptance. We rely on third-party content providers to develop and offer content in formats that can be delivered using our products. We also rely entirely on third-party content for our programming and content offerings. In some cases, we pay substantial fees to obtain content for these services. We cannot guarantee that third-party content providers will continue to support our technology or offer compelling content in our formats, nor can we guarantee that we will be able to secure licenses to third-party content or that such licenses will be available at commercially reasonable rates, to encourage and sustain broad market acceptance of our products and services. The failure to do so would materially adversely harm our business operations and financial condition.

If we do not adequately protect our intellectual property rights, we may experience a loss of revenue and our operations may be materially harmed.

A portion of our software was acquired from third parties. We have not registered copyrights on any of the software we have developed. We rely upon confidentiality agreements signed by our employees, consultants and third parties to protect our intellectual property. We cannot assure you that we can adequately protect our intellectual property or successfully prosecute potential infringement of our intellectual property rights. Also, we cannot assure you that others will not assert rights in, or ownership of, trademarks and other proprietary rights of ours or that we will be able to successfully resolve these types of conflicts to our satisfaction. Our failure to protect our intellectual property rights may result in a loss of revenue and could materially adversely affect our operations and financial condition.

If we are unable to retain the services of Kaleil Isaza Tuzman and Gavin Campion or if we are unable to successfully recruit qualified personnel, we may not be able to continue operations.

Our success depends to a significant extent upon the continued service of Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, and Gavin Campion, our President. The loss of the services of Mr. Isaza Tuzman and Mr. Campion could have a material adverse effect on our growth, revenues, and prospective business. We have entered into an executive management agreement with KIT Capital, an entity beneficially controlled by Mr. Isaza Tuzman, providing for the services of Mr. Isaza Tuzman and other KIT Capital personnel, for a term of three years, pursuant to which Mr. Isaza Tuzman serves as Chief Executive Officer. We have also entered into an employment agreement with Mr. Campion. If either Mr. Isaza Tuzman or Mr. Campion were to resign, the loss could result in loss of sales, delays in new product development and diversion of management resources, and we could face high costs and substantial difficulty in hiring a qualified successor and could experience a loss in productivity while any such successor obtains the necessary training and experience. In addition, in order to successfully implement and manage our business plan, we are dependent upon, among other things, successfully recruiting qualified personnel who are familiar with the specific issues facing the Internet media industry. In particular, we must hire and retain experienced management personnel to help us continue to grow and manage our business, and skilled software engineers to further our research and development efforts. Competition for qualified personnel is intense. If we do not succeed in attracting new personnel or in retaining and motivating our current personnel, our business could be harmed.

We may be unable to integrate successfully recent acquisitions and realize the full benefits of the combined businesses.

The acquisitions of Kamera, Morpheum and Visual have involved the integration of businesses that have previously operated separately. The difficulties of combining the operations of these businesses include:

- the challenge of effecting integration while carrying on the ongoing businesses;

- the necessity of coordinating geographically separate organizations; and

- effective integration of personnel with diverse business backgrounds.

Poorly handling the process of integrating operations could cause an interruption of, or a lessening of our activities and the loss of key personnel. The diversion of management's attention, or any delays or difficulties encountered in connection with the integration of the acquired operations could have an adverse effect on our business, financial condition or results of operations.

Our growth strategy depends, in part, on our acquiring complementary businesses and assets and expanding their existing operations, which we may be unable to do.

Our growth strategy is based, in part, on our ability to acquire other complementary businesses and assets. The success of this acquisition strategy will depend, in part, on our ability to accomplish the following:

- Identify suitable businesses or assets to buy;
- Complete the purchase of those businesses on terms, or over a timeframe, acceptable to us; and
- Improve the results of operations of each of the businesses that we buy or successfully integrate its operations.

There can be no assurance that we will be successful in pursuing any or all of these steps. Our failure to implement our acquisition strategy could have an adverse effect on other aspects of our business strategy and our business in general.

Fluctuations in foreign currency exchange rates affect our operating results in U.S. dollar terms.

A portion of our revenues arises from international operations. Revenues generated and expenses incurred by our international subsidiaries are often denominated in the currencies of the local countries. As a result, our consolidated U.S. dollar financial statements are subject to fluctuations due to changes in exchange rates as the financial results of our international subsidiaries are translated from local currencies into U.S. dollars. In addition, our financial results are subject to changes in exchange rates that impact the settlement of transactions in non-local currencies.

We may be required to record a significant charge to earnings if our goodwill, amortizable intangible assets, or investments in equity interests become impaired.

We are required under generally accepted accounting principles to test goodwill for impairment at least annually and to review our amortizable intangible assets and investments in equity interests for impairment when events or changes in circumstance indicate the carrying value may not be recoverable. Factors that could lead to impairment of goodwill and amortizable intangible assets include significant adverse changes in the business climate and declines in the financial condition of our business. Factors that could lead to impairment of investments in equity interests include a prolonged period of decline in the stock price or operating performance of, or an announcement of adverse changes or events by, the company in which we invested. We have recorded and may be required in the future to record additional charges to earnings if a portion of our goodwill, amortizable intangible assets, or investments in equity interests becomes impaired. Any such charge would adversely impact our results.

Our international operations are subject to increased risks which could harm our business, operating results and financial condition.

In addition to uncertainty about our ability to continue to generate revenues from our foreign operations and expand our international market position, there are risks inherent in doing business internationally, including:

- trade barriers and changes in trade regulations;
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;
- the need to comply with varied local laws and regulations;
- longer payment cycles;
- Possible credit risk and higher levels of payment fraud;
- profit repatriation restrictions and foreign currency exchange restrictions;
- political or social unrest, economic instability or human rights issues;
- geopolitical events, including acts of war and terrorism;
- import or export regulations;
- compliance with U.S. laws (such as the Foreign Corrupt Practices Act), and local laws prohibiting corrupt payments to government officials;
- laws and business practices that favor local competitors or prohibit foreign ownership of certain businesses; and
- different and more stringent user protection, data protection, privacy and other laws.

Violations of complex foreign and U.S. laws and regulations that apply to our international operations could result in fines, criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business and damage to our reputation.

Although we have implemented policies and procedures designed to promote compliance with these laws, there can be no assurance that our employees, contractors or agents will not violate our policies. These risks inherent in our international operations and expansion increase our costs of doing business internationally and could result in harm to our business, operating results and financial condition.

Risks Related to Our Securities

Our historic stock price has been volatile and the future market price for our common stock is likely to continue to be volatile. Further, the limited market for our shares will make our price more volatile. This may make it difficult for stockholders to sell our common stock for a positive return on stockholders investment.

The public market for our common stock has historically been very volatile. Any future market price for our shares is likely to continue to be very volatile. This price volatility may make it more difficult for stockholders to sell shares when stockholders want at prices stockholders find attractive. We do not know of any one particular factor that has caused volatility in our stock price. However, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies. Broad market factors and the investing public's negative perception of our business may reduce our stock price, regardless of our operating performance. Further, the market for our common stock is limited and we cannot assure you that a larger market will ever be developed or maintained. Market fluctuations and volatility, as well as general economic, market and political conditions, could reduce our market price. There is a risk that earn out payments in our shares may occur at inopportune times. As a result, this may make it difficult or impossible for stockholders to sell our common stock for a positive return on stockholders investment.

Our officers and directors have significant voting power and may take actions that may not be in the best interests of other stockholders.

Our executive officers and directors control approximately 42.22% of our outstanding voting securities. If these stockholders act together, they will be able to exert significant control over our management and affairs requiring stockholder approval, including approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our common stock. This concentration of ownership may not be in the best interests of all of our stockholders.

We do not anticipate paying dividends in the foreseeable future; you should not buy our stock if you expect dividends.

We currently intend to retain our future earnings to support operations and to finance expansion and, therefore, we do not anticipate paying any cash dividends on our common stock in the foreseeable future. You should not buy our shares if you are expecting to receive cash dividends.

FORWARD-LOOKING STATEMENTS

Information in this annual report contains forward-looking statements. These forward-looking statements can be identified by the use of words such as "believes," "estimates," "could," "possibly," "probably," "anticipates," "projects," "expects," "may," or "should" or other variations or similar words. No assurances can be given that the future results anticipated by the forward-looking statements will be achieved. The following matters constitute cautionary statements identifying important factors with respect to those forward-looking statements, including certain risks and uncertainties that could cause actual results to vary materially from the future results anticipated by those forward-looking statements. A description of key factors that have a direct bearing on our results of operations is provided above under "Risk Factors" beginning on page 5 of this annual report.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

We have principal offices in Dubai, Melbourne (Australia), Prague, Toronto, Stockholm, New York and London, with sales or representative offices in Bogota, Buenos Aires, Cairo and Singapore.

Our Dubai office is located at Dubai Media City, Building #9, Suite #107, Dubai, UAE. These premises consists of 780 square feet of office space. We are currently exiting this month-to-month lease.

We are currently moving into new office space in Dubai at Business Central Towers, Suite 902A, Dubai, UAE. These premises consist of 1,589 square feet of office space.

Our main Melbourne office is located at 116 -122 Chapel Street, Windsor 3181, Victoria, Australia. These premises consist of 8,611 square feet of office space.

We have a second Melbourne office located at 210 Albert Road, South Melbourne 3205, Victoria, Australia. These premises consist of 18,654 square feet of office space.

Our Prague office is located at Slezska 113, 13000, Czech Republic. These premises consist of approximately 12,750 square feet of office space.

Our Toronto office is located at 2595 Skymark Avenue, Mississauga, Ontario. These premises consist of approximately 6,000 square feet of office space.

Our Stockholm office is located at Drottninggatan 92-94 111 36, Stockholm, Sweden. These premises consist of approximately 2,200 square feet of office space.

Our New York office is located at 168 Fifth Avenue, Suite 301, New York, NY 10010. These premises consist of 2,400 square feet of office space.

Our London office is a serviced office located at 3 More London Riverside, London SE1 2RE, United Kingdom. These premises consist of approximately 1,400 square feet of office space.

Our Bogotá office is located at Cra 7 #74-64 Edificio Corficaldos, Of 1203, Bogotá, Colombia.

Our Buenos Aires office is located at Tacuari 237, Piso 7, C1024AAF, Ciudad de Buenos Aires, Argentina.

Our Cairo office is located at 1121 Corniche El Nile St., Maspero, Cairo 11221, Egypt.

Our Singapore office is located at 10 Anson Road, #32-11, International Plaza, Singapore 079903, Singapore.

ITEM 3. LEGAL PROCEEDINGS

Other than as set forth below, we are not a party to any pending legal proceeding nor is our property the subject of a pending legal proceeding that is not in the ordinary course of business or otherwise material to the financial condition of our business. None of our directors, officers or affiliates is involved.

In November 2007, our wholly-owned subsidiary, KIT HD, Inc. (“KIT HD”), was named as the defendant in a purported class action lawsuit entitled Julie Vittengl et al. vs. KIT HD, in New York Supreme Court, Saratoga County, New York. The suit, brought by four former employees of Wurld Media, Inc. (“Wurld”), purportedly on behalf of themselves and “others similarly situated,” claims that KIT HD’s acquisition of certain assets of Wurld was a fraudulent conveyance and that KIT HD is the alter-ego of Wurld. Plaintiffs seek the appointment of a receiver to take charge of our property in constructive trust for plaintiffs and payment of plaintiffs’ unpaid wages and costs of suit, both in an unspecified dollar amount. KIT HD filed its answer to the complaint in January 2008, and there have been no further developments in this action since then. We believe that the suit is without merit and we intend to defend ourself vigorously should the case become active.

In December 2007, Rick Gell and Todd Pavlin, two former consultants of KIT Media Corporation (“KIT Media”) sued that entity together with KIT digital, Inc. and its former Vice-Chairman Robert Petty and KIT Media’s former President and Chief Operating Officer Steve Quinn in New York Supreme Court, New York County, New York, alleging breach of an oral employment agreement, fraudulent inducement and other claims relating to the plaintiffs’ employment at KIT Media. Last year, defendants moved to dismiss the complaint, and in March 2009 the court dismissed all of plaintiffs’ claims save their breach of contract claim on the grounds that it is based on an alleged oral agreement, which plaintiffs may be able to prove. We believe that there is no merit to this suit, and we intend to continue to defend ourself vigorously.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2008.

PART II

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

Market Information

Our shares of common stock are currently quoted and listed for trading on the OTC Bulletin Board under the trading symbol KDGL. From May 29, 2008 to March 9, 2009 (the date of our 1-for-35 reverse stock split), our trading symbol was KITD. Prior to May 29, 2008, when our corporate name was ROO Group, Inc., our trading symbol was RGRP.

The following table sets forth the high and low closing prices for our common stock for the periods indicated as reported by the OTC Bulletin Board.

	Year ended December 31,					
Quarter	2007		2008		2009	
	High	Low	High	Low	High	Low
First	$ 153.99	$ 88.55	$ 8.58	$ 2.10	$ 9.25	$ 5.95
Second	110.95	65.80	14.70	5.25	--	--
Third	70.00	24.50	11.20	6.65	--	--
Fourth	40.25	4.87	9.45	3.85	--	--

On April 10, 2009, the closing price of our common stock, as reported by the OTC Bulletin Board, was $8.40 per share.

These high and low closing prices represent prices quoted by broker-dealers on the OTC Bulletin Board. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not necessarily represent actual transactions.

As of April 10, 2009, there were 4,586,700 shares of our common stock outstanding and approximately 240 holders of record of our common stock. However, we believe that there are significantly more beneficial holders of our common stock holding their shares in “street name.”

The transfer agent of our common stock is Continental Stock Transfer & Trust Co., 17 Battery Place, New York, New York 10004, telephone number: (212) 509-4000.

Dividends

We have not declared any dividends to date. We have no present intention of paying cash dividends on our common stock at any time in the foreseeable future as we intend to use earnings, if any, to generate growth. The payment by us of dividends, if any, in the future rests within the discretion of our board of directors and will depend upon, among other things, our earnings, capital requirements and financial condition, as well as other relevant factors. There are no restrictions in our certificate of incorporation or by-laws on declaring dividends. The terms of our senior secured promissory note with Genesis Merchant Partners, LP prohibit us from paying dividends on our common stock.

Equity Repurchases

None.

Equity Compensation Plan Information

The information set forth below in Item 11 of this report under the caption “Equity Compensation Plan Information” is incorporated herein by reference in its entirety.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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

Overview

Through our operating subsidiaries, we are in the business of providing Internet software products and solutions that enable our customers to distribute video content through Internet websites and mobile devices. Our core activities include online video player deployment, ingestion and transcoding video content for internet and mobile devices, IPTV set-top box development, IPTV recording and editing suite deployment, video content localization and syndication, digital rights management, hosting, storage and content delivery. We currently provide video solutions internationally through our offices in Dubai, Melbourne (Australia), Prague, Toronto, Stockholm, New York, London, Cairo, Singapore, Buenos Aires and Bogotá. To support IPTV enablement, we provide systems integration and integrated marketing solutions, including creative services, media planning and buying, design services, brand and retail advertising, and data management and analytics. Our subsidiary, Reality Group Pty. Ltd. ("Reality Group"), offers clients a full range of traditional marketing services including media buying and planning, creative development, and packaging.

Set forth below is a discussion of the financial condition and results of operations of KIT digital, Inc. and its consolidated subsidiaries (collectively, "we," "us," or "our"), for the year ended December 31, 2008 and 2007. The following discussion should be read in conjunction with the information set forth in the consolidated financial statements and the related notes thereto appearing elsewhere in this report.

As a component of our management's review of the financial statements, and in light of recent and prospective business changes, including but not limited to (i) the integration of our Sputnik subsidiary, (ii) the the cessation of non-core business activities, (iii) the regionalization of profit and loss accountability and (iv) recent business acquisitions, our management recently reviewed and modified the categorization of costs in the Consolidated Statements of Operations. The new categories are presented below under Results of Operations. Management believes these changes in classifications present additional information to the readers of the financial statements and have been made on a prospective basis with previously reported amounts re-categorized to conform to the presentation for the current period.

Results of Operations - Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

REVENUE. Consolidated revenue increased by $9,472,000 from $13,929,000 for the year ended December 31, 2007 to $23,401,000 for the year ended December 31, 2008, an increase of 68%.

Digital Media segment revenue increased by $8,582,000 from $9,525,000 for the year ended December 31, 2007 to $18,107,000 for the year ended December 31, 2008, an increase of 90%. The increase is principally due to an increase in customers, increased spending by existing customers, and revenue from the acquired companies not included in prior period results.

Agency Services segment revenue increased by $890,000 from $4,404,000 for the year ended December 31, 2007 to $5,294,000 for the year ended December 31, 2008, an increase of 20%. The increase is primarily from the growth of client base and increases in spending by existing clients.

VARIABLE AND DIRECT THIRD PARTY COSTS

COST OF GOODS AND SERVICES. Cost of goods and services of $2,845,000 represents the costs of equipment and services by Visual for the supply of digital media and IPTV solutions, services and components; no such expenses were incurred prior to the acquisition of Visual in October 2008.

HOSTING, DELIVERY AND REPORTING. These costs decreased by $317,000 from $2,341,000 for the year ended December 31, 2007 to $2,024,000 for the year ended December 31, 2008. These costs decreased primarily due to the termination of the use of external marketing tools that were used in 2007 and the establishment of an internal datacenter which reduced our reliance on third party suppliers.

CONTENT COSTS. Content costs increased by $1,115,000 from $1,304,000 for the year ended December 31, 2007 to $2,419,000 for the year ended December 31, 2008, an increase of 86%. The increase is primarily due to the inclusion of costs from Kamera (acquired May 2008) not included in prior period results.

DIRECT THIRD PARTY CREATIVE PRODUCTION COSTS. Direct third party creative production costs decreased by $133,000 from $3,242,000 for the year ended December 31, 2007 to $3,109,000 for the year ended December 31, 2008, a decrease of 4% attributable to lower costs in the Agency Services segment.

GENERAL AND ADMINISTRATIVE EXPENSES

COMPENSATION, TRAVEL AND ASSOCIATED COSTS (EXCLUSIVE OF NON-CASH STOCK-BASED COMPENSATION). These costs decreased by $8,342,000 from $23,839,000 for the year ended December 31, 2007 to $15,497,000 for the year ended December 31, 2008, a decrease of 35%. The decrease was primarily due to the broad cost cutting measures begun in the first quarter of 2008 which included a reduction in headcount and salary levels offset in part by increases due to acquisitions.

NON-CASH STOCK-BASED COMPENSATION. Non-cash stock-based compensation expense increased 3% by $121,000, from $4,748,000 for the year ended December 31, 2007 to $4,869,000 for the year ended December 31, 2008.

LEGAL, ACCOUNTING, AUDITING AND OTHER PROFESSIONAL SERVICES FEES. These expenses decreased by $580,000 from $1,807,000 for the year ended December 31, 2007 to $1,227,000 for the year ended December 31, 2008, a decrease of 32%, primarily due to lower legal fees.

OFFICE, MARKETING AND OTHER CORPORATE COSTS. These expenses decreased by $477,000 from $3,988,000 for the year ended December 31, 2007 to $3,511,000 for the year ended December 31, 2008, a decrease of 12%. The decrease was primarily due to the broad cost cutting measures begun in the first quarter of 2008 and includes a reduction in marketing related expenses.

MERGER AND ACQUISITION AND INVESTOR RELATION EXPENSES. Merger and acquisition and investor relation expenses were $427,000 for the year ended December 31, 2008. There were no such expenses in 2007.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense decreased 21% by $465,000 from $2,236,000 for the year ended December 31, 2007 to $1,771,000 for the year ended December 31, 2008. This has remained relatively constant primarily due to the increases related to the acquisitions of Visual in October 2008, Kamera in May 2008 and Morpheum in September 2008 offsetting the depreciation and amortization that decreased due to the assets of approximately $4.3 million acquired from the asset purchase agreement with Wurld Media in July 2007 which were subsequently abandoned in December 2007.

RESTRUCTURING CHARGES. Restructuring charges of $3,068,000 for the year ended December 31, 2008 consist of employee termination costs, contract settlements and facility closing costs. There were no restructuring charges for the year ended December 31, 2007.

OTHER NON-RECURRING CHARGES. Other non-recurring charges of $1,111,000 for the year ended December 31, 2008 consist of IT overlap, acquisition costs, recruiting costs, relocation of headquarters, corporate rebranding and write-off of a prior year disputed charge. There were no other non-recurring charges for the year ended December 31, 2007.

SETTLEMENT OF MYVIDEODAILY AGREEMENT. A settlement of $500,000 for the year ended December 31, 2007 was paid upon the execution of the settlement agreement with RJM Price & Company, Inc. and Robertson Price on October 18, 2007.

IMPAIRMENT OF PROPERTY AND EQUIPMENT. Impairment of property and equipment was $229,000 for the year ended December 31, 2008 and $788,000 for the year ended December 31, 2007. In 2008, the impairment related to the abandonment of assets due to the downsizing of our London office. In 2007, a loss on impairment of property and equipment of $788,000 was recorded related to the abandonment of the assets of a business that we acquired in the agreement with Wurld Media.

IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS. In 2007, a loss on impairment of goodwill and intangible assets of $3,374,000 was recorded. This is comprised of $2,783,000 related to the abandonment of the software assets of a business that we acquired in the agreement with Wurld Media, $255,000 related to the impairment of content, $250,000 related to the impairment of goodwill related to the MyVideoDaily acquisition and $86,000 related to the impairment of customer lists acquired from Cooee. There were no impairment charges in 2008.

INTEREST INCOME. Interest income decreased by $561,000 from $725,000 for the year ended December 31, 2007 to $164,000 for the year ended December 31, 2008, a decrease of 77%. This decrease was primarily due to a decrease in our cash and cash equivalents related to the timing of the proceeds from private placements.

INTEREST EXPENSE, OTHER. Interest expense, other, increased by $158,000 from $70,000 for the year ended December 31, 2007 to $228,000 for the year ended December 31, 2008, an increase of 226%. This increase was due to the issuance of $1,500,000 of a senior secured note in November 2008 and the addition of debt and capital lease obligations acquired in the acquisition of Visual in October 2008

AMORTIZATION OF DEFERRED FINANCING COSTS. Amortization of deferred financing costs was $110,000 for the year ended December 31, 2008. These costs result from the issuance of $1,500,000 of a senior secured note in November 2008.

OTHER INCOME/(EXPENSE). Other income increased by a net $82,000. Other expense was $51,000 for the year ended December 31, 2007 as compared to other income of $31,000 for the year ended December 31, 2008. This was primarily due to a foreign currency gain on the settlement of notes receivable.

REGISTRATION RIGHTS LIQUIDATED DAMAGES. Registration rights liquidated damages were $117,000 for the year ended December 31, 2008 and $792,000 for the year ended December 31, 2007.

NET LOSS BEFORE INCOME TAXES AND MINORITY INTEREST. As a result of the factors described above, we reported a net loss before income taxes and minority interest of $18,966,000 for the year ended December 31, 2008 compared to $34,426,000 for the year ended December 31, 2007, a decrease of $15,460,000, or 45%.

Liquidity and Capital Resources

As of December 31, 2008, we had cash and cash equivalents of $5,878,000 and a working capital deficit of approximately $3,100,000, which if reduced for the acquisition liabilities for Kamera and Visual that can be paid in stock of $5,111,000, becomes a working capital surplus of $2,011,000. On May 8, 2008, we sold an aggregate of $15,000,000 in shares of common stock and warrants to accredited investors. On December 31, 2008 we sold $5,000,000 of shares of common stock to KIT Media, Ltd as part of the management agreement dated December 19, 2007. The $5,000,000 was received in two tranches of $2,500,000; the first on August 12, 2008 and the balance of $2,500,000 on December 31, 2008.

Net cash used in operating activities was $12,816,000 for the year ended December 31, 2008 compared to $20,785,000 for the year ended December 31, 2007, a decrease of $7,969,000, or 38%. The decrease in net cash used in operating activities is primarily related to the reduction in costs due to cost saving measures implemented in 2008.

Net cash used by investing activities was $11,715,000 for the year ended December 31, 2008 compared to $4,342,000 for the year ended December 31, 2007, an increase in net cash used in investing activities of $7,373,000, or 170%. In 2008, this primarily consisted of cash paid for the completion of the acquisition of Sputnik of $4,656,000, net cash paid in the acquisition of Kamera of $4,363,000, net cash paid in the acquisition of Morpheum of $649,000, net cash paid in the acquisition of Visual of $1,201,000 and purchase of assets of $960,000 which primarily consists of assets for our new data center. In 2007, this primarily consisted of investment in assets acquired from Wurld Media of $3,174,000 in 2007 and the cash used in the investment in MyVideoDaily

Net cash provided by financing activities was $20,352,000 for the year ended December 31, 2008 compared to $23,345,000 for the year ended December 31, 2007. In 2008, this primarily consisted of net proceeds of $14,680,000 from the May 2008 private placement, $5,000,000 from KIT Media in September 2008 and December 2008 described above and proceeds from the issuance of the $1,500,000 senior secured note in November 2008. In 2007, our net cash provided by financing activities primarily consisted of net proceeds from the May 2007 private placement of $23,875,000.

Recent Securities Offerings

In May 2008, we completed a private placement of 2,142,857 units. Each unit was comprised of one share of common Stock and a warrant to purchase one share of common stock. The units were sold at a price of $7.00 per unit or an aggregate of $15,000,000. The warrants have an exercise price of $11.90 per share, a term of five years and provide the investors with “full ratchet” anti-dilution protection as to the exercise price of each warrant.

KIT Media, Ltd. purchased an aggregate of 1,008,572 units in the May 2008 private placement, consisting of 1,008,572 shares of common stock and 1,008,572 shares of common stock underlying the warrants. Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, holds a controlling interest in KIT Media. For more information about this transaction, please see our registration statement on Form S-1, effective December 5, 2008.

In addition to its investment of $7,060,000 in the May 2008 private placement, KIT Media purchased 892,858 shares of common stock at a price of $5,60 per share (for total gross cash proceeds of $5,000,000 for the Company) during the course of 2008, pursuant to KIT Capital's December 2007 agreement with the Company. In conjunction with the purchase of these shares, KIT Media acquired warrants to purchase 580,358 shares of common stock at an exercise price of $11.90 per share, subject to the occurrence of certain events that could potentially reduce the exercise price to $5.60 per share.

In November 2008, we received $1,500,000 in gross proceeds from non-convertible debt sold to Genesis Merchant Partners, LP, pursuant to the terms of a note purchase agreement. The loan bears cash interest payable monthly in arrears, and matures on December 31, 2009. The principal is repayable in monthly installments of $75,000 beginning in May 2009, with the remainder of the principal due at maturity. The note is secured by the Company's property, including accounts receivable and inventory, but excludes any security interests in Visual and Reality or assets of these subsidiaries. In conjunction with the borrowing, we issued to Genesis Merchant Partners, LP a warrant entitling it to purchase, for $11.90 per share, 139,286 shares of our common stock through October 31, 2013.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for the years ended December 31, 2008 and 2007. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

Critical Accounting Policies and Estimates

The policies discussed below are considered by our management to be critical to an understanding of our financial statements and their application places the most significant demands on our management's judgment of matters that are inherently uncertain. Specific risks for these critical accounting policies are described below. For these policies, our management cautions that future events rarely develop as forecast, and that best estimates may routinely require adjustment.

The SEC has issued cautionary advice to elicit more precise disclosure about accounting policies that management believes are most critical in portraying financial results and that require management's most difficult subjective or complex judgments.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make judgments and estimates. On an ongoing basis, we evaluate our estimates, the most significant of which include establishing allowances for doubtful accounts and determining the recoverability of our long-lived tangible and intangible assets. The basis for our estimates are historical experience and various assumptions that are believed to be reasonable under the circumstances, given the available information at the time of the estimate, 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. Actual results may differ from the amounts estimated and recorded in our financial statements.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

We recognize revenue in accordance with the following authoritative literature: AICPA Statement of Position (SOP) No. 97-2, *Software Revenue Recognition and* Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition in Financial Statements.* which requires that four basic criteria be met before revenue can be recognized: (i) persuasive evidence that an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) product delivery has occurred or services have been rendered. We recognize revenue, net of sales taxes assessed by any governmental authority. Revenues are derived principally from professional services, digital media management, advertising and delivery of digital media solutions. Revenue is recognized when the product and/or service has been provided to the customer. We may enter into agreements whereby we guarantee a minimum number of advertising impressions, click-throughs or other criteria on our websites or products for a specified period. To the extent these guarantees are not met, we may defer recognition of the corresponding revenue until guaranteed delivery levels are achieved.

Inventories

We value inventories at the lower of cost (first-in, first-out method) or market and are comprised of finished goods. On a quarterly basis, we review inventory quantities on hand and analyze the provision for excess and obsolete inventory based primarily on product age in inventory and our estimated sales forecast, which is based on sales history and anticipated future demand. Our estimates of future product demand may not be accurate and we may understate or overstate the provision required for excess and obsolete inventory. Accordingly, any significant unanticipated changes in demand could have a significant impact on the value of our inventory and results of operations. As of December 31, 2008 our reserve for excess and obsolete inventory was $157,000.

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of ninety days or less when purchased to be cash and cash equivalents.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from our customers not making their required payments. Based on historical information, we believe that our allowance is adequate. Changes in general economic, business and market conditions could result in an impairment in the ability of our customers to make their required payments, which would have an adverse effect on cash flows and our results of operations. The allowance for doubtful accounts is reviewed monthly and changes to the allowance are updated based on actual collection experience. We use a combination of the specific identification method and analysis of the aging of accounts receivable to establish an allowance for losses on accounts receivable. The allowance for doubtful accounts as of December 31, 2008 and 2007 was $571,000 and $282,000, respectively.

Tangible and Intangible Asset Impairment

We review our long-lived assets and identifiable intangibles for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such factors and circumstances exist, we compare the projected undiscounted future cash flows associated with the future use and disposal of the related asset or group of assets to their respective carrying amounts. Impairment, if any, is measured as the excess of the carrying amount over the fair value based on market value (when available) or discounted expected cash flows of those assets, and is recorded in the period in which the determination is made. In assessing the recoverability of our goodwill, we review goodwill for impairment at each reporting period to determine whether events and circumstances continue to support the indefinite useful life of the asset. Then, we perform the first step of the goodwill impairment test which compares the fair value of the reporting unit with its carrying value, including goodwill. The fair value of the reporting unit is based on expected future cash flows associated with the group of assets. This valuation method is used if quoted market prices are not available. If the fair value of the reporting unit exceeds the carrying amount, goodwill is not impaired. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test shall be performed. The second step, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

Recently-Issued Accounting Standards

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS 141R”), and SFAS No. 160, “Accounting and Reporting of Non-controlling Interest in Consolidated Financial Statements, an amendment of ARB 51” (“SFAS 160”), which will change the accounting for and reporting of business combination transactions and noncontrolling interests in consolidated financial statements. The provisions of SFAS 141R and SFAS 160 were effective for the Company on January 1, 2009. SFAS 141R had no impact on previously recorded acquisitions. SFAS 160 requires changes in classification and presentation of minority interests in the consolidated balance sheets, statements of income, and statements of stockholders' equity.

In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"), which delays the effective date of SFAS No. 157, "Fair Value Measurements" ("SFAS 157") for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The adoption of FSP FAS 157-2 is not expected to have a material impact on the Company's consolidated financial position, cash flows, or results of operations.

In April 2008, the FASB issued FSP No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"), to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R. The provisions of FSP FAS 142-3 were effective for the Company on January 1, 2009 and are not expected to have a material impact on the Company's consolidated financial position, cash flows, or results of operations

In May 2008, the FASB issued FSP Accounting Principles Board Opinion ("APB") No. 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"), which requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's nonconvertible debt borrowing rate. FSP APB 14-1 became effective for the Company on January 1, 2009 and requires retroactive application. The Company is currently evaluating the impact of adopting FSP 14-1 on the Company's consolidated financial position, cash flows and results of operations.

In November 2008, the FASB ratified the consensus reached by the EITF on Issue EITF No. 08-6, "Equity Method Investment Accounting Considerations" ("EITF 08-6"), which clarifies the accounting for certain transactions and impairment considerations involving equity method investments. The prospective provisions of EITF 08-6 were effective for the Company on January 1, 2009. The adoption of EITF 08-6 is not expected to have a material impact on the Company's consolidated financial position, cash flows, or results of operations.

The Company adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115" ("SFAS 159") as of January 1, 2008. SFAS 159 permits entities to elect to measure many financial instruments and certain other items at fair value. The Company did not elect the fair value option for any assets or liabilities, which were not previously carried at fair value. Accordingly, the adoption of SFAS 159 had no impact on the Company's consolidated financial statements

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based largely on our expectations and are subject to a number of risks and uncertainties, certain of which are beyond our control. Actual results could differ materially from these forward-looking statements as a result of, among other factors, risks related to our history of net losses and accumulated deficits; integration of acquired businesses; future capital requirements; competition and technical advances; dependence on the market for digital advertising; and other risks. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained in this report will in fact occur.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We conduct our operations in primary functional currencies: the United States dollar, the British pound, the Australian dollar, the Swedish krona and the Czech koruna. We currently do not hedge any of our foreign currency exposures and are therefore subject to the risk of exchange rate fluctuations. However, we attempt to employ a “natural hedge” by matching as much as possible in like currencies our client revenues with associated client delivery costs. We invoice our international customers primarily in U.S. dollars, British pounds, Australian dollars, Euros, Swedish kronor, Czech koruna and Australian dollars.

We are exposed to foreign exchange rate fluctuations as the financial results of foreign subsidiaries are translated into U.S. dollars in consolidation and as our foreign currency consumer receipts are converted into U.S. dollars. Our exposure to foreign exchange rate fluctuations also arises from payables and receivables to and from our foreign subsidiaries, vendors and customers.

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. We place our cash and cash equivalents with high credit quality institutions to limit credit exposure, and from time to time, obtain collateral for our accounts where we deem prudent and is feasible. We believe that no significant concentration of credit risk exists with respect to these investments.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the wide variety of our customers who are dispersed across many geographic regions. We routinely assess the financial strength of customers and, based upon factors concerning credit risk, we establish an allowance for uncollectible accounts. Our management believes that accounts receivable credit risk exposure beyond such allowance is limited.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is submitted as a separate section of this report beginning on page F-1.

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

None

ITEM 9A. CONTROLS AND PROCEDURES.

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (1) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure; and (2) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. There was no change to our internal controls or in other factors that could affect these controls during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2008, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control system was designed to provide reasonable assurance to our management and our board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework - Guidance for Smaller Public Companies (the COSO criteria). Based on our assessment we believe that, as of December 31, 2008, our internal control over financial reporting is effective based on those criteria.

Attestation Report of our Registered Public Accounting Firm

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Our management's report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION.

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

The following table sets forth the names and ages of our directors and executive officers, and their positions with us, as of March 31, 2009:

Name	Age	Position
Kaleil Isaza Tuzman	37	Chairman of the Board and Chief Executive Officer
Gavin Campion	36	President and Director
Robin Smyth	55	Chief Financial Officer and Director
Kamal El-Tayara	38	Director
Steven G. Felsher	60	Director
Daniel Hart	35	Director
Lars Kroijer	37	Director
Wayne Walker	50	Director

The principal occupations for the past five years (and, in some instances, for prior years) of each of our directors and executive officers are as follows:

Kaleil Isaza Tuzman was elected Chairman of the Board and Chief Executive Officer effective January 9, 2008. Mr. Isaza Tuzman previously served as the President and Chief Operating Officer of JumpTV Inc. (TSX, AIM: JTV), a leader in broadcasting international television and sports over the Internet. He has been a venture capitalist and entrepreneur in digital media since the late 1990s, as managing partner of KIT Capital Partners, a Dubai and New York-based merchant bank focusing on new media companies. Mr. Isaza Tuzman has served as Chairman and Chief Executive Officer of KPE, Inc., a leading digital media services company with clients such as Sony Entertainment, Viacom and Carnival Cruises, and as Chairman and Chief Executive Officer of govWorks, Inc., a venture-backed government technology services firm. Mr. Isaza Tuzman previously worked at Goldman Sachs, on investment banking and risk arbitrage teams. He has been a member of the Council on Foreign Relations, a U.S. trade representative, and was recently named one of the 100 Most Influential Hispanics by Hispanic Magazine. Mr. Isaza Tuzman graduated magna cum laude from Harvard University, with graduate certificates in International Relations from El Colegio de Mexico and in Latin American Studies from Harvard University. Mr. Isaza Tuzman is also on the board of directors of Automated Benefits (TSX Venture: AUT), Oakwood TAC, KIT Media Corporation, Reality Group Pty Ltd, Undercover Media Pty Ltd, KIT digital Pty. Ltd., KIT digital Limited, KIT Media Ltd., Bickhams Media Inc, VideoDome.com Networks Inc, KIT Broadcasting Ltd, Sputnik Agency Pty Ltd and KIT TV Pty Ltd.

Gavin Campion was appointed President in April 2008 and elected a Director on November 17, 2008. Mr. Campion has served as managing director of Sputnik Agency Pty Ltd., an Australian-based interactive marketing agency. Under his leadership, Sputnik won the B&T Interactive Agency of the Year award in 2007. In 1999, Mr. Campion co-founded Reality Group Pty Ltd., a subsidiary of KIT digital, which is based in Melbourne, Australia. Since its formation, Reality Group has attracted blue-chip advertising clients such as Holden (General Motors), BP, TABCORP, Saab Australia, Tontine and Dennis Family Corp. Through 2008, Mr. Campion served as Chief Executive Officer of Shoppers Advantage, a leading Australian e-commerce company, and as a director of Presidential Card, Australia's largest discount loyalty program.

Robin Smyth currently serves as our Chief Financial Officer and a Director. Mr. Smyth also served as our Chief Financial Officer from December 2003 through December 2006. Mr. Smyth was appointed as a Director on December 3, 2003, the effective date of the merger with KIT Media Corporation. Mr. Smyth became involved with KIT Media Corporation in 2002 and was appointed a Director in 2003. Since 1998, Mr. Smyth was a partner at Infinity International, a consulting and IT recruitment operation. During the period from 1990 to 1998, Mr. Smyth worked for three years as Executive Vice President of Computer Consultants International in the United States and for five years in London as Chief Executive Officer of Computer Consultants International's European operations. Mr. Smyth was Secretary and a Director of the All-States group of companies involved in merchant banking operations, where he was responsible for corporate banking activities. Mr. Smyth is also on the board of directors of KIT Media Corporation, Reality Group Pty Ltd, Undercover Media Pty Ltd, KIT digital Pty. Ltd., KIT digital Limited, Bickhams Media Inc, KIT Broadcasting Ltd, Sputnik Agency Pty Ltd, KIT TV Pty Ltd, VideoDome.com Networks Inc. and Corporate Advice Pty Ltd.

Kamal El-Tayara was elected a Director and Chairman of our Audit Committee effective January 14, 2008. Mr. El-Tayara is the managing partner of MNA Partners, a Dubai-based merchant bank, and has served in such capacity since 2004. Mr. El-Tayara has more than 11 years of experience working in the investment banking and financial transactions arena in the Middle East and other markets. Prior to establishing his own firm, Mr. El-Tayara was with investment banks Merrill Lynch and Salomon Smith Barney. In early 2003, Mr. El-Tayara managed the corporate finance initiatives of MBC Group, MENA's (Middle East and North Africa) largest media company, where he participated in the set up of Alarabiya News Channel, for which he acted as Chief Financial Officer. Mr. El-Tayara also set up the Swiss EFG Bank in Dubai, for which he acted as the Dubai Head. Mr. El-Tayara is an electrical engineering graduate from the American University of Beirut (with distinction) and holds an M.B.A. from INSEAD in Fontainebleau, France. Mr. El-Tayara is fluent in English, French and Arabic.

Steven G. Felsher was elected a Director effective November 17, 2008 and Chairman of the Audit Committee on February 15, 2009. He was the Vice Chairman and Chief Financial Officer of Grey Global Group Inc., one of the largest marketing communications firms in the world until his departure in 2007 after 28 years. Mr. Felsher was responsible for overseeing Grey's financial operations, investor relations, acquisitions and other corporate functions. In these and prior roles, Mr. Felsher assisted Grey in becoming one of the most respected, responsible and successful independent companies in the marketing communications industry. Since 2007 when he left Grey, Mr. Felsher has worked with a number of intellectual property, marketing services and not-for-profit companies to help them achieve their business goals. Mr. Felsher received a B.A. degree from Dickinson College, was a Thomas J. Watson Fellow doing research in Greece and Turkey, and graduated from Yale Law School.

Daniel Hart was elected a Director effective March 31, 2008. Mr. Hart is the founder and managing partner of River Road Ventures, a private equity and advisory firm. Mr. Hart's background combines venture capital and financing experience with chief executive officer/operating experience and expertise in digital media, wireless, semiconductor, enterprise software and technology convergence. Mr. Hart most recently led River Road's investments in Nextivity, a leading ASIC-based wireless products company, and Slipgate Ironworks, a highly-innovative massively multiplayer online gaming studio. Prior to River Road Ventures, Mr. Hart founded Fundamental Capital, an investment partnership which pioneered the integration of operational leadership with early-stage venture capital, creating over $1 billion in market value in less than five years. Mr. Hart received a B.A. degree in economics from Harvard University.

Lars Kroijer was elected a Director and Chairman of our Compensation Committee effective February 7, 2008. Mr. Kroijer is the Chief Executive Officer of Holte Capital Ltd, a London-based special situations hedge fund which he founded in 2002. Prior to establishing Holte Capital, Mr. Kroijer served in the London office of HBK Investments focusing on special situations investing and event-driven arbitrage. In addition, he previously worked at SC Fundamental, a value-focused hedge fund based in New York, and the investment banking division of Lazard Freres in New York. Mr. Kroijer graduated magna cum laude from Harvard University and received an M.B.A. from Harvard Business School.

Wayne Walker was elected a Director and Chairman of our Compliance Committee effective January 14, 2008. Mr. Walker is the managing partner of Philadelphia-based Walker Nell Consultants, Inc. and Walker Bowman, PC and has served in such capacity since 2004. Mr. Walker has more than 20 years of experience in corporate law and corporate restructuring. Prior to establishing Walker Nell, Mr. Walker was the Principal of Parente Randolph, LLC, an accounting and consulting firm in Philadelphia. He previously served as Senior Counsel of DuPont Corporation and as former Chairman of the global charity Habitat for Humanity. Mr. Walker received a J.D. degree from Catholic University in Washington, DC. and a B.A. degree from Loyola University in New Orleans. He also studied finance for non-financial managers at the University of Chicago's Graduate School of Business.

On March 9, 2009, Jonathan Hirst was named our Chief Financial Officer effective April 27, 2009.

Mr. Hirst, age 59, is an experienced financial executive who, over the course of his career, has been involved with and led the acquisition and sale of more than 50 companies in media, marketing services, advertising and public relations. From September 2006 through February 2008, Mr. Hirst was a consultant with BT Associates, LLC, a strategic and financial consulting firm in New York servicing the professional communication industry. From November 2004 to August 2006, he was the Executive Vice President and Chief Financial Officer of Lowe Worldwide, Inc., a global multi-unit international marketing communications services division of The Interpublic Group of Companies, Inc., From January 1996 to October 2004, Mr. Hirst was the Senior Vice President of International Finance of Grey Global Group Inc., a leading communications services company (acquired by WPP Group plc in 2005). He was responsible for successfully developing and leading profit improvement programs at Grey Global, as well as later with Lowe Worldwide. Earlier in his career, Mr. Hirst spent 1981 to 1991 at Saatchi & Saatchi US Management Company, where he oversaw the financial performance of Saatchi & Saatchi PLC's operations in the United States. Mr. Hirst started his career at a predecessor of PricewaterhouseCoopers LLC and at McKinsey & Co. With global experience in the advertising and consulting industry, Mr. Hirst has lived and worked in London, Paris and New York. He is a member of the Institute of Chartered Accountants (FCA), with B.A and M.A. degrees in economics from the University of Cambridge in the United Kingdom and an M.B.A. from INSEAD (European Institute of Business Management) in Paris, France.

Mr. Smyth has agreed to resign as our Chief Financial Officer effective April 27, 2009. Mr. Smyth remains on our board of directors.

All directors hold office until the next annual meeting of stockholders and the election and qualification of their successors. Officers are elected annually by the board of directors and serve at the discretion of the board.

Family Relationships

There are no family relationships among our directors and executive officers.

Legal Proceedings

As of the date of this annual report, there are no material proceedings to which any of our directors, executive officers, affiliates or stockholders is a party adverse to us.

Board of Directors and Corporate Governance

Our board of directors is responsible for establishing broad corporate policies and for overseeing our overall management. In addition to considering various matters which require board approval, the board provides advice and counsel to, and ultimately monitors the performance of, our senior management.

We established an Audit Committee, Compensation Committee and Compliance Committee in 2008. The charters for the Audit Committee, Compensation Committee and Compliance Committee are available at our website, www.kit-digital.com. Kamal El-Tayara, Steven G. Felsher, Daniel Hart, Lars Kroijer and Wayne Walker are independent members of our board of directors, under Nasdaq's independence standards. Each of the board committees is composed of two or more of these independent members.

The board, its committees and our management strive to perform and fulfill their respective duties and obligations in a responsible and ethical manner. The board and the Audit, Compensation and Compliance Committees each perform annual self evaluations. We have adopted a Code of Ethics that applies to our Chief Executive Officer and Chief Financial Officer. Our Code of Ethics was filed with our amended annual report on Form 10-KSB/A for the year ended December 31, 2003. Upon request, we will provide to any person without charge a copy of our Code of Ethics. Any such request should be mailed to KIT digital, Inc., 168 Fifth Avenue, Suite 301, New York, New York 10010, Attention: Chief Financial Officer.

Committees of the Board

Audit Committee. The board has an Audit Committee comprised of four non-employee directors, Messrs. Felsher (Chairman), El-Tayara, Kroijer and Walker. Each member of the Audit Committee is independent as defined under Nasdaq's listing standards. The board of directors has determined that each committee member qualifies as an "audit committee financial expert." The Audit Committee functions pursuant to a written charter, under which the committee has such powers as may be assigned to it by the board from time to time. The Audit Committee was established in 2008. In 2007 and until the formation of the Audit Committee in 2008, the entire board of directors performed the functions of the Audit Committee. The Audit Committee is currently charged with, among other things:

- recommending to the board of directors the engagement or discharge of our independent public accountants, including pre-approving all audit and non-audit related services;
- the appointment, compensation, retention and oversight of the work of the independent auditor engaged by us for the purpose of preparing or issuing an audit report or performing other audit review or attest services for us;

- establishing procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- approving the scope of the financial audit;
- requiring the rotation of the lead audit partner;
- consulting regarding the completeness of our financial statements;
- reviewing changes in accounting principles;
- reviewing the audit plan and results of the auditing engagement with our independent auditors and with our officers;
- reviewing with our officers, the scope and nature and adequacy of our internal accounting and other internal controls over financial reporting and disclosure controls and procedures;
- reviewing the adequacy of the Audit Committee Charter at least annually;
- meeting with our Internal Auditor on a regular basis;
- performing an internal evaluation of the Audit Committee on an annual basis; and
- reporting to the board of directors on the Audit Committee's activities, conclusions and recommendations.

Compensation Committee. The board has a Compensation Committee comprised of two non-employee directors, Messrs. Kroijer (Chairman) and Hart as at December 31, 2008. Each member of the Compensation Committee is independent as defined under Nasdaq's listing standards. The Compensation Committee functions pursuant to a written charter, under which the committee has such powers as may be assigned to it by the board from time to time. The Compensation Committee was established in 2008. In 2007 and until the formation of the Compensation Committee in 2008, the entire board of directors performed the functions of the Compensation Committee. The Compensation Committee is currently charged with, among other things, assisting the board in:

- approving and evaluating the compensation of directors and executive officers;
- establishing strategies and compensation policies and programs for employees to provide incentives for delivery of value to our shareholders;
- establishing policies to hire and retain senior executives, with the objective of aligning the compensation of senior management with our business and the interests of our shareholders;
- together with management, surveying the amount and types of executive compensation paid by comparable companies, and engaging consultants as necessary to assist them;
- periodically reviewing corporate goals and objectives relevant to executive compensation and making recommendations to the board for changes;
- assisting management in evaluating each executive officer's performance in light of corporate goals and objectives, and recommending to the board (for approval by the independent directors) the executive officers' compensation levels based on this evaluation;
- overseeing our stock option plan or other stock-based plans with respect to our executive officers and employee board members, who are subject to the short-swing profit restrictions of Section 16 of the Securities Exchange Act of 1934, as amended;
- reviewing the overall performance of our employee benefit plans and making recommendations to the board regarding incentive-compensation plans and equity-based plans;

- together with the Compliance Committee, reviewing and making recommendations to the independent directors of the board regarding the form and amount of director compensation;

- ensuring that our compensation policies meet or exceed all legal and regulatory requirements and any other requirements imposed on us by the board; and

- producing an annual report on executive compensation for inclusion in our information statement.

In general, the Compensation Committee formulates and recommends compensation policies for board approval, oversees and implements these board-approved policies, and keeps the board apprised of its activities on a regular basis. In addition, the Compensation Committee together with the Compliance Committee, develops criteria to assist the board's assessment of the Chief Executive Officer's leadership of the Company.

Compliance Committee. The board has a Compliance Committee comprised of three non-employee directors, Messrs. Walker (Chairman), El-Tayara and Kroijer. Each member of the Compliance Committee is independent as defined under Nasdaq's listing standards. The Compliance Committee functions pursuant to a written charter, under which the committee has such powers as may be assigned to it by the board from time to time. The Compliance Committee was established in 2008. In 2007 and until the formation of the Compliance Committee in 2008, the entire board of directors performed the functions of the Compliance Committee. The Compliance Committee is currently charged with, among other things, assisting the board in:

- identifying individuals qualified to become board members and recommending that the board select a group of director nominees for each next annual meeting of our stockholders;

- ensuring that the Audit, Compensation and Compliance Committees of the board have the benefit of qualified and experienced "independent" directors;

- developing and recommending to the board a set of effective corporate governance policies and procedures applicable to us, and reviewing and reassessing the adequacy of such guidelines annually and recommending to the board any changes deemed appropriate;

- periodically reviewing the charters of all board committees and recommending to the committees and board any changes deemed appropriate;

- developing policies on the size and composition of the board;

- conducting annual evaluations of the performance of the board, committees of the board and individual directors;

- reviewing conflicts of interest and the independence status of directors;

- together with the Compensation Committee, reviewing and making recommendations to the independent directors of the board regarding the form and amount of director compensation;

- reviewing the structure of our senior staffing and management succession plans with the Chief Executive Officer;

- together with the Compensation Committee, developing criteria to assist the board's assessment of the Chief Executive Officer's leadership of the company; and

- generally advising the board (as a whole) on corporate governance matters.

Selection of Nominees for the Board of Directors

The Compliance Committee is responsible for evaluating potential candidates to serve on our board of directors, and for selecting nominees to be presented for election to the board at our Annual Meeting of Stockholders. In evaluating potential director candidates, the Compliance Committee considers the skills and characteristics possessed by each candidate in the context of the perceived needs of the board at that point in time. Among the factors considered by the Compliance Committee in considering a potential nominee are the following:

- the nominee's independence;

- the nominee's relevant professional skills and depth of business experience;
- the nominee's character, judgment and personal and professional integrity;
- the nominee's ability to read and understand financial statements;
- the nominee's willingness to commit sufficient time to attend to his or her duties and responsibilities as a member of the board;
- the nominee's qualifications for membership on certain committees of the board;
- any potential conflicts of interest involving the nominee; and
- the make up and diversity of our existing board.

In identifying potential candidates for the board, the committee relies on recommendations from a number of possible sources, including current directors. The Compliance Committee may also retain outside consultants or search firms to help in identifying potential candidates for membership on the board.

The Compliance Committee will consider any written suggestions of stockholders for director nominations. The recommendation must include the name and address of the candidate, a brief biographical description and a description of the person's qualifications. Recommendations should be mailed to KIT digital, Inc., 168 Fifth Avenue, Suite 301, New York, New York 10010, Attn: Chief Financial Officer. The Compliance Committee will evaluate in the same manner candidates suggested in accordance with this policy and those recommended by other sources. The Committee has full discretion in considering all nominations to the board of directors. Stockholders who would like to nominate a candidate for director must comply with the requirements described in our by-laws.

Director Compensation

With the exception of compensation and fees paid to Messrs. Isaza Tuzman, Campion and Smyth pursuant to their agreements described below, all directors are reimbursed for their reasonable out-of-pocket expenses incurred in connection with their duties to us. In addition, on March 17, 2008, a resolution was unanimously passed by our directors granting new members to the board the following compensation package:

- Grant of stock options to purchase 8,143 shares of our common stock pursuant to our 2008 Incentive Stock Plan.
- Annual compensation in the amount of $25,000, payable in arrears for the preceding calendar year on February 15 of every year beginning 2009, which may be paid in either cash or options (priced using the “Black-Scholes-Merton” options pricing model), or a combination of both. The form of payment (i.e., cash, stock options or a combination) will be determined by us in our sole discretion; provided that if we are operating income (or EBITDA) positive in the preceding calendar year, such determination may be made by each independent director.
- Fees of $2,000 per board meeting attended; $1,500 per committee meeting chaired; and $750 per committee meeting attended but not chaired. The foregoing fees will be discounted by 50% when meetings are attended or chaired telephonically. Payment will be made according to the same schedule and in the same manner as set forth in the paragraph above.
- All dollar amounts set forth above will be increased by 50% immediately following the first fiscal quarter during which we are operating income (or EBITDA) positive.

ITEM 11. EXECUTIVE COMPENSATION

Executive Officer Compensation

The following table sets forth information concerning the annual and long-term compensation of our Chief Executive Officer and the other named executive officers, for services as executive officers for the last two fiscal years.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	All Other Compensation ($)	Total ($)
Kaleil Isaza Tuzman (1) (amounts paid to KIT Capital, a company controlled by Mr. Isaza Tuzman)	2008	289,652				289,652
Chairman and Chief Executive Officer	2007	-				
Gavin Campion (2)	2008	130,833				130,833
President and Director	2007	-				
Robin Smyth (3)	2008	213,167			275,000	488,167
Chief Financial Officer, Secretary, Treasurer, Principal Accounting Officer and Director	2007	250,000	150,000			400,000
Robert Petty (4)	2008	151,619			675,000	826,619
Former Chief Executive Officer, President and Chairman of the Board	2007	344,500				344,500
Lou Kerner (5)	2008	-				
Former Chief Financial Officer and Former Principal Accounting Officer	2007	124,359	75,000			199,359

(1) Kaleil Isaza Tuzman serves as the Chairman of the Board and Chief Executive Officer and was appointed to these positions on January 9, 2008. The total amount paid to KIT Capital in 2008 was $573,284. The amount paid to Mr, Tuzman of $289,652 of the total paid to KIT Capital was represented to us by Mr. Isaza Tuzman. The other amounts paid to KIT Capital are for other KIT Capital personnel dedicated full-time to KIT digital and includes employer taxes, healthcare costs and other benefits. It also includes KIT Capital corporate fees, including legal, accounting, insurance, data hosting and parking related to KIT digital.

(2) Gavin Campion serves as the President and Director. Mr. Campion was appointed President on April 1, 2008 and was appointed as a Director on November 17, 2008. The compensation listed is only for Mr. Campion's services as an executive officer, upon his appointment as President and not for his prior service.

(3) Mr. Smyth currently serves as Chief Financial Officer, Secretary, Treasurer and Principal Accounting Officer, and Director. Mr. Smyth served as our Chief Financial Officer and Principal Accounting Officer from December 2003 through December 2006 and from August 9, 2007. Mr. Smyth has resigned from his positions as an executive officer effective April 27, 2009. Included in All Other Compensation is the payment of $275,000 related to the settlement of the separation agreement on March 31, 2008.

(4) Mr. Petty previously served as Chief Executive Officer, President and Chairman of the Board through January 8, 2008. Mr. Petty became our Chief Executive Officer, President and Chairman on December 3, 2003. Mr. Petty's employment with us terminated on March 26, 2008, and he resigned as a director on November 17, 2008. Included in All Other Compensation is the payment of $675,000 related to the settlement of the separation agreement on March 26, 2008.

(5) Mr. Kerner was our Chief Financial Officer and Principal Accounting Officer from November 17, 2006 through August 2007.

Options Grants in Last Fiscal Year

The following table sets forth information with respect to grants of options to purchase our common stock to the named executive officers during the year ended December 31, 2008.

Name	Number of Securities Underlying Options/ SARs Granted (#)	% of Total Options/ SARs Granted to Employees in Fiscal Year(%)	Exercise or Base Price ($/Sh)	Expiration Date
Kaleil Isaza Tuzman (through KIT Capital)	60,000	10.2	$6.11	January 9, 2013
Kaleil Isaza Tuzman (through KIT Capital)	20,000	3.4	$9.80	June 21, 2013
Gavin Campion	34,286	5.8	$2.80	March 17, 2013
Gavin Campion	20,000	3.4	$9.80	June 21, 2013
Robin Smyth	11,715	2.0	$2.80	March 17, 2013
Robin Smyth	7,143	1.2	$9.80	June 21, 2013

Aggregate Option Exercises In Last Fiscal Year

No options were exercised by the named executive officers during the most recent fiscal year.

Outstanding Equity Awards at Fiscal Year End

	Option Awards					Stock 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	Number of Shares or Units of Stock that have not vested	Market Value of Shares or Units of Stock that have not vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that have not vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that have not vested
Kaleil Isaza Tuzman	32,223	27,777		$ 6.11	January 9, 2013				
Kaleil Isaza Tuzman	2,500	17,500		$ 9.80	June 21, 2013				
Gavin Campion	15,134	19,152		$ 2.80	March 17, 2013				
Gavin Campion	2,500	17,500		$ 9.80	June 21, 2013				
Robin Smyth	11,715			$ 2.80	March 17, 2013				
Robin Smyth	893	6,250		$ 9.80	June 21, 2013				

Equity Compensation Plan Information

The following table shows information with respect to each equity compensation plan under which our common stock is authorized for issuance as of the year ended December 31, 2008.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity compensation plans approved by security holders	420,184	$6.47	436,959
Equity compensation plans not approved by security holders	81,429	$8.14	261,429
Total			

In April 2004, our board of directors adopted a stock option plan (the "2004 Option Plan"). Pursuant to this plan, which expires on April 1, 2014, incentive stock options or non-qualified options to purchase an aggregate of 28,572 shares of common stock may be issued, as adjusted. The plan may be administered by our board of directors or by a committee to which administration of the plan, or part of the plan, may be delegated by our board of directors. Options granted under this plan are not generally transferable by the optionee except by will, the laws of descent and distribution or pursuant to a qualified domestic relations order, and are exercisable during the lifetime of the optionee only by such optionee. Options granted under the plan vest in such increments as is determined by our board of directors or designated committee. To the extent that options are vested, they must be exercised within a maximum of three months of the end of the optionee's status as an employee, director or consultant, or within a maximum of 12 months after such optionee's termination or by death or disability, but in no event later than the expiration of the option term. The exercise price of all stock options granted under the plan will be determined by our board of directors or designated committee. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of our outstanding capital stock, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date.

In November 2006, our board of directors increased the number of shares which may be issued under the 2004 Option Plan to an aggregate of 228,572 shares of common stock. The number of shares subject to the 2004 Option Plan was subsequently increased to 342,858 shares effective April 3, 2007.

To date, we have 81,429 options outstanding under the 2004 Option Plan, as amended, of which 60,000 options were issued to KIT Capital, Ltd. pursuant to the terms of the Executive Management Agreement, dated as of December 18, 2007. Our board of directors believes in order to attract and retain the services of executives and other key employees, it is necessary for us to have the ability and flexibility to provide a compensation package which compares favorably with those offered by other companies and, accordingly, voted unanimously to adopt the 2008 Incentive Stock Plan.

As of December 31, 2008, the following options have been granted under our 2004 Stock Plan:

Options Issued under 2004 Option Plan

Optionee	Quantity	Exercise Price ($)	Date Granted	Vest Date	Expiration Date
KIT Capital, Ltd.	60,000	6.111	January 9, 2008	Over 36 months	January 9, 2013
KIT Capital, Ltd.	20,000	9.80	March 17,2008	Over 48 months	March 17, 2013

KIT digital 2008 Incentive Stock Plan

In March 2008, our board of directors adopted the KIT digital, Inc. 2008 Incentive Stock Plan (the "2008 Incentive Plan"). In light of recent financing activities by us which increased the total number of outstanding shares of our common stock, our board of directors believed in order to (i) bring the number of authorized shares of common stock available for future grant under the 2008 Incentive Plan into proportion with the recently increased number of outstanding shares and (ii) attract and retain the services of executives and other key employees, it was necessary for us to have the ability and flexibility to provide a compensation package which compares favorably with those offered by other companies and accordingly, voted unanimously to adopt the amendment to the 2008 Incentive Plan, providing for an additional 457,143 authorized, unissued shares of common stock available for future grants under the 2008 Incentive Plan. The holders of a majority of our outstanding shares of common stock approved the amendment to our 2008 Incentive Plan at our stockholders meeting held on November 6, 2008.

Set forth below is a summary of the 2008 Incentive Plan, but this summary is qualified in its entirety by reference to the full text of the 2008 Incentive Plan, which has been filed with the SEC, and any stockholder who wishes to obtain a copy of the 2008 Incentive Plan may do so by written request to KIT digital, Inc., 168 Fifth Avenue, Suite 301, New York, New York 10010, Attention: Chief Financial Officer.

Description of the 2008 Incentive Stock Plan

The 2008 Incentive Plan initially reserved 400,000 shares of common stock for issuance and has reserved an additional 457,143, as described above, for a total of 857,143 shares of common stock for issuance. Under the 2008 Incentive Plan, options may be granted which are intended to qualify as Incentive Stock Options under Section 422 of the Internal Revenue Code of 1986, or which are not intended to qualify as Incentive Stock Options. In addition, direct grants of stock or restricted stock may be awarded.

Purpose. The primary purpose of the 2008 Incentive Plan is to attract and retain the best available personnel in order to promote the success of our business and to facilitate the ownership of our stock by employees and others who provide services to us.

Administration. The 2008 Incentive Plan is administered by our board of directors, provided that the board may delegate such administration to the Compensation Committee.

Eligibility. Under the 2008 Incentive Plan, options may be granted to employees, officers, directors or consultants, as provided in the 2008 Incentive Plan.

Terms of Options. The term of each option granted under the 2008 Incentive Plan will be contained in a stock option agreement between the optionee and us and such terms will be determined by the board of directors consistent with the provisions of the 2008 Incentive Plan, including the following:

- **Purchase Price**. The purchase price of the common stock subject to each incentive stock option will not be less than the fair market value (as set forth in the 2008 Incentive Plan), or in the case of the grant of an incentive stock option to a principal stockholder, not less that 110% of fair market value of such common stock at the time such option is granted.

- **Vesting**. The dates on which each option (or portion thereof) will be exercisable and the conditions precedent to such exercise, if any, will be fixed by the board of directors, in its discretion, at the time such option is granted. Unless otherwise provided in the grant agreement, in the event of a change of control (as set forth in the 2008 Incentive Plan), 50% of the vesting restrictions will terminate.

- **Expiration**. Any option granted to an employee will become exercisable over a period of no longer than five years. No option will in any event be exercisable after five years from, and no Incentive Stock Option granted to a ten percent shareholder will become exercisable after the expiration of five years from the date of the option.

- **Transferability**. No option will be transferable, except by will or the laws of descent and distribution, and any option may be exercised during the lifetime of the optionee only by such optionee. No option granted under the 2008 Incentive Plan shall be subject to execution, attachment or other process.

- **Option Adjustments**. In the event of any change in the outstanding stock by reason of a stock split, stock dividend, combination or reclassification of shares, recapitalization, merger, or similar event, the board or the committee may adjust proportionally (a) the number of shares of common stock (i) reserved under the 2008 Incentive Plan, (ii) available for Incentive Stock Options and Nonstatutory Options and (iii) covered by outstanding stock awards or restricted stock purchase offers; (b) the stock prices related to outstanding grants; and (c) the appropriate fair market value and other price determinations for such grants. In the event of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the board or the committee will be authorized to issue or assume stock options, whether or not in a transaction to which Section 424(a) of the Code applies, and other grants by means of substitution of new grant agreements for previously issued grants or an assumption of previously issued grants.

- **Termination, Modification and Amendment**. The board may, insofar as permitted by law, from time to time, suspend or terminate the 2008 Incentive Plan or revise or amend it in any respect whatsoever, except that without the approval of the stockholders, no such revision or amendment may (i) increase the number of shares subject to the 2008 Incentive Plan, (ii) decrease the price at which grants may be granted, (iii) materially increase the benefits to participants, or (iv) change the class of persons eligible to receive grants under the 2008 Incentive Plan; provided no such action may alter or impair the rights and obligations under any option, or stock award, or restricted stock purchase offer outstanding as of the date thereof without the written consent of the participant.

Grants under the 2008 Incentive Plan

Through December 31, 2008, we have granted an aggregate of 420,184 options under the 2008 Incentive Plan, including the following grants to officers and directors:

Name and Position	Dollar Value	No. of Options
Kamal El-Tayara, Director	$ 58,425	12,214
Daniel Hart, Director	72,675	12,214
Lars Kroijer, Director	58,425	12,214
Wayne Walker, Director	58,425	12,214
Gavin Campion, President	273,000	54,286
Robin Smyth, Chief Financial Officer and Director	96,200	18,857

The options issued to date provide for immediate vesting of 6.25% per quarter for the period start date to issue date or January 1, 2007 to issue date, whichever is the shortest period with the balance of the options vesting in equal quarterly amounts over a four-year period.

In addition, our board of directors has approved the grant of 81,429 options to new independent directors upon their appointment to the board. The board also approved annual compensation of $25,000, payable in arrears for the preceding calendar year on February 15 of every year beginning 2009, which may be paid in either cash or stock options (priced using the "Black-Scholes-Merton" options pricing model), or a combination of both.

Employment and Management Agreements

KIT Capital Management Agreement. During 2008, the managerial services of Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, and two non-executive personnel, were provided to us through KIT Capital, which is beneficially controlled by Mr. Isaza Tuzman. For these services, we paid KIT Capital aggregate fees of $641,784 for these three individuals in 2008 (which included a signing incentive payment of $68,500).

Under the Executive Management Agreement, dated as of December 18, 2007, with KIT Capital, the services of Mr. Isaza Tuzman and two non-executive personnel have been provided to us and our subsidiaries at an initial monthly rate of $50,800, with an incentive bonus equal to the greater of (i) the preceding 12 months' base compensation or (ii) the previous month's monthly installment of base compensation multiplied by 12 if we achieve two consecutive quarters of profitability or our total monthly revenue equals or exceeds $6.0 million. The Executive Management Agreement commenced on January 9, 2008 and expires on January 9, 2011, unless sooner terminated or extended by mutual agreement.

Under the Executive Management Agreement, we issued to KIT Capital stock options to purchase 60,000 shares of our common stock at an exercise price of $6.11 per share, of which 20,000 options vested as of January 9, 2008, and the remainder vest in equal monthly increments over a period of three years. We also established a "phantom" stock plan, pursuant to which we granted "phantom" shares equal to 60,000 shares of common stock vesting in equal monthly increments over a three-year period.

In addition, under the Executive Management Agreement, KIT Capital received the right to: (a) purchase up to 5,100,000 shares of series A preferred stock at a then purchase price of $0.38 per share from the holders of such shares; (b) purchase from us (i) up to $5,000,000 of our common stock at a price per share of no higher than a 15% premium to the closing price of the common stock on December 18, 2007, and (ii) up to an additional $10,000,000 of our common stock at a price not exceeding 90% of the five-day trailing weighted average trading price of the common stock at the time of purchase; and (c) include any such purchased shares of preferred stock and common stock in a registration statement filed by us with the SEC.

Notwithstanding these agreements, subsequent to the date of the Executive Management Agreement, (a) we effected the automatic conversion of all then outstanding shares of series A preferred stock into 11,429 shares of common stock, thereby preventing KIT Capital from purchasing such shares, (b) we requested KIT Capital to waive its registration rights in respect of its purchase of 1,008,572 shares of common stock and warrants to purchase a like number of shares in our May 2008 financing, and (c) at the recommendation of our financial advisor, KIT Capital waived its right to purchase an additional $10,000,000 in securities due to the potential negative effect on the market price with such a large controlling stockholder. For facilitating these corporate actions and waiving its rights as described above, and for KIT Capital's investment of $5,000,000 at a time when similar third-party financing transactions were unavailable and we required such funds in connection with pending acquisition transactions, we issued to KIT Capital a warrant to purchase 580,358 shares of our common stock (representing 65% warrant coverage on KIT Capital's investment, as compared to 100% warrant coverage in the May 2008 financing transaction), for a term of five years commencing on December 31, 2008, at an exercise price of $11.90 per share, subject to the occurrence of certain events that could potentially reduce the exercise price to $5.60 per share.

The Management Agreement provides that upon termination of that agreement or after the expiration date for any reason, except cause (as defined in the Management Agreement), we are required to pay KIT Capital, in addition to any other payments due, a cash severance payment equal to the greater of (i) the total amount paid to KIT Capital during the preceding 12 months, including base compensation and all bonuses, or (ii) the previous month's monthly installment of base compensation multiplied by 12.

Gavin Campion Employment Agreement. On March 16, 2008, we entered into an employment agreement with Gavin Campion to serve as our President. Pursuant to the terms of his agreement, Mr. Campion will serve as our President for an indefinite term, unless terminated by either party upon no less than 30 days written notice. If the agreement is terminated by Mr. Campion (or by us for the reasons specified below) prior to two years of consecutive service (April 1, 2010), Mr. Campion will be required to reimburse us for all expenses related to his employment. Mr. Campion's initial base compensation under the agreement is fixed at $200,000, payable in UAE dirham equivalent (inclusive of his transportation and housing allowance), plus corporate performance incentive compensation and a success fee relating to the Sputnik and Reality Group acquisitions. Mr. Campion also received stock options to purchase 34,286 shares of our common stock upon entering into the agreement. We are entitled to terminate Mr. Campion without advance notice and without the payment of any benefits upon the occurrence of certain events, including: (a) a violation of Article 120 of the UAE Labor Law (b) a breach of his non-competition agreement, (c) after Mr. Campion receives written notice of conduct which is in violation of our policies, standards and regulations as established from time to time, a refusal by Mr. Campion to comply with such policies, standards and regulations, (d) Mr. Campion engages in fraud, dishonesty or any other act of material misconduct in the performance of his duties on our behalf, or (e) Mr. Campion violates any material provision of his employment agreement which is not cured under any applicable cure period allowable under the agreement.

Robin Smyth Agreement. On March 30, 2008, we entered into a Separation and Re-Employment Agreement with Robin Smyth (the "Smyth Agreement"). Pursuant to the terms of the Smyth Agreement, Mr. Smyth was retained as Chief Financial Officer on an "at-will" basis at a base salary of $180,000. In addition, Mr. Smyth will receive a discretionary bonus and no less than 11,429 stock options. In addition, Mr. Smyth received two tranches of warrants, the first tranche provides for the purchase of up to 47,143 shares of our common stock and the second tranche provides for the right to purchase up to 34,286 shares of our common stock, both at an exercise price equal to the three-day trailing weighted average closing price per share as of March 30, 2008 of $4.655. Both warrants contain vesting provisions. The Smyth Agreement also provides for the termination of the employment agreement between Mr. Smyth and us, dated as of November 1, 2004, and the payment of $475,000 in satisfaction of the Company's obligations under the November 1, 2004 employment agreement, payable in three payments of $275,000, $100,000 and $100,000. The first, second and third cash payments (the first being a non-contingent, guaranteed obligation of ours and the latter two being contingent only upon Mr. Smyth not being dismissed for cause, within the meaning of that term in the November 1, 2004 employment agreement, or having resigned from the Company prior to the second or third cash payment being made). Mr. Smyth agreed to resign as our Chief Financial Officer effective April 27, 2009.

Jonathan Hirst Employment Agreement. Effective March 9, 2009, Jonathan Hirst entered into an employment agreement with us to begin employment on March 23, 2009, and to serve as our Chief Financial Officer beginning on April 27, 2009. Pursuant to the employment agreement, Mr. Hirst will devote all of his professional time and attention to our business, will report to Gavin Campion, our President, and will be based in our Dubai office.

The employment agreement provides that Mr. Hirst will receive a fixed salary at an annual rate of $200,000, inclusive of a transportation and housing allowance. Mr. Hirst will also be entitled to receive an annual performance incentive bonus of up to 50% of his total compensation based on the success of our financial results as provided in our executive bonus plan. We have also agreed to issue Mr. Hirst stock options to purchase 11,429 shares of common stock (post-split) at an exercise price equal to the market price on his first date of employment in accordance with the 2008 Incentive Plan.

The employment agreement provides for termination of employment by us or Mr. Hirst at any time on not less than 30 days written notice, or by us immediately upon an act of fraud, dishonesty or misconduct by Mr. Hirst or a material breach by him of his obligations to us. In the event Mr. Hirst's contract is terminated by us without cause he will be entitled to compensation for three months. The employment agreement also contains covenants (a) restricting him from engaging in any activities competitive with our business during the term of his employment agreement and for a period of three months thereafter, (b) prohibiting him from disclosure of our confidential information at any time, and (c) confirming that all intellectual property developed by him and relating to our business constitutes our sole and exclusive property. The employment agreement is governed by the laws of the United Arab Emirates.

Compensation Committee Interlock and Insider Participation

As of December 31, 2008, the Compensation Committee was composed of Lars Kroijer and Daniel Hart. There are no relationships or transactions involving members of the Compensation Committee during the year ended December 31, 2008 required to be reported pursuant to Item 402(j) of Regulation S-K.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers and persons who beneficially own more than ten percent of a registered class of our equity securities to file with the SEC initial reports of ownership and reports of change in ownership of common stock and other equity securities of the Company. Officers, directors and greater than ten percent stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to us under Rule 16a-3(e) during the year ended December 31, 2008, Forms 5 and any amendments thereto furnished to us with respect to the year ended December 31, 2008, and the representations made by the reporting persons to us, we believe that during the year ended December 31, 2008, our executive officers, directors and all persons who own more than ten percent of a registered class of our equity securities complied with all Section 16(a) filing requirements.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding the beneficial ownership of the common stock as of April 10, 2009. The information in this table provides the ownership information for each person known by us to be the beneficial owner of more than 5% of the common stock; each of our directors; each of our executive officers; and all of our directors and executive officers as a group.

Unless otherwise indicated, the persons named in the table below have sole voting and investment power with respect to the number of shares indicated as beneficially owned by them. Unless otherwise indicated, the address of the beneficial owner is c/o KIT digital, Inc., 168 Fifth Avenue, Suite 301, New York, New York 10010.

Name and Address of Beneficial Owner	Shares of Common Stock (Including Shares Underlying Other Securities) Beneficially Owned (1)		Percentage of Shares of Common Stock (Including Shares Underlying Other Securities) Beneficially Owned (1)
KIT Media Limited Mill Mall, Suite 6 Wickhams Cay 1 P.O. Box 3085 Road Town, Tortola British Virgin Islands	3,490,360	(2)	56.52%
KIT Capital, Ltd. P.O. Box 112888 Dubai, United Arab Emirates	60,219	(3)	1.30%
Kaleil Isaza Tuzman, sum of above	3,550,579	(2)(3)	57.82%
Gavin Campion	29,546	(4)	*
Robin Smyth	76,388	(5)	1.64%
Wayne Walker	15,759	(6)	*
Kamal El-Tayara	20,619	(7)	*
Lars Kroijer	15,348	(8)	*
Daniel Hart	16,760	(9)	*
Steven G. Felsher	15,348	(10)	*
Paul Tudor Jones, II c/o Tudor Investment Corp. 1275 King street Greenwich, CT 06831	161,323	(11)	3.49%
Wellington Trust Company, NA 75 State Street Boston, MA 02169	167,703	(12)	3.61%
Wellington Management Company, LLP 75 State Street Boston, MA 02169	493,440	(13)	9.22%

Castlerigg Master Investments Ltd. 40 W. 57th Street, 26th Floor New York, NY 10019	577,142 (14)	11.84%
All directors and executive officers as a group (8 persons)	3,693,204	60.92%

*Less than 1% of outstanding shares of common stock.

(1) Applicable percentage ownership is based on 4,586,700 shares of common stock outstanding as of April 10, 2009. For purposes of this table, "beneficial ownership" is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, pursuant to which a person or group of persons is deemed to have "beneficial ownership" of any shares of common stock that such person has the right to acquire within 60 days. For purposes of computing the percentage of outstanding shares of common stock held by each person or group of persons named above, any shares which such person or persons have the right to acquire within 60 days are deemed to be outstanding and beneficially owned by such person or persons, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(2) Represents (a) 1,901,430 shares of common stock, (b) 1,008,572 warrants acquired in our May 2008 financing and (c) warrants to purchase 580,358 shares of common stock acquired upon exercise of the right vested in that certain Executive Management Agreement, dated as of December 18, 2007. Kaleil Isaza Tuzman, our Chief Executive Officer, holds a controlling interest in KIT Media and holds the voting and dispositive power of the shares directly held by KIT Media, Ltd. For purposes of voting, on an actual basis, KIT Media Limited owns 41.46% of our outstanding shares. For purposes of voting, on an actual basis, Mr. Isaza Tuzman owns 41.85% of our outstanding shares.

(3) Represents (a) 17,858 shares of common stock and (b) shares underlying 60,000 stock options granted to KIT Capital pursuant to that certain Executive Management Agreement, dated as of December 18, 2007. 20,000 of the options vested on January 8, 2008. The remainder of the options vest and become exercisable at the rate of 1/36th per month commencing on February 9, 2008, of which 17,778 options vest within the next 60 days, with an exercise price of $6.11 per share and an expiration date of June 21, 2013 and (c) 20,000 shares of common stock issuable upon the exercise of stock options, of which 4,583 vest within the next 60 days, with an exercise price of $9.80 share and an expiration date of June 21, 2013. Kaleil Isaza Tuzman, our Chief Executive Officer, holds a controlling interest in KIT Capital and holds the voting and dispositive power of the shares directly held by KIT Capital. For purposes of voting, on an actual basis, KIT Capital owns 0.39% of our outstanding shares. For purposes of voting, on an actual basis, Mr. Isaza Tuzman owns 41.85% of our outstanding shares.

(4) Represents (a) 9,188 shares of common stock, (b) 34,286 shares of common stock issuable upon the exercise of stock options, of which 16,608 vest within the next 60 days, with an exercise price of $2.80 per share and an expiration date of March 16, 2013, and (c) 20,000 shares of common stock issuable upon the exercise of stock options, of which 3,750 vest within the next 60 days, with an exercise price of $9.80 per share and an expiration date of June 21, 2013. For purposes of voting, on an actual basis, Mr. Campion owns 0.20% of our outstanding shares.

(5) Represents (a) 2,858 shares of common stock owned directly by Mr. Smyth, (b) 11,715 shares of common stock issuable upon the exercise of stock options, of which 11,715 vest within the next 60 days, with an exercise price of $2.80 per share and an expiration date of March 16, 2013, (c) 81,429 shares of common stock issuable upon exercise of warrants, of which 60,476 vest within the next 60 days, and are exercisable at an exercise price of $4.66 per share and have an expiration date of March 30, 2012, and (d) 7,143 shares of common stock issuable upon the exercise of stock options, of which 1,339 vest within the next 60 days, with an exercise price of $9.80 per share and an expiration date of June 21, 2013. For purposes of voting, on an actual basis, Mr. Smyth owns 0.06% of our outstanding shares.

(6) Represents (a) 1,118 shares of common stock, (b) 8,143 shares of common stock issuable upon the exercise of stock options, of which 2,394 vest within the next 60 days, with an exercise price of $2.80 per share and an expiration date of March 16, 2013, (c) 4,072 shares of common stock issuable upon the exercise of stock options, of which 763 vest within the next 60 days, with an exercise price of $9.80 per share and an expiration date of June 21, 2013, and (d) 11,484 shares of common stock issuable upon the exercise of stock options, of which 11,484 vest within the next 60 days, with an exercise price of $7.00 per share and an expiration date of March 6, 2014 For purposes of voting, on an actual basis, Mr. Walker owns 0.02% of our outstanding shares.

(7) Represents (a) 2,858 shares of common stock owned directly by Mr. El-Tayara, (b) 8,143 shares of common stock issuable upon the exercise of stock options, of which 2,394 vest within the next 60 days, with an exercise price of $2.80 per share and an expiration date of March 16, 2013, (c) 4,072 shares of common stock issuable upon the exercise of stock options, of which 763 vest within the next 60 days, with an exercise price of $9.80 per share and an expiration date of June 21, 2013, and (d) 14,604 shares of common stock issuable upon the exercise of stock options, of which 14,604 vest within the next 60 days, with an exercise price of $7.00 per share and an expiration date of March 6, 2014. For purposes of voting, on an actual basis, Mr. El-Tayara owns 0.06% of our outstanding shares.

(8) Represents (a) 1,144 shares of common stock, (b) 8,143 shares of common stock issuable upon the exercise of stock options, of which 2,394 vest within the next 60 days, with an exercise price of $2.80 per share and an expiration date of March 16, 2013, (c) 4,072 shares of common stock issuable upon the exercise of stock options, of which 763 vest within the next 60 days, with an exercise price of $9.80 per share and an expiration date of June 21, 2013, and (d) 11,047 shares of common stock issuable upon the exercise of stock options, of which 11,047 vest within the next 60 days, with an exercise price of $7.00 per share and an expiration date of March 6, 2014 For purposes of voting, on an actual basis, Mr. Kroijer owns 0.02% of our outstanding shares.

(9) Represents(a) 8,143 shares of common stock issuable upon the exercise of stock options, of which 2,036 will be vested within the next 60 days with an exercise price of $4.55 per share and an expiration date of March 30, 2013, (b) 4,072 shares of common stock issuable upon the exercise of stock options, of which 763 vest within the next 60 days, with an exercise price of $9.80 per share and an expiration date of June 21, 2013, and (c) 13,961 shares of common stock issuable upon the exercise of stock options, of which 13,961 vest within the next 60 days, with an exercise price of $7.00 per share and an expiration date of March 6, 2014 For purposes of voting, on an actual basis, Mr. Hart owns no outstanding shares.

(10) Represents(a) 10,286 shares of common stock issuable upon the exercise of stock options, of which 1,929 will be vested within the next 60 days with an exercise price of $7.00 per share and an expiration date of February 15, 2014, and (b) 13,419 shares of common stock issuable upon the exercise of stock options, of which 13,419 vest within the next 60 days, with an exercise price of $7.00 per share and an expiration date of March 6, 2014. For purposes of voting, on an actual basis, Mr. Felsher owns no outstanding shares.

(11) As reported in a Schedule 13G filed with the SEC on February 9, 2009, The Tudor BVI Global Portfolio Ltd. directly owns 25,990 shares of common stock and 7,797 warrants to purchase common stock. The Raptor Global Portfolio Ltd. directly owns 97,902 shares of common stock and 29,371 warrants. The Altar Rock Fund L.P. directly owns 202 shares of common stock and 61 warrants. Tudor Investment Corporation provides investment advisory services to BVI Global Portfolio Ltd. and may be deemed to beneficially own the securities held by The Tudor BVI Global Portfolio, Ltd. Tudor Investment Corporation disclaims beneficial ownership of the securities held by BVI Global Portfolio, Ltd. In addition, Paul Tudor Jones II, as the controlling stockholder of Tudor Investment Corporation, may be deemed to be the beneficial owner of the shares held by The Tudor BVI Global Portfolio, Ltd. Tudor Investment Corporation and Mr. Jones disclaim beneficial ownership of the securities held by The BVI Global Portfolio Ltd. For purposes of voting, on an actual basis, Mr. Jones and affiliated entities own 2.71% of our outstanding shares.

(12) As reported in a Schedule 13G filed with the SEC on February 17, 2009. Represents 102,694 shares of common stock and 65,009 warrants. For purposes of voting, on an actual basis, Wellington Trust Company, NA owns 2.24% of our outstanding shares.

(13) As reported in a Schedule 13G filed with the SEC on February 17, 2009. Represents 261,591 shares of common stock and 177,849 warrants which are owned by clients of Wellington Management. Except for Wellington Trust Company, NA, none of these clients owns more than 5% of our outstanding shares of common stock. For purposes of voting, on an actual basis, Wellington Management Company, LLP owns 5.70% of our outstanding shares.

(14) Represents 288,571 shares of common stock and 288,571 warrants for Castlerigg Master Investments Ltd. For purposes of voting, on an actual basis, Castlerigg Master Investments Ltd. owns 6.29% of our outstanding shares.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Other than the Executive Management Agreement described under “Executive Compensation - Employment and Management Agreements; KIT Capital Management Agreement” above (which is incorporated herein by reference in its entirety), there are no relationships or transactions requiring disclosure between us and our related persons, promoters or control persons.

Kamal El-Tayara, Steven G. Felsher, Daniel Hart, Lars Kroijer and Wayne Walker are independent members of our board of directors, under Nasdaq’s independence standards.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees billed or to be billed to us by MSPC, Certified Public Accountants and Advisors, a Professional Corporation for the years ended December 31, 2008 and 2007:

	2008	2007
Audit Fees	$ 149,567	$ 109,961
Audit-Related Fees	17,324	13,629
Tax Fees	0	1,200
All Other Fees	0	0

All services performed by MSPC were pre-approved by the Audit Committee in accordance with its pre-approval policy adopted in 2007. The policy describes the audit, audit-related, tax and other services permitted to be performed by the independent auditors, subject to the Audit Committee's prior approval of the services and fees. On an annual basis, the Audit Committee will review and provide pre-approval for certain types of services that may be provided by the independent auditors without obtaining specific pre-approval from the Audit Committee. If a type of service to be provided has not received pre-approval during this annual process, it will require specific pre-approval by the Audit Committee. Any proposed services exceeding pre-approved cost levels or budgeted amounts will also require separate pre-approval by the committee.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) and (2): The response to this portion of Item 14 is submitted as a separate section of this report beginning on page F-1.

(a)(3) Exhibits:

Exhibit Number	Description
2.1	Agreement and Plan of Merger dated as of December 2, 2003 by and among Virilitec Industries, Inc., ROO Media Corporation, VRLT Acquisition Corp., and Jacob Roth and Bella Roth (Incorporated by reference to Form 8-K, filed with the U.S. Securities and Exchange Commission (the “SEC”) on December 18, 2003).
2.2	Stock Purchase Agreement dated as of March 11, 2004 by and among the Company and the shareholders of Reality Group Pty Ltd (Incorporated by reference to Form 8-K, filed with the SEC on May 17, 2004).
2.3	Asset Purchase Agreement dated as of May 26, 2004 by and among the Company, Undercover Holdings Pty Ltd. and Undercover Media Pty Ltd. (Incorporated by reference to Form 8-K, filed with the SEC on June 16, 2004).
2.4	Stock Purchase Agreement dated as of September 10, 2004 by and among the Company and Avenue Group, Inc. in connection with the purchase of common stock of Bickhams Media, Inc. (Incorporated by reference to Form 8-K, filed with the SEC on September 22, 2004).
2.5	Stock Purchase Agreement dated as of November 1, 2004 by and between Bickhams Media, Inc., ROO Group, Inc., and Daniel and Vardit Aharonoff (Incorporated by reference to Form 8-K/A, filed with the SEC on November 5, 2004).
2.6	Amendment No. 1 dated October 28, 2005 to Stock Purchase Agreement among ROO Group, Inc. and the shareholders of Reality Group Pty Ltd. (Incorporated by reference to Form 8-K/A, filed with the SEC on November 2, 2005).
2.7	Share Purchase Agreement dated October 28, 2005 by and among ROO Broadcasting Limited and the Sellers thereto (Incorporated by reference to Form 8-K/A, filed with the SEC on November 2, 2005).
2.8	Share Purchase Agreement, dated April 30, 2008, between ROO Group, Inc. and shareholders of Sputnik Agency Pty Ltd. (Incorporated by reference to Form 8-K filed with the SEC on May 23, 2008).
2.9	Share Purchase Agreement for the Acquisition of Shares of Kamera Content AB, dated May 19, 2008, between KIT digital, Inc. and the Majority Shareholders of Kamera Content AB (Incorporated by reference to Form 8-K filed with the SEC on May 23, 2008).
2.10	Share Purchase Agreement for the Acquisition of all Issued Shares of Visual Connection, a.s., dated October 5, 2008, between KIT digital, Inc. and KIT digital FZ-LLC (on the one hand), and Tomas Petru and Jakub Vanek (on the other hand) (Incorporated by reference to Form 8-K, filed with the SEC on October 9, 2008).
3.1	Certificate of Incorporation of Virilitec Industries, Inc. (Incorporated by reference to Form 10-SB (File No. 000-25659), filed with the SEC on March 29, 1999).
3.2	Certificate of Amendment of Certificate of Incorporation of Virilitec Industries, Inc. filed with the State of Delaware on October 31, 2003 (Incorporated by reference to Form SB-2 (File No. 333-120605), filed with the SEC on November 18, 2004).
3.3	Certificate of Amendment to the Amended Certificate of Incorporation of Virilitec Industries, Inc. filed with the State of Delaware on February 18, 2004 (Incorporated by reference to Form SB-2 (File No. 333-120605), filed with the SEC on November 18, 2004).

3.4	Certificate of Designation, Powers, Preferences and Rights of Series A Preferred Stock, filed with the State of Delaware on March 9, 2005 (Incorporated by reference to Form 8-K filed with the SEC on March 14, 2005).
3.5	Certificate of Designation, Powers, Preferences and Rights of Series A Preferred Stock, filed with the State of Delaware on March 9, 2005 (Incorporated by reference to Form 8-K filed with the SEC on March 14, 2005).
3.6	Amendment to the Certificate of Designation, Powers, Preferences and Rights of Series A Preferred Stock, filed with the State of Delaware on September 30, 2005 (Incorporated by reference to Form 8-K filed with the SEC on October 4, 2005).
3.7	Certificate of Amendment to Amended Certificate of Incorporation, effective as of October 3, 2005 (Incorporated by reference to Form 8-K filed with the SEC on October 4, 2005).
3.8	Certificate of Amendment to the Certificate of Incorporation filed with the Delaware Secretary of State on May 19, 2008 (Incorporated by reference to Form 8-K filed with the SEC on June 2, 2008).
3.9	Certificate of Amendment of the Certificate of Incorporation filed with the Secretary of State of the State of Delaware effective March 9, 2009 (Incorporated by reference to Form 8-K filed with the SEC on March 16, 2009).
3.10	Bylaws (Incorporated by reference to Form 10-SB (File No. 000-25659), filed with the SEC on March 29, 1999).
4.1	Stock Purchase Warrant issued to AJW Offshore, Ltd., dated September 10, 2004 (Incorporated by reference to Form 8-K, filed with the SEC on September 16, 2004).
4.2	Stock Purchase Warrant issued to AJW Qualified Partners, LLC, dated September 10, 2004 (Incorporated by reference to Form 8-K, filed with the SEC on September 16, 2004).
4.3	Stock Purchase Warrant issued to AJW Partners, LLC, dated September 10, 2004 (Incorporated by reference to Form 8-K, filed with the SEC on September 16, 2004).
4.4	Stock Purchase Warrant issued to New Millennium Capital Partners II, LLC, dated September 10, 2004 (Incorporated by reference to Form 8-K, filed with the SEC on September 16, 2004).
4.5	Stock Purchase Warrant issued to AJW Offshore, Ltd., dated November 23, 2004 (Incorporated by reference to Form 8-K, filed with the SEC on November 30, 2004).
4.6	Form of Warrant, dated May 8, 2008, issued by ROO Group, Inc. to investors in the May 2008 Financing (Incorporated by reference to Form 8-K filed with the SEC on May 8, 2008).
10.1	Employment Agreement with Robert Petty dated April 1, 2004 (Incorporated by reference to Form 10-QSB, filed with the SEC on August 16, 2004).
10.2	Employment Agreement with Robin Smyth dated April 1, 2004 (Incorporated by reference to Form 10-QSB, filed with the SEC on August 16, 2004).
10.3	Employment Agreement with Robert Petty dated November 1, 2004 (Incorporated by reference to Form SB-2 (File No. 333-120605), filed with the SEC on November 18, 2004).
10.4	Employment Agreement with Robin Smyth dated November 1, 2004 (Incorporated by reference to Form SB-2 (File No. 333-120605), filed with the SEC on November 18, 2004).
10.5	Sublease dated April 1, 2005 (Incorporated by reference to Form 8-K filed with the SEC on June 13, 2005).
10.6	AT&T Intelligent Content Distribution Service Agreement dated August 16, 2001 (Incorporated by reference to Form SB-2 (File No. 333-120605), filed with the SEC on November 18, 2004).

10.7	Network Services Agreement with Speedera Networks, Inc. dated June 1, 2004 (Incorporated by reference to Form SB-2 (File No. 333-120605), filed with the SEC on November 18, 2004).
10.8	Securities Purchase Agreement, dated September 10, 2004, by and among ROO Group, Inc. and AJW Offshore, Ltd., AJW Qualified Partners, LLC, AJW Partners, LLC and New Millennium Capital Partners II, LLC (Incorporated by reference to Form 8-K, filed with the SEC on September 16, 2004).
10.9	Letter agreement dated May 12, 2005 between the Company, AJW Offshore, Ltd., AJW Qualified Partners, LLC, AJW Partners, LLC and New Millennium Capital Partners II, LLC (Incorporated by reference to Form 8-K filed with the SEC on May 12, 2005).
10.10	Note Purchase Agreement made as of May 18, 2005 by and between ROO Group, Inc. and Robert Petty (Incorporated by reference to Form 8-K filed with the SEC on May 24, 2005).
10.11	Registration Rights Agreement made as of May 18, 2005 by and among Robert Petty, ROO Group, Inc. and the purchasers listed on Schedule I thereto (Incorporated by reference to Form 8-K filed with the SEC on May 24, 2005).
10.12	Securities Purchase Agreement, dated July 18, 2005, by and among ROO Group, Inc. and AJW Offshore, Ltd., AJW Qualified Partners, LLC, AJW Partners, LLC and New Millennium Capital Partners II, LLC (Incorporated by reference to Form 8-K, filed with the SEC on July 22, 2005).
10.13	Registration Rights Agreement, dated as of July 18, 2005, by and among ROO Group, Inc. and AJW Offshore, Ltd., AJW Qualified Partners, LLC, AJW Partners, LLC and New Millennium Capital Partners II, LLC (Incorporated by reference to Form 8-K, filed with the SEC on July 23, 2005).
10.14	Omnibus Consent and Waiver dated August 18, 2005 between ROO Group, Inc., AJW Offshore, Ltd., AJW Qualified Partners, LLC, AJW Partners, LLC and New Millennium Capital Partners II, LLC (Incorporated by reference to Form 8-K filed with the SEC on August 24, 2005).
10.15	Common Stock Purchase Agreement dated August 19, 2005 among ROO Group, Inc. and the purchasers listed on Exhibit A thereto (Incorporated by reference to Form 8-K filed with the SEC on August 25, 2005).
10.16	Registration Rights Agreement dated August 19, 2005 among ROO Group, Inc. and the purchasers listed on Schedule 1 thereto (Incorporated by reference to Form 8-K filed with the SEC on August 25, 2005).
10.17	Escrow Agreement dated August 19, 2005 among ROO Group, Inc., the purchasers signatory thereto and the escrow agent (Incorporated by reference to Form 8-K filed with the SEC on August 25, 2005).
10.18	Common Stock Purchase Agreement dated October 20, 2005 among ROO Group, Inc. and the purchasers listed on Exhibit A thereto (Incorporated by reference to Form 8-K filed with the SEC on October 26, 2005).
10.19	Registration Rights Agreement dated October 20, 2005 among ROO Group, Inc. and the purchasers listed on Schedule 1 thereto (Incorporated by reference to Form 8-K filed with the SEC on October 26, 2005).
10.20	Escrow Agreement dated October 20, 2005 among ROO Group, Inc., the purchasers signatory thereto and the escrow agent (Incorporated by reference to Form 8-K filed with the SEC on October 26, 2005).
10.21	Common Stock Purchase Agreement dated December 28, 2005 among ROO Group, Inc. and the purchasers listed on Exhibit A thereto (Incorporated by reference to Form 8-K filed with the SEC on December 30, 2005).

10.22	Escrow Agreement dated December 28, 2005 among ROO Group, Inc., the purchasers signatory thereto and the escrow agent (Incorporated by reference to Form 8-K filed with the SEC on December 30, 2005).
10.23	Registration Rights Agreement dated December 28, 2005 among ROO Group, Inc. and the purchasers listed on Schedule 1 thereto (Incorporated by reference to Form 8-K filed with the SEC on December 30, 2005).
10.24	Securities Purchase Agreement dated August 18, 2006 among ROO Group, Inc. and the purchasers listed on Exhibit A thereto (Incorporated by reference to Form 8-K filed with the SEC on August 24, 2006).
10.25	Escrow Agreement dated August 18, 2006 among ROO Group, Inc., the purchasers signatory thereto and the escrow agent (Incorporated by reference to Form 8-K filed with the SEC on August 24, 2006).
10.26	Securities Purchase Agreement dated November 14, 2006 among ROO Group, Inc. and the Purchasers listed on Exhibit A thereto (Incorporated by reference to Form 8-K filed with the SEC on November 20, 2006).
10.27	Escrow Agreement dated November 14, 2006 among ROO Group, Inc., the purchasers signatory thereto (Incorporated by reference to Form 8-K filed with the SEC on November 20, 2006).
10.28	Securities Purchase Agreement dated May 4, 2007 among ROO Group, Inc., the purchasers signatory thereto (Incorporated by reference to Form 8-K filed with the SEC on May 10, 2007).
10.29	Escrow Agreement dated May 4, 2007 among ROO Group, Inc., the purchasers signatory (Incorporated by reference to Form 8-K filed with the SEC on May 10, 2007).
10.30	Asset Purchase Agreement dated July 12, 2007 by and among ROO HD, Inc., Wurld Media, Inc., Gregory Kerber, and Kirk Feathers (Incorporated by reference to Form 8-K filed with the SEC on July 18, 2007).
10.31	Agreement dated January 25, 2007 by and among ROO Group, Inc. and News Corporation (Incorporated by reference to Form 8-K/A filed with the SEC on July 26, 2007).
10.32	Executive Management Agreement, dated as of December 18, 2007, between KIT Capital Limited and ROO Group, Inc. (Incorporated by reference to Form 8-K filed with the SEC on December 26, 2007).
10.33	Offer of Employment, dated March 16, 2008, between ROO Group, Inc. and Gavin Campion (Incorporated by reference to Form 8-K filed with the SEC on March 21, 2008).
10.34	ROO Group, Inc. 2008 Incentive Stock Plan (Incorporated by reference to Form 10-K filed with the SEC on April 1, 2008).
10.35	Separation Agreement and Release, dated March 30, 2008, between ROO Group, Inc. and Robert Petty (Incorporated by reference to Form 10-K filed with the SEC on April 1, 2008).
10.36	Separation and Re-Employment Agreement, dated March 30, 2008 between ROO Group, Inc. and Robin Smyth (Incorporated by reference to Form 10-K filed with the SEC on April 1, 2008).
10.37	Securities Purchase Agreement, dated as of May 8, 2008, among ROO Group, Inc. d/k/a KIT digital and each of the purchasers listed on Exhibit A attached thereto (Incorporated by reference to Form 8-K filed with the SEC on May 8, 2008).
10.38	Escrow Agreement, dated as of May 8, 2008, among ROO Group, Inc. d/b/a KIT digital, the purchasers signatory thereto and the escrow agent (Incorporated by reference to Form 8-K filed with the SEC on May 8, 2008).
10.39	Employment Agreement, dated as of March 6, 2009, between KIT digital, Inc. and Jonathan Hirst (Incorporated by reference to Form 8-K filed with the SEC on March 16, 2009).

21.1	Subsidiaries of KIT digital, Inc.
31.1	Certification of Chief Executive Officer required by Rule 13(a)-14(a).
31.2	Certification of Chief Financial Officer required by Rule 13(a)-14(a).
32.1	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

KIT digital, Inc.

Date: April 15, 2009

By: /s/ Kaleil Isaza Tuzman
Kaleil Isaza Tuzman
Chairman and Chief Executive Officer
(principal executive officer)

By: /s/ Robin Smyth
Robin Smyth
Chief Financial Officer and Treasurer
(principal financial and accounting officer)

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

/s/ Kaleil Isaza Tuzman Kaleil Isaza Tuzman	Chairman and Chief Executive Officer (principal executive officer)	April 15, 2009
/s/ Gavin Campion Gavin Campion	President and Director	April 15, 2009
/s/ Robin Smyth Robin Smyth	Chief Financial Officer, Treasurer and Director (principal financial and accounting officer)	April 15, 2009
/s/ Kamal El-Tayara Kamal El-Tayara	Director	April 15, 2009
/s/ Steven G. Felsher Steven G. Felsher	Director	April 15, 2009
/s/ Daniel Hart Daniel Hart	Director	April 15, 2009
/s/ Lars Kroijer Lars Kroijer	Director	April 15, 2009
/s/ Wayne Walker Wayne Walker	Director	April 15, 2009

KIT digital, Inc. and Subsidiaries

FORM 10-K

ITEMS 8 and 15(a) (1) and (2)

INDEX OF FINANCIAL STATEMENTS AND SCHEDULES

The following financial statements of KIT digital, Inc. and its subsidiaries required to be included in Items 8 and 15(a)(1) are listed below:

The financial statement schedules of KIT digital, Inc. and its subsidiaries to be included in Item 15(a)(2) are omitted because the conditions requiring their filing do no exist or because the required information is given in the financial statements, including the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
KIT digital, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of KIT digital, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements 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 audit 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KIT digital, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the two years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company has suffered recurring losses and negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also discussed in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ MSPC

MSPC
Certified Public Accountants and Advisors,
A Professional Corporation

New York, New York
April 8, 2009

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Share Data)

	Year ended December 31, 2008	Year ended December 31, 2007
Assets:		
Current assets:		
Cash and cash equivalents	$ 5,878	$ 10,189
Accounts receivable, net	8,331	3,057
Inventory, net	2,130	-
Restricted cash	-	100
Other current assets	1,539	1,288
Total current assets	17,878	14,634
Property and equipment, net	2,928	1,307
Deferred tax assets	64	263
Software, net	2,265	505
Customer list, net	2,988	253
Domain names, net	19	30
Goodwill	15,167	1,123
Total assets	$ 41,309	$ 18,115
Liabilities and Stockholders' Equity:		
Current liabilities:		
Bank overdraft	$ 1,456	$ 190
Capital lease and other obligations	395	-
Secured notes payable	966	-
Senior secured notes payable, net of debt discount of $550	950	-
Accounts payable	5,775	3,121
Accrued expenses	2,240	1,616
Income tax payable	160	139
Acquisition liability - Kamera	3,000	-
Acquisition liability - Visual	2,218	-
Other current liabilities	3,818	1,478
Total current liabilities	20,978	6,544
Capital lease and other obligations, net of current	949	292
Secured notes payable, net of current	236	-
Acquisition liability - Visual, net of current	1,075	-
Total liabilities	23,238	6,836
Minority interest	(237)	(76)
Stockholders' Equity:		
Series A preferred shares, $0.0001 par value: authorized 10,000,000 shares; issued and outstanding 10,000,000	-	1
Common stock, $0.0001 par value: authorized 30,000,000 shares; issued and outstanding 4,183,280 and 1,112,459, respectively	-	-
Additional paid-in capital	101,057	74,824
Accumulated deficit	(82,499)	(63,524)
Accumulated other comprehensive (loss) income	(250)	54
Total stockholders' equity	18,308	11,355
Total liabilities and stockholders' equity	$ 41,309	$ 18,115

The Accompanying Notes are an Integral Part of these Consolidated Financial Statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Amounts in Thousands, Except Share and Per Share Data)

	Year ended December 31, 2008	Year ended December 31, 2007
Revenue	$ 23,401	$ 13,929
Variable and direct third party costs:		
Cost of goods and services	2,845	-
Hosting, delivery and reporting	2,024	2,341
Content costs	2,419	1,304
Direct third party creative production costs	3,109	3,242
Total variable and direct third party costs	10,397	6,887
Gross profit	13,004	7,042
General and administrative expenses:		
Compensation, travel and associated costs (including non-cash stock-based compensation of $4,869 and $4,748, respectively)	20,366	28,587
Legal, accounting, audit and other professional service fees	1,227	1,807
Office, marketing and other corporate costs	3,511	3,988
Merger and acquisition and investor relations expenses	427	-
Depreciation and amortization	1,771	2,236
Restructuring charges	3,068	-
Other non-recurring charges	1,111	-
Settlement of MyVideoDaily agreement	-	500
Impairment of property and equipment	229	788
Impairment of intangible assets	-	3,124
Impairment of goodwill	-	250
Total general and administrative expenses	31,710	41,280
Loss from operations	(18,706)	(34,238)
Interest income	164	725
Interest expense	(228)	(70)
Amortization of deferred financing costs and debt discount	(110)	-
Other income (expense)	31	(51)
Registration rights liquidated damages	(117)	(792)
Net loss before income taxes	(18,966)	(34,426)
Income tax expense	(116)	(125)
Net loss before minority interest	(19,082)	(34,551)
Minority interest	107	(13)
Net loss available to common shareholders	$ (18,975)	$ (34,564)
Basic and diluted net loss per common share	$ (7.55)	$ (34.69)
Basic and diluted weighted average common shares outstanding	2,512,415	996,267
Comprehensive loss:		
Net loss	$ (18,975)	$ (34,564)
Foreign currency translation	(304)	46
Comprehensive loss	$ (19,279)	$ (34,518)

The Accompanying Notes are an Integral Part of these Consolidated Financial Statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in Thousands, Except Share Data)

	Series A Preferred Shares	Series A Preferred Shares Par Value	Common Stock	Common Stock Par Value
Balance - January 1, 2007	10,000,000	$ 1	744,995	$ —
Issuance of stock in private placements	—	—	285,714	—
Stock-based compensation	—	—	—	—
Issuance of stock for News Corp.	—	—	57,143	—
Issuance of stock for MyVideoDaily acquisition	—	—	2,639	—
Return and cancellation of stock for MyVideoDaily acquisition	—	—	(2,639)	—
Issuance of stock upon conversion of warrants	—	—	286	—
Issuance of stock upon cashless conversion of warrants	—	—	5,592	—
Issuance of stock into escrow related to Wurld Media	—	—	18,729	—
Foreign currency translation adjustment	—	—	—	—
Net loss	—	—	—	—
Balance - December 31, 2007	10,000,000	$ 1	1,112,459	$ —
Issue of stock in private placement	—	—	2,142,857	—
Issue of stock in placement to KIT Media	—	—	892,857	—
Conversion of preferred stock to common stock	(10,000,000)	(1)	11,429	—
Issue of warrants for private placement	—	—	—	—
Issue of stock for exercise of stock options	—	—	7,821	—
Issue of stock in Asset Acquisition	—	—	13,714	—
Issue of warrants with short term debt	—	—	—	—
Issue of stock for services	—	—	2,143	—
Stock-based compensation	—	—	—	—
Foreign currency translation adjustment	—	—	—	—
Net loss	—	—	—	—
Balance - December 31, 2008	—	$ —	4,183,280	$ —

The Accompanying Notes are an Integral Part of these Consolidated Financial Statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in Thousands, Except Share Data)

	Additional Paid-in Capital	Accumulated (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance - January 1, 2007	$ 44,741	$ (28,960)	$ 8	$ 15,790
Issuance of stock in private placements	23,875	—	—	23,875
Stock-based compensation	4,748	—	—	4,748
Issuance of stock for News Corp	340	—	—	340
Issuance of stock for MyVideoDaily acquisition	250	—	—	250
Return and cancellation of stock for MyVideoDaily acquisition	(250)	—	—	(250)
Issuance of stock upon conversion of warrants	12	—	—	12
Issuance of stock upon cashless conversion of warrants	—	—	—	—
Issuance of stock into escrow related to Wurld Media	1,108	—	—	1,108
Foreign currency translation adjustment	—	—	46	46
Net loss	—	(34,564)	—	(34,564)
Balance - December 31, 2007	$ 74,824	$ (63,524)	$ 54	$ 11,355
Issue of stock in private placement	14,680	—	—	14,680
Issue of stock in placement to KIT Media	5,000			5,000
Conversion of preferred stock to common stock	1	—	—	—
Issue of warrants for private placement	1,038	—	—	1,038
Issue of stock for exercise of stock options	22	—	—	22
Issue of stock in Asset Acquisition	106	—	—	106
Issue of warrants with short term debt	642	—	—	642
Issue of stock for services	11	—	—	11
Stock-based compensation	4,733	—	—	4,733
Foreign currency translation adjustment	—	—	(304)	(304)
Net loss	—	(18,975)	—	(18,975)
Balance - December 31, 2008	$ 101,057	$ (82,499)	$ (250)	$ 18,308

The Accompanying Notes are an Integral Part of these Consolidated Financial Statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years ended December 31, 2008	2007
Operating Activities:		
Net loss	$ (18,975)	$ (34,564)
Adjustments to reconcile net loss to net cash used by operating activities:		
Provision for doubtful accounts	143	120
Depreciation	729	902
Amortization of intangible assets	1,042	1,334
Amortization of deferred financing costs	18	
Amortization of debt discount	92	
Impairment of property and equipment	229	788
Impairment of goodwill and intangible assets	—	3,374
Non-cash stock-based compensation	4,733	4,748
Issuance of warrants for settlement of separation agreements	1,038	—
Non-cash stock for services	11	—
Non-cash issuance of shares for News Corporation agreement	—	340
Minority interest in subsidiaries	(107)	13
Changes in assets and liabilities:		
Accounts receivable	(2,133)	231
Inventories	(738)	—
Other assets	585	(137)
Accounts payable	(512)	1,348
Accrued expenses	310	613
Income tax payable	171	(34)
Other liabilities	548	139
Total adjustments	6,159	13,779
Net Cash Used By Operating Activities - Forward	(12,816)	(20,785)
Investing Activities:		
Investment in restricted cash	100	(100)
Cash paid in acquisition of Visual	(1,311)	—
Cash received in acquisition of Visual	110	—
Cash paid in acquisition of Kamera	(4,634)	—
Cash received in acquisition of Kamera	271	—
Cash paid for completion of acquisition of Sputnik	(4,656)	—
Cash paid in acquisition of Morpheum	(790)	—
Cash received in acquisition of Morpheum	141	—
Cash paid for assets acquired from Juzou	(19)	—
Cash paid in MyVideoDaily acquisition	—	(250)
Cash paid for assets acquired from Wurld Media	—	(3,174)
Proceeds from sale of equipment	33	—
Capitalization of content	—	(89)
Purchase of equipment	(960)	(729)
Net Cash Used By Investing Activities - Forward	$ (11,715)	$ (4,342)

The Accompanying Notes are an Integral Part of these Consolidated Financial Statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years ended December 31, 2008	Years ended December 31, 2007
Net Cash Used By Operating Activities - Forwarded	$ (12,816)	$ (20,785)
Net Cash Used By Investing Activities - Forwarded	(11,715)	(4,342)
Financing Activities:		
Proceeds from private placements, net	14,680	23,875
Proceeds from private placement to KIT Media	5,000	—
Bank overdraft and other obligations	(89)	(372)
Proceeds from exercise of stock options	22	—
Proceeds from issuance of Secured Notes	(322)	—
Proceeds from issuance of Senior Secured Note	1,500	—
Proceeds from exercise of warrants	—	12
Payments on capital leases	(259)	(170)
Net Cash Provided By Financing Activities	20,352	23,345
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(312)	34
Net Decrease in Cash and Cash Equivalents	(4,311)	(1,748)
Cash and Cash Equivalents - Beginning of Year	10,189	11,937
Cash and Cash Equivalents - End of Year	$ 5,878	$ 10,189
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the years for:		
Income taxes	$ —	$ —
Interest	$ 251	$ 50

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

During the years ended December 31, 2007 and 2008, the Company acquired equipment under capital lease obligations of $184 and $0, respectively.

The Accompanying Notes are an Integral Part of these Consolidated Financial Statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(1) Basis of Presentation

KIT digital, Inc. ("we," "us," "our," the "Company" or "KIT digital"), through our operating subsidiaries, provide enterprise clients and end-to-end technology platform for managing IP-based video assets for consumption across the computer internet browser, mobile device and television set via IPTV. We offer creative interface design, branding, strategic planning and technical integration professional services to complement our platform. Our business is divided into two segments: Digital Media Solutions and Agency Services. Digital Media Solutions includes the delivery of solutions that include software, hardware, services and components. Digital Media Solutions also provide services including content delivery, online and mobile property development and management, and advertising-based monetization. Agency Services include direct marketing, incentive programs, internal communications, customer relationship management, sales promotion, creative production, sponsorships, online marketing, media planning, media buying and packaging.

(2) Summary of Significant Accounting Policies

Principles of Consolidation - Our consolidated financial statements include the accounts of KIT digital, Inc., its wholly-owned subsidiary KIT Media Corporation, (“KIT Media Corp”) its wholly-owned subsidiary Bickhams Media, Inc. (“Bickhams”), its 51% subsidiary Reality Group Pty. Ltd (“Reality Group”), its wholly-owned subsidiary Kamera Content AB (“Kamera”) (included as of the acquisition date of May 19, 2008), its wholly-owned subsidiary KIT digital FZ LLC and its wholly-owned subsidiary KIT HD, Inc. Included in the consolidation with KIT Media Corp are KIT Media Corp’s wholly-owned subsidiary KIT digital Pty. Ltd. (formerly ROO Media (Australia) Pty Ltd.) and KIT digital Pty Ltd.’s wholly-owned subsidiary Undercover Media Pty. Ltd., its wholly-owned subsidiary KIT digital Limited (formerly ROO Media Europe Limited), its wholly-owned subsidiary KIT Broadcasting Limited (fomerly ROO Broadcasting Limited), its wholly-owned subsidiary Sputnik Agency Pty. Ltd. (formerly Factory212 Pty. Ltd.), its wholly-owned subsidiary KIT TV Pty Ltd. (fomerly ROO TV Pty Ltd.) and its wholly owned subsidiary Morpheum Internet Services Pty Ltd (included as of the date of acquisition of September 2, 2008). Included in the consolidation with Bickhams is Bickhams’ wholly-owned subsidiary VideoDome.com Networks, Inc. Included in the consolidation with Kamera are Kamera’s 95%-owned subsidiary Kamera (S) PTE Ltd and its 55%-owned subsidiary Swegypt Company for Telecommunications (S.A.E). Included in the consolidation with KIT digital FZ LLC is its wholly-owned subsidiary Visual Connection, a.s. and Visual’s wholly owned subsidiaries Visual Media Services a.s. and Visual Connection, spol. s.r.o. (included as of the acquisition date of October 5, 2008).

Management Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Certain amounts included in the financial statements are estimated based on currently available information and management's judgment as to the outcome of future conditions and circumstances. Changes in the status of certain facts or circumstances could result in material changes to the estimates used in the preparation of financial statements and actual results could differ from the estimates and assumptions.

Foreign Currency Translation - Assets and liabilities of KIT digital’s foreign subsidiaries are translated at current exchange rates and related revenues and expenses are translated at average exchange rates in effect during the periods. Resulting translation adjustments are recorded as a component of accumulated comprehensive income (loss) in stockholders' equity.

Fair value of Financial Instruments - On the first day of fiscal 2008, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements.” SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. SFAS 157 defines fair value as the amount that would be received upon sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which prioritizes the types of inputs to valuation techniques that companies may use to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1). The next highest priority is given to inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2). The lowest priority is given to unobservable inputs in which there is little or no market data available and which require the reporting entity to develop its own assumptions (Level 3). No Level 2 or Level 3 inputs were used to record assets or liabilities at fair value.

Risk Concentrations - Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. We place our cash and cash equivalents with high credit quality institutions to limit credit exposure, and from time to time, obtain collateral for our accounts where we deem prudent and is feasible. We believe no significant concentration of credit risk exists with respect to these investments. The amount of cash beyond insured amounts as of December 31, 2008 and 2007, was $5,634 and $10,084, respectively.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

Concentrations of credit risk with respect to trade accounts receivable are limited due to the nature of our customers who are dispersed across many industries and geographic regions. The allowance for doubtful accounts as of December 31, 2008 and 2007 was $571 and $282, respectively. As of December 31, 2008, no customers made up more than 10% of our trade accounts receivable. As of December 31, 2007, one customer accounted for approximately 12% of our trade accounts receivable. We routinely assess the financial strength of customers and, based upon factors concerning credit risk, we establish an allowance for doubtful accounts. Management believes that accounts receivable credit risk exposure beyond such allowance is limited.

Impairment of Long-Lived Assets **-** We review our long-lived assets and identifiable intangibles for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such factors and circumstances exist, we compare the projected undiscounted future cash flows associated with the future use and disposal of the related asset or group of assets to their respective carrying amounts. Impairment, if any, is measured as the excess of the carrying amount over the fair value based on market value (when available) or discounted expected cash flows of those assets, and is recorded in the period in which the determination is made.

Cash and Cash Equivalents **-** We consider all highly liquid investments with original maturities of ninety days or less when purchased to be cash and cash equivalents. As of December 31, 2008, the Company had $3,001 of cash equivalents in an account that pays interest at LIBOR plus 150 basis points. This account is guaranteed and backed by liquid collateral instruments, and can be redeemed with 14 days written notice.

Restricted Cash - As of December 31, 2007, we pledged approximately $100 as collateral for a standby letter of credit that guaranteed our obligation related to a real estate lease agreement. In 2008, we were released from our real estate lease agreement and our $100 was returned to us.

Property and Equipment **-** Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided for using the straight-line and declining balance methods of accounting over the estimated useful lives of the assets [See Note 6].

Routine maintenance and repair costs are charged to expense as incurred and renewals and improvements that extend the useful life of the assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is reported in the statement of operations.

Income Taxes **-** Pursuant to SFAS No. 109, "Accounting for Income Taxes," income tax expense [or benefit] for the year is the sum of deferred tax expense [or benefit] and income taxes currently payable [or refundable]. Deferred tax expense [or benefit] is the change during the year in a company's deferred tax liabilities and assets. Deferred tax liabilities and assets are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Intangible Assets **-** Amortizable intangible assets of the Company are recorded at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of the assets, with periods of up to five years. Goodwill is reviewed for impairment at least annually and all other intangible assets are reviewed for impairment if events or circumstances indicate that carrying amounts may not be recoverable [See Note 7].

Inventory - Inventories are valued at the lower of cost (first-in, first-out method) or market and are comprised of finished goods. On a quarterly basis, we review inventory quantities on hand and analyze the provision for excess and obsolete inventory based primarily on product age in inventory and our estimated sales forecast, which is based on sales history and anticipated future demand. Our estimates of future product demand may not be accurate and we may understate or overstate the provision required for excess and obsolete inventory. Accordingly, any significant unanticipated changes in demand could have a significant impact on the value of our inventory and results of operations. As of December 31, 2008 our reserve for excess and obsolete inventory was $157.

Research and Development **-** Costs incurred in research and development are expensed as incurred. Software development costs are required to be capitalized when a product's technological feasibility has been established through the date the product is available for general release to customers. The Company does not capitalize any software development costs, as technological feasibility is generally not established until a working model is completed, at which time substantially all development is complete.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

***Revenue Recognition* -** We recognize revenue in accordance with the following authoritative literature: AICPA Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition" and Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition in Financial Statements", which requires that four basic criteria be met before revenue can be recognized: (i) persuasive evidence that an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) product delivery has occurred or services have been rendered. We recognize revenue, net of sales taxes assessed by any governmental authority. Revenues are derived principally from professional services, digital media management, advertising and delivery of digital media solutions. Revenue is recognized when the product and/or service has been provided to the customer. We may enter into agreements whereby we guarantee a minimum number of advertising impressions, click-throughs or other criteria on our websites or products for a specified period. To the extent these guarantees are not met, we may defer recognition of the corresponding revenue until guaranteed delivery levels are achieved.

***Stock-Based Compensation* -** On January 1, 2006, the Company adopted SFAS No. 123R, “Share-Based Payment.” Among other items, SFAS 123R requires companies to record compensation expense for share-based awards issued to employees and directors in exchange for services provided. The amount of the compensation expense is based on the estimated fair value of the awards on their grant dates and is recognized over the required service periods. The Company’s share-based awards include stock options, warrants and restricted stock awards.

The Company adopted SFAS 123R using the modified prospective transition method, which requires the application of the accounting standard to all share-based awards issued on or after January 1, 2006 and any outstanding share-based awards that were issued but not vested as of January 1, 2006. For the years ended December 31, 2008 and 2007, the Company recognized $4,869 and $4,748, respectively, of stock-based compensation expense in the consolidated statements of operations. Included in the 2008 amount of $4,869, is $136 for director’s fees for 2008 in which options have been issued in 2009 and is included in accrued expenses as of December 31, 2008.

The estimated fair value underlying the Company’s calculation of compensation expense for stock options is based on the Black-Scholes-Merton pricing model. SFAS 123R requires forfeitures of share-based awards to be estimated at the time of grant and revised, if necessary, in subsequent periods if estimates change based on the actual amount of forfeitures experienced.

On March 17, 2008, the Board of Directors adopted an incentive compensation plan (the “2008 Incentive Stock Plan”). The 2008 Incentive Stock Plan has reserved 400,000 shares of common stock for issuance. Under the 2008 Incentive Stock Plan, options may be granted which are intended to qualify as Incentive Stock Options under Section 422 of the Internal Revenue Code of 1986 or which are not intended to qualify as Incentive Stock Options thereunder. In addition, direct grants of stock or restricted stock may be awarded. Also, on March 17, 2008, the Board of Directors resolved that, subject to the agreement of the individuals, a surrender of options under the 2004 Stock Option Plan were exchanged for options under the 2008 Incentive Stock Plan. A total of 101,158 stock options in the 2004 Stock Option Plan were surrendered, of which a total of 49,023 stock options were cancelled or expired and a total of 52,134 stock options were forfeited. These were exchanged for a total of 38,158 stock options under the 2008 Incentive Stock Plan.

Under the 2004 Stock Option Plan, the Company granted options with an exercise price of $6.11 to $9.80 to purchase 80,000 shares of its common stock during the year ended December 31, 2008. During the year ended December 31, 2008, a total of 45,331 stock options vested, a total of 100,813 stock options were cancelled or expired, a total of 82,918 stock options were forfeited, and 45,278 stock options were unvested as of December 31, 2008. A total of 81,429 stock options were outstanding under this plan on December 31, 2008.

Under the 2008 Incentive Stock Plan, the Company granted options with exercise prices ranging from $2.80 to $10.50 to purchase 509,036 shares of its common stock during the year ended December 31, 2008. During the year ended December 31, 2008, a total of 143,038 stock options vested, 7,612 stock options were exercised, 81,240 stock options were cancelled, expired or forfeited with 325,174 stock options unvested as of December 31, 2008. A total of 420,184 stock options were outstanding under this plan on December 31, 2008.

Also included in non-cash compensation are warrants to purchase 34,286 shares of common stock with an exercise price of $4.655 issued to Robin Smyth, the Company’s Chief Financial Officer, on March 30, 2008 that vest over 36 months from the issue date. During the year ended December 31, 2008, a total of 8,571 warrants vested with 25,715 warrants unvested as of December 31, 2008.

On August 11, 2008, the Company’s Board of Directors approved an amendment to the Company’s 2008 Incentive Stock

Plan increasing the number of shares of common stock reserved for issuance under the plan by 457,143 shares, to a new total of 857,143 shares. The amendment to the 2008 Incentive Stock Plan was subsequently approved by holders of a majority of the Company’s common stock.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

Net Loss Per Share - We compute net loss income per common share under the provisions of SFAS No. 128, "Earnings per Share," which establishes standards for computing and presenting earnings per share. SFAS No. 128 requires us to report both basic net (loss) income per share, which is based on the weighted average number of common shares outstanding during the period, and diluted net (loss) income per share, which is based on the weighted average number of common shares outstanding plus all potentially dilutive common shares outstanding. All equivalent shares underlying options, warrants, and convertible Series A Preferred Stock were excluded from the calculation of diluted loss per share because we had net losses for all years presented and therefore equivalent shares would have an anti-dilutive effect.

Reclassification - Certain prior period amounts have been reclassified to conform to the current presentation.

Recent Accounting Pronouncements **–** In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 (revised 2007), "Business Combinations", and SFAS No. 160, "Accounting and Reporting of Non-controlling Interest in Consolidated Financial Statements, an amendment of ARB 51", which will change the accounting for and reporting of business combination transactions and non-controlling interests in consolidated financial statements. The provisions of SFAS 141R and SFAS 160 were effective for the Company on January 1, 2009. SFAS 141R had no impact on previously recorded acquisitions. SFAS 160 requires changes in classification and presentation of minority interests in the consolidated balance sheets, statements of operations and stockholders' equity.

In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, "Effective Date of FASB Statement No. 157", which delays the effective date of SFAS No. 157, "Fair Value Measurements" for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The adoption of FSP FAS 157-2 is not expected to have a material impact on the Company's consolidated financial position, cash flows, or results of operations

In April 2008, the FASB issued FSP No. FAS 142-3, "Determination of the Useful Life of Intangible Assets", to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R. The provisions of FSP FAS 142-3 were effective for the Company on January 1, 2009 and are not expected to have a material impact on the Company's consolidated financial position, cash flows, or results of operations.

In May 2008, the FASB issued FSP Accounting Principles Board Opinion ("APB") No. 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)", which requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's nonconvertible debt borrowing rate. FSP APB 14-1 became effective for the Company on January 1, 2009 and requires retroactive application. The Company is currently evaluating the impact of adopting FSP 14-1 on the Company's consolidated financial position, cash flows and results of operations.

In November 2008, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") on Issue EITF No. 08-6, "Equity Method Investment Accounting Considerations", which clarifies the accounting for certain transactions and impairment considerations involving equity method investments. The prospective provisions of EITF 08-6 were effective for the Company on January 1, 2009. The adoption of EITF 08-6 is not expected to have a material impact on the Company's consolidated financial position, cash flows, or results of operations.

The Company adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115" as of January 1, 2008. SFAS 159 permits entities to elect to measure many financial instruments and certain other items at fair value. The Company did not elect the fair value option for any assets or liabilities, which were not previously carried at fair value. Accordingly, the adoption of SFAS 159 had no impact on the Company's consolidated financial statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(3) Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Since its inception, the Company has incurred losses, had an accumulated deficit, and has experienced negative cash flows from operations. This raises doubt about the Company’s ability to continue as a going concern. Management expects cash flows from operating activities to improve, primarily as a result of an increase in revenue and a decrease in costs, although there can be no assurance thereof. The accompanying consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern

(4) Acquisitions

On January 22, 2007, we entered into an Asset Purchase Agreement (the "APA") with RJM Price & Company, Inc. (“RJM”) and Robertson Price. Pursuant to the APA, we acquired all of the properties, rights and assets constituting the business of RJM, which operates under the name MyVideoDaily (“MVD”). The APA provided for consideration of up to an aggregate of $1,350, of which $250 was paid upon the execution of the APA. The APA included milestone payments, which provided certain defined targets and conditions to be met. Pursuant to the terms of the APA, we also entered into an employment agreement with Mr. Price. On May 17, 2007, RJM was issued 2,639 shares of our common stock valued at $250, for achieving the first quarter milestone.

On October 18, 2007, we entered into a settlement agreement with RJM and Robertson Price, resolving all payment and other obligations among the parties arising out of the APA dated as of January 22, 2007. Pursuant to the agreement, KIT digital paid RJM $500 on October 23, 2007, and RJM delivered to KIT digital 2,639 shares of KIT digital common stock, which had been previously issued by KIT digital. These shares have been canceled and the value recorded on May 17, 2007 has been reversed. This agreement is the full and final settlement of any outstanding items or amounts related to the APA. The $250 paid upon execution of the APA was recorded as goodwill. The $500 paid upon the execution of the settlement agreement was recorded as settlement of MVD agreement in the Statement of Operations. As of December 31, 2007, the goodwill of $250 was impaired and recorded as impairment of goodwill expense in the Statement of Operations (See Note 8).

On February 16, 2007, Wurld Media, Inc. ("Wurld Media") issued a promissory note to the Company in the principal amount of $1,500. Pursuant to the promissory note the Company advanced to Wurld Media the sum of $800, and in its sole discretion may make additional advances of up to, but not exceeding $1,500. The promissory note accrues interest at the annual rate of 8% and in the event of a default will accrue interest at the annual rate of 10%. The promissory note is secured by all of the assets of Wurld Media. The promissory note is due and payable upon the earlier of (i) the closing of the acquisition of the assets of Wurld Media, in which event, the loan amount will be credited against the purchase price of the assets or (ii) November 26, 2007. This promissory note has been paid in full and is included in the assets of Wurld Media acquired. The loan made to Wurld Media was recorded as a component of “Investment in assets acquired from Wurld Media” on the Statement of Cash Flows.

On June 15, 2007, Gregory Kerber issued a promissory note to the Company in the principal amount of $400. Pursuant to the promissory note, the Company advanced to Mr. Kerber the sum of $394. The promissory note accrues interest at the rate of 8% and in the event of a default will accrue interest at the rate of 10%. The promissory note is secured by certain of his shares in Wurld Media. The promissory note is due and payable upon demand by the Company. This promissory note has been paid in full and is included in the assets of Wurld Media acquired. The loan made to Mr. Kerber was recorded as a component of “Investment in assets acquired from Wurld Media” on the Statement of Cash Flows.

KIT DIGITAL, INC. AND SUBSIDIARIES
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(4) Acquisitions (Continued)

On July 12, 2007, KIT HD, Inc. (“KIT HD”), a wholly-owned subsidiary of KIT digital, entered into an asset purchase agreement with Wurld Media, Gregory Kerber and Kirk Feathers. Wurld Media specializes in the peer-to-peer distribution of music, movies, games, TV shows and other audio, video, and audio/video content. The acquisition was completed and closed on July 17, 2007. The assets acquired by KIT HD, pursuant to the agreement, included: (i) certain fixed assets, equipment, fixtures, and leasehold improvements located at Wurld Media’s office in Saratoga Springs, New York; (ii) certain intellectual property of Wurld Media; (iii) the customer logs, location files and records of Wurld Media, and (iv) all claims, entitlements, rebates, refunds, settlements, awards or other rights related to the assets acquired by KIT HD. The consideration for the assets acquired by KIT HD was an aggregate of $4,320, consisting of $3,174 in cash, $38 in accrued liabilities related to the purchase and the issuance of 18,729 shares of our common stock valued on July 17, 2007 at $59.15 per share or $1,108. The total purchase consideration was allocated to the assets acquired at their estimated fair values as of the date of acquisition, as determined by management, as $3,180 of software and $1,140 of fixed assets.

At the end of December 2007, we decided to abandon the development and assets of the peer-to-peer business that we acquired in the asset purchase agreement with Wurld Media (See Note 8).

Sputnik Acquisition

On May 14, 2008, the Company finalized its purchase of the original 51% ownership in Sputnik Agency Pty. Ltd. (“Sputnik”) and acquired the remaining 49% of that entity, for consideration paid of $4,563. A total of $3,530 was paid in cash to the sellers, $751 was applied against outstanding loans by the Company’s 51%-owned subsidiary Reality Group to Sputnik’s selling shareholders, and $282 was deposited in escrow against certain potential liabilities. In November 2008, the escrow was released to Sputnik’s selling shareholders. Therefore, the aggregate cost of the acquisition was $4,656, which includes $93 in legal costs related to the acquisition.

Sputnik’s sellers and certain of its employees entered into employment agreements providing, among other things, for their continued employment with Sputnik and /or Reality Group and certain restrictive covenants.

Kamera Acquisition

On May 19 2008, we acquired 100% of Kamera, a Stockholm, Sweden-based company in the business of managing, developing and syndicating video content for mobile and online distribution. Through its proprietary software, transcoding and content distribution protocols, Kamera enabled corporate clients such as Associated Press, ABC News, Vodafone, MSN, Orange, Telefonica, O2, Hutchinson and China Mobile to deliver IP video channels to their customers over mobile and online networks.

On closing, we paid $4,500 less certain amounts previously owing to us by Kamera, to the shareholders of Kamera. Pursuant to the terms of the transaction, we paid an additional $1,500 in consideration in March 2009, and the Kamera shareholders may be entitled to up to an additional $4,500 of consideration payable in 2009 and 2010, subject to the achievement of certain performance tests. The contingent consideration is payable in our publicly traded shares, valued at current market prices or cash, as we determine. The performance criteria relate to retention of staff and clients, and the maintenance and growth of client revenue and our mobile revenue over the two years ending March 31, 2010.

The aggregate cost of the acquisition of Kamera was $7,634. This is comprised of the $4,500 paid at closing, $1,500 accrued for the consideration payable six months from the Completion Date and paid in March 2009 and $1,500 accrued for the consideration payable 13 months from Completion Date and are included in the Balance Sheet in “Acquisition liability - Kamera”, and $134 in legal costs related to the acquisition. The Company has not recorded the contingent liability of $3,000 in consideration that is payable 21 months from Completion Date as it is not certain that the performance criteria will be met. The Company has allocated the aggregate cost of the acquisition to Kamera’s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded to goodwill.

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(4) Acquisitions (Continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (May 19, 2008).

Current assets	$	1,214
Property and equipment		156
Intangible assets - developed software		1,000
Intangible assets - customer list		1,500
Goodwill		5,111
Total assets acquired		8,981
Current liabilities		1,347
Total liabilities assumed		1,347
Net assets acquired	$	7,634

The results of operations of Kamera for the period from May 19, 2008 to December 31, 2008 have been included in the Consolidated Statements of Operations.

Morpheum Acquisition

On August 31, 2008, we acquired 100% of Morpheum Internet Services Pty. Ltd. (“Morpheum”) , a Melbourne, Australia-based company, for consideration paid at closing of $734, plus $56 in legal and consulting costs related to the acquisition for an aggregate cost of $790.. Morpheum was one of Asia’s leading providers of web-based content management systems (“CMS”). Morpheum’s software, LanternCMS, has become integrated into the Company’s VX software platform. The Company has allocated the aggregate cost of the acquisition to Morpheum’s net tangible and identifiable intangible assets based on their estimated fair values.

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(4) Acquisitions (Continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (August 31, 2008).

Current assets	$	416
Property and equipment		116
Intangible assets - developed software		1,122
Total assets acquired		1,654
Current liabilities		864
Total liabilities assumed		864
Net assets acquired	$	790

The results of operations of Morpheum for the period from September 1, 2008 to December 31, 2008 have been included in the Consolidated Statements of Operations.

Visual Connection Acquisition

On October 5, 2008, through our wholly-owned subsidiary, KIT digital FZ-LLC ("KIT"), we acquired 100% of Visual Connection, a.s., a Prague, Czech Republic-based company ("Visual") specializing in the supply and delivery of comprehensive IPTV solutions which link software expertise with hardware configuration, integration capabilities and 24/7 customer service. Visual 200+ clients included television and radio stations, graphics publishers, audiovisual production and post production houses, state and federal government administration, education companies, telcos and healthcare providers.

Taking into account certain adjustments made to the original Visual Share Purchase Agreement mutually agreed to on March 31, 2009, the purchase price of Visual consisted of:

(a) $1,180 in cash, after certain adjustments were made for negative working capital;

(b) $1,500 in shares of our common stock for a total of 163,043 shares, issued by April 15, 2009, restricted for sale for [12] months thereafter;

(c) an earn-out of $3,225 in a combination of shares of our common stock (determined based on the the h the 20-day trailing weighted average closing price per share prior to the respective payment date, or (ii) a price $7.70 per share), payable in three equal installments of $1,075, (i) 12 months after closing, (iii) 18 months after c (iii) 24 months after closing, subject in each case to targeted levels of the Company's net revenues and EBITD retention of key personnel ;

(d) additional earn-out of $2,100 of shares of our common stock (determined based on the the higher of (i) the 20-day trailing weighted average closing price per share prior to the respective payment date, or (ii) a price "floor" of $7.70 per share), for achieving certain other net revenues and EBITDA targets over the period of 24 months from closing.

KIT retains the right to substitute payments in cash for all potential issuances of common stock described above, irrespective of the trading price of our common stock.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(4) Acquisitions (Continued)

The aggregate cost of the acquisition of Visual was $4,286. This is comprised of the $1,000 paid in November 2008 of the initial purchase price of $2,500 less negative working capital of $1,320 or $1,180. The remaining $180 of the initial purchase price is included in the Balance Sheet in “Acquisition liability – Visual”. Additionally, the cost includes $1,500 for the payable six months after closing, $538 (50% of the amount) for the minimum payable for 12 months after closing, $1,075 (50% of the amount) total for the minimum payable for 18 and 24 months after closing, and $311 in legal and consulting costs related to the acquisition. From the above, $2,218 is included in the Balance Sheet in “Acquisition liability - Visual” and $1,075 is in the Balance Sheet in “Acquisition liability – Visual, net of current”. The Company has not recorded the contingent liability of $1,613 in consideration that is payable 12, 18 and 24 months from closing as it is not certain that the performance criteria will be met. The Company has allocated the aggregate cost of the acquisition to Visual’s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded to goodwill.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (August 31, 2008).

Current assets	$ 4,287
Property and equipment	1,609
Intangible assets - customer list	1,000
Goodwill	5,131
Total assets acquired	12,027
Current liabilities	4,317
Capital leases and notes payable	3,106
Total liabilities assumed	7,423
Net assets acquired	$ 4,604

The results of operations of Visual for the period from October 1, 2008 to December 31, 2008 have been included in the Consolidated Statements of Operations.

Juzou Acquisition

In November 2008, we purchased specified assets of Extreme Mobile Services Limited (also known as Juzou), a company formed under the laws of the United Kingdom. Juzou’s business involves content management and web services with live streaming capabilities. Under an Asset Purchase Agreement, dated November 15, 2008, we acquired the Juzou trademark and system and ongoing client and other operating contracts. The total purchase price of the assets was $800, payable in shares of our common stock based on meeting specified financial and operating targets over the ensuing two-year period. At closing, we issued 13,715 shares of our common stock to Juzou valued at $120 against the total purchase price.

KIT DIGITAL, INC. AND SUBSIDIARIES
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(5) Related Party Transactions

On March 6, 2007, Reality Group Pty. Ltd. issued a promissory note to the Company in the principal amount of $380. Pursuant to the promissory note, the Company advanced to Reality Group the sum of $190 on March 6, 2007 and $190 on March 13, 2007. Interest on the promissory note accrued at the rate of 8% per annum. The promissory note was due on June 30, 2008 and was secured by all the assets of Reality Group. In addition, two shareholders of Reality Group agreed to pledge 20% of the ordinary shares of Reality Group which they own as security for Reality Group's obligations under the promissory note. These notes eliminated in consolidation. As part of the Sputnik acquisition, these notes were extinguished as of May 12, 2008.

On May 11, 2007, Reality Group Pty. Ltd. issued a promissory note to the Company in the principal amount of $400. Pursuant to the promissory note, the Company advanced to Reality Group the sum of $400 on May 11, 2007. Interest on the promissory note accrued at the rate of 8% per annum. The promissory note was due on May 11, 2008. These notes eliminated in consolidation. As part of the Sputnik acquisition, these notes were extinguished as of May 12, 2008.

In December 2007, we entered into an agreement with KIT Capital, a company beneficially controlled and led by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, under which KIT Capital has provided us managerial services. The total amount paid to KIT Capital and included in our results of operations in the years ended December 31, 2008 and 2007 were $573 and $69, respectively.

In May 2008, KIT Media, Ltd., an affiliate of KIT Capital, bought 1,008,572 shares of our common stock for $7,060 in the May 2008 Financing which included 1,008,572 warrants to purchase one share of common stock. The Company's Chief Executive Officer, Kaleil Isaza Tuzman, holds a controlling interest in KIT Media.

On December 31, 2008, the Company completed the investment for $5,000 with KIT Capital as defined under the Executive Management Agreement for the issue of 892,858 shares of common stock at $5.60 per share. In addition we issued to KIT Capital a warrant to purchase 580,358 shares of our common stock (representing 65% warrant coverage on KIT Capital's investment, as compared to 100% warrant coverage in the May 2008 financing transaction), for a term of five years commencing on December 31, 2008, at an exercise price of $11.90 per share, subject to the occurrence of certain events that could potentially reduce the exercise price to $5.60 per share.

During 2008, 60,000 stock options were granted to KIT Capital pursuant to the Executive Management Agreement, dated as of December 18, 2007, with an exercise price of $6.11 per share and an expiration date of January 9, 2013. An additional 20,000 stock options were granted to KIT Capital with an exercise price of $9.80 share and an expiration date of June 21, 2013.

(6) Property and Equipment

Property and equipment at December 31, 2008 consists of the following:

	Office Equipment Capital Lease	Motor Vehicles Capital Lease	Computer Software	Leasehold Improvements	Furniture and Fixtures	Office Equipment	Total
Cost	$ 611	$ 544	$ 249	$ 553	$ 311	$ 2,009	$ 4,277
Accumulated Depre	(82)	(54)	(123)	(255)	(183)	(652)	(1,349)
Net	$ 529	$ 490	$ 126	$ 298	$ 128	$ 1,357	$ 2,928
Estimated useful lif	2 - 10 years	3 - 5 years	2 - 4 years	1 -20 years	3 - 10 years	2 -10 years	

Depreciation expense amounted to $729 and $902 for the years ended December 31, 2008 and 2007, respectively.

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(7) Goodwill and Intangible Assets

As of December 31, 2008, goodwill is $15,167 and is comprised of the following;

- $1,033 from the acquisition of Reality Group,
- $90 related to the acquisition of 24% of KIT digital Limited, which was owned by a third party,
- $3,802 from the acquisition of Sputnik,
- $5,111 from the acquisition of Kamera, and
- $5,131 from the acquisition of Visual.

At December 31, 2008 intangible assets include the following:

	Customer List	Software	Domain Name
Cost	$ 4,231	$ 3,546	$ 54
Less Amortization	(1,243)	(1,281)	(35)
Totals	$ 2,988	$ 2,265	$ 19

Estimated future annual amortization expense as of December 31, 2008 is as follows

	;omer List	Software	Domain Name
2009	$ 894	$ 672	$ 11
2010	874	459	8
2011	825	445	-
2012	395	445	-
2013	-	244	-
Thereafter	-	-	-
Totals	$ 2,988	$ 2,265	$ 19

The values attributed to customer lists comes from the following acquisitions: $650 from Reality Group, $1,081 from Sputnik, $1,500 from Kamera and $1,000 from Visual, and are being amortized over four year periods on a straight line basis. The values attributed to software comes from the following acquisitions: $1,320 from VideoDome, $1,000 from Kamera, $1,122 from Morpheum and $104 from Juzou, and is being amortized over 5 year periods on a straight line basis. The Company purchased the domain name www.roo.com in November 2005 and it is being amortized over a five year period on a straight line basis.

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(8) Senior Secured Notes Payable

In November 2008, we received $1,500 in gross proceeds from the issuance of a non-convertible note to Genesis Merchant Partners, LP. Interest is payable monthly in arrears at 14.5% and matures on December 31, 2009. The principal is repayable in monthly installments of $75 beginning in May 2009, with the remainder of the principal due at maturity. The note is secured by the company's property, including accounts receivable and inventory, but excludes any security interests in Visual and Reality Group or assets of these subsidiaries. In conjunction with the borrowing, we issued to Genesis Merchant Partners, LP a warrant entitling it to purchase, for $11.90 per share, 139,286 shares of our common stock through October 31, 2013. A debt discount of $642 was recorded related to this debt and is being amortized over fourteen months which is the life of the note.

(9) Income Taxes

The Company's expected global income tax benefit computed at the statutory rate for each taxing authority on the pre-tax loss amounted to approximately $99,128 in 2008 and $84,178 in 2007. Such benefits were not recognized in the accompanying financial statements due to KIT digital's history of past operating losses, and consequently valuation allowances were recorded for all of KIT digital's deferred tax assets at December 31, 2008 and 2007.

Deferred tax attributes resulting from differences between financial accounting amounts and tax bases of assets and liabilities at December 31, 2008 and 2007 are as follows:

	2008	2007
Current Assets		
Non-Cash Compensation	$ 5,922	$ 4,748
Subtotal	5,922	4,748
Valuation allowance	(5,922)	(4,748)
Current deferred tax asset	$ —	$ —
Non-current assets		
Net operating loss carryforward	$ 99,128	$ 84,178
Valuation allowance	(99,128)	(84,178)
Non-current deferred tax asset	$ —	$ —

The valuation allowance increased by $14,950 and $23,569 for the years ended December 31, 2008 and 2007, respectively. As of December 31, 2008, KIT digital has federal net operating loss carryforwards of approximately $99,128 that will be available to offset future taxable income, if any, through December 2028. The utilization of KIT digital's net operating losses may be subject to substantial limitations due to various tax law provisions in different jurisdictions. Such limitation may result in the expiration of the net operating loss carry forwards before their utilization. KIT digital has established a 100% valuation allowance for all of its deferred tax assets due to uncertainty as to their future realization.

As a matter of course, the Company can be audited by federal and state authorities. At this time, there are no audits identified or in process from any taxing authority. In June 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109". FIN 48 clarifies the accounting for uncertainties in income taxes recognized in a company's financial statements in accordance with Statement 109 and prescribes a recognition threshold and measurement attributes for financial disclosure of tax positions taken or expected to be taken on a tax return. Additionally, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, and disclosure and transition.

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(10) Commitments and Contingencies

Leases - The Company is a party to a number of non-cancelable lease agreements primarily involving office premises, motor vehicles and computer equipment. Included in capital leases are equipment and motor vehicle leases which are generally for three to five year periods. Included in operating leases are office premises in Dubai, Prague, Melbourne, Toronto, New York, London, and Stockholm and equipment which are generally for two to five year periods.

The following is a schedule of future minimum payments under capital leases and operating leases as of December 31, 2008.

Year	Capital leases	Operating leases	Total
2009	$ 559	$ 1,292	$ 1,851
2010	459	847	1,306
2011	332	505	837
2012	171	86	257
2013	42	43	85
Thereafter	-	-	-
Total Minimum Lease Payments	1,563	$ 2,773	$ 4,336
Less Amount Representing Interest	(219)		
Total Obligations Under Capital Leases	$ 1,344		

Rent expense amounted to $1,156 and $1,170 for the years ended December 31, 2008 and 2007, respectively.

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(10) Commitments and Contingencies (continued)

Employment Agreements - On December 18, 2007, the Company entered into the Management Agreement with KIT Capital for a term commencing on January 9, 2008 and terminating on January 9, 2011, unless sooner terminated or mutually extended. As a result of this Management Agreement, KIT Capital designated Kaleil Isaza Tuzman as Chief Executive Officer, and two other KIT Capital employees as Head of Communications and as Corporate Development Manager of the Company, respectively. The Management Agreement provided for an aggregate compensation for KIT Capital as follows: (i) $51 monthly (which has been subsequently adjusted downwards to $42 monthly effective November 1, 2008), which includes the cost of at least three employees inclusive of benefits and taxes, (ii) signing incentive payment of $69, (iii) an incentive bonus equal to the greater of (x) the preceding twelve months' base compensation or (y) the previous month's monthly installment of base compensation multiplied by twelve if the Company shall achieve 2 consecutive quarters of profitability or the Company's total monthly revenue equals or exceeds $6,000, and (iv) a " phantom stock plan " for 2,100,000 shares that vest over a 36-month period. Specific terms of this plan are subject to finalization. The Management Agreement provides that upon termination of the Management Agreement or after the Management Agreement's expiration date for any reason except cause (as defined in the Management Agreement), the Company shall pay KIT Capital, in addition to any other payments due hereunder, a cash severance payment equal to the greater of (i) the total amount paid to KIT Capital during the preceding twelve months, including base compensation and all bonuses, and (ii) the previous month's monthly installment of base compensation multiplied by twelve.

Litigation - In November 2007, our wholly-owned subsidiary, KIT HD, Inc. ("KIT HD"), was named as the defendant in a purported class action lawsuit entitled Julie Vittengl et al. vs. KIT HD, in New York Supreme Court, Saratoga County, New York. The suit, brought by four former employees of Wurld Media, Inc. ("Wurld"), purportedly on behalf of themselves and "others similarly situated," claims that KIT HD's acquisition of certain assets of Wurld was a fraudulent conveyance and that KIT HD is the alter-ego of Wurld. Plaintiffs seek the appointment of a receiver to take charge of our property in constructive trust for plaintiffs and payment of plaintiffs' unpaid wages and costs of suit, both in an unspecified dollar amount. KIT HD filed its answer to the complaint in January 2008, and there have been no further developments in this action since then. We believe that the suit is without merit and we intend to defend ourself vigorously should the case become active.

In December 2007, Rick Gell and Todd Pavlin, two former consultants of KIT Media Corporation ("KIT Media Corp") sued that entity together with KIT digital, Inc. and its former Vice-Chairman Robert Petty and KIT Media Corp's former President and Chief Operating Officer Steve Quinn in New York Supreme Court, New York County, New York, alleging breach of an oral employment agreement, fraudulent inducement and other claims relating to the plaintiffs' employment at KIT Media Corp. Last year, defendants moved to dismiss the complaint, and in March 2009 the court dismissed all of plaintiffs' claims save their breach of contract claim on the grounds that it is based on an alleged oral agreement, which plaintiffs may be able to prove. We believe that there is no merit to this suit, and we intend to continue to defend ourself vigorously.

(11) Preferred Shares

On March 30, 2008, the Board of Directors and stockholders holding a majority of the Company's voting stock approved the filing of an amendment to the Company's Certificate of Incorporation to reduce its authorized preferred stock from 20,000,000 to 10,000,000 shares. Also, on March 30, 2008, the stockholders holding a majority of the Company's voting stock approved the filing of an amendment to its Certificate of Designation of the Series A Preferred Stock to provide for automatic conversion of the outstanding Series A Preferred stock into 11,429 shares of common stock. The conversion of the Series A Preferred Stock into common stock was conditional upon the effectuation of the amendment to the Certificate of Incorporation to reduce the authorized preferred stock from 20,000,000 to 10,000,000 shares. On May 19, 2008, the Company filed the amendment to its Certificate of Incorporation to reduce the authorized preferred stock from 20,000,000 to 10,000,000 shares. On May 22, 2008, the Company filed the amendment to the Certificate of Designation of the Series A Preferred to provide for the automatic conversion of the outstanding Series A Preferred Stock into 11,429 shares of common stock.

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(12) Stock Issuances

On January 25, 2007, we entered into an agreement with News Corporation ("News Corp"). The Agreement provides for the issuance of 57,143 shares of our common stock upon execution of the Agreement, which were to be held in escrow and released to News Corp on January 1, 2008, if the average monthly revenues from News Corp and its affiliates for the three month period ended December 31, 2007 is not less than the revenue from News Corp and its affiliates for the one month period ending December 31, 2006 (the "Revenue Target"). On February 7, 2008, we released the 57,143 shares of our common stock to News Corp for meeting the Revenue Target. The shares were valued at $5.95 per share or $340, and that amount was recorded as sales and marketing expense for the year ended December 31, 2007.

We also agreed to issue an additional 57,143 shares of our common stock to News Corp if within three years of the date of the Agreement the average monthly revenue from News Corp and its affiliates for any consecutive three month period equals at least six times the Revenue Target. Further, we agreed that if the foregoing is not timely achieved, we shall issue to News Corp warrants to purchase 57,143 shares of our common stock which shall be exercisable for a term of two years from the date of issuance at a price of $94.50. The exercise price of the warrants will be subject to customary anti-dilution protection for stock splits, recapitalizations, stock dividends and the like.

We have granted News Corp piggy-back registration rights in connection with the shares issuable pursuant to the Agreement.

On May 4, 2007, we entered into a securities purchase agreement pursuant to which the Company sold an aggregate of 285,715 shares of our common stock and warrants to purchase an additional 85,714 shares of our common stock to accredited investors resulting in gross proceeds of $25,000. The offering closed on May 10, 2007. The unit price of the common stock and corresponding warrant was $87.50. The warrants have an exercise price of $157.50 per share and a term of five years. The warrants were valued under the Black-Scholes method as $5,117. At any time at which the market price of our Common Stock exceeds 210.00 for 10 trading days during any 20 consecutive trading days, we may elect to call the warrants, provided that, the shares underlying such warrants are registered pursuant to a registration statement. We agreed to prepare and file a registration statement with the Securities and Exchange Commission registering the resale of the shares of common stock sold in the private placement on or prior to 30 days following the closing date. If the registration statement is not filed within such time, the Company must pay liquidated damages to the investors equal to 1% of the dollar amount of their investment for each calendar month or portion thereof that the registration statement is not filed, up to a maximum of 10%. The registration statement was filed on June 11, 2007. Also, if the registration statement is not declared effective within 120 days following the closing date, the Company must pay liquidated damages to the investors equal to 1% of the dollar amount of their investment for each calendar month or portion thereof that the registration statement is declared effective, up to a maximum of 10%, which increases to 18% if the registration statement is not declared effective within two years following the closing date. The registration statement was declared effective on August 14, 2007. Merriman Curhan Ford & Co. and Brimberg & Co., registered broker-dealers, acted as placement agents for the sale of the Company's common stock. In connection with the May 2007 Financing, we received net proceeds of $23,875 after payment of placement agent fees of $1,000, legal fees and expenses of $120, and escrow agent fees of $5.

In 2007, the Company failed to fulfill its obligations to keep the registration statements effective related to the August 23, 2005, October 20, 2005, December 28, 2005, August 18, 2006, and November 14 ,2006 private placements and owes approximately $863 in liquidated damages to these investors. This amount has been accrued and is included in accrued expenses and registration rights liquidated damages.

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(Amounts in Thousands, Except Share and Per Share Data)

(12) Stock Issuances (continued)

On May 8, 2008, the Company entered into a Securities Purchase Agreement pursuant to which it sold 2,142,858 units to 35 accredited investors, each unit comprising of one share of common stock plus one warrant to purchase one share of common stock. The offering closed on May 8, 2008. The units were sold at a price of $7.00 per unit for aggregate gross proceeds of $15,000. The warrants have an exercise price of $11.90 per share and a term of five years. These warrants were valued under the Black-Scholes-Merton method as $20,250. The warrants provide the investors with full ratchet anti-dilution protection with relation to the exercise price of each warrant. KIT Media, Ltd. (“KIT Media”), an affiliate of KIT Capital, was the largest investor in the May 2008 Financing, investing $7,060 for a total of 1,008,572 units. The Company’s Chief Executive Officer, Kaleil Isaza Tuzman, holds a controlling interest in KIT Media.

Pursuant to the terms of the Securities Purchase Agreement entered into with each of the accredited investors, the Company agreed to prepare and file a registration statement with the SEC registering the resale of the shares of common stock and the shares underlying the warrants on or prior to 30 days following the closing date. If the registration statement or any subsequent registration statement required to be filed by the Company was not filed within such time, the Company was required to pay liquidated damages to the investors equal to 1% of the dollar amount of their investment per month (pro rata on a 30-day basis), up to a maximum of 10% until the registration statement is filed. Further, if the registration statement was not declared effective within (i) 90 days of the closing (or in the event of a review by the SEC, within 120 days following the closing date), or (ii) 5 trading days after being notified that the registration will not be reviewed or will not be subject to further review, the Company was required to pay liquidated damages to the investors equal to 1% of the dollar amount of their investment per month (pro rata on a 30-day basis), up to a maximum of 10% until the registration statement is declared effective; provided that if one or more registration statements shall not be effective two years after the closing, the Company shall be required to pay an additional 8% in liquidated damages. In the event one or more registration statements are filed and declared effective, but shall thereafter cease to be effective and such lapse is not cured within 10 business days, the Company shall be required to pay liquidated damages to the investors equal to 1% of the dollar amount of their investment per month (pro rata on a 30-day basis), up to a maximum of 10% until the earlier of (i) the date the lapse is cured or (ii) the earlier of the expiration of the date on which all of the securities purchased by the investors can be sold either under the registration statement or pursuant to Rule 144. Upon the Company’s request, KIT Media has allowed that the 1,008,572 shares of common stock and the 1,008,572 shares underlying warrants purchased by KIT Media in the May 2008 Financing be left unregistered to date. The Company failed to fulfill its obligations to file and have the registration statement made effective in the required time periods and owes approximately $117 in liquidated damages to the investors. This amount has been accrued and is included in accrued expenses and registration rights liquidated damages on the balance sheet and statement of operations, respectively.

Merriman Curhan Ford & Co. and Brimberg & Co., registered broker-dealers, acted as placement agents for the May 2008 Financing. In connection with the May 2008 Financing, the Company paid the placement agents a cash fee of an aggregate $155. In addition, the Company issued to the placement agents 23,536 and 12,071 warrants to purchase shares of common stock with an exercise price of $0.35 and $11.90 per share exercisable for a period of five years and were valued under the Black-Scholes-Merton method as $222 and $118, respectively. In connection with the May 2008 Financing, the Company received net proceeds of $14,680 after payment of placement agents’ fees of $155, legal fees and expenses of $160 and escrow agent fees of $5.

On December 31, 2008, the Company completed the investment for $5,000 with KIT Capital as defined under the Executive Management Agreement for the issue of 892,858 shares of common stock at $5.60 per share. In addition we issued to KIT Capital a warrant to purchase 580,358 shares of our common stock (representing 65% warrant coverage on KIT Capital’s investment, as compared to 100% warrant coverage in the May 2008 financing transaction), for a term of five years commencing on December 31, 2008, at an exercise price of $11.90 per share, subject to the occurrence of certain events that could potentially reduce the exercise price to $5.60 per share.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(13) Stock Option Plans

Under SFAS No. 123(R) the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Expected life (in years)	5.00	4.78
Risk-free interest rate	2.84%	4.54%
Volatility	155.51%	89%
Dividend yield	0	0

A summary of the status of stock option awards and changes during the years ended December 31, 2007 and December 31, 2008 are presented below:

	Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (Years)**	**Intrinsic Value**
Outstanding at January 1, 2007	161,367	$ 78.75		
Granted	117,429	131.95		
Exercised	—	—		
Cancelled, expired, or forfeited	(93,636)	79.80		
Outstanding at December 31, 2007	185,160	112.00		
Granted	589,036	6.30		
Exercised	(7,612)	2.80		
Cancelled, expired, or forfeited	(264,971)	2.80		
Outstanding at December 31, 2008	501,613	5.25	7.00	$ 0
Exercisable at December 31, 2008	129,732	4.90	4.90	0

The weighted-average grant-date fair value of option awards granted during the years ended December 31, 2008 and 2007 was $6.30 and $78.75, respectively. There were 266,408 options exercised from January 1, 2008 through December 31, 2008.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(14) Restructuring Charges

The Company recorded restructuring charges of $3,068 in the year ended December 31, 2008. This amount is comprised of employee termination costs related to the reorganization of the Company of $2,794, contract settlement and facility closing costs of $274 related to the closing of the Clifton Park, New York office and the closing of one of the Melbourne, Australia offices, and vendor settlements related to the reorganization. Included in the employee termination costs of $2,794 are $2,397 related to the settlement of separation agreements as described below. On March 26, 2008 and March 30, 2008, the Company reached negotiated settlements with Robert Petty and Robin Smyth, respectively, restructuring their respective employment agreements, each of which involved one-time cash severance payments. In exchange for entering into new, “at will” employment agreements, Messrs. Petty and Smyth received cash settlements of $675 and $275, respectively, as well as fully-vested warrants to purchase an aggregate of 200,000 and 47,143 shares, respectively, of the Company’s common stock, at a strike price equal to the three-day trailing weighted average closing price per share of $4.655 as of March 31, 2008. These warrants have been valued under the Black-Scholes-Merton method at $1,038. These warrants will become exercisable in 1/12 increments on a monthly basis starting six months from the effective date. Also, Mr. Smyth will receive a lump-sum payment of $100, within nine months, and another lump-sum payment of $100, less applicable tax withholding and deductions, within 13 months. Mr. Smyth’s restructured employment agreement involves certain warrant-based incentives which can be earned over a period of three years based on ongoing service to the Company. As part of their respective settlements, Messrs. Petty and Smyth agreed to vote their shares of Series A Preferred Stock according to the Company’s designation, involving the elimination of these shares. Included in the $2,397 are cash payments of $1,150 and $1,088 related to the valuation of the warrants and $209 in legal fees paid on behalf of Mr. Petty, which is part of Mr. Petty’s separation agreement.

(15) Other Non-Recurring Charges

The Company has recorded other non-recurring charges of $1,111 in the year ended December 31, 2008. This amount is comprised of $480 related to the redundancy in staff and consultants during reorganization for the transition of technology infrastructure due to the centralizing of resources in Toronto and Prague and recruiting costs of $295 related to the reorganization of the Company including the centralizing of resources in Toronto and relocation of the corporate headquarters. Also included is $100 in relocation costs related to the reorganization including the move of the corporate headquarters, $82 for the corporate rebranding related to the reorganization, $117 in other prior year non-recurring charges and $37 in non-recurring advisory fees.

(16) Impairment of Assets

At the end of December 2007, we decided to abandon the development and assets of the peer-to-peer business that we acquired in the Asset Purchase Agreement with Wurld Media, which was comprised of software and property and equipment. Accordingly, we evaluated the ongoing value of these assets. Based on this evaluation, we determined that software with a carrying amount of $2,783 was impaired; this is recorded as loss on impairment of intangible assets in the Statement of Operations. Based on this evaluation, we also determined that property and equipment with a carrying amount of $855 was impaired and we wrote it down by $788; this amount was recorded as loss on impairment of property and equipment in the Statement of Operations. Subsequent to December 31, 2007, $33 of this property and equipment was sold to a third party for book value, and no gain or loss was recorded on the sale.

At the end of 2007, we determined that goodwill recorded when we acquired the properties, rights and assets pursuant to the Asset Purchase Agreement with MVD was impaired. We evaluated the goodwill for impairment by comparing the estimated fair value, which was based on the present value of estimated future cash flows to be generated to the carrying amount of $250. The estimated future cash flows were determined to be negligible based on actual results in 2007. Based on this evaluation, we determined that goodwill was impaired and we recorded $250 as a loss on impairment of goodwill in the Statement of Operations.

At the end of November 2007, we decided to stop the production of content and terminate the content production department. We have and will continue to license content from outside sources. Accordingly, we evaluated the ongoing value of the content recorded as an asset. Based on this evaluation, we determined that content with a carrying amount of $255 was impaired; this amount was recorded as impairment of intangible assets in the Statement of Operations.

In November 2007, it was mutually agreed to terminate the agreement between Reality Group and Coeee Melbourne Pty Ltd. (“Cooee”) and settle the remaining payments in the agreement due to the loss of the customers acquired from Cooee. Accordingly, we evaluated the ongoing value of these assets. Based on this evaluation, we determined that customer lists with a gross carrying amount of $220 and a net carrying amount of $86 was impaired; this is recorded as impairment of intangible assets in the Statement of Operations.

In March 2008, the Company decided to downsize the office in London and move to another location to reduce costs.

This includes removing and abandoning the leasehold improvements and furniture and fixtures in the former London office. Due to its office relocation, the Company recorded an impairment charge for certain property and equipment which totaled $229 during the year ended December 31, 2008. This amount was recorded as a loss on impairment of property and equipment in the Statement of Operations.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(17) Segment Reporting

We derive our revenue from two operating segments. These operating segments are presented on a worldwide basis and include: Digital Media Solutions and Agency Services.

Digital Media Solutions includes comprehensive delivery of solutions that include software, hardware, services and components. Within Digital Media Solutions, we design, deliver and integrate systems for professional production, processing, distribution and archiving of audiovisual materials. Digital Media Solutions also provides services including content delivery, online and mobile property development and management, and advertising-based monetization.

Agency Services operations include direct marketing, incentive programs, internal communications, customer relationship management, sales promotion, creative production, sponsorships, online marketing, media planning, media buying and packaging. Although the Agency Services segment includes online media, its activities are broader than the video-centric activities of the Company's Digital Media Solutions segment. As its operations continue to evolve, the Company will continue to regularly review the business to determine if there is a need to make changes to these reported segments.

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", all prior period information has been reported to conform to the new segment presentation. The following table provides revenue and segment income (loss) from operations for each of the segments. Segment income (loss) from operations, as shown below, is the performance measure used by management to assess segment performance and excludes the effects of: stock-based compensation, amortization of intangible assets and corporate expenses. Corporate expenses consist of those costs not directly attributable to a segment, and include: salaries and benefits for the Company's corporate executives, corporate governance costs, fees for professional service providers including audit, legal, tax, insurance, and, other corporate expenses.

	Twelve months ended December 31, 2008	Twelve months ended December 31, 2007
Revenue:		
Digital Media Solutions	$ 18,107	$ 9,525
Agency Services	5,294	4,404
Total revenue	$ 23,401	$ 13,929
Operating (loss) income:		
Digital Media Solutions	$ (7,150)	$ (21,920)
Agency Services	219	(57)
Corporate	(11,775)	(12,261)
Total operating loss	$ (18,706)	$ (34,238)

	December 31, 2008	**December 31, 2007**
Assets:		
Digital Media Solutions	$ 15,901	$ 5,049
Agency Services	836	1,887
Corporate	24,572	11,179
Total assets	$ 41,309	$ 18,115

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(18) Subsequent Events

On March 6, 2009, we filed a certificate of amendment of our certificate of incorporation to (i) effect a 1-for-35 reverse stock split of our common stock; (ii) decrease the total number of shares of common stock authorized to be issued from 500,000,000 shares to 30,000,000 shares; and (iii) eliminate the authorization of a class of preferred stock. The changes made by the certificate of amendment were effective on March 9, 2009 and per share amounts in the accompanying financial statements have been adjusted for the split. As a result of the reverse stock split, we have 4,586,700 outstanding shares of common stock as of April 10, 2009, including recent issuances related to our purchase of the remaining minority interest in Reality Group Pty. Ltd. and the scheduled earn-out from our June 2008 acquisition of Kamera Content AB. Effective March 9, 2009, our ticker symbol on the OTC Bulletin Board was changed to “KDGL” from “KITD.”

On March 6 2009, we acquired the remaining 49% outstanding share capital that we did not previously own in Reality Group Pty. Ltd., a Australian company, in consideration of issuing the sellers 90,073 shares of our common stock for a purchase price of $631. Reality Group is an advertising agency offering clients a full range of traditional advertising services including media buying and planning, creative development, and packaging.

EXHIBIT II

**ANNUAL REPORT ON FORM 10-K FILED BY KIT DIGITAL, INC.
WITH THE SEC ON APRIL 5, 2010**

10-K 1 v180026_10k.htm

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

FORM 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

OR

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

Commission file number: 001-34437

KIT digital, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**11-3447894** (I.R.S. Employer Identification No.)
205 Hudson Street, Suite 802 **New York, New York** (Address of principal executive offices)	**10013** (Zip code)

Registrant's telephone number, including area code: (212) 661-4111

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

Title of each Class	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	The NASDAQ Global Market

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐ (not required)

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 the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☑
(Do not check if a smaller reporting company)

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

The aggregate market value of the common stock held by non-affiliates of the registrant was $16,911,000 as of June 30, 2009.

The number of shares outstanding of the registrant's common stock as of March 30, 2010 was 17,596,506 shares.

The following document is incorporated by reference into Part III of this Form 10-K:

Proxy Statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 with respect to the 2010 annual meeting of stockholders.

KIT digital, Inc.
2009 FORM 10-K ANNUAL REPORT

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SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This report includes and incorporates forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the United States Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included or incorporated in this report regarding our strategy, future operations, financial position, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. There are a number of important factors that could cause our actual results to differ materially from those indicated by these forward-looking statements. These important factors include the factors that we identify in the documents we incorporate by reference in this report, as well as other information we include or incorporate by reference in this report. See "Risk Factors." You should read these factors and other cautionary statements made in this report, and in the documents we incorporate by reference as being applicable to all related forward-looking statements wherever they appear in this report, and in the documents incorporated by reference. Except to the extent required by U.S. federal securities laws, we do not assume any obligation to update any forward-looking statements made by us.

PART I

Item 1. Business.

Overview of Our Business

KIT digital is a leading, global provider of on-demand, Internet Protocol (IP)-based video asset management systems (VAMS). KIT VX, the company's end-to-end software platform, enables enterprise clients to acquire, manage and distribute video assets across the three screens of today's world: the personal computer, mobile device, and IPTV-enabled television set. The application of VX ranges from commercial video distribution to internal corporate deployments, including corporate communications, human resources, training, security and surveillance. KIT digital's current client base includes more than 1,000 enterprise customers across 30+ countries, including The Associated Press, Best Buy, Bristol-Myers Squibb, Disney-ABC, FedEx, General Motors, Google, Hewlett-Packard, Home Depot, IMG Worldwide, Intel, News Corp, Telefonica, the U.S. Department of Defense, Verizon, and Vodafone. Our clients usually enter into long-term contracts, and our average contract length is approximately 24 months. KIT digital is headquartered in Prague, and maintains principal offices in Atlanta, Cairo, Cologne, Dubai, Melbourne (Australia), London, New York, Stockholm and Toronto.

All currency amounts are in thousands in this report. Share, per share and other numerical data are listed without abbreviation.

We deliver our VX software platform as a subscription service using a software-as-a-service (SaaS) or on-demand model, while occasionally installing our software onsite for clients as part of an enterprise license, with associated maintenance fees. Our software serves corporate customers across a wide variety of industries, including but not limited to media & entertainment, telecommunications, retail, consumer/packaged goods, shipping/logistics, automotive and financial services.

Our software platform deployments are often complemented by marketing, branding and interface design services, as well as systems integration services related to digital play-out facilities, recording and editing suites, and content acquisition. We estimate over 80% of our current revenues are generated by VX platform-related fees, with the remainder directly related to professional services. Generally, we invoice customers on either a monthly or quarterly basis.

KIT VX is used by demanding and sophisticated corporate clients, and is particularly appropriate for global corporations that need to centrally and securely ingest and manage video content, while also being able to allow for content access and publishing in multiple geographical locations, on multiple device types, and in different languages and network protocols. This ability to centrally and securely administer video content but allow for it to be modified and distributed broadly is sometimes referred to as multi-point publishing, or ‘‘MPP.’’ We believe that our VX platform has the most advanced MPP capabilities in the market.

We manage our business across three major geographical profit and loss centers: (i) Europe, Middle East and Africa (EMEA), (ii) Asia-Pacific and (iii) the Americas. We estimate, at present writing, that approximately 60%, 15% and 25% of our current revenues are generated in EMEA, Asia-Pacific and the Americas, respectively. Our enterprise clients in each of these regions use our VX platform and related professional services to extend their audience reach using video and for internal corporate purposes. Specific customer examples:

- Vodafone business units throughout Europe have licensed our VX platform to provide a host of publishing points that can all be managed centrally. These publishing points include fully functional video stores with ‘download-to-own’ and ‘video-on-demand’ rental capabilities, web-based streaming deployments, user profiling for dynamic recommendation and rating of content, native iPhone applications as well as WAP-based video portals for 3G-enabled devices.

- General Motors, based in North America, has licensed our VX platform to deploy a widely accessible communication platform to effectively and transparently communicate with employees, vendors, the public, investors, journalists and other interested parties through live speeches and on-demand archived content that can be distributed through embeddable players around the web.

- The Sun (a unit of News Corp.) in the United Kingdom has licensed our VX platform to fully integrate video distribution, advertising and content solutions capable of serving millions of page views on a monthly basis.

- Telefónica 02 has licensed our VX platform to acquire IP-based content at sports venues in Central Europe, to edit and distribute related video to online, mobile and other IP-enabled points of delivery.

- In Asia, Yellow (part of Sensis Corp.) has licensed out the VX platform to manage and distribute video geared towards making their core classified offering more engaging and functional for the end user.

- The U.S. Department of Defense has licensed our VX platform for internal communications purposes and to launch and manage the Pentagon Channel, a 24x7 video news program designed to keep the 2.6 million members of the United States' Armed Forces informed with in-depth news reports and coverage of live events.

We believe the proliferation of Internet-connected devices, coupled with the accelerating worldwide adoption of broadband Internet connections and video-capable mobile networks, is fueling long-term growth in IP-based video content management. Our software-as-a-service approach was specifically developed to help large corporations manage and deliver video to both end-users and internal constituents in a cost-effective manner, with limited uptake and training time. Our VX software platform is served centrally from hosted computing facilities to our customers' IP connections, and delivers high levels of reliability, scalability and security at a very reasonable cost. In addition to our on-demand software, we address the needs of our customers at various stages along the IP video value chain — from the repurposing and monetization of video assets to the deployment of related IP recording and broadcast facilities — by offering professional services related to creative interface design, branding strategies, strategic planning, technical integration and hardware fit-out. Furthermore, those customers lacking proprietary video content or looking to supplement their existing video content can access approximately 80 KIT-syndicated channels and tens of thousands of regularly updated KIT-syndicated videos. We believe our proprietary VX software platform, combined with our systems integration, creative and content services, provides us with a sustainable, competitive advantage over other solutions currently being offered in the marketplace. Our focus on advanced multi-point publishing capabilities meets the needs of an evolving IP video marketplace.

We derive our revenues from on-demand software subscription license fees, software usage fees, upfront license fees and professional services fees. For the year ended December 31, 2009, we recorded consolidated revenue of $47,284 as compared to revenue of $23,401 for the year ended December 31, 2008.

We endeavor to hold leading market share in the VAMS industry globally, through a strategy led by organic growth coupled with selective, accretive acquisitions which complement our geographical footprint and sales vertical segment reach.

Corporate Information

We were organized as a corporation under the laws of the State of Delaware in August 1998, and commenced operations in our current line of business in December 2003. Our principal executive offices are located at 205 Hudson Street, Suite 802, New York, New York 10013, and our telephone number is +1 (212) 661-4111. Our international operational headquarters is located in Prague, Czech Republic. We maintain a corporate website at www.kitd.com and an electronic brochure of our product offerings can be downloaded at http://kitd.com/brochure.pdf

On March 6, 2009, we filed a certificate of amendment of our certificate of incorporation to (i) effect a 1-for-35 reverse stock split of our common stock; (ii) decrease the total number of shares of common stock authorized to be issued from 500,000,000 shares to 30,000,000 shares; and (iii) eliminate the authorization of a class of preferred stock. The changes made by the certificate of amendment were effective on March 9, 2009, share and per share amounts in the accompanying financial statements have been adjusted for the reverse stock split for all periods presented. On August 13, 2009, our common stock began trading on the NASDAQ Global Market exchange under the ticker symbol "KITD." Previously, our ticker symbol was "KDGL", as quoted on the OTC Bulletin Board.

All share numbers and prices appearing in this annual report have been adjusted to reflect the 1-for-35 reverse stock split of our outstanding shares of common stock, except where otherwise indicated.

Organizational History

We were originally incorporated in Delaware in August 1998 under the name Virilitec Industries, Inc. For approximately five years prior to December 2003, Virilitec engaged in unrelated business activities.

In December 2003, Virilitec completed a reverse merger transaction with our legal predecessor, ROO Media Corporation (“ROO Media”), a Delaware corporation formed in March 2001, which was substantially engaged in our present line of business. During 2001 and 2002, ROO Media focused on developing and refining its products and solutions, commencing commercial sales of its solutions in late 2003. ROO Media originally developed a technology platform designed to provide a cost effective, robust and scalable solution to manage and syndicate video content over the Internet. In February 2004, we changed our corporate name to ROO Group, Inc.

In December 2007, we entered into an agreement with KIT Capital, Ltd. (“KIT Capital”), a company beneficially controlled and led by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, under which KIT Capital has provided us managerial services and substantial equity investment over time (see “Employment and Management Agreements” below), through its affiliate KIT Media, Ltd. In May 2008, we changed our corporate name to our present name, KIT digital, Inc.

In May 2008, we completed a private placement of 2,142,858 shares of our common stock at a price of $7.00 per share, and warrants to purchase 2,142,858 shares of common stock at an exercise price of $11.90 per share, resulting in aggregate gross cash proceeds of $15,000. In the private placement, KIT Media, Ltd. (“KIT Media”), a company controlled by Mr. Isaza Tuzman and affiliated with KIT Capital, purchased 1,008,572 shares of common stock and warrants to purchase a like number of shares of common stock. All shares sold to KIT Media were at the same price and on the same terms as the other investors in this offering.

In August 2009, we completed the sale of 4,554,000 shares of our common stock at a price of $7.00 per share in a public offering and concomitant listing on the NASDAQ Global Market; 4,004,000 shares were sold by us and 550,000 shares were sold by certain existing, unaffiliated stockholders. The gross proceeds of the common stock sold by us were $28,028. We did not receive any proceeds from the sale of shares by the selling stockholders. We issued to the underwriters 44,067 warrants to purchase shares of common stock with an exercise price of $8.40 per share exercisable for a period of five years and were valued under the Black-Scholes model as $181. In connection with the public offering, we received net cash proceeds of approximately $26,090 after underwriting discounts, commissions and fees, legal fees and expenses, and other fees.

KIT Media, Ltd., our largest single stockholder, controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, has purchased $4,004 of common stock (572,000 shares) in the August 2009 offering, in part through the conversion into common stock of an interim note payable by us in the amount of $3,350. All shares sold to KIT Media were at the same price and on the same terms as the other investors in this offering. Gavin Campion, our President, is also an investor in KIT Media, as are several members of our board of directors.

Recent Business Acquisitions

Reality Group Pty. Ltd. Minority Interest Purchase

On March 6, 2009, we acquired the remaining 49% outstanding share capital that we did not previously own in subsidiary Reality Group Pty. Ltd., an Australian marketing communications firm, in consideration of the issuance of 90,073 shares of common stock for a total purchase price of $631.

Certain Narrowstep Assets Acquisition

On April 8, 2009, we acquired certain of the operating assets and assumed specified liabilities of Narrowstep, Inc., a United States and United Kingdom based internet TV platform company (“Narrowstep”) in exchange for 25,000 shares of restricted common stock valued at $213.

The FeedRoom Acquisition

On October 1, 2009, we acquired The FeedRoom, Inc., a United States company engaged in online video communications (“FeedRoom”) in exchange for 948,636 shares of KIT digital common stock (the “Merger Shares”) and an additional 363,636 shares of our common stock issued in exchange for a $4,000 indirect investment in us by certain stockholders of FeedRoom immediately prior to the closing of the merger. The KIT digital common stock was sold to such stockholders at an effective price of $11.00 per share. The Merger Shares were delivered as follows: (i) 937,398 shares on closing; and (ii) 374,602 shares which will be retained by us for one year after the closing.

Nunet Acquisition

On October 1, 2009, we acquired all Nunet AG, a German company engaged in video management for broadband, IPTV and mobile ("Nunet") for an aggregate purchase price of EUR 7,647, consisting of: a cash payment of $8,048 (EUR 5,400) paid at closing; a convertible promissory note of EUR 1,663 due March 31, 2011; and another convertible promissory note of EUR 584 due June 30, 2010. These convertible promissory notes have since been converted into 339,540 shares of common stock valued at $3,321 and purchased by an independent investor. An additional $430 (EUR 300) was paid to IMG at closing to cover brokers, introducing parties, management incentives and other transaction-related costs. This amount was expensed and is included in merger and acquisition and investor relations expenses in the consolidated statement of operations and comprehensive loss.

Recent Developments

January 2010 Public Offering of Shares

On January 26, 2010, we completed an underwritten public offering of 2,980,000 shares of our common stock, pursuant to our shelf registration statement on Form S-3 (No. 333-162325), which was originally filed and declared effective in October 2009, and related prospectus supplement dated January 21, 2010. We sold such shares in the offering at a price of $10.50 per share and received $31,290 in gross proceeds and approximately $28,500 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses. The accounting impact of the public offering on our financial statements will essentially be to increase our total stockholders' equity by approximately $28,500. On February 23, 2010, we subsequently sold 350,000 additional shares of common stock pursuant to an over-allotment option granted to underwriters, and received $3,675 in gross proceeds and approximately $3,000 in net proceeds. We will utilize the net proceeds of the offering for potential acquisitions and acquisition-related costs and for working capital and general corporate purposes. Additionally, a small portion of the net proceeds will be used for the repurchase of certain outstanding warrants issued in prior private placement financings.

Listing on the Prague Stock Exchange

In connection with the consolidation of our international operational headquarters in Prague, Czech Republic, we decided to dual list our shares of common stock on the Prague Stock Exchange (PSE), the Czech Republic's main securities market and the second largest stock exchange in Central and Eastern Europe. On January 25, 2010, our common stock was accepted and began trading on the Main Market of the PSE. Our shares trade under the symbol KITD on the PSE, and may be traded interchangeably between the NASDAQ Global Market and the PSE.

March 2010 Public Offering of Shares

On March 9, 2010, we completed an underwritten public offering of 1,541,624 shares of our common stock, pursuant to our shelf registration statement on Form S-3 (No. 333-164655), which was originally filed and declared effective in February 2010, and related prospectus supplement dated March 4, 2010. We sold such shares in the offering at a price of $9.73 per share and received $15,000 in gross proceeds and approximately $13,800 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses. The impact of the public offering will essentially be to increase our total stockholders' equity by approximately $13,800. On March 22, 2010, we subsequently sold 231,244 additional shares of common stock pursuant to an over-allotment option granted to under-writers, and received $2,250 in gross proceeds and approximately $2,000 in net proceeds. We intend to use the net proceeds from the sale of the shares in the offering primarily to repurchase outstanding warrants issued in prior private placement financings.

KIT Media purchased $1,750 of common stock (179,856 shares) in the March 9, 2010 offering, at the same price and on the same terms as the other investors in this offering.

Multicast Media Technologies Acquisition

On March 16, 2010, we executed a definitive agreement to acquire Multicast Media Technologies, Inc., a United States corporation engaged in live event broadcasting, internet video and targeted multimedia communications ("Multicast"), in exchange for 1,312,034 shares of our common stock (the "Merger Shares") and approximately $4,750 in cash (the "Cash Consideration"), after giving effect to adjustments for assumption by KIT digital of existing indebtedness and other liabilities of Multicast in the amount of approximately $5,927. The merger consideration is subject to further adjustment upwards or downwards to the extent that the closing working capital of Multicast is greater or less than zero.

The Cash Consideration and Merger Shares were delivered as follows: (i) $4,000 in cash and 842,500 shares of our stock promptly following the closing; and (ii) a “holdback amount” of an additional $746 in cash and 469,534 shares of KIT digital common stock, less any amount used by KIT digital to offset negative working capital and satisfy indemnity claims as described below, will be delivered to such stockholders not later than one year after the closing or such later date as all indemnity claims have been resolved. Of the total “holdback amount,” $712 in cash and 196,798 Merger Shares will be used to offset any negative working capital balance of Multicast as of the effective date of the merger, which amount is to be determined within 30 days following the closing of the merger. The remaining $34 in cash and 272,736 Merger Shares being held back by KIT digital will be used to indemnify KIT digital against any breaches of representations, warranties and covenants by Multicast, as well as against certain additional specified liabilities.

Warrant Buyback

The Board of Directors approved the repurchase of certain outstanding warrants with exercise prices in excess of market price from certain warrant holders which acquired the warrants in prior private placement financings, including KIT Media Ltd., an entity controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer. We repurchased, agreed to repurchase, cancelled and induced exercise of warrants throughout the course of the first quarter ending March 31, 2010. Warrant repurchases were made in exchange for cash payments equal to the fair value of the applicable warrants on the date of repurchase, as determined using a percentage premium over the intrinsic value (using a 20-day trailing weighted average closing stock price at the time of warrant repurchase agreement minus the applicable warrant exercise price) of the warrants. Such repurchase amounts were below the “Black-Scholes-Merton” value of the warrants. The terms of the warrant repurchase were no more favorable to KIT Media than to other warrant sellers.

Operations Strategy

During 2009, we moved our operational headquarters from Dubai, UAE to Prague, Czech Republic, and substantially integrated our regional offices and products units. Operational initiatives in 2009 included: (i) introduction of inter-departmental invoicing and cost-based accounting, (ii) increased standardization of client contracts; (iii) standardization of existing company-wide sales commissions program; (iv) regional expansion and salesforce development in Europe and Asia; (vv) improvement of behavioral analytics and report-routing capabilities on the VX platform; (vi) improvement of our both “on-deck” and “off-deck” mobile publishing and delivery capabilities; and (vii) enhancement of the VX platform’s closed-network IPTV and hybrid set-top box capabilities.

Our Growth Strategy

Our objective is to enhance our position as the leading provider of on-demand enterprise software for IP-based video asset management systems. Key elements of our growth strategy include:

- invest in sales, marketing and branding to expand upon our leadership in on-demand, IP-based video asset management — we estimate that we are the largest international provider of software solutions for managing IP video content and it is our intention to build our brand to become synonymous with ‘‘industrial grade’’ quality, professionalism and customer support;
- pursue new customers and territories — we are aggressively targeting potential customers, primarily through our direct sales force and believe that there are substantial market opportunities for our solutions in the Americas and Europe, as well as the emerging BRIC markets;
- leverage existing and new strategic re-selling partnerships with content delivery networks (CDNs), content aggregators, systems integration and hardware providers, including collaborative sales and marketing efforts and the reselling of each other’s products and services.
- increase revenue per customer — we seek to increase revenue from each corporate customer by increasing their usage of our platform, up-selling additional modules of the VX platform, as well as complementary creative and technical services;

- enhance our product offering — we intend to further develop our VX software platform's capabilities and features, by investing 5-10% of our gross revenues in ongoing research and development; and
- complete accretive acquisitions which expand our client and geographical footprint — we intend to continue to pursue selected acquisitions in Asia-Pacific and elsewhere that consolidate VAMS market share, expand our geographical footprint and customer reach, and further our position as the leading provider of enterprise-grade IP-based video management solutions;

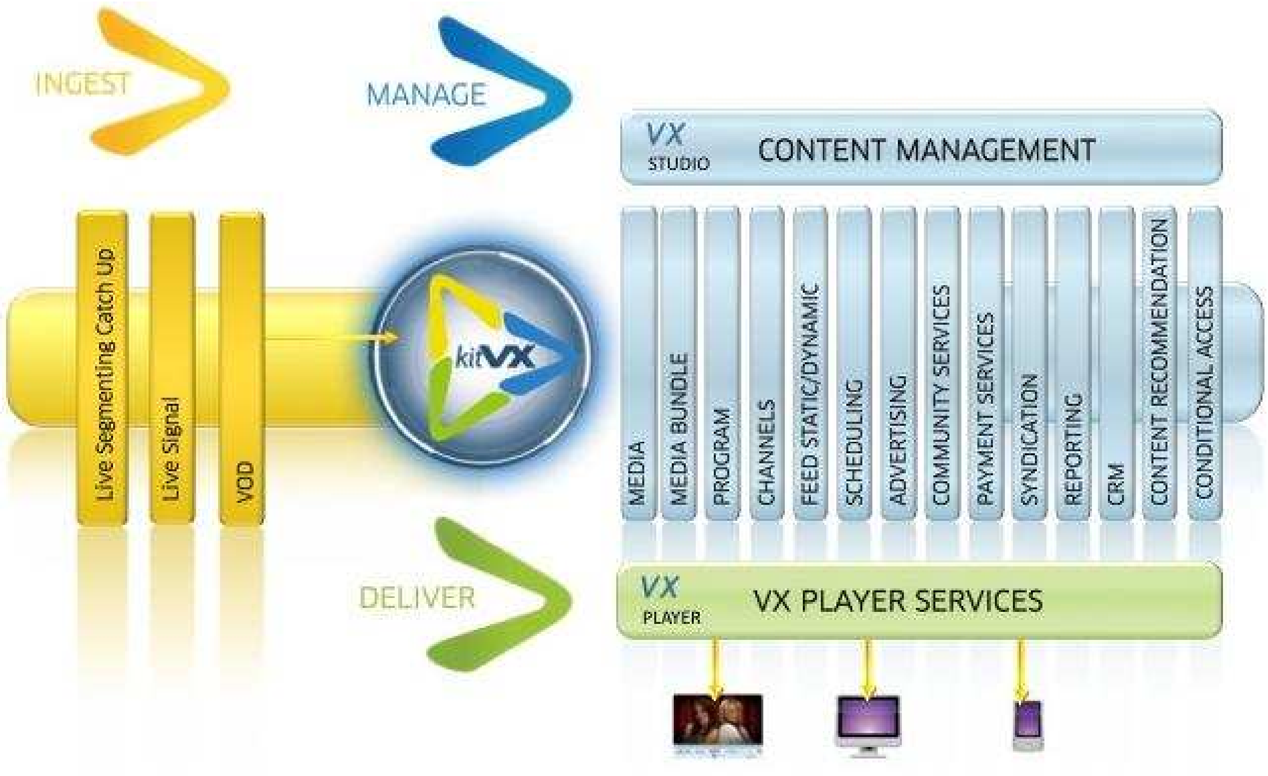
Products and Services

Our comprehensive software platform, KIT VX, is designed to serve as a centralized system for acquiring, managing and distributing an enterprise client's IP-based video assets.

Comprehensive IP-based video asset management solution. Our VX software platform allows our customers to ingest IP-based video content from multiple origination points such as satellite capture or IP feeds. Once imported into VX, video content can be managed including transcoding, storage, metatagging, localization, editing/repurposing, search optimization, data association, advertising and syndication. Video is then able to be distributed across the three screens: the computer Internet browser, mobile device and the IPTV-enabled television set.

Modular VX software platform. Our VX platform is designed to offer an end-to-end solution and is comprised of eight primary modules. This design enables customers to start with one or a few modules and easily add more modules over time. Our modules, all of which leverage our VX platform capabilities of multi-point content ingestion, management and multi-point publishing/distribution (depicted graphically below), are outlined below:

KIT VX Modular Detail



- **Online Browser** — delivers and enables video content display and associated rich metadata within single or multiple websites. We also offer multiple languages and professional services allowing for customization.

- **Mobile** — transcodes, delivers and enables video content display and associated rich metadata into the multiple formats in which video is displayed on over 400 different mobile device types.

• **IPTV** — provides IP-middleware and content delivery, CRM and metadata services to virtually any set-top box, so that customers can offer content to their customers on the television set.

The chart below illustrates the way that VX-one is able to serve content to the three screens of mobile, computer and TV.

Three-Screen Delivery

• **Content Provision** — enables customers access to our library of licensed content from global content providers such as The Associated Press, Disney-ABC and Reuters.

• **Content Management System** — provides database management, reporting and security.

• **Dashboards** — provides real-time usage statistics and analytics of our customers IP video deployments.

• **Digital Junction** — allows corporate customers an exchange-like capability, by which they can syndicate their video, based on permission and subscription levels, to other corporate customers.

• **Integration Services** — implementation of VX-enabled digital play-out facilities, recording and editing suites and remote content ingestion assets.

• **Creative and Marketing Services** — interface design, branding, campaign management, strategic planning and agency representation.

Highly configurable on-demand application suite. We deliver our VX software platform as a subscription service using an SaaS model, eliminating the need for customers to buy, maintain and upgrade on-premise hardware and software. Our software solution is highly configurable, allowing customers to tailor their deployment to reflect their identity, unique business processes and existing forms and templates. Additionally, our architecture enables us to maintain high levels of availability, scale easily as we and our customers grow, deploy standard configurations quickly and provide a safe and secure environment for our customers' video assets.

Integration. Our software suite was designed to work with traditional content management systems and large enterprise resource planning, or ERP, software systems, including Microsoft, Oracle and SAP.

Monetization/Implementation. We offer our customers top-grade creative and professional services to support the successful implementation of their IP-based video strategy, including creative interface design, branding strategies, strategic planning and technical integration services.

Our Technology

We have built our VX software platform on a highly scalable, multi-tenant application written within open frameworks, including C++ and .NET. We use commercially available hardware and a combination of proprietary and commercially available software, including technologies acquired through acquisition, SQL Server and Microsoft Windows, to provide our solutions. Because new customers are provisioned within this already-existing infrastructure, we believe we can efficiently scale our software delivery as both our business and our customers' business grow.

Our customers access our solutions through multiple screens: web browsers (without installing any software or downloading Java applets, Microsoft ActiveX, or .NET controls), on their mobile handsets, and through IPTV solutions that deliver video to the consumers' televisions.

We own all of the hardware deployed in support of our KIT VX software platform. We have multiple redundant co-location facilities, including Atlanta, Brisbane (Australia), Cologne, Dusseldorf, London, New York, Prague and Toronto, in addition to our primary location in Ashburn, Virginia. Our facilities are state-of-the-art and provide around-the-clock security personnel, video surveillance and biometric access screening, and are serviced by onsite electrical generators, fire detection and suppression systems. Our facilities afford us multiple Tier 1 interconnects to the global Internet. Our multiple co-location facilities provide increased platform uptime and application availability and redundancy, which are essential to support the business-critical needs of our customers.

We regularly monitor the performance and uptime of our VX software platform. We have a highly available, scalable infrastructure that utilizes load-balanced web server pools, redundant interconnected networks, switches and firewalls, intrusion detection, replicated databases, and fault-tolerant storage devices. User and performance data is backed up on a daily basis and stored in multiple locations to ensure integrity and restoration capability. Application monitoring includes automated tools that ensure our VX software platform is running and operating within performance benchmarks. Since migrating to our own delivery architecture in May 2008, our platform uptime has been 100% — though there can be no guarantee of perfect uptime in the future.

We do not have material patents, trademarks or copyrights, but we believe that the long-term commercial usage of our VX platform and its component parts (dating back to 1999 for certain key elements) provides us material defensibility around our core intellectual property. We rely upon confidentiality agreements signed by our employees, consultants and third parties, and trade secret laws of general applicability, to safeguard our software and technology.

Customers:

As of December 31, 2009, we had more than 600 customers. Our standard license agreement for our enterprise customers runs approximately 24 months and our average remaining contract life is approximately 18 months. Our professional services are contracted on a project basis and in some cases on an hourly basis.

We provide services to customers in multiple vertical industry segments, including media and entertainment, telecommunications, automotive, financial services, retail, consumer/packaged goods and government. Our customer base is not concentrated in any particular industry. None of our customers accounted for more than 10% of revenues in the fiscal years ended December 31, 2007 and 2008 or 2009. Set forth below is a representative list of our customers as of December 31, 2009, grouped by industry, and listed alphabetically:

Automotive:	General Motors, Suzuki
Classifieds/Search:	AutoTrader, Car Sales, Google, Sensis,
Consumer Goods:	Hewlett-Packard, Johnson & Johnson, Nestle, Playtex
Financial:	Fidelity Investments, GE Money, Legg Mason, Nasdaq
Media:	The Associated Press, Disney-ABC Television, IMG, News Corp
Publishing:	New York Post, RCS, The Sun
Retail/Franchising:	Barnes & Nobles, Best Buy, Home Depot, Kmart, Tabcorp
Telecommunications:	AT&T, Telefónica 02, Verizon, Vodafone

Sales & Marketing:

We primarily sell our software solution directly through our sales force and to a lesser extent, utilize distribution relationships such as resellers and affiliate partners. We target providers and users of IP video content through our:

• Field sales force: We have developed a field sales force and currently have approximately 60 sales personnel in various geographic markets, including 24 in Europe, Middle East and Africa, 14 in Asia-Pacific and 22 in the Americas (including both North and South America). Our direct sales force is responsible for identifying and managing individual sales opportunities in their respective regions. Certain sales representatives have cross-regional, ‘‘vertical’’ responsibilities as well, meaning they are responsible for identifying global sales opportunities in a specific industry vertical, such as classifieds, retail or publishing.

• Distribution partners: We maintain relationships with certain resellers and distribution partners that we believe have complementary efforts in the IP-video marketplace, and strong existing client bases with in-region sales forces. Currently, we have deployed formal reselling relationships as follows:

- Global Partnerships: Akamai, blinkx
- The Americas: Astreya, GoTV, Internap, LatinStock, MRC, Omnitech, Ply Media, and RM 160;
- Europe, the Middle East and Africa: Can Communicate, Complete TV, DigiSoft, Digotel, MGt, Vivocom, VoloVita, and WRN;
- Asia-Pacific: Spotzer, TigerSpike, and WebAlive.

We intend to aggressively expand our reseller network, with a particular focus on content delivery networks (CDNs), systems integrators, content aggregators and IP-based hardware providers.

We focus our corporate marketing efforts on increasing brand awareness, communicating the VX software platform advantages, and generating qualified leads for our sales teams. Our corporate marketing plan is designed to continually elevate awareness of our brand and generate demand for our software solution. We rely on a number of vehicles in this area, including tradeshows, advertising, public relations, webinars, our website and collaborative relationships with complementary technology vendors.

Our Industry

We believe we are well positioned to take advantage of the growth within the Internet Protocol (IP)-based VAMS industry. Our industry's growth globally is expected to be driven by:

- the conversion of analog and traditional digital video formats to IP video;
- the continuing rise in the amount and breadth of IP-based video content;
- the growing consumer demand for IP-based video content;
- the proliferation of broadband Internet connections;
- the expansion and evolution of video-capable mobile networks;
- the increase of Internet-connected devices; and
- the rapid ''catch-up'' of emerging markets broadband and mobile network access.

Competition

We believe that few competitors currently provide the range of functionality provided by our VX software platform, but there are a number of competitors that provide certain elements of the products and services we offer, including:

- Video asset management and enablement; and
- Video-centric integration, interface design and creative services.

We believe the barriers to entry for the industry in which we operate include: (i) the intellectual property, timeframe and costs to develop commercially robust, feature-rich video content management platforms for online, mobile and IPTV networks, (ii) established enterprise-class business relationships and (iii) the time and resources involved to train and develop interface design, creative services and technical integration professional services staff with IP video expertise.

Video content management and enablement. There are a number of companies that offer competing tools for enabling video content for consumption via the open Internet, IPTV and mobile networks, including thePlatform, Irdeto, Benchmark Digital, Dalet, Brightcove, Kewego, Onstream Media and Ooyala.

Video-centric systems integration, interface design and creative services. There are myriad broadcast systems integration companies and interactive marketing agencies globally, many of which have some expertise in IP-based video systems.

We believe that we set ourselves apart from our competitors through:

- The breadth and depth of the VX suite functionality;
- Our integrated online, mobile and IPTV set-top box (''3-screen'') publishing capability;
- Our global customer and sales footprint, including multicultural and multilingual customer services and support;
- Our advanced multi-point ingestion and multi-point publishing capabilities;
- Our multi-format content syndication and repurposing capabilities; and
- Our top-tier creative services and systems integration capabilities.

Research and Development

Our research and development personnel are continuously undertaking efforts to enhance and improve our existing services and create new services in response to our customers' needs and market demand for software tools to manage and deliver IP-video. Accordingly, we have invested, and intend to continue to invest, significant time and resources in our development activities to establish and maintain ourselves as a leader in the provision of optimized IP-based video solutions that address the needs of our customers. As of December 31, 2009, we had approximately 57 employees on our research and development team. Our research and development expenses were approximately $4,700 and $2,700 for the fiscal years ended December 31, 2008 and the December 31, 2009, respectively. As a practice, we generally do not capitalize research and development, and these amounts were not capitalized.

Employees

As of March 1, 2010, we had a total of approximately 325 full-time employees and equivalents. Our future success will depend in part on our ability to attract, retain and motivate highly qualified technical and management personnel for whom competition is intense. Our employees are not represented by any collective bargaining unit. We believe our relations with employees and contractors are good.

- the need to comply with varied local laws and regulations;
- longer payment cycles;
- possible credit risk and higher levels of payment fraud;
- profit repatriation restrictions and foreign currency exchange restrictions;
- political or social unrest, economic instability or human rights issues;
- geopolitical events, including acts of war and terrorism;
- import or export regulations;
- compliance with U.S. laws (such as the Foreign Corrupt Practices Act), and local laws prohibiting corrupt payments to government officials;
- laws and business practices that favor local competitors or prohibit foreign ownership of certain businesses; and
- different and more stringent user protection, data protection, privacy and other laws.

Government Regulation

We are subject to risks associated with governmental regulation and legal uncertainties. Few existing laws or regulations specifically apply to the Internet, other than laws and regulations generally applicable to businesses. Many laws and regulations, however, are pending and may be adopted in the United States, individual states and local jurisdictions and other countries with respect to the Internet. These laws may relate to many areas that impact our business, including content issues (such as obscenity, indecency and defamation), caching of content by server products, and the convergence of traditional communication services with Internet communications, including the future availability of broadband transmission capability and wireless networks. These types of regulations are likely to differ between countries and other political and geographic divisions. Other countries and political organizations are likely to impose or favor more and different regulation than that which has been proposed in the United States, thus furthering the complexity of regulation. The adoption of such laws or regulations, and uncertainties associated with their validity, interpretation, applicability and enforcement, may affect the available distribution channels for and costs associated with our products and services, and may affect the growth of the Internet. Such laws or regulations may harm our business. Our products and services may also become subject to investigation and regulation of foreign data protection authorities, including those in the European Union. Such activities could result in additional product and distribution costs for us in order to comply with such regulation.

Item 1A. Risk Factors.

You should carefully consider the risks and uncertainties described below, as well as other information provided to you in this report, including information at the beginning of this document entitled "Special Note Regarding Forward-Looking Information," and in other documents that we subsequently file with the SEC that update, supplement or supersede such information. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us or which we consider immaterial based on information currently available to us may also materially adversely affect us. If any of the events anticipated by the risks and uncertainties described occur, our results of operations and financial condition could be adversely affected, which could result in a decline of our common stock.

Risks Related to Our Business

We have a history of annual net losses which may continue and which may negatively impact our ability to achieve our business objectives.

For the year ended December 31, 2009, we had revenue of $47,284 and a net loss available to common stockholders of $19,942. There can be no assurance that our future operations will result in net income. Our failure to increase our revenues or improve our gross margins will harm our business. We may not be able to sustain or increase profitability on a quarterly or annual basis in the future. If our revenues grow more slowly than we anticipate, our gross margins fail to improve or our operating expenses exceed our expectations, our operating results will suffer. The prices we charge for our Internet software and services may decrease, which would reduce our revenues and harm our business. If we are unable to sell our solutions at acceptable prices relative to our costs, or if we fail to develop and introduce on a timely basis new products from which we can derive additional revenues, our financial results will suffer.

Our operations have limited histories and therefore we cannot ensure the long-term successful operation of our business or the execution of our business plan.

Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by growing companies in new and rapidly evolving markets, such as the digital media software markets in which we operate. We must meet many challenges including:

- establishing and maintaining broad market acceptance of our products and services and converting that acceptance into direct and indirect sources of revenue;
- establishing and maintaining adoption of our technology on a wide variety of platforms and devices;
- timely and successfully developing new products, product features and services and increasing the functionality and features of existing products and services;
- developing services and products that result in high degrees of corporate client satisfaction and high levels of end-customer usage;
- successfully responding to competition, including competition from emerging technologies and solutions;
- developing and maintaining strategic relationships to enhance the distribution, features, content and utility of our products and services; and
- identifying, attracting and retaining talented technical and creative services staff at reasonable market compensation rates in the markets in which we employ.

Our business strategy may be unsuccessful and we may be unable to address the risks we face in a cost-effective manner, if at all. If we are unable to successfully address these risks, our business will be harmed.

Our resources may not be sufficient to manage our expected growth; failure to properly manage our potential growth would be detrimental to our business.

We may fail to adequately manage our anticipated future growth. Any growth in our operations will place a significant strain on our administrative, financial and operational resources, and increase demands on our management and on our operational and administrative systems, controls and other resources. We cannot assure you that our existing personnel, systems, procedures or controls will be adequate to support our operations in the future or that we will be able to successfully implement appropriate measures consistent with our growth strategy. As part of this growth, we may have to implement new operational and financial systems, procedures and controls to expand, train and manage our employee base and maintain close coordination among our technical, accounting, finance, marketing and sales staff. We cannot guarantee that we will be able to do so, or that if we are able to do so, we will be able to effectively integrate them into our existing staff and systems. There may be greater strain on our systems mainly because we have acquired several businesses over the last 24 months and have had to devote significant management time and expense to the ongoing integration and alignment of management, systems, controls and marketing. To the extent we acquire other businesses, we will also need to integrate and assimilate new operations, technologies and personnel. If we are unable to manage growth effectively, such as if our sales and marketing efforts exceed our capacity to install, maintain and service our products or if new employees are unable to achieve performance levels, our business, operating results and financial condition could be materially and adversely affected.

Our competitors may have greater financial and other resources than we do and those advantages could make it difficult for us to compete with them.

The market for IP video content management over the Internet is relatively new and constantly changing. We expect that competition will intensify. Increased competition may result in price reductions, reduced margins, loss of customers and changes in our business and marketing strategies, any of which could harm our business. Current and potential competitors may have longer operating histories, greater name recognition, more employees and significantly greater financial, technical, marketing, public relations and distribution resources than we do. In addition, new competitors with potentially unique or more desirable products or services may enter the market at any time. The competitive environment may require us to make changes in our products, pricing, licensing, services or marketing to maintain and extend our current brand and technology. Price concessions or the emergence of other pricing, licensing and distribution strategies or technology solutions of competitors may reduce our revenue, margins or market share. Other changes we have to make in response to competition could cause us to expend significant financial and other resources, disrupt our operations, strain relationships with partners or release products and enhancements before they are thoroughly tested, any of which could harm our operating results and stock price.

If we do not successfully develop new software products and solutions, our business may be harmed.

Our business and operating results may be harmed if we fail to expand our software and services suite (either through internal product or capability development initiatives or through strategic partnerships and acquisitions) in such a way that achieves widespread market acceptance or that generates significant revenue and gross profits to offset our operating and other costs. We may not successfully identify, develop and market new product and service opportunities in a timely manner. If we introduce new products and services, they may not attain broad market acceptance or contribute meaningfully to our revenue or profitability. Competitive or technological developments may require us to make substantial, unanticipated investments in new products and technologies or in new strategic partnerships, and we may not have sufficient resources to make these investments. Because the markets for our solutions are subject to rapid change, we may need to expand and/or evolve our product and service offerings quickly. Delays and cost overruns could affect our ability to respond to technological changes, evolving industry standards, competitive developments or customer requirements and harm our business and operating results.

We may be subject to legal liability for providing third-party products, services or content.

We have certain arrangements to offer third-party products, services, content or advertising via distribution on our websites. We may be subject to claims concerning these products, services, content or advertising by virtue of our involvement in marketing, branding, broadcasting or providing access to them, even if we do not ourselves host, operate or provide access to these products, services, content or advertising. While our agreements with these parties most often provide that we will be indemnified against such liabilities, such indemnification may not be adequate or available. It is also possible that if any information provided directly by us contains errors or is otherwise negligently provided to users, third parties could make claims against us. Investigating and defending any of these types of claims is expensive, even if the claims do not result in liability. While to date we have not been subject to material claims and we maintain errors and omissions insurance, if any potential claims do result in liability, we could be required to pay damages in excess of insurance coverage or other penalties, which could harm our business and operating results.

Any failure of our network could lead to significant disruptions in our services business, which could damage our reputation, reduce our revenues or otherwise harm our business.

Our business is dependent upon providing our customers with fast, efficient and reliable services. A reduction in the performance, reliability or availability of our network infrastructure may harm our ability to distribute our software to our customers, as well as our reputation and ability to attract and retain customers and content providers. Our systems and operations are susceptible to, and could be damaged or interrupted by outages caused by fire, flood, power loss, telecommunications failure, Internet or mobile network breakdown, earthquake and similar events. Our systems are also subject to human error, security breaches, power losses, computer viruses, break-ins, “denial of service” attacks, sabotage, intentional acts of vandalism and tampering designed to disrupt our computer systems and network communications, and our systems could be subject to greater vulnerability in periods of high employee turnover. A sudden and significant increase in traffic on our customers’ websites or demand from mobile users could strain the capacity of the software, hardware and telecommunications systems that we deploy or use. This could lead to slower response times or system failures. Our failure to protect our network against damage from any of these events could harm our business.

Our operations also depend on receipt of timely feeds from our content providers, and any failure or delay in the transmission or receipt of such feeds could disrupt our operations. We also depend on web browsers, ISPs (Internet service providers), online service providers and mobile networks to provide our clients’ end-users access to websites, IPTV and mobile content. Many of these providers have experienced outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to our systems. Any such outage, delay or difficulty could adversely affect our ability to provide our software-as-a-service, which would harm our business.

We depend on various third parties to maintain much of our communications hardware and computer hardware operations. If the third parties’ hardware and operations fail, our business will be harmed.

Much of our communications hardware and computer hardware operations are operated or safeguarded by third parties. If these providers’ hardware, operations or security systems fail — particularly if they fail in unison — our reputation and business may suffer. We do not have complete backup systems for all of these hardware operations. A problem with, or failure of, our communications hardware or computer hardware operations could result in interruptions or increases in response times for our customers. If we cannot maintain our system in the event of unexpected occurrences, make necessary modifications and/or improvements to the technology, such deficiencies could have a material adverse effect upon our business, financial condition and results of operations.

We license technology from third parties. If we are unable to maintain these licenses, our operations and financial condition may be negatively impacted.

We license technology from third parties, including software that is integrated with internally developed software and used in our products to perform certain key functions. The loss of, or our inability to maintain, these licenses could result in increased costs or delay sales of our products. We anticipate that we will continue to license technology from third parties in the future. This technology may not continue to be available on commercially reasonable terms, if at all. Although we do not believe that we are substantially dependent on any individual licensed technology, some of the software that we license from third parties could be difficult for us to replace. The loss of any of these technology licenses could result in delays in the license of our products until equivalent technology, if available, is developed or identified, licensed and integrated. The use of additional third-party software would require us to negotiate license agreements with other parties, which could result in higher royalty payments and a loss of product differentiation, which could negatively impact our operating results and financial condition.

We depend on content licensed to us by third parties. If we are unable to maintain these licenses, our operations and financial condition may be negatively impacted.

We rely on content provided by third parties to increase market acceptance of our products and services. Currently, our major third-party content providers are ABC News, The Associated Press, Fox and Reuters. If third parties do not develop or offer compelling content to be delivered over the Internet or wireless data networks, or grant necessary licenses to us or our customers to distribute such content, our business will be harmed and our products and services may not achieve or sustain broad market acceptance. We rely on third-party content providers to develop and offer content in formats that can be delivered using our products. We also rely entirely on third-party content for programming and content offerings. In some cases, we pay fees to obtain content for these services. We cannot guarantee that third-party content providers will continue to support our technology or offer compelling content in our formats, nor can we guarantee that we will be able to secure licenses to third-party content or that such licenses will be available at commercially reasonable rates, to encourage and sustain broad market acceptance of our products and services. The failure to do so could negatively impact our business operations and financial condition.

If we do not adequately protect our intellectual property rights, we may experience a loss of revenue and our operations may be materially harmed.

We have not registered patents or copyrights on any of the software or technology we have developed. We rely upon confidentiality agreements signed by our employees, consultants and third parties, and trade secret laws of general applicability, to safeguard our software and technology. We cannot assure you that we can adequately protect our intellectual property or successfully prosecute potential infringement of our intellectual property rights. Also, we cannot assure you that others will not assert rights in, or ownership of, trademarks and other proprietary rights of ours or that we will be able to successfully resolve these types of conflicts to our satisfaction. Our failure to protect our intellectual property rights may result in a loss of revenue and could materially harm our operations and financial condition.

If we are unable to retain the services of Kaleil Isaza Tuzman or Gavin Campion or if we are unable to successfully recruit qualified personnel, we may not be able to continue operations.

Our success depends to a significant extent upon the continued service of Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, and Gavin Campion, our President. The loss of the services of Messrs. Isaza Tuzman or Campion could have a material adverse effect on our growth, revenues and prospective business. We have entered into an executive management agreement with KIT Capital, Ltd., an entity controlled by Mr. Isaza Tuzman, including the services of Mr. Isaza Tuzman and other KIT Capital personnel, pursuant to which Mr. Isaza Tuzman serves as our Chief Executive Officer, for a term of three years scheduled to expire in January 2011. We have also entered into an employment agreement with Mr. Campion. If either Mr. Isaza Tuzman or Mr. Campion were to resign or we are unable to retain either of their services beyond the term of their respective agreement with us, the loss could result in loss of sales, delays in new product development and diversion of management resources, and we could face high costs and substantial difficulty in hiring a qualified successor and could experience a loss in productivity while any such successor obtains the necessary training and experience. In addition, in order to successfully implement and manage our business plan, we are dependent upon, among other things, successfully recruiting qualified personnel who are familiar with the specific issues facing the IP video enablement industry. In particular, we must hire and retain experienced management personnel to help us continue to grow and manage our business, and skilled software engineers to further our research and development efforts. Competition for qualified personnel is intense. If we do not succeed in attracting new personnel or in retaining and motivating our current personnel, our business could be harmed.

We may not have successfully integrated recent acquisitions to realize the full benefits of the combined business.

Our acquisitions involve the integration of businesses that have previously operated separately. The difficulties of combining the operations of these businesses include:

- the challenge of effecting technical integration while carrying on the ongoing businesses;
- the necessity of coordinating geographically separate organizations; and

- effective integration of personnel with diverse business backgrounds.

The process of completing the integration of these businesses could cause an interruption of, or loss of momentum in, the activities of our company and the loss of key personnel. The diversion of management’s attention and any delays or difficulties encountered in connection with the acquisitions and the integration of these operations could have an adverse effect on our business, financial condition or results of operations.

Our growth strategy depends, in part, on our acquiring businesses, products and technologies and expanding their existing operations, which we may be unable to do.

Our growth strategy is based, in part, on our ability to acquire or invest in businesses, products and technologies. The success of this acquisition strategy will depend, in part, on our ability to accomplish the following:

- identify suitable businesses or assets to buy;
- complete the purchase of those businesses on terms acceptable to us;
- complete the acquisition(s) in the time frame and within the budget we expect; and
- improve the results of operations of each of the businesses that we buy and successfully integrate its operations on an accretive basis.

There can be no assurance that we will be successful in any or all of the factors above. Our failure to successfully implement our acquisition strategy could have an adverse effect on other aspects of our business strategy and our business in general. We may not be able to find appropriate acquisition candidates, economically acquire those candidates that we identify or integrate acquired businesses effectively and profitably.

Fluctuations in foreign currency exchange rates affect our operating results in U.S. dollar terms.

A portion of our revenues arises from international operations. Revenues generated and expenses incurred by our international subsidiaries are often denominated in the currencies of the local countries. As a result, our consolidated U.S. dollar financial statements are subject to fluctuations due to changes in exchange rates as the financial results of our international subsidiaries are translated from local currencies into U.S. dollars. In addition, our financial results are subject to changes in exchange rates that impact the settlement of transactions in non-local currencies.

We may be required to record a significant charge to earnings if our goodwill or amortizable intangible assets become impaired.

We are required under U.S. generally accepted accounting principles to test goodwill for impairment at least annually and to review our amortizable intangible assets for impairment when events or changes in circumstance indicate the carrying value may not be recoverable. Factors that could lead to impairment of goodwill and amortizable intangible assets include significant adverse changes in the business climate and declines in the financial condition of our business. We have recorded and may be required in the future to record additional charges to earnings if a portion of our goodwill or amortizable intangible assets becomes impaired. Any such charge would adversely impact our financial results.

Our international operations are subject to increased risks which could harm our business, operating results and financial condition.

In addition to uncertainty about our ability to continue to generate revenues from our foreign operations and expand our international market position, there are risks inherent in doing business internationally, including:

- trade barriers and changes in trade regulations;
- difficulties in developing, staffing and simultaneously managing a large number of varying foreign operations as a result of distance, language and cultural differences;
- the need to comply with varied local laws and regulations;
- longer payment cycles;

- possible credit risk and higher levels of payment fraud;
- profit repatriation restrictions and foreign currency exchange restrictions;
- political or social unrest, economic instability or human rights issues;
- geopolitical events, including acts of war and terrorism;
- import or export regulations;
- compliance with U.S. laws (such as the Foreign Corrupt Practices Act) and local laws prohibiting corrupt payments to government officials;
- laws and business practices that favor local competitors or prohibit foreign ownership of certain businesses; and
- different and more stringent user protection, data protection, privacy and other laws.

Violations of complex foreign and U.S. laws and regulations that apply to our international operations could result in fines, criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business and damage to our reputation.

Although we have implemented policies and procedures designed to promote compliance with these laws, there can be no assurance that our employees, contractors or agents will not violate our policies. These risks inherent in our international operations and expansion increase our costs of doing business internationally and could result in harm to our business, operating results and financial condition.

Risks Related to Our Common Stock

Our historic stock price has been volatile and the future market price for our common stock is likely to continue to be volatile. This may make it difficult for you to sell our common stock for a positive return on your investment.

The public market for our common stock has historically been volatile. Any future market price for our shares is likely to continue to be volatile. This price volatility may make it more difficult for you to sell shares when you want at prices you find attractive. The stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of specific companies. Broad market factors and the investing public's negative perception of our business may reduce our stock price, regardless of our operating performance. Further, the market for our common stock is limited and we cannot assure you that a larger market will ever be developed or maintained. Market fluctuations and volatility, as well as general economic, market and political conditions, could reduce our market price. As a result, these factors may make it more difficult or impossible for you to sell our common stock for a positive return on your investment.

Shares of common stock issuable pursuant to our stock options and warrants may adversely affect the market price of our common stock.

As of March 30, 2010, we had outstanding under our 2004 Stock Option Plan and 2008 Incentive Stock Plan stock options to purchase an aggregate of 870,351 shares of common stock and certain outstanding warrants to purchase common stock (for which cash would need to be remitted to us for exercise). The exercise of the stock options and warrants and the sales of common stock issuable pursuant to them, would further reduce a stockholder's percentage voting and ownership interest in our company.

The stock options and warrants are likely to be exercised when our common stock is trading at a price that is higher than the exercise price of these options and warrants.

The large number of shares eligible for future sale may adversely affect the market price of our common stock.

The sale, or availability for sale, of a substantial number of shares of common stock in the public market could materially adversely affect the market price of our common stock and could impair our ability to raise additional capital through the sale of our equity securities. As of March 30, 2010, there were 17,596,506 shares of our common stock issued and outstanding. Substantially all of these shares are freely transferable. Our executive officers and directors own (of record) approximately 2,696,666 shares of common stock, or 15.3% of our voting stock, which would be eligible for resale, subject to the volume and manner of sale limitations of Rule 144 of the Securities Act.

Our shares of common stock are traded on more than one exchange and this may result in price variations.

Our common stock is listed for trading on the NASDAQ Global Market and the Prague Stock Exchange. The trading prices of our shares on these two exchanges may differ due to spreads between functional trading currencies , different trading hours and other factors, and this may cause confusion to investors seeking to buy or sell our shares.

We have provisions in our certificate of incorporation that substantially eliminate the personal liability of members of our board of directors for violations of their fiduciary duty of care as a director and that allow us to indemnify our officers and directors. This could make it very difficult for you to bring any legal actions against our directors for such violations or could require us to pay any amounts incurred by our directors in any such actions.

Pursuant to our certificate of incorporation, members of our board of directors will have no liability for violations of their fiduciary duty of care as a director, except in limited circumstances. This means that you may be unable to prevail in a legal action against our directors even if you believe they have breached their fiduciary duty of care. In addition, our certificate of incorporation allows us to indemnify our directors from and against any and all expenses or liabilities arising from or in connection with their serving in such capacities with us. This means that if you were able to enforce an action against our directors or officers, in all likelihood we would be required to pay any expenses they incurred in defending the lawsuit and any judgment or settlement they otherwise would be required to pay.

Since some members of our board of directors are not residents of the United States and certain of our assets are located outside of the United States, you may not be able to enforce any U.S. judgment for claims you may bring against such directors or assets.

Four members of our board of directors are primary residents of Australia, the Czech Republic, the United Arab Emirates or the United Kingdom, and a material portion of our assets and a substantial portion of the assets of these directors are located outside the United States. As a result, it may be more difficult for you to enforce a lawsuit within the United States against these non-U.S. residents than if they were residents of the United States. Also, it may be more difficult for you to enforce any judgment obtained in the United States against our assets or the assets of our non-U.S. resident directors located outside the United States than if these assets were located within the United States. We cannot assure you that foreign courts would enforce liabilities predicated on U.S. federal securities laws in original actions commenced in such foreign jurisdiction, or judgments of U.S. courts obtained in actions based upon the civil liability provisions of U.S. federal securities laws.

Our officers and directors have significant voting power and may take actions that may not be in the best interests of other stockholders.

Our executive officers and directors currently beneficially own 28.6% of our common stock. If these stockholders act together, they will be able to exert significant control over our management and affairs requiring stockholder approval, including approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our common stock. This concentration of ownership may not be in the best interests of all of our stockholders.

We do not anticipate paying dividends in the foreseeable future; you should not buy our stock if you expect dividends.

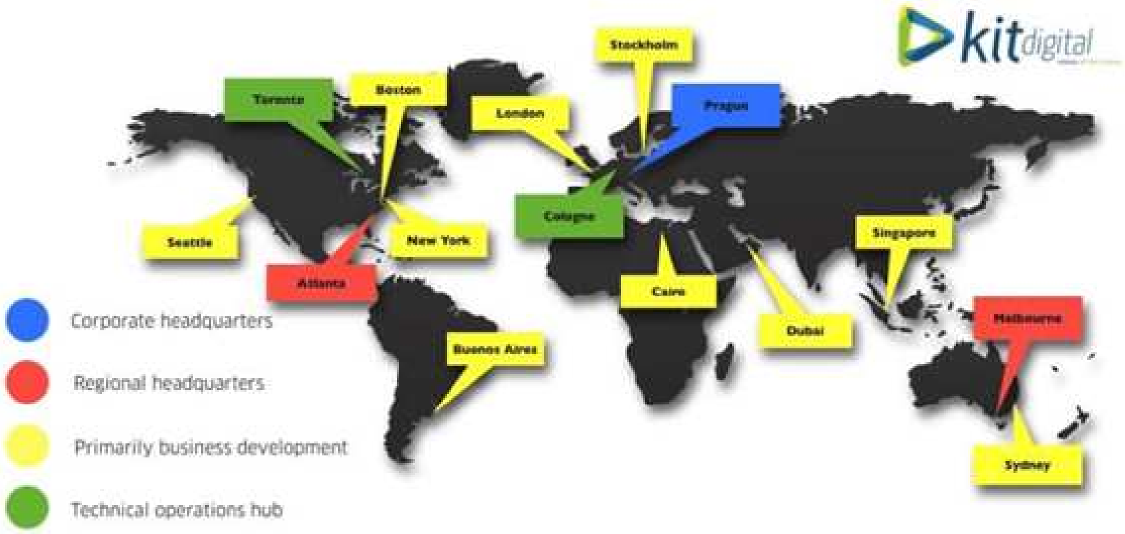
We currently intend to retain our future earnings to support operations and to finance expansion and, therefore, we do not anticipate paying any cash dividends on our capital stock in the foreseeable future. You should not buy our stock if you are expecting to receive cash dividends.

Item 1B. Unresolved Staff Comments.

Not applicable

Item 2. Properties.

We are a global company with our operational headquarters located in Prague, Czech Republic and principal offices in Atlanta, Buenos Aires, Cairo, Cologne, Dubai, London, New York, Singapore, Stockholm, and Toronto. An index of our present office locations and types is illustrated below:



Item 3. Legal Proceedings.

Other than as set forth below, we are not a party to any pending legal proceeding nor is our property the subject of a pending legal proceeding that is not in the ordinary course of business or otherwise material to the financial condition of our business.

In December 2007, two former consultants of ROO Media Corporation (ROO Media) (currently KIT Media Corporation) sued that entity together with ROO Group, Inc. (currently KIT digital, Inc.) and its founder and former Vice Chairman and ROO Media's former President and Chief Operating Officer in New York Supreme Court, New York County, New York, alleging breach of an oral employment agreement, fraudulent inducement and other claims relating to the plaintiffs' employment at ROO Media. Last year, defendants moved to dismiss the complaint and, in March 2009, the court dismissed all of plaintiffs' claims except their breach of contract claim on the grounds that it is based on an alleged oral agreement, which plaintiffs may be able to prove. Defendants have answered the complaint, denying liability, and the case is now in discovery. We believe that there is no merit to this suit, and we intend to continue to defend vigorously.

In November 2007, the Company's wholly-owned subsidiary, ROO HD, Inc., now known as KIT HD, Inc. ("KIT HD"), was named as the defendant in a purported class action lawsuit entitled Julie Vittengl et al. vs. ROO HD, Inc., in New York Supreme Court, Saratoga County, New York. The suit, brought by four former employees of Wurld Media, Inc. ("Wurld"), purportedly on behalf of themselves and "others similarly situated," claims that KIT HD's acquisition of certain assets of Wurld was a fraudulent conveyance and that KIT HD is the alter-ego of Wurld. Plaintiffs seek the appointment of a receiver to take charge of the Company's property in constructive trust for plaintiffs and payment of plaintiffs' unpaid wages and costs of suit, both in an unspecified dollar amount. KIT HD filed its answer to the complaint in January 2008. In December 2009, plaintiffs served an amended complaint, dropping the class action allegations and adding the Company as a defendant; otherwise, it is essentially the same as its predecessor. In February 2010, KIT HD and the Company answered the amended complaint, and the case will shortly enter into discovery. We believe that the suit is without merit, and the Company and KIT HD intend to defend themselves vigorously.

In May 2009, a former employee of Wurld, Plaintiff, filed suit against ten shareholders of Wurld, Wurld, ROO HD (n/k/a “KIT HD”), and ROO Group, Inc. (n/k/a the “Company”), in New York Supreme Court, Albany County, New York. Plaintiff seeks to hold the ten largest shareholders of Wurld liable under Business Corporation Law § 630, for $100 in wages that Wurld allegedly failed to pay Plaintiff. She further asserts a variety of claims based on the allegation that KIT HD’s acquisition of certain assets of Wurld was a fraudulent conveyance, and that KIT HD is the successor to Wurld and liable for Wurld’s debts. Based on these allegations, plaintiff seeks payment of her wages, the (unspecified) fair market value of her shares of stock in Wurld, rescission of the asset purchase agreement between Wurld and KIT HD, plus attorney’s fees. In October 2009, the court dismissed plaintiff's claims against three shareholder/defendants on the grounds that BCL § 630 does not apply to Wurld because it is not a New York corporation, a decision that plaintiff is appealing. KIT HD and the Company have been served and answered, and the case is now in discovery. We believe that this lawsuit is without merit, and if necessary the Company intends to defend itself vigorously.

Item 4. Reserved

PART II

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

Common Stock Information

Our common stock is traded on the NASDAQ Global Market and the Prague Stock Exchange under the symbol KITD. Prior to August 13, 2009, our shares were quoted on the OTC Bulletin Board under the symbol KDGL (from March 10, 2009 to August 12, 2009) and KITD (from May 29, 2008 to March 9, 2009, the date of our 1-for-35 reverse stock split). Prior to May 29, 2008, when our corporate name was ROO Group, Inc., our trading symbol was RGRP.

The following table sets forth the range of high and low trading prices of our common stock for the periods indicated.

	Year Ended December 31,					
Quarter	2008		2009		2010	
	High	Low	High	Low	High	Low
First	$ 8.58	$ 2.10	$ 9.25	$ 5.95	$ 13.12	$ 9.47
Second	14.70	5.25	9.00	7.01		
Third	11.20	6.65	10.13	6.75		
Fourth	9.45	3.85	11.63	9.26		

The prices do not reflect retail mark-ups, mark-downs or commissions, and may not represent actual transactions. Prices prior to May 9, 2009 have been adjusted from the actual prices to reflect the 1-for-35 reverse stock split which took place on that date.

The closing price of our common stock on March 31, 2010, as reported by NASDAQ, was $12.88 per share.

As of March 31, 2010, the company had approximately 330 stockholders of record, and a greater number of beneficial holders for whom shares are held in a "nominee" or "street" name.

The transfer agent of our common stock is Continental Stock Transfer & Trust Co., 17 Battery Place, New York, New York 10004, telephone number: (212) 509-4000.

Dividend Policy

We have not declared any dividends to date. We have no present intention of paying cash dividends on our common stock at any time in the foreseeable future as we intend to use earnings, if any, to generate growth. The payment by us of dividends, if any, in the future rests within the discretion of our board of directors and will depend upon, among other things, our earnings, capital requirements and financial condition, as well as other relevant factors. There are no restrictions in our certificate of incorporation or by-laws on declaring dividends.

Equity Repurchases

None.

Item 6. Selected Financial Data.

Not required as we are a smaller reporting company.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this report. The following discussion should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this report.

Overview

We provide solutions for managing Internet Protocol (IP)-based video assets. Our comprehensive software platform enables enterprise customers to acquire, manage and distribute their video assets across the three screens of the computer Internet browser, the mobile device and set-top box enabled Internet Protocol Television (IPTV). We generally deliver our software platform over the Internet as a subscription service using a software-as-a-service or on-demand model, while occasionally installing our software onsite for clients as part of an enterprise license. Our software serves corporate customers across a wide variety of industries, including media & entertainment, telecommunications, retail, consumer/packaged goods, automotive and financial services. We integrate our acquisitions into the cross selling of our product range giving each office the ability to sell our complete end to end solution. Our clients' use of the VX platform range from end-consumer focused video distribution to internal corporate deployments, including corporate communications, human resources, training, security and surveillance. As of March 31, 2010, our current client base includes more than 1,000 enterprise customers across 30+ countries, including The Associated Press, Best Buy, Bristol-Myers Squibb, Disney-ABC, FedEx, General Motors, Google, Hewlett-Packard, Home Depot, IMG Worldwide, Intel,, News Corp, Telefonica, the U.S. Department of Defense, Verizon, and Vodafone. Our clients usually enter into long-term contracts, and our average contract length is approximately 24 months.

In addition to our on-demand software, we provide professional and creative services including marketing services, creative interface design, branding strategies, strategic planning and technical/systems integration services, and provide tens of thousands of syndicated videos. We currently provide our software solutions, professional and creative services internationally through our operating headquarters in Prague, Czech Republic, and our principal offices in Atlanta, Cairo, Cologne, Dubai, Melbourne (Australia), London, New York, Stockholm and Toronto.

Our success is driven primarily by our ability to attract new customers and to continue to develop our software suite. Our customers are typically large global corporations that are seeking software management tools for consumer-focused video distribution or internal corporate video use, including corporate communications, human resources and training and security/surveillance. Our revenue model consists of on-demand software subscription license fees, software usage fees, upfront license fees and professional services fees. We estimate over 80% of our current revenues are generated by VX platform-related fees, with the remainder directly related to professional services. Generally, we invoice customers on either a monthly or quarterly basis.

Set forth below is a discussion of the financial condition and results of operations of our company, KIT digital, Inc. and its consolidated subsidiaries, for the years ended December 31, 2009 and 2008. The consolidated financial statements include the accounts of all the wholly-owned subsidiaries of KIT digital, Inc. Included in the consolidation with Kamera Content AB are Kamera Content AB’s 95%-owned subsidiary Kamera (S) PTE LTD and its 55%-owned subsidiary Swegypt Company for Telecommunications (S.A.E.).

As a result of our management’s review of the 2008 financial statements, and in light of business changes at that time, we modified the categorization of costs in the Consolidated Statements of Operations. The expense categories as thereby modified are utilized below in the Results of Operations. These changes were made on a prospective basis, with previously reported amounts re-categorized to conform with current presentation. Given that our business may continue to change, either by reason of acquisition or otherwise, we may modify our categorization of revenues or costs in future financial statements with the object being to present most appropriately our results

Critical Accounting Policies and Estimates

The policies discussed below are considered by our management to be critical to an understanding of our financial statements because their application places the most significant demands on our management’s judgment, with financial reporting results relying on our estimation about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described below. For these policies, our management cautions that future events rarely develop as forecast, and that best estimates may routinely require adjustment.

The SEC has issued cautionary advice to elicit more precise disclosure about accounting policies management believes are most critical in portraying our financial results and in requiring management’s most difficult subjective or complex judgments.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make judgments and estimates. On an ongoing basis, we evaluate our estimates, the most significant of which include establishing allowances for doubtful accounts and determining the recoverability of our long-lived tangible and intangible assets. The basis for our estimates are historical experience and various assumptions that are believed to be reasonable under the circumstances, given the available information at the time of the estimate, 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. Actual results may differ from the amounts estimated and recorded in our financial statements.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition. We recognize revenue in accordance with the accounting standard, which requires that four basic criteria be met before revenue can be recognized: (i) persuasive evidence that an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) product delivery has occurred or services have been rendered. We recognize revenue, net of sales taxes assessed by any governmental authority. Revenues are derived principally from the delivery of digital media solutions and professional services. Our revenues include fees charged for software-as-a-service (“SaaS”), enterprise licenses, software usage, storage, software set-up/support services, hardware components, content delivery, content syndication fees, advertising-based monetization and professional services. Revenue is recognized when the product and/or service has been provided to the customer. We may enter into agreements whereby we guarantee a minimum service level, or a minimum number of impressions, click-throughs or other criteria on our software platform’s points of distribution for a specified period. To the extent these guarantees are not met, we may defer recognition of the corresponding revenue until guaranteed delivery levels are achieved. For software related multiple-element arrangements, we have applied the residual method to determine the amount of license revenues to be recognized. Under the residual method, if fair value exists for undelivered elements in a multiple-element arrangement, such fair value of the undelivered elements is deferred with the remaining portion of the arrangement consideration recognized upon delivery of the software license or services arrangement. We allocate the fair values of each element of a software related multiple-element arrangement based upon its fair value as determined by our vendor specific objective evidence, with any remaining amount allocated to the software license.

Inventories. Inventories are valued at the lower of cost (first-in, first-out method) or market and are comprised of finished goods. On a quarterly basis, we review inventory quantities on hand and analyze the provision for excess and obsolete inventory based primarily on product age in inventory and our estimated sales forecast, which is based on sales history and anticipated future demand. Our estimates of future product demand may not be accurate and we may understate or overstate the provision required for excess and obsolete inventory. Accordingly, any significant unanticipated changes in demand could have a significant impact on the value of our inventory and results of operations. As of December 31, 2009 and 2008, our reserves for excess and obsolete inventory were $136 and $157, respectively.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts based on the expected collectability of our accounts receivable, which requires a considerable amount of judgment in assessing the creditworthiness of customers and related aging of past due balances. The allowance for doubtful accounts as of December 31, 2009 and 2008 was $874 and $571, respectively. Charges for bad debts recorded on the statement of operations were $461 in 2009 and $143 in 2008. Based on historical information, we believe that our allowance is adequate. Changes in general economic, business and market conditions could result in an impairment in the ability of our customers to make their required payments, which would have an adverse effect on cash flows and our results of operations.

Impairment of Goodwill. We evaluate the carrying value of our goodwill annually at the end of December and whenever events or circumstances make it more likely than not that an impairment may have occurred. Accounting Standards Codification ("ASC") 350, *Goodwill and Other Intangible Assets*, prescribes a two-step method for determining goodwill impairment. In the first step, we compare the estimated fair value of each reporting unit to its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds the estimated fair value, step two is completed to determine the amount of the impairment loss. Step two requires the allocation of the estimated fair value of the reporting unit to the assets, including any unrecognized intangible assets, and liabilities in a hypothetical purchase price allocation. Any remaining unallocated fair value represents the implied fair value of goodwill, which is compared to the corresponding carrying value of goodwill to compute the goodwill impairment amount. In 2009 and 2008, we did not record any goodwill impairment charges.

As part of our impairment analysis for each reporting unit, we estimate the fair value of each unit utilizing the income approach and market approach. The income approach requires management to estimate a number of factors for each reporting unit, including projected future operating results, economic projections, anticipated future cash flows, discount rates, and the allocation of shared service or corporate items. The market approach was used as a test of reasonableness of the conclusions reached in the income approach. The market approach estimates fair value using comparable marketplace fair value data from within a comparable industry grouping.

We also compared the sum of the estimated fair values of the reporting units to our total enterprise value as implied by the market value of our equity securities. This comparison indicated that, in total, our assumptions and estimates were not unreasonable.

Long-Lived Assets. Long-lived assets, including property, plant and equipment, and intangible assets with determinable lives, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be fully recoverable. An impairment is assessed if the undiscounted expected future cash flows generated from an asset are less than its carrying amount. Impairment losses are recognized for the amount by which the carrying value of an asset exceeds its fair value. The estimated useful lives of all long-lived assets are periodically reviewed and revised if necessary.

Results of Operations

The following discussion should be read in conjunction with the information set forth in the consolidated financial statements and the related notes thereto appearing elsewhere in this report.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenue. Consolidated revenue increased by $23,883 from $23,401 for the year ended December 31, 2008 to $47,284 for the year ended December 31, 2009, an increase of 102%. The increase is principally due to an increase in customers, increased spending by existing customers, and revenue from the acquired companies not included in prior period results.

Variable and Direct Third Party Costs

Cost of Goods and Service. These costs increased by $12,739 from $2,845 for the year ended December 31, 2008 to $15,584 for the year ended December 31, 2009. These costs represent the costs of equipment and services for the supply of digital media and IPTV solutions, services and components. The increase is primarily due to our re-categorization of expense categories in 2008, and the full year expense in 2009 compared to a partial year expense from the acquisition of KIT digital Czech in October 2008.

Hosting, Delivery and Reporting. These costs decreased by $477 from $2,024 for the year ended December 31, 2008 to $1,547 for the year ended December 31, 2009 a decrease of 24%. These costs decreased primarily due to the full year effect of the establishment of an internal datacenter during 2008 which reduced our reliance on third party suppliers as well as the reduction in expense in CDN streaming and external data storage fees.

Content Costs. Content costs decreased by $1,041 from $2,419 for the year ended December 31, 2008 to $1,378 for the year ended December 31, 2009, a decrease of 43%. The decrease is primarily due to the reduction of the use of content in integrated sales activity and therefore the subsequent reduction in usage and the level of minimum guarantees paid for content.

Direct Third Party Creative Production Costs. Direct third party creative production costs increased by $102 from $3,109 for the year ended December 31, 2008 to $3,211 for the year ended December 31, 2009.

Selling, General and Administrative Expenses

Compensation, Travel and Associated Costs (Including Non-Cash Stock-Based Compensation). These costs decreased by $4,057 from $20,366 for the year ended December 31, 2008 to $16,309 for the year ended December 31, 2009, a decrease of 20%. The decrease was primarily due to the continuing cost cutting measures as we integrate the acquired businesses and some of these costs are included in restructuring and integration expenses, which is offset in part by increases due to the current acquisitions in October 2009. The non-cash stock-based compensation expense decreased by $2,947, from $4,869 for the year ended December 31, 2008 to $1,922 for the year ended December 31, 2009 primarily due to the settlement agreements of Petty and Smyth in the previous year.

Legal, Accounting, Audit and Other Professional Services Fees. These expenses decreased by $130 from $1,227 for the year ended December 31, 2008 to $1,097 for the year ended December 31, 2009, a decrease of 11%. These costs decreased primarily due to a decrease in legal fees as we have moved to a monthly retainer arrangement and the addition of the merger and acquisitions line item that includes legal and other costs in 2009.

Office, Marketing and Other Corporate Costs. These expenses increased by $1,620 from $3,511 for the year ended December 31, 2008 to $5,131 for the year ended December 31, 2009, an increase of 46%. The increase was primarily due to the full year expense of the acquisition of Kamera in May 2008, KIT digital Czech acquired in October 2008 and the acquisitions of FeedRoom and Nunet acquired in October 2009.

Merger and Acquisition and Investor Relation Expenses. These expenses increased by $2,079 from $427 for the year ended December 31, 2008 to $2,506 for the year ended December 31, 2009, an increase of 487%. The increase is primarily due to the change in treatment of merger and acquisition expenses which were previously added to the cost of acquisitions in the previous year pursuant to the new accounting standard on business combinations effective January 1, 2009 for the Company.

Depreciation and Amortization. Depreciation and amortization expense increased 137% or $2,431 from $1,771 for the year ended December 31, 2008 to $4,202 for the year ended December 31, 2009. The increase is primarily due to the full year effect of the acquisitions of Kamera in May 2008, KIT digital Czech in October 2008, and Morpheum in September 2008 and the acquisitions of FeedRoom and Nunet in October 2009.

Restructuring Charges. These expenses decreased by $519 from $3,068 for the year ended December 31, 2008 to $2,549 for the year ended December 31, 2009, a decrease of 17%. Restructuring charges consist of employee termination costs, contract settlements and facility closing costs. These costs arose from the restructuring of acquisitions during the year.

Integration Expenses. These expenses increased by $3,318 from $1,111 for the year ended December 31, 2008 to $4,429 for the year ended December 31, 2009, an increase of 299%. Integration expenses consist of IT overlap, recruiting costs, relocation of headquarters, corporate rebranding activities due to acquisitions and relocations during the year.

Impairment of Property and Equipment. Impairment of property and equipment was $229 for the year ended December 31, 2008. The impairment related to the abandonment of assets due to the downsizing of our London office.

Impairment of Intangible Asset. Impairment of intangible asset was $500 for the year ended December 31, 2009. We determined that customer lists from the acquisition of Kamera in May 2008 are impaired and therefore recorded a reduction of $500 to the intangible asset.

Interest Income. Interest income decreased by $114 from $164 for the year ended December 31, 2008 to $50 for the year ended December 31, 2009, a decrease of 70%. This decrease was primarily due to fluctuations in the level of our cash and cash equivalents and the decrease in interest rates.

Interest Expense. Interest expense increased by $291 from $228 for the year ended December 31, 2008 to $519 for the year ended December 31, 2009, an increase of 128%. This increase was due to the issuance of $1,500 of a senior secured note in November 2008 subsequently repaid in August 2009 and the full year addition of debt and capital lease obligations acquired in the acquisition of KIT digital Czech in October 2008

Amortization of Deferred Financing Costs and Debt Discount. Amortization of deferred financing costs and debt discount was $1,175 for the year ended December 31, 2009 and $110, for the year ended December 31, 2008. These costs result from the issuance of $1,500 of a senior secured note in November 2008 and interim convertible promissory notes payable of $3,350 to KIT Media Ltd. and $350 to Granahan McCourt Capital, LLC during the quarters ended June 30, 2009 and September 30, 2009. The convertible promissory notes were repaid from the proceeds of the public offering in August 2009 and hence any remaining deferred financing costs or debt discount was written off.

Derivative expense. Derivative expense was $6,015 for the year ended December 31, 2009. Under ASC 815-40, the company recorded an increase in the fair value of warrants containing reset provisions.

Other Income/(Expense). Other income/(expense) changed by a net $41. Other income was $31 for the year ended December 31, 2008 as compared to other expense of $10 for the year ended December 31, 2009.

Registration Rights Liquidated Damages. Registration rights liquidated damages were $0 for the year ended December 31, 2009 and $117 for the year ended December 31, 2008.

Net Loss Available to Common Shareholders. As a result of the factors described above, we reported net loss available to common shareholders of $19,942 for the year ended December 31, 2009 compared to net loss of $18,975 for the year ended December 31, 2008, a decrease of $658, or 3%.

Liquidity and Capital Resources

As of December 31, 2009, we had cash and cash equivalents of $6,791 and a working capital deficit of approximately $15,097 which if reduced for the acquisition liabilities for Visual that can be paid in stock of $1,075 and for the derivative liability which has a non-cash valuation of $21,314 we have a working capital surplus of $7,292. Since December 31, 2009 until the date of this report we have sold 5,102,868 shares of common stock and have received approximately $52,049 in net proceeds from these sales (see subsequent events). Management anticipates that it has enough cash reserves and will generate sufficient cash flows from its operating activities to meet its capital requirements.

Net cash used in operating activities was $13,618 for the year ended December 31, 2009 compared to $12,816 for the year ended December 31, 2008, an increase of $802 or 6%.

Net cash used by investing activities was $9,723 for the year ended December 31, 2009 compared to $11,715 for the year ended December 31, 2008, a decrease in net cash used in investing activities of $1,992, or 17%. In 2009, this primarily consisted of net cash paid for the new acquisitions or earn-out payments for existing acquisitions of $6,998, purchase of assets of $1,078 and purchase of software of $1,500.

Net cash provided by financing activities was $24,576 for the year ended December 31, 2009 compared to $20,352 for the year ended December 31, 2008. In 2009, this primarily consisted of net proceeds of $26,082 from the August 2009 private placement.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for the years ended December 31, 2009 and 2008. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

Recently Issued Accounting Standards

In December 2007, the FASB issued a new accounting standard, which establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this standard requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. We adopted the provisions of this new accounting standard on January 1, 2009. We implemented these changes, which led to changes in the presentation of prior period results.

In May 2009, the FASB issued a new accounting standard on subsequent events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This accounting standard establishes: 1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; 2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and 3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This accounting standard also requires disclosure of the date through which an entity has evaluated subsequent events. We adopted the provisions of this accounting standard on June 30, 2009 and it had not impact on our consolidated financial position or results of operation.

In June 2009, the FASB issued the accounting standard “The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162”, which establishes the FASB Accounting Standards CodificationTM (“Codification”) as the source of authoritative U.S. Generally Accepted Accounting Principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. We adopted the provisions of this accounting standard for the interim period ended September 30, 2009. The implementation of this accounting standard did not have any impact on our consolidated financial position and results of operations upon adoption.

In April 2009, the FASB also issued new guidelines on the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination which provides that an acquirer shall recognize an asset acquired or a liability assumed in a business combination that arises from a contingency at fair value, at the acquisition date, if the acquisition-date fair value of that asset or liability can be determined during the measurement period. New guidance is also provided in the event that the fair value of an asset acquired or liability assumed cannot be determined during the measurement period. An acquirer shall also develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies and also provides for the disclosure requirements. We adopted the provisions of the new accounting standards on business combinations on January 1, 2009; acquisitions after this are accounted for using this standard.

In October 2009, the FASB issued Accounting Standards Update on Multiple-Deliverable Revenue Arrangements, which addresses the accounting for multiple-deliverable arrangements and requires that the overall arrangement consideration be allocated to each deliverable in a revenue arrangement based on an estimated selling price when vendor specific objective evidence or third-party evidence of fair value is not available. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated to all deliverables using the relative selling price method. This update is effective for fiscal years beginning on or after June 15, 2010 and early adoption is permitted. The Company is currently evaluating the impact of adoption of this update.

In October 2009, the FASB issued Accounting Standards Update on Certain Revenue Arrangements That Include Software Elements, which changes the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing both software and non-software components that function together to deliver the product’s essential functionality will no longer be within the scope of Software Revenue Recognition. This update is effective for fiscal years beginning on or after June 15, 2010 and early adoption is permitted. We are currently assessing the impact of adoption of this update.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We conduct our operations in primary functional currencies: the United States dollar, the British pound, the Australian dollar, the Swedish krona and the Czech koruna. We currently do not hedge any of our foreign currency exposures and are therefore subject to the risk of exchange rate fluctuations. However, we attempt to employ a “natural hedge” by matching as much as possible in like currencies our customer revenues with associated customer delivery costs. We invoice our international customers primarily in U.S. dollars, British pounds, Australian dollars, Euros, Swedish kronor and Czech koruna.

We are exposed to foreign exchange rate fluctuations as the financial results of foreign subsidiaries are translated into U.S. dollars in consolidation and as our foreign currency consumer receipts are converted into U.S. dollars. Our exposure to foreign exchange rate fluctuations also arises from payables and receivables to and from our foreign subsidiaries, vendors and customers.

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. We endeavor to place our cash and cash equivalents with high credit quality institutions to limit credit exposure. We have obtained callable cash collateral wherever we have identified credit risk exists with respect to these investments.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the wide variety of our customers who are dispersed across many geographic regions. We routinely assess the financial strength of customers and, based upon factors concerning credit risk, we establish an allowance for uncollectible accounts. Our management believes that accounts receivable credit risk exposure beyond such allowance is limited.

Item 8. Financial Statements and Supplementary Data.

The response to this item is submitted as a separate section of this report beginning on page F-1.

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

Not applicable.

Item 9A(T). Controls and Procedures.

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (1) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure; and (2) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2009, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control system was designed to provide reasonable assurance to our management and our board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control - Integrated Framework - Guidance for Smaller Public Companies (the COSO criteria). Based on our assessment we conclude that our internal control over financial reporting is effective based on those criteria as of December 31, 2009.

Attestation Report of our Registered Public Accounting Firm

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Our management's report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this annual report.

Item 9B. Other Information.

None.

PART III

Items 10, 11, 12, 13 and 14.

Part III (Items 10 through 14) is omitted since we expect to file with the U.S. Securities and Exchange Commission within 120 days after the close of the fiscal year ended December 31, 2009, a definitive proxy statement pursuant to Regulation 14A under the Securities Exchange Act of 1934 which involves the election of directors. If for any reason such a statement is not filed within such a period, this report will be appropriately amended.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) and (2): The response to this portion of Item 15 is submitted as a separate section of this report beginning on page F-1.

(a)(3) Exhibits:

Exhibit Number	Description
2.1	Agreement and Plan of Merger dated as of December 2, 2003 by and among Virilitec Industries, Inc., ROO Media Corporation, VRLT Acquisition Corp., and Jacob Roth and Bella Roth.(1)
2.2	Stock Purchase Agreement dated as of March 11, 2004 by and among the Company and the shareholders of Reality Group Pty Ltd.(2)
2.3	Asset Purchase Agreement dated as of May 26, 2004 by and among the Company, Undercover Holdings Pty Ltd. and Undercover Media Pty Ltd.(3)
2.4	Stock Purchase Agreement dated as of September 10, 2004 by and among the Company and Avenue Group, Inc. in connection with the purchase of common stock of Bickhams Media, Inc.(4)
2.5	Stock Purchase Agreement dated as of November 1, 2004 by and between Bickhams Media, Inc., ROO Group, Inc., and Daniel and Vardit Aharonoff.(5)
2.6	Amendment No. 1 dated October 28, 2005 to Stock Purchase Agreement among ROO Group, Inc. and the shareholders of Reality Group Pty Ltd.(6)
2.7	Share Purchase Agreement dated October 28, 2005 by and among ROO Broadcasting Limited and the Sellers thereto.(6)
2.8	Share Purchase Agreement for the Acquisition of all Issued Shares of Visual Connection, a.s., dated October 5, 2008, between KIT digital, Inc. and KIT digital FZ-LLC (on the one hand), and Tomas Petru and Jakub Vanek (on the other hand).(7)
2.9	Agreement and Plan of Merger, dated September 30, 2009, between KIT digital, Inc., KIT Acquisition Corporation, The FeedRoom, Inc. and certain stockholders of The FeedRoom, Inc.(34)
2.10	Share Purchase Agreement, dated October 5, 2009, between International Management Group GmbH and KIT digital, Inc. for the acquisition of Nunet AG.(35)
3.1	Certificate of Incorporation of Virilitec Industries, Inc.(8)
3.2	Certificate of Amendment of Certificate of Incorporation of Virilitec Industries, Inc. filed with the State of Delaware on October 31, 2003.(9)
3.3	Certificate of Amendment to the Amended Certificate of Incorporation of Virilitec Industries, Inc. filed with the State of Delaware on February 18, 2004.(9)
3.4	Certificate of Designation, Powers, Preferences and Rights of Series A Preferred Stock, filed with the State of Delaware on March 9, 2005.(10)

3.5	Certificate of Designation, Powers, Preferences and Rights of Series A Preferred Stock, filed with the State of Delaware on March 9, 2005.(10)
3.6	Amendment to the Certificate of Designation, Powers, Preferences and Rights of Series A Preferred Stock, filed with the State of Delaware on September 30, 2005.(11)
3.7	Certificate of Amendment to Amended Certificate of Incorporation, effective as of October 3, 2005.(11)
3.8	Certificate of Amendment to the Certificate of Incorporation filed with the Delaware Secretary of State on May 19, 2008.(12)
3.9	Certificate of Amendment of the Certificate of Incorporation filed with the Secretary of State of the State of Delaware effective March 9, 2009.(33)
3.10	By-laws(8)
3.11	Amendment to By-laws.(13)
4.1	Stock Purchase Warrant issued to AJW Offshore, Ltd., dated September 10, 2004.(14)
4.2	Stock Purchase Warrant issued to AJW Qualified Partners, LLC, dated September 10, 2004.(14)
4.3	Stock Purchase Warrant issued to AJW Partners, LLC, dated September 10, 2004.(14)
4.4	Stock Purchase Warrant issued to New Millennium Capital Partners II, LLC, dated September 10, 2004. (14)
4.5	Stock Purchase Warrant issued to AJW Offshore, Ltd., dated November 23, 2004.(15)
10.1	Employment Agreement with Robert Petty, dated April 1, 2004.(16)
10.2	Employment Agreement with Robin Smyth, dated April 1, 2004.(16)
10.3	Employment Agreement with Robert Petty, dated November 1, 2004.(9)
10.4	Employment Agreement with Robin Smyth, dated November 1, 2004.(9)
10.5	Sublease dated April 1, 2005.(17)
10.6	AT&T Intelligent Content Distribution Service Agreement, dated August 16, 2001.(9)
10.7	Network Services Agreement with Speedera Networks, Inc. dated June 1, 2004.(9)
10.8	Securities Purchase Agreement, dated September 10, 2004, by and among ROO Group, Inc. and AJW Offshore, Ltd., AJW Qualified Partners, LLC, AJW Partners, LLC and New Millennium Capital Partners II, LLC.(14)
10.9	Letter agreement dated May 12, 2005 between the Company, AJW Offshore, Ltd., AJW Qualified Partners, LLC, AJW Partners, LLC and New Millennium Capital Partners II, LLC.(18)
10.10	Note Purchase Agreement, made as of May 18, 2005, by and between ROO Group, Inc. and Robert Petty. (19)

10.11	Registration Rights Agreement, made as of May 18, 2005, by and among Robert Petty, ROO Group, Inc. and the purchasers listed on Schedule I thereto.(20)
10.12	Securities Purchase Agreement, dated July 18, 2005, by and among ROO Group, Inc. and AJW Offshore, Ltd., AJW Qualified Partners, LLC, AJW Partners, LLC and New Millennium Capital Partners II, LLC.(21)
10.13	Registration Rights Agreement, dated as of July 18, 2005, by and among ROO Group, Inc. and AJW Offshore, Ltd., AJW Qualified Partners, LLC, AJW Partners, LLC and New Millennium Capital Partners II, LLC.(21)
10.14	Omnibus Consent and Waiver dated August 18, 2005 between ROO Group, Inc., AJW Offshore, Ltd., AJW Qualified Partners, LLC, AJW Partners, LLC and New Millennium Capital Partners II, LLC.(22)
10.15	Common Stock Purchase Agreement dated August 19, 2005 among ROO Group, Inc. and the purchasers listed on Exhibit A thereto.(23)
10.16	Registration Rights Agreement dated August 19, 2005 among ROO Group, Inc. and the purchasers listed on Schedule 1 thereto.(23)
10.17	Escrow Agreement dated August 19, 2005 among ROO Group, Inc., the purchasers signatory thereto and the escrow agent.(23)
10.18	Common Stock Purchase Agreement dated October 20, 2005 among ROO Group, Inc. and the purchasers listed on Exhibit A thereto.(24)
10.19	Registration Rights Agreement dated October 20, 2005 among ROO Group, Inc. and the purchasers listed on Schedule 1 thereto.(24)
10.20	Escrow Agreement dated October 20, 2005 among ROO Group, Inc., the purchasers signatory thereto and the escrow agent.(24)
10.21	Common Stock Purchase Agreement dated December 28, 2005 among ROO Group, Inc. and the purchasers listed on Exhibit A thereto.(25)
10.22	Escrow Agreement dated December 28, 2005 among ROO Group, Inc., the purchasers signatory thereto and the escrow agent.(25)
10.23	Registration Rights Agreement dated December 28, 2005 among ROO Group, Inc. and the purchasers listed on Schedule 1 thereto.(25)
10.24	Securities Purchase Agreement dated August 18, 2006 among ROO Group, Inc. and the purchasers listed on Exhibit A thereto.(26)
10.25	Escrow Agreement dated August 18, 2006 among ROO Group, Inc., the purchasers signatory thereto and the escrow agent.(26)
10.26	Securities Purchase Agreement dated November 14, 2006 among ROO Group, Inc. and the Purchasers listed on Exhibit A thereto.(27)
10.27	Escrow Agreement dated November 14, 2006 among ROO Group, Inc., the purchasers signatory thereto.(27)
10.28	Securities Purchase Agreement, dated May 4, 2007, among ROO Group, Inc., the purchasers signatory thereto.(28)

10.29	Escrow Agreement, dated May 4, 2007, among ROO Group, Inc., the purchasers signatory.(28)
10.30	Asset Purchase Agreement, dated July 12, 2007, by and among ROO HD, Inc., Wurld Media, Inc., Gregory Kerber, and Kirk Feathers.(29)
10.31	Agreement, dated January 25, 2007, by and among ROO Group, Inc. and News Corporation.(30)
10.32	Securities Purchase Agreement dated May 8, 2008 among ROO Group, Inc., the purchasers signatory thereto.(31)
10.33	Stockholders Agreement, dated September 30, 2009, by and among KIT digital, Inc., Kaleil Isaza Tuzman and certain stockholders of The FeedRoom, Inc.(34)
10.34	Form of Convertible Promissory Note (Purchase) made by KIT digital, Inc. to International Management Group GmbH in the principal amount of EUR 1,662,500.(35)
10.35	Convertible Promissory Note (Indemnity) made by KIT digital, Inc. to International Management Group GmbH in the principal amount of EUR 58,250.(35)
21.1	Subsidiaries of the Company.(32)
*23.1	Consent of Grant Thornton LLP, independent registered public accounting firm.
*31.1	Certification of the Chairman and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of the Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Filed herewith.

(1) Incorporated by reference to Form 8-K, filed with the U.S. Securities and Exchange Commission (the "SEC") on December 18, 2003.

(2) Incorporated by reference to Form 8-K, filed with the SEC on May 17, 2004.

(3) Incorporated by reference to Form 8-K, filed with the SEC on June 16, 2004.

(4) Incorporated by reference to Form 8-K, filed with the SEC on September 22, 2004.

(5) Incorporated by reference to Form 8-K/A, filed with the SEC on November 5, 2004.

(6) Incorporated by reference to Form 8-K/A, filed with the SEC on November 2, 2005.

(7) Incorporated by reference to Form 8-K, filed with the SEC on October 9, 2008.

(8) Incorporated by reference to Form 10-SB (File No. 000-25659), filed with the SEC on March 29, 1999.

(9) Incorporated by reference to Form SB-2 (File No. 333,120605), filed with the SEC on November 18, 2004.

(10) Incorporated by reference to Form 8-K, filed with the SEC on March 14, 2005.

(11) Incorporated by reference to Form 8-K, filed with the SEC on October 4, 2005.

(12) Incorporated by reference to Form 8-K, filed with the SEC on June 2, 2008.

(13) Incorporated by reference to Form 8-K, filed with the SEC on June 1, 2009.

(14) Incorporated by reference to Form 8-K, filed with the SEC on September 16, 2004.

(15) Incorporated by reference to Form 8-K, filed with the SEC on November 30, 2004.

(16) Incorporated by reference to Form 10-QSB, filed with the SEC on August 16, 2004.

(17) Incorporated by reference to Form 8-K, filed with the SEC on June 13, 2005.

(18) Incorporated by reference to Form 8-K, filed with the SEC on May 12, 2005.

(19) Incorporated by reference to Form 8-K, filed with the SEC on May 24, 2005.

(20) Incorporated by reference to Form 8-K, filed with the SEC on July 22, 2005.

(21) Incorporated by reference to Form 8-K, filed with the SEC on July 23, 2005.

(22) Incorporated by reference to Form 8-K, filed with the SEC on August 24, 2005.

(23) Incorporated by reference to Form 8-K, filed with the SEC on August 25, 2005.

(24) Incorporated by reference to Form 8-K, filed with the SEC on October 26, 2005.

(25) Incorporated by reference to Form 8-K, filed with the SEC on December 30, 2005.

(26) Incorporated by reference to Form 8-K, filed with the SEC on August 24, 2006.

(27) Incorporated by reference to Form 8-K, filed with the SEC on November 20, 2006.

(28) Incorporated by reference to Form 8-K, filed with the SEC on May 10, 2007.

(29) Incorporated by reference to Form 8-K, filed with the SEC on July 18, 2007.

(30) Incorporated by reference to Form 8-K/A, filed with the SEC on March 14, 2005.

(31) Incorporated by reference to Form 8-K, filed with the SEC on May 8, 2008.

(32) Incorporated by reference to 2008 Form 10-K, filed with the SEC on April 15, 2009.

(33) Incorporated by reference to Form 8-K, filed with the SEC on March 16, 2009.

(34) Incorporated by reference to Form 8-K, filed with the SEC on October 6, 2009.

(35) Incorporated by reference to Form 8-K, filed with the SEC on October 9, 2006.

SIGNATURES

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

Date: April 2, 2010

KIT DIGITAL, INC.

By:/s/ Kaleil Isaza Tuzman
Kaleil Isaza Tuzman
Chairman and Chief Executive Officer
(Principal Executive Officer)

By:/s/ Robin Smyth
Robin Smyth
Chief Financial Officer
(Principal Financial and Accounting Officer)

As of March 31, 2010, the company had approximately 330 stockholders of record, and a greater number of beneficial holders for whom shares are held in a "nominee" or "street" name.

Name	Title	Date
/s/ Kaleil Isaza Tuzman Kaleil Isaza Tuzman	Chairman and Chief Executive Officer (Principal Executive Officer)	April 2, 2010
/s/ Gavin Campion Gavin Campion	President and Director	April 2, 2010
/s/ Robin Smyth Robin Smyth	Chief Financial Officer and Director (Principal Financial and Accounting Officer)	April 2, 2010
/s/ Kamal El-Tayara Kamal El-Tayara	Director	April 2, 2010
/s/ Steven G. Felsher Steven G. Felsher	Director	April 2, 2010
/s/ Daniel Hart Daniel Hart	Director	April 2, 2010
/s/ Lars Kroijer Lars Kroijer	Director	April 2, 2010
/s/ Wayne Walker Wayne Walker	Director	April 2, 2010

KIT digital, Inc. and Subsidiaries

FORM 10-K

ITEMS 8 and 15(a)(1) and (2)

INDEX OF FINANCIAL STATEMENTS AND SCHEDULES

The following financial statements of KIT digital, Inc. and its subsidiaries required to be included in Items 8 and 15(a)(1) are listed below:

The financial statement schedules of KIT digital, Inc. and its subsidiaries to be included in Item 15(a)(2) are omitted because the conditions requiring their filing do no exist or because the required information is given in the financial statements, including the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
KIT digital, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of KIT digital, Inc. and Subsidiaries as of December 31, 2009, and the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements 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 audit 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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KIT digital, Inc. and Subsidiaries as of December 31, 2009, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the consolidated financial statements, the Company changed its method of accounting for certain warrants effective January 1, 2009 pursuant to new accounting standard on "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock". In addition, the Company changed its method of accounting for business combinations effective January 1, 2009 pursuant to new accounting standard on "Business Combinations".

/s/ Grant Thornton LLP
New York, New York
April 2, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
KIT digital, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of KIT digital, Inc. and Subsidiaries as of December 31, 2008, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements 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 audit 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KIT digital, Inc. and Subsidiaries as of December 31, 2008, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ MSPC
Certified Public Accountants and Advisors,
A Professional Corporation

New York, New York
April 8, 2009

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Share Data)

	December 31, 2009	December 31, 2008
Assets:		
Current assets:		
Cash and cash equivalents	$ 6,791	$ 5,878
Investment	217	-
Accounts receivable, net	17,258	8,331
Unbilled revenue	2,960	-
Inventory, net	708	2,130
Other current assets	2,205	1,539
Total current assets	30,139	17,878
Property and equipment, net	5,697	2,928
Software, net	3,436	2,265
Customer list, net	4,650	2,988
Goodwill	36,492	15,167
Other assets	-	83
Total assets	$ 80,414	$ 41,309
Liabilities and Stockholders' Equity:		
Current liabilities:		
Bank overdraft	$ 1,623	$ 1,456
Capital lease and other obligations	1,218	395
Secured loans payable	1,321	966
Senior secured notes payable, net of debt discount	-	950
Accounts payable	6,647	5,775
Accrued expenses	8,501	2,240
Income tax payable	312	160
Deferred tax liability	580	-
Acquisition liability – Kamera	-	3,000
Acquisition liability – Visual	1,075	2,218
Derivative liability	21,314	-
Other current liabilities	3,455	3,818
Total current liabilities	46,046	20,978
Capital lease and other obligations, net of current	377	949
Secured loans payable, net of current	-	236
Acquisition liability - Visual, net of current	-	1,075
Total liabilities	46,423	23,238
Stockholders' Equity:		
Common stock, $0.0001 par value: authorized 30,000,000 shares; issued and outstanding 10,844,853 and 4,183,280, respectively	1	-
Additional paid-in capital	128,263	101,057
Accumulated deficit	(93,943)	(82,499)
Accumulated other comprehensive loss	(330)	(250)
Total stockholders' equity	33,991	18,308
Non-controlling interest	-	(237)
Total equity	33,991	18,071
Total liabilities and stockholders' equity	$ 80,414	$ 41,309

The accompanying notes are an integral part of these consolidated financial statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Amounts in Thousands, Except Share and Per Share Data)

	Year ended December 31, 2009	Year ended December 31, 2008
Revenue	$ 47,284	$ 23,401
Variable and direct third party costs:		
Cost of goods and services	15,584	2,845
Hosting, delivery and reporting	1,547	2,024
Content costs	1,378	2,419
Direct third party creative production costs	3,211	3,109
Total variable and direct third party costs	21,720	10,397
Gross profit	25,564	13,004
Selling, general and administrative expenses:		
Compensation, travel and associated costs (including non-cash stock-based compensation of $1,922 and $4,869, respectively)	16,309	20,366
Legal, accounting, audit and other professional service fees	1,097	1,227
Office, marketing and other corporate costs	5,131	3,511
Merger and acquisition and investor relations expenses	2,506	427
Depreciation and amortization	4,202	1,771
Restructuring charges	2,549	3,068
Integration expenses	4,429	1,111
Impairment of property and equipment	-	229
Impairment of intangible assets	500	-
Total selling, general and administrative expenses	36,723	31,710
Loss from operations	(11,159)	(18,706)
Interest income	50	164
Interest expense	(519)	(228)
Amortization of deferred financing costs and debt discount	(1,175)	(110)
Derivative expense	(6,015)	-
Other income (expense), net	(10)	31
Registration rights liquidated damages	-	(117)
Net loss before income taxes	(18,828)	(18,966)
Income tax expense	(1,114)	(116)
Net loss before non-controlling interest	(19,942)	(19,082)
Non-controlling interest	-	107
Net loss available to common shareholders	$ (19,942)	$ (18,975)
Basic and diluted net loss per common share	$ (3.03)	$ (7.55)
Basic and diluted weighted average common shares outstanding	6,573,970	2,512,415
Comprehensive loss:		
Net loss	$ (19,942)	$ (18,975)
Foreign currency translation	(97)	(304)
Change in unrealized gain on investments, net	17	-
Comprehensive loss	$ (20,022)	$ (19,279)

The accompanying notes are an integral part of these consolidated financial statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in Thousands, Except Share Data)

	Series A Preferred Shares	Series A Preferred Shares Par Value	Common Stock	Common Stock Par Value
Balance - January 1, 2008	10,000,000	$ 1	1,112,459	$ —
Issue of stock in private placement	—	—	2,142,857	—
Issue of stock in placement to KIT Media	—	—	892,857	—
Conversion of preferred stock to common stock	(10,000,000)	(1)	11,429	—
Issue of warrants for private placement	—	—	—	—
Issue of stock for exercise of stock options	—	—	7,821	—
Issue of stock in Asset Acquisition	—	—	13,714	—
Issue of warrants with short term debt	—	—	—	—
Issue of stock for services	—	—	2,143	—
Stock-based compensation	—	—	—	—
Foreign currency translation adjustment	—	—	—	—
Net loss	—	—	—	—
Balance - December 31, 2008	—	$ —	4,183,280	$ —
Cumulative adjustment for derivative liabilities	—	—	—	—
Balance – January 1, 2009	—	—	4,183,280	—
Issue of stock in public offering	—	—	4,004,000	1
Issue of stock for repayment of loans	—	—	34,733	—
Issue of stock for exercise of stock options	—	—	14,057	—
Issue of stock for exercise of warrants	—	—	148,847	—
Issue of stock for acquisitions	—	—	2,411,357	—
Acquisition of non-controlling interest	—	—	—	—
Debt discount on notes	—	—	—	—
Issue of stock for compensation	—	—	35,376	—
Issue of stock for services	—	—	9,235	—
Round up due to the 1 for 35 reverse split	—	—	3,968	—
Stock-based compensation	—	—	—	—
Foreign currency translation adjustment	—	—	—	—
Fair market value adjustment for available for sale securities	—	—	—	—
Net loss	—	—	—	—
Balance - December 31, 2009	—	$ —	10,844,853	$ 1

The accompanying notes are an integral part of these consolidated financial statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in Thousands, Except Share Data)

	Additional Paid-in Capital	Accumulated (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance - January 1, 2008	$ 74,824	$ (63,524)	$ 54	$ 11,355
Issue of stock in private placement	14,680	—	—	14,680
Issue of stock in placement to KIT Media	5,000			5,000
Conversion of preferred stock to common stock	1	—	—	—
Issue of warrants for private placement	1,038	—	—	1,038
Issue of stock for exercise of stock options	22	—	—	22
Issue of stock in Asset Acquisition	106	—	—	106
Issue of warrants with short term debt	642	—	—	642
Issue of stock for services	11	—	—	11
Stock-based compensation	4,733	—	—	4,733
Foreign currency translation adjustment	—	—	(304)	(304)
Net loss	—	(18,975)	—	(18,975)
Balance - December 31, 2008	$ 101,057	$ (82,499)	$ (250)	$ 18,308
Cumulative adjustment for derivative liabilities	(24,235)	8,498	—	(15,737)
Balance – January 1, 2009	76,822	(74,001)	(250)	2,571
Issue of stock in public offering	26,081	—	—	26,082
Issue of stock for repayment of loans	301			301
Issue of stock for exercise of stock options	39	—	—	39
Issue of stock for exercise of warrants	1,220	—	—	1,220
Issue of stock for acquisitions	22,281	—	—	22,281
Acquisition of non-controlling interest	(867)	—	—	(867)
Debt discount on notes	517	—	—	517
Issue of stock for compensation	261	—	—	261
Issue of stock for services	90	—	—	90
Round up due to the 1 for 35 reverse split	—	—	—	—
Stock-based compensation	1,518	—	—	1,518
Foreign currency translation adjustment	—	—	(97)	(97)
Fair market value adjustment for available for sale securities	—	—	17	17
Net loss	—	(19,942)	—	(19,942)
Balance - December 31, 2009	$ 128,263	$ (93,943)	$ (330)	$ 33,991

The accompanying notes are an integral part of these consolidated financial Statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years ended December 31, 2009	Years ended December 31, 2008
Operating activities:		
Net loss	$ (19,942)	$ (18,975)
Adjustments to reconcile net loss to net cash used by operating activities:		
Provision for doubtful accounts	461	143
Depreciation and amortization	1,847	729
Amortization of intangible assets	2,355	1,042
Amortization of deferred financing costs	108	18
Amortization of debt discount	1,067	92
Impairment of property and equipment	—	229
Impairment of intangible assets	500	—
Derivative expense	6,015	—
Non-cash stock-based compensation	1,922	4,733
Issuance of warrants for settlement of separation agreements	-	1,038
Non-cash stock for services	90	11
Gain on bargain purchase	(26)	—
Non-controlling interest in subsidiaries	—	(107)
Changes in assets and liabilities:		
Accounts receivable	(7,002)	(2,133)
Unbilled revenue	(2,960)	—
Inventories	1,475	(738)
Other assets	117	585
Accounts payable	(481)	(512)
Accrued expenses	1,770	310
Income tax payable	103	171
Other liabilities	(1,037)	548
Total adjustments	6,324	6,159
Net cash used by operating activities – forward	(13,618)	(12,816)
Investing activities:		
Release of restricted cash	—	100
Cash paid into investment	(200)	—
Cash received in acquisition of FeedRoom, net	1,014	—
Cash paid in acquisition of Nunet, net	(5,961)	—
Cash received in acquisition of Narrowstep	279	—
Cash paid in acquisition of Visual, net	(480)	(1,201)
Cash paid in acquisition of Kamera, net	(1,700)	(4,363)
Cash paid for completion of acquisition of Sputnik	—	(4,656)
Cash paid in acquisition of Morpheum, net	—	(649)
Cash paid for assets acquired from Juzou	(150)	(19)
Purchase of software	(1,500)	—
Proceeds from sale of equipment and domain name	53	33
Purchase of equipment	(1,078)	(960)
Net cash used by investing activities – forward	$ (9,723)	$ (11,715)

The accompanying notes are an integral part of these consolidated Financial Statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years ended December 31, 2009	Years ended December 31, 2008
Net cash used by operating activities – forwarded	$ (13,618)	$ (12,816)
Net cash used by investing activities – forwarded	(9,723)	(11,715)
Financing activities:		
Proceeds from public offering, net	26,082	—
Proceeds from private placements, net	—	14,680
Proceeds from private placement to KIT Media	—	5,000
Bank overdraft and other obligations	94	(89)
Proceeds from exercise of stock options	39	22
Proceeds from issuance of secured loans	796	—
Payments of secured loans	(713)	(322)
Proceeds from issuance of senior secured note	—	1,500
Payments of senior secured note	(1,500)	—
Proceeds from exercise of warrants	783	—
Payments on capital leases	(1,005)	(259)
Net cash provided by financing activities	24,576	20,352
Effect of exchange rate changes on cash and cash equivalents	(322)	(312)
Net increase (decrease) in cash and cash equivalents	913	(4,311)
Cash and cash equivalents - beginning of year	5,878	10,189
Cash and cash equivalents - end of year	$ 6,791	$ 5,878
Supplemental disclosures of cash flow information:		
Cash paid during the years for:		
Income taxes	$ 80	$ —
Interest	$ 519	$ 251
Common stock issued in connection with acquisitions	2,411,357	13,714

The accompanying notes are an integral part of these sonsolidated financial statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(1) Basis of Presentation

KIT digital, Inc. ("we," "us," "our," the "Company" or "KIT digital"), through our operating subsidiaries, provides enterprise clients an end-to-end technology platform for managing Internet Protocol (“IP”)-based video assets across the browser, mobile device and IPTV set-top box-enabled television set. We offer creative interface design, branding, strategic planning and technical integration services to complement our “VX”-branded software platform. Our solutions includes the delivery of IP video software solutions, including software-as-a-service (“SaaS”) fees, enterprise license fees, software usage fees, set-up/support services, storage, hardware components, content delivery, content syndication, and advertising-based monetization. Our solutions also include technical integration services, interface design, branding, strategic planning, creative production, online marketing, media planning and analytics.

On March 6, 2009, we filed a certificate of amendment of our certificate of incorporation to (i) effect a 1-for-35 reverse stock split of our common stock; (ii) decrease the total number of shares of common stock authorized to be issued from 500,000,000 shares to 30,000,000 shares; and (iii) eliminate the authorization of a class of preferred stock. The changes made by the certificate of amendment were effective on March 9, 2009, and per share amounts for all periods presented in the accompanying financial statements have been adjusted for the reverse stock split. On August 13, 2009, our common stock began trading on the NASDAQ Global Market exchange under the ticker symbol “KITD.” Previously, our ticker symbol was “KDGL”, as quoted on the OTC Bulletin Board. On January 25, 2010, our common stock was accepted and began trading on the Main Market of the Prague Stock Exchange under the symbol KITD and may be traded interchangeably between the NASDAQ Global Market and the Prague Stock Exchange.

(2) Summary of Significant Accounting Policies

Principles of Consolidation - Our consolidated financial statements include the accounts of KIT digital, Inc., and all its wholly-owned and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Management Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Certain amounts included in the financial statements are estimated based on currently available information and management's judgment as to the outcome of future conditions and circumstances. Changes in the status of certain facts or circumstances could result in material changes to the estimates used in the preparation of financial statements and actual results could differ from the estimates and assumptions. Management makes estimates and assumptions for, but not limited to, allowance for doubtful accounts, revenue recognition, purchase price allocation, inventory reserves, tax assets and liabilities, depreciation and amortization lives, stock-based compensation, fair value of derivative liabilities, impairment of tangible and intangible assets and other contingencies.

Foreign Currency Translation - Assets and liabilities of KIT digital’s foreign subsidiaries are translated at period end exchange rates and related revenues and expenses are translated at average exchange rates in effect during the periods. Resulting translation adjustments are recorded as a component of accumulated other comprehensive income (loss) in stockholders' equity. Foreign currency transaction gains and losses are recorded in other income (expense), net.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments - On January 1, 2008, we adopted the standard that defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. This standard defines fair value as the amount that would be received upon sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy which prioritizes the types of inputs to valuation techniques that companies may use to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1). The next highest priority is given to inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2). The lowest priority is given to unobservable inputs in which there is little or no market data available and which require the reporting entity to develop its own assumptions (Level 3).

The assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy are Investments and Derivative Liabilities. Investments are measured using active quoted market prices (Level 1). See Note 5 for fair value hierarchy on the Derivative Liabilities.

Risk Concentrations - Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. We place our cash and cash equivalents with high credit quality institutions to limit credit exposure, and from time to time, obtain collateral for our accounts where we deem prudent and is feasible. We believe no significant concentration of credit risk exists with respect to these investments. The amount of held in foreign currencies as of December 31, 2009 was $2,272. The amount of cash in excess of FDIC insured amounts as of December 31, 2009 and 2008, was $6,541 and $5,634, respectively.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the nature of our customers who are dispersed across many industries and geographic regions. As of December 31, 2009, three customers accounted for approximately 39.6% of our trade accounts receivable. As of December 31, 2008, no customers made up more than 10% of our trade accounts receivable. We routinely assess the financial strength of customers and, based upon factors concerning credit risk, we establish an allowance for doubtful accounts. Management believes that accounts receivable credit risk exposure beyond such allowance is limited.

Goodwill - We evaluate the carrying value of our goodwill annually at the end of December and whenever events or circumstances make it more likely than not that an impairment may have occurred. Accounting standard on Goodwill and Other Intangible Assets, prescribes a two-step method for determining goodwill impairment. In the first step, we compare the estimated fair value of each reporting unit to its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds the estimated fair value, step two is completed to determine the amount of the impairment loss. Step two requires the allocation of the estimated fair value of the reporting unit to the assets, including any unrecognized intangible assets, and liabilities in a hypothetical purchase price allocation. Any remaining unallocated fair value represents the implied fair value of goodwill, which is compared to the corresponding carrying value of goodwill to compute the goodwill impairment amount. In 2009 and 2008, we did not record any goodwill impairment charges.

As part of our impairment analysis for each reporting unit, we estimate the fair value of each unit utilizing the income approach and market approach. The income approach requires management to estimate a number of factors for each reporting unit, including projected future operating results, economic projections, anticipated future cash flows, discount rates, and the allocation of shared service or corporate items. The market approach was used as a test of reasonableness of the conclusions reached in the income approach. The market approach estimates fair value using comparable marketplace fair value data from within a comparable industry grouping.

We also compared the sum of the estimated fair values of the reporting units to our total enterprise value as implied by the market value of our equity securities. This comparison indicated that, in total, our assumptions and estimates were not unreasonable.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

Long-Lived Assets – Long-lived assets, including property, plant and equipment, and intangible assets with determinable lives, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be fully recoverable. An impairment is assessed if the undiscounted expected future cash flows generated from an asset are less than its carrying amount. Impairment losses are recognized for the amount by which the carrying value of an asset exceeds its fair value. The estimated useful lives of all long-lived assets are periodically reviewed and revised, if necessary.

Cash and Cash Equivalents - We consider all highly liquid investments with original maturities of ninety days or less when purchased to be cash and cash equivalents. As of December 31, 2009 and 2008, the Company had $2,032 and $3,001, respectively, of cash equivalents in an account that pays interest at LIBOR plus 150 basis points. This account is guaranteed and backed by liquid collateral instruments, and can be redeemed with 14 days written notice.

Accounts Receivable - Trade accounts receivable are stated net of allowances for doubtful accounts. Specific customer provisions are made when a review of significant outstanding amounts, customer creditworthiness and current economic trends, indicates that collection is doubtful. In addition, provisions are made at differing amounts, based upon the balance and age of the receivable and the Company’s historical collection experience. Trade accounts are charged off against the allowance for doubtful accounts or expense when it is probable the accounts will not be recovered. The allowance for doubtful accounts as of December 31, 2009 and 2008 was $874 and $571, respectively.

Inventory - Inventories are valued at the lower of cost (first-in, first-out method) or market and are comprised of finished goods. On a quarterly basis, we review inventory quantities on hand and analyze the provision for excess and obsolete inventory based primarily on product age in inventory and our estimated sales forecast, which is based on sales history and anticipated future demand. As of December 31, 2009 and 2008, our reserves for excess and obsolete inventory were $136 and $157, respectively.

Property and Equipment - Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided for using the straight-line and declining balance methods of accounting over the estimated useful lives of the assets which range from one year to twenty years. Leasehold improvements are amortized over the shorter of its useful life or lease term. Routine maintenance and repair costs are charged to expense as incurred and renewals and improvements that extend the useful life of the assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is reported in the statement of operations.

Income Taxes - We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance which would reduce the provision for income taxes.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

Derivative Financial Instruments - Upon the adoption of a new standard effective January 1, 2009, certain of our financial instruments with “down-round” protection features are no longer considered indexed to our Company’s stock for purposes of determining whether they meet the first part of the scope exception. As such, these instruments no longer meet the conditions to obtain equity classification and are required to be carried as derivative liabilities, at fair value with changes in fair value reflected as income (expense). The fair value of the warrants issued was $15,736 and $21,314 on January 1, 2009 and December 31, 2009, respectively. See Note 5, “Derivative Liabilities” for further information.

Revenue Recognition - We recognize revenue in accordance with the accounting standard, which requires that four basic criteria be met before revenue can be recognized: (i) persuasive evidence that an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) product delivery has occurred or services have been rendered. We recognize revenue, net of sales taxes assessed by any governmental authority. Revenues are derived principally from the delivery of digital media solutions and professional services. Our revenues include fees charged for software-as-a-service (“SaaS”), enterprise licenses, software usage, storage, software set-up/support services, hardware components, content delivery, content syndication fees, advertising-based monetization and professional services. Revenue is recognized when the product and/or service has been provided to the customer. We may enter into agreements whereby we guarantee a minimum service level, or a minimum number of impressions, click-throughs or other criteria on our software platform’s points of distribution for a specified period. To the extent these guarantees are not met, we may defer recognition of the corresponding revenue until guaranteed delivery levels are achieved. For software related multiple-element arrangements, we have applied the residual method to determine the amount of license revenues to be recognized. Under the residual method, if fair value exists for undelivered elements in a multiple-element arrangement, such fair value of the undelivered elements is deferred with the remaining portion of the arrangement consideration recognized upon delivery of the software license or services arrangement. We allocate the fair values of each element of a software related multiple-element arrangement based upon its fair value as determined by our vendor specific objective evidence, with any remaining amount allocated to the software license.

Research and Development - Costs incurred in research and development are expensed as incurred and are included in the consolidated statement of operations and comprehensive loss in compensation, travel and associated costs and office, marketing and other corporate costs. Software development costs are required to be capitalized when a product’s technological feasibility has been established through the date the product is available for general release to customers. We do not capitalize any software development costs, as technological feasibility is generally not established until a working model is completed, at which time substantially all development is complete.

Stock-Based Compensation - We record compensation expense for share-based awards issued to employees and directors in exchange for services provided. The amount of the compensation expense is based on the estimated fair value of the awards on their grant dates and is recognized over the requisite service periods. Our share-based awards include stock options, warrants and restricted stock awards. We use the Black-Scholes-Merton option-pricing model (“Black-Scholes”) to measure fair value of these share-based awards. The Black-Scholes model requires us to make significant judgments regarding the assumptions used within the model, the most significant of which are the expected stock price volatility, the expected life of the option award, the risk-free rate of return and dividends during the expected term.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

Net Income (Loss) Per Share - We compute net income (loss) per common share under the provisions of the accounting standard which establishes standards for computing and presenting earnings per share. It requires us to report both basic net (loss) income per share, which is based on the weighted average number of common shares outstanding during the period, and diluted net (loss) income per share, which is based on the weighted average number of common shares outstanding plus all potentially dilutive common shares outstanding. All equivalent shares underlying options and warrants were excluded from the calculation of diluted loss per share because we had net losses for all periods presented and therefore equivalent shares would have an anti-dilutive effect.

Reclassification - Certain prior period amounts have been reclassified to conform to the current presentation.

Recent Accounting Pronouncements – In December 2007, the FASB issued a new accounting standard, which establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this standard requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. We adopted the provisions of this new accounting standard on January 1, 2009. We implemented these changes, which led to changes in the presentation of prior period results.

In May 2009, the FASB issued a new accounting standard on subsequent events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This accounting standard establishes: 1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; 2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and 3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This accounting standard also requires disclosure of the date through which an entity has evaluated subsequent events. We adopted the provisions of this accounting standard on June 30, 2009 and it had not impact on our consolidated financial position or results of operation.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(2) Summary of Significant Accounting Policies (Continued)

In June 2009, the FASB issued the accounting standard "The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162", which establishes the FASB Accounting Standards CodificationTM ("Codification") as the source of authoritative U.S. Generally Accepted Accounting Principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. We adopted the provisions of this accounting standard for the interim period ended September 30, 2009. The implementation of this accounting standard did not have any impact on our consolidated financial position and results of operations upon adoption.

In April 2009, the FASB also issued new guidelines on the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination which provides that an acquirer shall recognize an asset acquired or a liability assumed in a business combination that arises from a contingency at fair value, at the acquisition date, if the acquisition-date fair value of that asset or liability can be determined during the measurement period. New guidance is also provided in the event that the fair value of an asset acquired or liability assumed cannot be determined during the measurement period. An acquirer shall also develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies and also provides for the disclosure requirements. We adopted the provisions of the new accounting standards on business combinations on January 1, 2009; acquisitions after this are accounted for using this standard.

In October 2009, the FASB issued Accounting Standards Update on Multiple-Deliverable Revenue Arrangements, which addresses the accounting for multiple-deliverable arrangements and requires that the overall arrangement consideration be allocated to each deliverable in a revenue arrangement based on an estimated selling price when vendor specific objective evidence or third-party evidence of fair value is not available. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated to all deliverables using the relative selling price method. This update is effective for fiscal years beginning on or after June 15, 2010 and early adoption is permitted. The Company is currently evaluating the impact of adoption of this update.

In October 2009, the FASB issued Accounting Standards Update on Certain Revenue Arrangements That Include Software Elements, which changes the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing both software and non-software components that function together to deliver the product's essential functionality will no longer be within the scope of Software Revenue Recognition. This update is effective for fiscal years beginning on or after June 15, 2010 and early adoption is permitted. We are currently assessing the impact of adoption of this update.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(3) Acquisitions

On May 14, 2008, the Company finalized its purchase of the original 51% ownership in Sputnik Agency Pty. Ltd. ("Sputnik") and acquired the remaining 49% of that entity, for consideration paid of $4,563. A total of $3,530 was paid in cash to the sellers, $751 was applied against outstanding loans by the Company's 51%-owned subsidiary Reality Group to Sputnik's selling shareholders, and $282 was deposited in escrow against certain potential liabilities. In November 2008, the escrow was released to Sputnik's selling shareholders. Therefore, the aggregate cost of the acquisition was $4,656, which includes $93 in legal costs related to the acquisition. Sputnik's sellers and certain of its employees entered into employment agreements providing, among other things, for their continued employment with Sputnik and /or Reality Group and certain restrictive covenants.

On May 19 2008, we acquired 100% of Kamera, a Stockholm, Sweden-based company in the business of managing, developing and syndicating video content for mobile and online distribution. Through its proprietary software, transcoding and content distribution protocols, Kamera enabled corporate clients such as Associated Press, ABC News, Vodafone, MSN, Orange, Telefonica, O2, Hutchinson and China Mobile to deliver IP video channels to their customers over mobile and online networks.

On closing, we paid $4,500 less certain amounts previously owing to us by Kamera, to the shareholders of Kamera. Pursuant to the terms of the transaction, we paid an additional $1,500 in consideration in March 2009, and the Kamera shareholders may be entitled to up to an additional $4,500 of consideration payable in 2009 and 2010, subject to the achievement of certain performance tests. The contingent consideration is payable in our publicly traded shares, valued at current market prices or cash, as we determine. The performance criteria relate to retention of staff and clients, and the maintenance and growth of client revenue and our mobile revenue over the two years ending March 31, 2010.

The aggregate cost of the acquisition of Kamera was $7,634. This is comprised of the $4,500 paid at closing, $1,500 accrued for the consideration payable six months from the Completion Date and paid in March 2009 and $1,500 accrued for the consideration payable 13 months from Completion Date and are included in the Balance Sheet in "Acquisition liability - Kamera", and $134 in legal costs related to the acquisition. The Company has not recorded the contingent liability of $3,000 in consideration that is payable 21 months from Completion Date as it is not certain that the performance criteria will be met. The Company has allocated the aggregate cost of the acquisition to Kamera's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded to goodwill.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(3) Acquisitions (Continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (May 19, 2008).

Current assets	$	1,214
Property and equipment		156
Intangible assets - developed software		1,000
Intangible assets - customer list		1,500
Goodwill		5,111
Total assets acquired		8,981
Current liabilities		1,347
Total liabilities assumed		1,347
Net assets acquired	$	7,634

The results of operations of Kamera for the period from May 19, 2008 to December 31, 2008 have been included in the Consolidated Statements of Operations.

On August 31, 2008, we acquired 100% of Morpheum Internet Services Pty. Ltd. ("Morpheum"), a Melbourne, Australia-based company, for consideration paid at closing of $734, plus $56 in legal and consulting costs related to the acquisition for an aggregate cost of $790.. Morpheum was one of Asia's leading providers of web-based content management systems ("CMS"). Morpheum's software, LanternCMS, has become integrated into the Company's VX software platform. The Company has allocated the aggregate cost of the acquisition to Morpheum's net tangible and identifiable intangible assets based on their estimated fair values.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (August 31, 2008).

Current assets	$	416
Property and equipment		116
Intangible assets - developed software		1,122
Total assets acquired		1,654
Current liabilities		864
Total liabilities assumed		864
Net assets acquired	$	790

The results of operations of Morpheum for the period from September 1, 2008 to December 31, 2008 have been included in the Consolidated Statements of Operations.

KIT DIGITAL, INC. AND SUBSIDIARIES
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(3) Acquisitions (Continued)

On October 5, 2008, through our wholly-owned subsidiary, KIT digital FZ-LLC ("KIT"), we acquired 100% of Visual Connection, a.s., a Prague, Czech Republic-based company ("Visual") specializing in the supply and delivery of comprehensive IPTV solutions which link software expertise with hardware configuration, integration capabilities and 24/7 customer service. Visual 200+ clients included television and radio stations, graphics publishers, audiovisual production and post production houses, state and federal government administration, education companies, telcos and healthcare providers.

Taking into account certain adjustments made to the original Visual Share Purchase Agreement mutually agreed to on March 31, 2009, the purchase price of Visual consisted of:

(a) $1,180 in cash, after certain adjustments were made for negative working capital;

(b) $1,500 in shares of our common stock for a total of 163,043 shares, issued by April 15, 2009, restricted for sale for [12] months thereafter;

(c) an earn-out of $3,225 in a combination of shares of our common stock (determined based on the the higher of (i) the 20-day trailing weighted average closing price per share prior to the respective payment date, or (ii) a price "floor" of $7.70 per share), payable in three equal installments of $1,075, (i) 12 months after closing, (iii) 18 months after closing, and (iii) 24 months after closing, subject in each case to targeted levels of the Company's net revenues and EBITDA. and the retention of key personnel ;

(d) additional earn-out of $2,100 of shares of our common stock (determined based on the the higher of (i) the 20-day trailing weighted average closing price per share prior to the respective payment date, or (ii) a price "floor" of $7.70 per share), for achieving certain other net revenues and EBITDA targets over the period of 24 months from closing.

KIT retains the right to substitute payments in cash for all potential issuances of common stock described above, irrespective of the trading price of our common stock.

The aggregate cost of the acquisition of Visual was $4,286. This is comprised of the $1,000 paid in November 2008 of the initial purchase price of $2,500 less negative working capital of $1,320 or $1,180. The remaining $180 of the initial purchase price is included in the Balance Sheet in "Acquisition liability – Visual". Additionally, the cost includes $1,500 for the payable six months after closing, $538 (50% of the amount) for the minimum payable for 12 months after closing, $1,075 (50% of the amount) total for the minimum payable for 18 and 24 months after closing, and $311 in legal and consulting costs related to the acquisition. From the above, $2,218 is included in the Balance Sheet in "Acquisition liability - Visual" and $1,075 is in the Balance Sheet in "Acquisition liability – Visual, net of current". The Company has not recorded the contingent liability of $1,613 in consideration that is payable 12, 18 and 24 months from closing as it is not certain that the performance criteria will be met. The Company has allocated the aggregate cost of the acquisition to Visual's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded to goodwill.

KIT DIGITAL, INC. AND SUBSIDIARIES
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(3) Acquisitions (Continued)

The aggregate cost of the acquisition of Visual was $4,286. This is comprised of the $1,000 paid in November 2008 of the initial purchase price of $2,500 less negative working capital of $1,320 or $1,180. The remaining $180 of the initial purchase price is included in the Balance Sheet in “Acquisition liability – Visual”. Additionally, the cost includes $1,500 for the payable six months after closing, $538 (50% of the amount) for the minimum payable for 12 months after closing, $1,075 (50% of the amount) total for the minimum payable for 18 and 24 months after closing, and $311 in legal and consulting costs related to the acquisition. From the above, $2,218 is included in the Balance Sheet in “Acquisition liability - Visual” and $1,075 is in the Balance Sheet in “Acquisition liability – Visual, net of current”. The Company has not recorded the contingent liability of $1,613 in consideration that is payable 12, 18 and 24 months from closing as it is not certain that the performance criteria will be met. The Company has allocated the aggregate cost of the acquisition to Visual’s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded to goodwill.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (August 31, 2008).

Current assets	$ 4,287
Property and equipment	1,609
Intangible assets - customer list	1,000
Goodwill	5,131
Total assets acquired	12,027
Current liabilities	4,317
Capital leases and notes payable	3,106
Total liabilities assumed	7,423
Net assets acquired	$ 4,604

The results of operations of Visual for the period from October 1, 2008 to December 31, 2008 have been included in the Consolidated Statements of Operations.

In November 2008, we purchased specified assets of Extreme Mobile Services Limited (also known as Juzou), a company formed under the laws of the United Kingdom. Juzou’s business involves content management and web services with live streaming capabilities. Under an Asset Purchase Agreement, dated November 15, 2008, we acquired the Juzou trademark and system and ongoing client and other operating contracts. The total purchase price of the assets was $800, payable in shares of our common stock based on meeting specified financial and operating targets over the ensuing two-year period. At closing, we issued 13,715 shares of our common stock to Juzou valued at $120 against the total purchase price.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(3) Acquisitions (Continued)

On March 6, 2009, we acquired the remaining 49% outstanding share capital that we did not previously own in subsidiary Reality Group Pty. Ltd., an Australian marketing communications firm, in consideration of the issuance of 90,073 shares of common stock for a total purchase price of $631 which is recorded as a reduction to additional paid-in capital. The remaining balance of the non-controlling interest of $237 is recorded as part of the acquisition and recorded as additional paid-in capital.

On April 8, 2009, we acquired certain of the operating assets and assumed specified liabilities of Narrowstep, Inc., a United States and United Kingdom based internet TV platform company (“Narrowstep”) in exchange for 25,000 shares of restricted common stock valued at $213. The acquisition included a transition of customer relationships to us and expanded our client delivery capabilities, particularly in live-streaming and long-form delivery. The Company has allocated the aggregate cost of the acquisition to net tangible and identifiable intangible assets based on their estimated fair values.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the Narrowstep acquisition (April 8, 2009).

Current assets	$	670
Property and equipment		296
Intangible assets - customer lists		313
Total assets acquired		1,279
Current liabilities		1,040
Total liabilities assumed		1,040
Net assets acquired	$	239
Gain on bargain purchase	$	26

A gain on bargain purchase of $26 was recorded to other income in the year ended December 31, 2009 in the consolidated statements of operations and comprehensive loss.

In November 2008, we purchased specified assets of Extreme Mobile Services Limited (also known as Juzou), a company formed under the laws of the United Kingdom. Juzou’s business involves content management and web services with live streaming capabilities. Under an Asset Purchase Agreement, dated November 15, 2008, we acquired the Juzou trademark and system and ongoing client and other operating contracts. The total purchase price of the assets was $800, payable in shares of our common stock based on meeting specified financial and operating targets over the ensuing two-year period, which has subsequently been amended in August 2009 to $570. At closing, we issued 13,715 shares of our common stock to Juzou valued at $120 against the total purchase price of which $104 was recorded as software. In September 2009, we paid $150 in cash and issued 10,559 shares valued at $90, which was recorded as software. In December 2009, we issued 7,165 shares valued at $70 for the consideration 12 months from closing, which was recorded as software. We have not recorded the contingent liability of $140 in consideration that is payable 18 and 24 months from closing as it is not certain that the performance criteria will be met.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(3) Acquisitions (Continued)

On October 1, 2009, we acquired The FeedRoom, Inc., a United States company engaged in online video communications ("FeedRoom") in exchange for 948,636 shares of KIT digital common stock (the "Merger Shares") and an additional 363,636 shares of our common stock issued in exchange for a $4,000 indirect investment in us by certain stockholders of FeedRoom immediately prior to the closing of the merger. The KIT digital common stock was issued to such stockholders at an effective price of $11.00 per share. This acquisition expands our client base in North America and enhances our IP video platform through the integration of key features of FeedRoom's software. The Merger Shares were delivered as follows: (i) 937,398 shares on closing; and (ii) 374,602 shares which will be retained by us for one year after the closing. The Company has allocated the aggregate cost of the acquisition to FeedRoom's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded to goodwill.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (October 1, 2009).

Current assets	$ 1,832
Property and equipment	1,166
Intangible assets – developed software	200
Intangible assets - customer list	1,600
Goodwill	11,075
Total assets acquired	15,873
Current liabilities	2,228
Net assets acquired	$ 13,645

The results of operations of FeedRoom for the period from October 1, 2009 to December 31, 2009 have been included in the consolidated statements of operations and comprehensive loss.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(3) Acquisitions (Continued)

On October 1, 2009, we acquired all Nunet AG, a German company engaged in video management for broadband, IPTV and mobile ("Nunet") for an aggregate purchase price of EUR 7,647, consisting of: a cash payment of $8,048 (EUR 5,400) paid at closing; a convertible promissory note of EUR 1,663 due March 31, 2011; and another convertible promissory note of EUR 584 due June 30, 2010. These convertible promissory notes have since been converted into 339,540 shares of common stock valued at $3,321 and purchased by an independent investor. This acquisition expands our client base with major international mobile network operators and enhances our platform with mobile capabilities. An additional $430 (EUR 300) was paid to IMG at closing to cover brokers, introducing parties, management incentives and other transaction-related costs. This amount was expensed and is included in merger and acquisition and investor relations expenses in the consolidated statement of operations and comprehensive loss. The Company has allocated the aggregate cost of the acquisition to Nunet's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded to goodwill.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (October 1, 2009).

Current assets	$	2,167
Property and equipment		1,917
Intangible assets – developed software		439
Intangible assets - customer list		1,316
Goodwill		8,859
Total assets acquired		14,698
Current liabilities		2,049
Capital leases		1,124
Total liabilities assumed		3,173
Net assets acquired	$	11,525

The results of operations of Nunet for the period from October 1, 2009 to December 31, 2009 have been included in the consolidated statements of operations and comprehensive loss.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(4) Acquisition Liabilities

On March 9, 2009, we issued 300,539 shares of our common stock in satisfaction of a $1,500 acquisition liability incurred in connection with the acquisition of Kamera Content AB ("Kamera") in 2008, which is included in goodwill. In September 2009, we recorded an additional liability of $1,083 as a result of an amendment to the underling share purchase agreement for full and final settlement of all future/potential earn-out payments. This has been recorded as additional goodwill in the consolidated balance sheet. In October 2009, we paid $1,700 and 110,805 shares valued at $883 to settle this liability.

In January 2009, we paid $180 in cash to the former shareholders of Visual Connection a.s. ("Visual"), pursuant to the Visual Share Purchase Agreement dated October 5, 2008 ("Visual SPA"). In March 2009, we issued 163,044 shares of our common stock to the former shareholders of Visual, pursuant to the Visual SPA, in satisfaction of a $1,500 earn out liability, which is included in goodwill. In September 2009, we issued 52,632 shares valued at $430 and $300 in cash to the former shareholders of Visual pursuant to an amendment to the Visual SPA and in satisfaction of the earn-out 12 months after closing and is included in goodwill. The liability included in the consolidated balance sheet in "Acquisition liability – Visual" is $1,075 as of December 31, 2009. We have not recorded the contingent liability of $1,075 in consideration that is payable 18 and 24 months from closing as it is not certain that the performance criteria will be met.

(5) Derivative Liabilities

In June 2008, the Financial Accounting Standards Board issued a new accounting standard. Under this standard, instruments which contain full ratchet anti-dilution provisions will no longer be considered indexed to a company's own stock for purposes of determining whether it meets the first part of the scope exception. The adoption required us to (1) evaluate our instrument's contingent exercise provisions and (2) evaluate the instrument's settlement provisions. Based upon applying this approach to instruments within the scope of the consensus, we have determined that certain of our warrants which were classified in stockholders' equity on December 31, 2008, no longer meet the definition of Indexed to a Company's Own Stock provided in the Consensus. Accordingly, effective on January 1, 2009, we were required to reclassify those warrants, at their fair value, into liabilities. The accounting standard requires that the fair value of these liabilities be re-measured at the end of every reporting period with the change in value over the period reported in the statement of operations. The difference between the amount the warrants were originally recorded in the financial statements and the fair value of the instruments on January 1, 2009 was considered a cumulative effect of a change in accounting principle and required an adjustment to the opening balance of retained earnings and a reduction in additional paid-in capital in the amount of $8,498 and $24,235, respectively. The derivative liability as of January 1, 2009 was $15,736. The common shares indexed to the derivative financial instruments used in the calculation of the fair value and recorded as liabilities at January 1, 2009 and December 31, 2009 were 5,806,230 and 4,794,400, respectively. The number of shares for the determination of liability have been computed based on the effective exercise price used in the valuation. The actual number of common shares indexed to the warrants at January 1, 2009 and December 31, 2009 increased from 2,886,038 to 4,794,400, respectively.

Durint the third quarter, we identified certain errors in the fair valuation of derivative liabilities related to prior interim periods in fiscal year 2009. These errors were corrected and disclosed in the consolidated financial statements for three and nine months ended September 30, 2009. We have recorded necessary adjustments in the consolidated financial statements for the year ended December 31, 2009.

We estimate fair values of derivative financial instruments using various techniques (and combinations thereof) that are considered to be consistent with the objective measuring fair values. In selecting the appropriate technique, we consider, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For less complex derivative instruments, such as free-standing warrants, we generally use the Black-Scholes model, adjusted for the effect of dilution, because it embodies all of the requisite assumptions (including trading volatility, estimated terms, dilution and risk free rates) necessary to fair value these instruments.

KIT DIGITAL, INC. AND SUBSIDIARIES
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(Unaudited)

(5) Derivative Liabilities (continued)

Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques (such as Black-Scholes model) are highly volatile and sensitive to changes in the trading market price of our common stock. Since derivative financial instruments are initially and subsequently carried at fair values, our income (expense) going forward will reflect the volatility in these estimate and assumption changes. Under the terms of the new accounting standard, increases in the trading price of the company's common stock and increases in fair value during a given financial quarter result in the application of non-cash derivative expense. Conversely, decreases in the trading price of the company's common stock and decreases in trading fair value during a given financial quarter result in the application of non-cash derivative income.

The following tables summarize the components of derivative liabilities as of December 31, 2009 and the re-measurement date, January 1, 2009:

	December 31, 2009	Re-measurement date January 1, 2009
Fair value of warrants with anti-dilution provisions	$ (21,314)	$ (15,736)
Significant assumptions (or ranges):		
Trading market values (1)	$ 11.00	$ 5.25
Term (years)	3.35 to 4.00	4.35 to 5.00
Volatility (1)	61.98%	101.98%
Risk-free rate (2)	1.70%	1.55%
Effective Exercise price	$ 7.00	$ 5.92 (3)

Fair value hierarchy:

(1) Level 1 inputs are quoted prices in active markets for identical assets and liabilities, or derived there from. Our trading market values and the volatilities that are calculated thereupon are level 1 inputs.
(2) Level 2 inputs are inputs other than quoted prices that are observable. We use the current published yields for zero-coupon US Treasury Securities, with terms nearest the remaining term of the warrants for our risk free rate.
(3) Level 3 inputs are unobservable inputs. Inputs for which any parts are level 3 inputs are classified as level 3 in their entirety. The remaining term used equals the remaining contractual term as our best estimate of the expected term and the effective exercise price which is based on the stated exercise price adjusted for anti-dilution provisions.

The effects on our expense associated with changes in the fair values of our derivative financial instruments for the year ended December 31, 2009 was $6,015.

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(6) Related Party Transactions

In December 2007, we entered into an agreement with KIT Capital, a company beneficially controlled and led by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, under which KIT Capital has provided us managerial services. The total amount paid to KIT Capital and included in our results of operations in the year ended December 31, 2009 and 2008 were $508 and $573, respectively.

On May 1, 2009, we issued a convertible interim promissory note up to a maximum of $5,000 to KIT Media, Ltd. of which we received gross proceeds of $2,250 in the quarter ended June 30, 2009 and $1,100 in the quarter ended September 30, 2009. Interest is payable monthly in arrears at 8% and matures on April 30, 2010. Interest of $51 was calculated and paid during 2009. A debt discount of $442 was recorded related to this debt and was amortized through the repayment date of August 18, 2009. As of August 18, 2009, these notes were repaid from the proceeds of the public offering.

KIT Media, Ltd., our largest single stockholder, controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, has purchased $4,004 of common stock (572,000 shares) in this August 18, 2009 offering, in part through the repayment of an interim note payable by us in the amount of $3,350. All shares sold to KIT Media were at the same price and on the same terms as the other investors in this offering. Gavin Campion, our President, is also an investor in KIT Media, as are several members of our board of directors.

In 2009, the Company recorded revenues of approximately $120 from affiliated companies in which senior executives have a shareholding interest. In 2009, the Company has also recorded variable and direct third party costs amounting to approx $200 from such affiliates.

(7) Property and Equipment

Property and equipment consisted of the following:

	December 31, 2009	December 31, 2008	Estimated Useful Lives in Years
Office equipment capital lease	$ 1,183	$ 611	1- 5
Motor vehicles capital lease	625	544	3 - 5
Computer software	806	249	1 - 4
Leasehold improvements	1,114	553	1 - 5
Furniture and fixtures	1,022	311	2 -10
Office equipment	4,696	2,009	1 -5
	9,446	4,277	
Accumulated depreciation and amortization	(3,749)	(1,349)	
	$ 5,697	$ 2,928	

Depreciation and amortization expense amounted to $1,847 and $729 for the years ended December 31, 2009 and 2008, respectively.

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(8) Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill as of December 31, 2009 and 2008, respectively are as follows:

	Goodwill
Balance as of January 1 2008	$ 1,123
Acquisitions	14,044
Balance as of December 31, 2008	15,167
Acquisitions	21,325
Balance as of December 31, 2009	$ 36,492

Intangible assets include the following:

	December 31, 2009			
	Weighted Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with determinable lives:				
Software	3.25	$ 5,995	$ (2,559)	$ 3,436
Customer list	4.5	6,960	(2,310)	4,650
Domain name		—	—	—
Total		$ 13,455	$ (5,369)	$ 8,086

	December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with determinable lives:			
Software	$ 3,546	$ (1,281)	$ 2,265
Customer list	4,231	(1,243)	2,988
Domain name	54	(35)	19
Total	$ 7,831	$ (2,559)	$ 5,272

Estimated future annual amortization expense as of December 31, 2009 is as follows

	Customer List	Software
2010	$ 1,224	$ 1,397
2011	1,174	821
2012	876	633
2013	508	432
2014	482	154
Thereafter	387	-
Totals	$ 4,650	$ 3,436

KIT DIGITAL, INC. AND SUBSIDIARIES
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(8) Impairment of Intangible Asset

As of December 31, 2009, we determined that customer lists from the acquisition of Kamera in May 2008 are impaired. We evaluated the ongoing value of these assets and based on this evaluation, we determined that customer lists with a carrying amount of $891 was impaired and therefore recorded a reduction of $500; this is recorded as loss on impairment of intangible assets in the consolidated statement of operations and comprehensive loss.

(9) Notes Payable

On May 1, 2009, we issued a convertible interim promissory note up to a maximum of $5,000 to KIT Media, Ltd. of which we received gross proceeds of $2,250 in the quarter ended June 30, 2009 and $1,100 in the quarter ended September 30, 2009. Interest was payable monthly in arrears at 8%. Interest of $51 was calculated through repayment and paid during 2009. A debt discount of $442 was recorded related to this debt and was amortized through the repayment date of August 18, 2009. As of August 18, 2009, these notes were repaid from the proceeds of the public offering.

On April 8, 2009, we received gross proceeds of $350 related to the issuance of a convertible note to Granahan McCourt Capital, LLC. The note was interest free. The principal was due at maturity. A debt discount of $75 was recorded related to this debt and was amortized through June 30, 2009. As of August 18, 2009, these notes were repaid from the proceeds of the public offering.

In November 2008, we received $1,500 in gross proceeds from the issuance of a non-convertible note to Genesis Merchant Partners, LP. Interest is payable monthly in arrears at 14.5% and matures on December 31, 2009. The principal is repayable in monthly installments of $75 beginning in May 2009, with the remainder of the principal due at maturity. The note is secured by the company's property, including accounts receivable and inventory, but excludes any security interests in Visual and Reality Group or assets of these subsidiaries. In conjunction with the borrowing, we issued to Genesis Merchant Partners, LP a warrant entitling it to purchase, for $11.90 per share, 139,286 shares of our common stock through October 31, 2013. A debt discount of $642 was recorded related to this debt and is being amortized over fourteen months which is the life of the note. On August 18, 2009, we repaid the entire principal balance of the non-convertible note of $1,275 owed to Genesis Merchant Partners, LP and wrote off the unamortized amount of debt discount as of that date.

KIT DIGITAL, INC. AND SUBSIDIARIES
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(10) Income Taxes

The Company accounts for its income taxes in accordance with ASC 740-10. Under ASC 740-10, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases. ASC 740-10 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax assets will not be realized based on all available positive and negative evidence.

Income (loss) before income tax consisted of the following:

	2009
United States Operations	$ (13,087)
Foreign Operations	(5,741)
Total	$ (18,828)

The components of the income tax expense (benefit) for the year ended December 31, 2009 are as follows:

Current Taxes:	
Federal	$ -
State	140
Foreign	157
Total current tax expense	297
Deferred Taxes:	
Federal	-
State	-
Foreign	817
Total deferred tax expense (benefit)	817
Provision for (benefit from) income taxes	$ 1,114

The following table is a reconciliation from our income tax provision (benefit) based on the U.S. Federal statutory income tax rate to the income tax expense (benefit) reported for financial statement purposes:

	2009
U.S. Statutory Rate	34.00%
State and Local Taxes, net of federal benefit	2.44%
Foreign Rate Different Than Statutory	(4.46)%
Permanent Differences	(15.68)%
Change in Valuation Allowance	(22.21)%
	(5.91)%

KIT DIGITAL, INC. AND SUBSIDIARIES
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(10) Income Taxes (continued)

The Tax effects of temporary differences and net operating loss carry forwards that give rise to deferred tax assets and liabilities are as follows:

	2009	2008
Deferred Tax Assets:		
Stock Option Compensation	$ 2,248	$ 1,922
Compensation	141	133
Allowances for Doubtful Accounts	101	97
Depreciation and Amortization	125	239
Net Operating Losses	56,331	26,542
Restructuring Costs	257	-
Other	-	50
Total Deferred Tax Assets	59,203	28,983
Deferred Tax Liabilities:		
Intangible and Fixed Assets	(2,126)	(1,391)
Valuation Allowance	(57,657)	(28,983)
Net Deferred Tax Asset (Liability)	(580)	-

As of December 31, 2009, the Company had approximately $119,600 of Federal, $220,000 of State and Local, and $11,900 of Foreign net operating losses (NOLs). The Federal and State NOLs are available to offset future taxable income through 2029 and expire from 2019 to 2029. These Federal and State amounts include NOLs resulting from the acquisitions of Videdome (approximately $2,250) and Feedroom (approximately $60,200). The foreign NOLs have no expiration.

The Company has not recognized a deferred asset for the NOLs at December 31, 2009 and expects to continue to provide a full valuation allowance until, or unless, it can sustain a level of profitability that demonstrates its ability to utilize these assets.

Additionally the Federal and State utilization of the above NOLs, in accordance with Section 382 of the Internal Revenue Service code, could be limited or expire before utilization due to stock ownership changes that may have occurred in the past or in the future. In certain foreign jurisdictions, the utilization of the NOLs may also be limited.

During 2009, our valuation allowance increased by $30,065 from $27,592 in 2008 to $57,657 in 2009 respectfully. We will continue to maintain the valuation allowance until sufficient positive evidence exists to support a full or partial reversal.

The Company adopted the authoritative guidance on accounting for uncertainty in income taxes on January 1, 2007. There were no unrecognized tax benefits as of the date of our adoption of this guidance and as of December 31, 2009. The adoption of this guidance did not have a material effect on our consolidated financial statements.

The Company's policy is to account for recognized accrued interest and penalties relating to unrecognized tax positions in income expense. During the year ended December 31, 2009 no amounts were recognized.

As a matter of course, the Company can be audited by federal, state and foreign tax authorities. No audits are currently in process.

A list of open years by major jurisdictions follows:

Jurisdiction	Tax Years
United States	1999 to 2009
New York State	1999 to 2009
New York City	1999 to 2009
Australia	2004 to 2009
Germany	2005 to 2009
United Kingdom	2007 to 2009

KIT DIGITAL, INC. AND SUBSIDIARIES
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(11) Commitments and Contingencies

Leases - The Company is a party to a number of non-cancelable lease agreements primarily involving office premises, motor vehicles and computer equipment. Included in capital leases are equipment and motor vehicle leases which are generally for three to five year periods. Included in operating leases are office premises, equipment and motor vehicle leases which are generally for two to five year periods.

The following is a schedule of future minimum payments under capital leases and operating leases as of December 31, 2009.

Year	Capital leases	Operating leases	Total
2010	$ 912	$ 2,193	$ 3,105
2011	680	796	1,476
2012	171	150	321
2013	25	84	109
2014	-	24	24
Thereafter	-	-	-
Total Minimum Lease Payments	1,788	$ 3,247	$ 5,035
Less Amount Representing Interest	(193)		
Total Obligations Under Capital Leases	$ 1,595		

Rent expense amounted to $1,694 and $1,156 for the years ended December 31, 2009 and 2008, respectively.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(11) Commitments and Contingencies (continued)

Employment Agreements - On December 18, 2007, the Company entered into the Management Agreement with KIT Capital for a term commencing on January 9, 2008 and terminating on January 9, 2011, unless sooner terminated or mutually extended. The Management Agreement provided for an aggregate compensation for KIT Capital as follows: (i) $51 monthly (which has been subsequently adjusted downwards at various dates based on the headcount), which includes the cost of at least three employees inclusive of benefits and taxes, (ii) signing incentive payment of $69, (iii) an incentive bonus equal to the greater of (x) the preceding twelve months' base compensation or (y) the previous month's monthly installment of base compensation multiplied by twelve if the Company shall achieve 2 consecutive quarters of profitability or the Company's total monthly revenue equals or exceeds $6,000, and (iv) a " phantom stock plan " for 2,100,000 shares that vest over a 36-month period. Specific terms of this plan are subject to finalization. The Management Agreement provides that upon termination of the Management Agreement or after the Management Agreement's expiration date for any reason except cause (as defined in the Management Agreement), the Company shall pay KIT Capital, in addition to any other payments due hereunder, a cash severance payment equal to the greater of (i) the total amount paid to KIT Capital during the preceding twelve months, including base compensation and all bonuses, and (ii) the previous month's monthly installment of base compensation multiplied by twelve.

Litigation - In December 2007, two former consultants of ROO Media Corporation (ROO Media) (currently KIT Media Corporation) sued that entity together with ROO Group, Inc. (currently KIT digital, Inc.) and its founder and former Vice Chairman and ROO Media's former President and Chief Operating Officer in New York Supreme Court, New York County, New York, alleging breach of an oral employment agreement, fraudulent inducement and other claims relating to the plaintiffs' employment at ROO Media. Last year, defendants moved to dismiss the complaint and, in March 2009, the court dismissed all of plaintiffs' claims except their breach of contract claim on the grounds that it is based on an alleged oral agreement, which plaintiffs may be able to prove. Defendants have answered the complaint, denying liability, and the case is now in discovery. We believe that there is no merit to this suit, and we intend to continue to defend vigorously.

In November 2007, the Company's wholly-owned subsidiary, ROO HD, Inc., now known as KIT HD, Inc. ("KIT HD"), was named as the defendant in a purported class action lawsuit entitled Julie Vittengl et al. vs. ROO HD, Inc., in New York Supreme Court, Saratoga County, New York. The suit, brought by four former employees of Wurld Media, Inc. ("Wurld"), purportedly on behalf of themselves and "others similarly situated," claims that KIT HD's acquisition of certain assets of Wurld was a fraudulent conveyance and that KIT HD is the alter-ego of Wurld. Plaintiffs seek the appointment of a receiver to take charge of the Company's property in constructive trust for plaintiffs and payment of plaintiffs' unpaid wages and costs of suit, both in an unspecified dollar amount. KIT HD filed its answer to the complaint in January 2008. In December 2009, plaintiffs served an amended complaint, dropping the class action allegations and adding the Company as a defendant; otherwise, it is essentially the same as its predecessor. Earlier this month, KIT HD and the Company answered the amended complaint, and the case will shortly enter into discovery. We believe that the suit is without merit, and the Company and KIT HD intend to defend themselves vigorously.

In May 2009, a former employee of Wurld, Plaintiff, filed suit against ten shareholders of Wurld, Wurld, ROO HD (n/k/a "KIT HD"), and ROO Group, Inc. (n/k/a the "Company"), in New York Supreme Court, Albany County, New York. Plaintiff, a former employee of Wurld, seeks to hold the ten largest shareholders of Wurld liable under Business Corporation Law § 630, for $100 in wages that Wurld allegedly failed to pay Plaintiff. She further asserts a variety of claims based on the allegation that KIT HD's acquisition of certain assets of Wurld was a fraudulent conveyance, and that KIT HD is the successor to Wurld and liable for Wurld's debts. Based on these allegations, plaintiff seeks payment of her wages, the (unspecified) fair market value of her shares of stock in Wurld, rescission of the asset purchase agreement between Wurld and KIT HD, plus attorney's fees. In October 2009, the court dismissed plaintiff's claims against three shareholder/defendants on the grounds that BCL § 630 does not apply to Wurld because it is not a New York corporation, a decision that plaintiff is appealing. KIT HD and the Company have been served and answered, and the case is now in discovery. We believe that this lawsuit is without merit, and if necessary the Company intends to defend itself vigorously.

KIT DIGITAL, INC. AND SUBSIDIARIES
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(12) Stock Issuances

During the quarter ended March 31, 2009, we issued 562,476 shares of common stock. Of this amount we issued 8,820 shares from the exercise of stock options and received $25 in gross proceeds. In addition, we issued 90,073 shares for the acquisition of Reality, 300,539 shares for an earn-out payment for Kamera acquisition and 163,044 shares for an earn-out payment for Visual acquisition.

During the quarter ended June 30, 2009, we issued 65,623 shares of common stock. Of this amount, we issued 748 shares from the exercise of stock options and received $2 in gross proceeds. In addition, we issued 25,000 shares for the asset purchase agreement with Narrowstep, 34,733 shares for the repayment of loans of $302 and 5,142 shares for services valued at $41.

During the quarter ended September 30, 2009, we issued 4,080,244 shares of common stock. Of this amount, we issued 4,004,000 shares in the public offering in August 2009, 52,632 shares for an earn-out payment for Visual acquisition, 10,559 shares for an earn-out payment for Juzou asset acquisition, 8,960 shares for exercise of cashless warrants and 4,093 shares for services valued at $49.

In August 2009, we completed the sale of 4,554,000 shares of our common stock at a price of $7.00 per share in a public offering, 4,004,000 shares were sold by us and 550,000 shares were sold by certain existing, unaffiliated stockholders. The gross proceeds of the common stock sold by us were $28,028. We did not receive any proceeds from the sale of shares by the selling stockholders. We issued to the underwriters 44,067 warrants to purchase shares of common stock with an exercise price of $8.40 per share exercisable for a period of five years and were valued under the Black-Scholes model as $181. In connection with the public offering, we received net cash proceeds of approximately $26,081 after underwriting discounts, commissions and fees, legal fees and expenses, and other fees.

KIT Media, Ltd., our largest single stockholder, controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, has purchased $4,004 of common stock (572,000 shares) in this August 18, 2009 offering, in part through the conversion into common stock of an interim note payable by us in the amount of $3,350. All shares sold to KIT Media were at the same price and on the same terms as the other investors in this offering. Gavin Campion, our President, is also an investor in KIT Media, as are several members of our board of directors.

During the quarter ended December 31, 2009, we issued 1,953,230 shares of common stock. Of this amount, we issued 1,312,000 shares for the acquisition of FeedRoom, 339,540 shares for the acquisition of Nunet, 110,805 shares for an earn-out payment for Kamera acquisition, 7,165 shares for an earn-out payment for Juzou asset acquisition, 139,987 shares for exercise of warrants with proceeds of $783, 4,489 shares for the exercise of options with proceeds of $13, 35,376 shares for compensation valued at $261 and 3,968 shares for the round up due to the 1 for 35 reverse split.

As of December 31, 2009, the outstanding warrants (excluding the warrants included in the derivative liability of 4,794,400 and stock-based compensation of 34,286) are 510,639 with a weighted average exercise price of $51.36 and a weighted average remaining term of 2.7 years.

KIT DIGITAL, INC. AND SUBSIDIARIES
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(13) Stock-Based Compensation

On March 17, 2008, the Board of Directors adopted an incentive compensation plan (the “2008 Incentive Stock Plan”). The 2008 Incentive Stock Plan currently has reserved 857,143 shares of common stock for issuance. Also, on March 17, 2008, the Board of Directors resolved that, subject to the agreement of the individuals, a surrender of options under the 2004 Stock Option Plan were exchanged for options under the 2008 Incentive Stock Plan. The 2004 Stock Option Plan has reserved 342,858 shares of common stock for issuance.

The Company’s outstanding unvested stock options have maximum contractual terms of up to five years, principally vest on a quarterly basis ratably over four years and were granted at exercise prices equal to the market price of the Company’s common stock on the date of grant. The Company’s outstanding stock options are exercisable into shares of the Company’s common stock. The Company measures the cost of employee services received in exchange for an award of equity instruments, including grants of employee stock options, warrants and restricted stock awards, based on the fair value of the award at the date of grant in accordance with the modified prospective method. The Company uses the Black-Scholes model for purposes of determining the fair value of stock options granted and recognizes compensation costs ratably over the requisite service period, net of estimated forfeitures.

For the years ended December 31, 2009 and 2008, the Company recognized $1,922 and $4,869, respectively, of non-cash stock-based compensation expense in the consolidated statements of operations. Included in the 2009 amount of $1,922, is $261 of stock issued for compensation, $261 for a 2009 bonus accrued for which stock is to be issued in 2010 and $18 for director’s compensation accrued and to be paid in stock in 2010. Included in the 2008 amount of $4,869, is $136 for director’s fees for 2008 in which options have been issued in 2009 with immediate vesingt with immediate vesting and is included in accrued expenses as of December 31, 2008. Also included in non-cash stock-based compensation are warrants to purchase 34,286 shares of common stock with an exercise price of $4.655 issued on March 30, 2008, that vest over three years from the issue date. During the year ended December 31, 2009, a total of 11,428 these warrants vested with 20,000 vested and 14,286 unvested as of December 31, 2009. The intrinsic value as of December 31, 2010 of these outstanding warrants and exercisable warrants are $218 and $127, respectively.

As of December 31, 2009, there was approximately $2,989 of total unrecognized compensation cost related to unvested share-based compensation grants, which is expected to be amortized over a weighted-average period of 3.1 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes model with the following weighted-average assumptions:

	Year Ended December 31, 2009	Year Ended December 31, 2008
Expected life (in years)	3.75	5.00
Risk-free interest rate	2.87%	2.84%
Volatility	76.96%	155.51%
Dividend yield	0	0

KIT DIGITAL, INC. AND SUBSIDIARIES
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(13) Stock-Based Compensation (continued)

A summary of the status of stock option awards and changes during the years ended December 31, 2008 and December 31, 2009 are presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Intrinsic Value
Outstanding at January 1, 2008	185,160	$ 112.00		
Granted	589,036	6.30		
Exercised	(7,612)	2.80		
Cancelled, expired, or forfeited	(264,971)	2.80		
Outstanding at December 31, 2008	501,613	5.25		
Granted	494,964	7.74		
Exercised	(14,054)	2.80		
Cancelled, expired, or forfeited	(104,550)	8.65		
Outstanding at December 31, 2009	877,973	7.14	4.03	$ 3,391
Exercisable at December 31, 2009	368,735	6.56	3.82	$ 1,637

The weighted-average grant-date fair value of option awards granted during the years ended December 31, 2009 and 2008 was $4.41 and $6.30, respectively.

KIT DIGITAL, INC. AND SUBSIDIARIES
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(14) Software license agreement

In the first quarter of 2009, we sold a non-exclusive, perpetual, non-transferable, non-assignable and non-sublicenseable, worldwide license to use our technology for the sole purpose of providing online video services to this non-related party's customers for a license fee of $1,500. We also are charging an annual maintenance fee of 18% of the license fee. The license fee was recorded as revenue in the consolidated statement of operations and comprehensive loss. The maintenance fee is being recognized in revenue on a monthly basis. In the first quarter of 2009, we purchased a non-exclusive, perpetual, non-transferable, non-assignable and non-sublicenseable, license to use the software from this same non-related party to power search and related videos within our VX Application and player of our owned and licensed video content or our customer's video content for a license fee of $1,500 and an annual support and maintenance fee of $270. The license fee was recorded in the balance sheet in "Software, net" and is being amortized over two years. The annual support and maintenance fee is being expensed on a monthly basis.

(15) Restructuring Charges

The Company recorded restructuring charges of $2,549 in the year ended December 31, 2009. This amount is comprised of employee termination costs related to the reorganization of the Company of $708 and facility closing costs of $1,841 related to the closing of one of the Melbourne, Australia offices, one of the Dubai, UAE offices, one of the New York, NY offices, the Westborough, MA office, the Larkspur, CA office, and the Bellevue, WA office. As of December 31, 2009, we accrued $829 of facility closing costs and is included in accrued liabilities in the consolidated balance sheets.

The Company recorded restructuring charges of $3,068 in the year ended December 31, 2008. This amount is comprised of employee termination costs related to the reorganization of the Company of $2,794, contract settlement and facility closing costs of $274 related to the closing of the Clifton Park, New York office and the closing of one of the Melbourne, Australia offices, and vendor settlements related to the reorganization. Included in the employee termination costs are $2,397 related to the settlement of separation agreements.

(16) Integration Expenses

The Company has recorded integration expenses of $4,430 in the year ended December 31, 2009 related to the redundancy in staff and consultants during reorganization, corporate rebranding related to the reorganization, integration of acquired companies and assets.

The Company has recorded integration expenses of $1,111 in the year ended Decemeber 31, 2008 related to the redundancy in staff and consultants for the transition of technology infrastructure during reorganization due to the centralizing of resources in Toronto, recruiting costs for the centralizing of resources in Toronto, and corporate rebranding related to the reorganization.

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(17) Segment Reporting

We have presented geographical location for revenue and assets below. We have presented operating segments in the past for Digital Media Solutions and Professional Services but since Professional services represents less than 10% of total assets and total revenues and we expect this segment to continue to decrease, we are not presenting financial information for operating segments..

The following table provides revenue and assets by major geographical location.

	Year ended December 31, 2009	Year ended December 31, 2008
Revenue:		
EMEA	$ 33,106	$ 10,580
AsiaPac	10,501	10,928
Americas	3,677	1,893
Total revenue	$ 47,284	$ 23,401

	December 31, 2009
Assets:	
EMEA	$ 21,887
AsiaPac	3,743
Americas	4,447
Corporate	50,337
Total assets	$ 80,414

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(18) Subsequent Events

On January 26, 2010, we completed an underwritten public offering of 2,980,000 shares of our common stock, pursuant to our shelf registration statement on Form S-3 (No. 333-162325), which was originally filed and declared effective in October 2009, and related prospectus supplement dated January 21, 2010. We sold such shares in the offering at a price of $10.50 per share and received $31,290 in gross proceeds and approximately $28,500 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses. The impact of the public offering will essentially be to increase our total stockholders' equity by approximately $28,500. As part of the offering, we granted the underwriters an over-allotment option to purchase an additional 447,000 shares of common stock at the same price per share through February 20, 2010. We subsequently sold 350,000 additional shares of common stock pursuant to the over-allotment option on February 23, 2010, and received $3,675 in gross proceeds and approximately $3,000 in net proceeds. We will utilize the net proceeds of the offering for potential acquisitions and acquisition-related costs and for working capital and general corporate purposes. Additionally, a small portion of the net proceeds will be used for the repurchase of certain outstanding warrants issued in prior private placement financings.

In connection with the consolidation of our international operational headquarters in Prague, Czech Republic, we decided to dual list our shares of common stock on the Prague Stock Exchange, the Czech Republic's main securities market and the second largest stock exchange in Central and Eastern Europe. On January 25, 2010, our common stock was accepted and began trading on the Main Market of the Prague Stock Exchange. Our shares trade under the symbol KITD on the Prague Stock Exchange, and may be traded interchangeably between the NASDAQ Global Market and the Prague Stock Exchange.

On March 9, 2010, we completed an underwritten public offering of 1,541,624 shares of our common stock, pursuant to our shelf registration statement on Form S-3 (No. 333-164655), which was originally filed and declared effective in February 2010, and related prospectus supplement dated March 4, 2010. We sold such shares in the offering at a price of $9.73 per share and received $15,000 in gross proceeds and approximately $13,800 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses. The impact of the public offering will essentially be to increase our total stockholders' equity by approximately $13,800. As part of the offering, we granted the underwriters an over-allotment option to purchase an additional 231,244 shares of common stock at the same price per share through April 3, 2010. We subsequently sold 231,244 additional shares of common stock pursuant to the over-allotment option on March 22, 2010, and received $2,250 in gross proceeds and approximately $2,000 in net proceeds. We intend to use the net proceeds from the sale of the shares in the offering to repurchase outstanding warrants issued in prior private placement financings from certain warrant holders and, if there are residual proceeds, for acquisitions, working capital and general corporate purposes.

KIT Media purchased $1,750 of common stock (179,856 shares) in the March 9, 2010 offering, at the same price and on the same terms as the other investors in this offering.

The Board of Directors approved the repurchase of certain outstanding warrants with exercise prices in excess of market price from certain warrant holders which acquired the warrants in prior private placement financings, including KIT Media Ltd., an entity controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer. We repurchased and cancelled the warrants on March 31, 2010, in exchange for cash payments equal to the fair value of the applicable warrants on the date of repurchase, as determined using a percentage premium over the intrinsic value (using a 20-day trailing average closing stock price at the time of warrant repurchase agreement minus the applicable warrant exercise price) of the warrants. Such repurchase amounts were below the "Black-Scholes-Merton" value of the warrants. The terms of the warrant repurchase were no more favorable to KIT Media than to other warrant sellers.

KIT DIGITAL, INC. AND SUBSIDIARIES
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(18) Subsequent Events (continued)

In March, we acquired Multicast Media Technologies, Inc., corporation United States Company engaged in live event broadcasting, internet video and targeted multimedia communications (“Multicast”), in exchange for 2,379,714 shares of our common stock and approximately $4,750 in cash (the “Cash Consideration”). The share consideration issuable to Multicast stockholders was reduced to 1,312,034 shares of KIT digital common stock (the “Merger Shares”), after giving effect to adjustments for assumption by KIT digital of existing indebtedness and other liabilities of Multicast in the amount of approximately $5,927. The merger consideration is subject to adjustment upwards or downwards to the extent that the closing working capital of Multicast is greater or less than zero.

The Cash Consideration and Merger Shares were delivered as follows: (i) $4,000 in cash and 842,500 shares of our stock promptly following the closing; and (ii) a “holdback amount” of an additional $746 in cash and 469,534 shares of KIT digital common stock, less any amount used by KIT digital to offset negative working capital and satisfy indemnity claims as described below, will be delivered to such stockholders not later than one year after the closing or such later date as all indeminty claims have been resolved. Of the total “holdback amount,” $712 in cash and 196,798 Merger Shares will be used to offset any negative working capital balance of Multicast as of the effective date of the merger, which amount is to be determined within 30 days following the closing of the merger. The remaining $34 in cash and 272,736 Merger Shares being held back by KIT digital will be used to indemnify KIT digital against any breaches of representations, warranties and covenants by Multicast, as well as against certain additional specified liabilities.

EXHIBIT III

ANNUAL REPORT ON FORM 10-K FILED BY KIT DIGITAL, INC. WITH THE SEC ON MARCH 17, 2011

10-K 1 v214871_10k.htm

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

FORM 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

OR

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

Commission file number: 001-34437

KIT digital, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**11-3447894** (I.R.S. Employer Identification No.)
168 Fifth Avenue, Suite 302 **New York, New York** (Address of principal executive offices)	**10010** (Zip code)

Registrant's telephone number, including area code: +1 (212) 661-4111

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

Title of each Class	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	The Nasdaq Global Select Market

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☐ No ☐ (not required)

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 the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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

Large accelerated filer ☐	Accelerated filer ☑
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

As of June 30, 2010 (the last business day of the most recent second fiscal quarter), the aggregate market value of outstanding shares of voting stock held by non-affiliates of the registrant was $126,468,000.

As of March 15, 2011, 37,937,010 shares of the registrant’s common stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement relating to its 2011 Annual Meeting of Stockholders are incorporated by reference into Part III of this annual report on Form 10-K where indicated.

KIT digital, Inc.

2010 FORM 10-K ANNUAL REPORT

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SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This report includes and incorporates forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the United States Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included or incorporated in this report regarding our strategy, future operations, financial position, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. There are a number of important factors that could cause our actual results to differ materially from those indicated by these forward-looking statements. These important factors include the factors that we identify in the documents we incorporate by reference in this report, as well as other information we include or incorporate by reference in this report. See "Risk Factors." You should read these factors and other cautionary statements made in this report, and in the documents we incorporate by reference as being applicable to all related forward-looking statements wherever they appear in this report, and in the documents incorporated by reference. Except to the extent required by U.S. federal securities laws, we do not assume any obligation to update any forward-looking statements made by us.

All currency amounts are in thousands in this report. Share, per share and other numerical data are listed without abbreviation. This filing is our last periodic report as a "smaller reporting company." During 2010, pursuant to specific financial tests adopted by the SEC, we qualified as an "accelerated filer," beginning with reports covering the year ending December 31, 2010. In the future, our periodic reports will be required to include a greater level of disclosure.

PART I

Item 1. Business.

Overview of Our Business

KIT digital is a premium provider of end-to-end video asset management software (VAMS) and related services. The KIT Platform, our cloud-based solution delivered primarily in a software-as-a-service (SaaS) model, enables over 2,000 media distributor, enterprise and network operator clients to create, manage and deliver multi-screen video and social engagement experiences to audiences wherever they are. With deep experience that runs the gamut from traditional broadcast systems engineering to “over-the-top” (OTT) social video applications, we are uniquely positioned to deliver truly complete video solutions, from the lens of the camera to the eye of the audience (“lens to lens”), and guide our clients into the future of Internet Protocol (IP)-based interactive media. Our clients’ use of the KIT Platform includes end-consumer focused live and on-demand video distribution, as well as internal corporate deployments, including corporate communications, human resources, training, security and surveillance.

The KIT Platform’s modular approach enables customers to select from three industry-tailored software solutions with a broad set of features that share a common data model and architecture. KIT’s platform solutions include:

- **KIT Media** – for content creators and media distributers, including traditional broadcasters, online publishers, content syndicators, faith-based and sports organizations
- **KIT Enterprise** – for non-media enterprises, including consumer brands, manufacturing, healthcare and pharmaceuticals, automotive and government entities
- **KIT Operator** – for network operators, including telecommunications carriers, cable operators, internet service providers and virtual network operators (e.g. connected device manufacturers)

Each KIT Platform solution utilizes a common set of shared functional modules and follows an underlying technical design philosophy that employs modular, extensible subcomponents and exposes functionality via standards-based APIs (application programming interfaces). This core methodology allows the KIT Platform to be extended through the addition of new, discrete components as well as integration with third-party solutions. The KIT Platform leverages cloud-based application and content delivery services to ensure a high degree of scalability, while minimizing operational and maintenance costs.

In addition to our KIT Platform solutions, we offer a range of related professional services supporting the wider value chain of video with a focus on systems integration for the capture, transcoding, storage, editing and play-out of video in film, television and other broadcasting environments. We also provide content services (such as localization and packaging) and advanced digital marketing services. We estimate that over 70% of our current revenues are generated by KIT Platform-related fees, with the remainder directly related to professional services. For KIT Platform use, we generally invoice customers monthly, and occasionally on a quarterly basis. For our professional services, we bill either on an hourly or project basis. We currently provide our software solutions and professional services internationally through our operational headquarters in Prague, Czech Republic, and our principal offices in Atlanta, Cambridge (UK), Chennai, Cologne, Dubai, London, Melbourne (Australia), Mumbai, New York (executive office), Paris, San Francisco and Stockholm. We have 9 other sales representative offices in an additional 7 countries.

As of March 15, 2011, our customer base consisted of 2,000+ enterprise customers from over 40 countries, including Airbus, American Express, The Associated Press, BBC, Best Buy, Bristol-Myers Squibb, Disney-ABC, ESPN Star, FedEx, General Motors, Google, Hewlett-Packard, Home Depot, IMG Worldwide, MediaCorp, Microsoft, MTV, NBC Universal, News Corp, Telefónica, Verizon, Vodafone and Volkswagen. Our clients usually enter into long-term contracts. Our average remaining contract length is approximately 24 months, with automatic renewal features.

The KIT Platform is used by demanding and sophisticated corporate clients, and is particularly appropriate for global corporations that need to centrally and securely produce and manage video content, while also providing content access and publishing to multiple geographical locations, on multiple device types, in different languages and across multiple network protocols. This ability to centrally and securely administer video content while allowing it to be modified and distributed broadly is known as multi-point publishing. We believe that the KIT Platform has the most advanced multi-point publishing capabilities in the market today.

We align our business and the solutions we offer into three primary vertical industry segments: (i) media distributors, (ii) general corporate enterprises and (iii) network operators. This provides an organizational framework to synchronize commercial and operational functions and enables our team to foster deep industry specific thought leadership and subject matter expertise. Using a consultative, solution-oriented approach to the market allows us to significantly increase the value we are able to provide to our clients by offering industry-specific workflow management and establishing deeper, longer lasting relationships, resulting in more business and higher margin revenue.

We manage our business across three major geographical profit and loss centers: (i) Europe, Middle East and Africa (EMEA), (ii) the Americas, and (iii) Asia-Pacific. We estimate that, as of March 15, 2011, approximately 40%, 35% and 25% of our current revenues are generated in EMEA, the Americas and Asia-Pacific, respectively.

Our clients in each of these regions use our KIT Platform and related professional services to address a variety of needs. Below are specific customer examples. These examples are presented below in order to illustrate different use cases for our software and services, and are not necessarily in order of importance or demonstrative of relative size of client:

- Vodafone, the world’s largest mobile network operator, has licensed the KIT Platform through various business units in EMEA to support a host of publishing points that are managed centrally. These publishing points include fully functional video stores with ‘download-to-own’ and ‘video-on-demand’ rental capabilities, web-based streaming deployments, user profiling for dynamic recommendation and rating of content, native Smartphone applications as well as WAP-based video portals for 3G-enabled devices.

- Delta Air Lines, the world’s largest airline, has licensed the KIT platform to manage DeltaTube, an internal communications video system that features executive messaging, internal training and company news on various device types.

- Telecom Argentina, Argentina's largest telecommunications carrier, has licensed our KIT Platform to support the most advanced online video-on-demand store in Latin America, streaming long-format Hollywood and Latin American movies over-the-top to its broadband user base, and employing next-generation adaptive streaming technologies directly through IPTV (internet protocol television)-capable set-top boxes, web browsers, game consoles and internet enabled TV sets throughout its network.

- General Motors, the world’s second largest automotive manufacturer, has licensed the KIT Platform to effectively and transparently communicate with employees, vendors, the public, investors, journalists and other interested parties through live speeches and on-demand archived content.

- Microsoft, the world's largest software company, has licensed our KIT Platform solution to support an integrated IP video digital signage and corporate communications systems for its new EMEA headquarters in Paris.

- TV2Moro has licensed our KIT platform to support an set-top box-based and OTT network providing popular Arabic content to consumers living in the U.S. and Europe. KIT digital solutions support different set-top box types with wireless USB and PVR Linux-based operating systems supporting Windows Media DRM and H.264 Codec, with open standard middleware and user interface.

- MTV, one of the world's leading lifestyle broadcasters, has licensed the KIT Platform to reach audiences across multiple platforms with engaging video experiences, including the Video Music Awards and the MTV News iPhone and Android Apps.

- A subsidiary of Chello Media, the content division of the world's third largest cable company, Liberty Global, has licensed the KIT platform to bring certain channels from a traditional pay TV networks to Web and Smartphone environments.

- Simon & Schuster, a leading print publisher, has licensed the KIT Platform to quickly deploy its authors' new books and related content to consumers through iTunes-connected devices. The interactive mobile apps include built-in interactive social features, including moderated UGC and real-time chat, and enables readers to upload photos and videos and build an online community of fans.

- Volkswagen has licensed the KIT Platform to implement a video system that addresses consumers and supply chain participants across six countries and nine of its famous brands: Audi, Bentley, Bugatti, Lamborghini, SEAT, Skoda, Scania, and Volkswagen. The KIT digital video solution enhances web experiences, while extending the group's communications and marketing capabilities to the Web, mobile devices, and connected TVs.

We believe the proliferation of IP-connected devices coupled with the accelerating worldwide adoption of broadband Internet connections, IPTV cable, and video-capable mobile networks is fueling long-term growth in IP-based video delivery. Moreover, we believe traditional digital video management systems, which are dominated by hardware and dedicated firmware solutions, will be replaced by software and IP-based solutions over the next 5-10 years. We are well-positioned to take advantage of this long-term replacement effect.

Our SaaS solutions have been designed to help large corporations cost-effectively manage and deliver video to both end-users and internal constituents with limited uptake and training time. The KIT Platform is delivered through the Internet from centrally hosted datacenters, providing a high degree of reliability, scalability and security. In addition to our cloud-based platform solutions, we address the needs of our customers at various stages along the video value chain — from the repurposing and monetization of video assets to the deployment of broadcast facilities — by offering professional services related to technical integration and hardware fit-out, user interface design, digital marketing and branding and strategic planning. We believe our proprietary KIT software platform, combined with our systems integration, creative and content services, provides us with a sustainable, competitive advantage over other, more limited and less scalable solutions currently being offered in the marketplace.

We derive our revenues from SaaS license fees and usage fees, enterprise license fees and professional services fees. For the year ended December 31, 2010, we recorded consolidated revenue of $106,597 as compared to revenue of $47,284 for the year ended December 31, 2009.

Over time, we seek to attain a 50%+ market share position in the VAMS industry globally, through both organic growth and selective acquisitions that complement our geographical footprint and sales vertical reach.

Corporate Information

We were incorporated under the laws of the State of Delaware in August 1998, and commenced operations in our current line of business in December 2003. Our principal executive offices are located at 26 West 17th Street, 2nd Floor New York, NY 10011 and our telephone number is +1 (212) 661-4111. Our operational headquarters is located in Prague, Czech Republic. We maintain a corporate website at www.kitd.com. Other information regarding our company can be found on our corporate website under “Investor Relations.” Neither the contents of our website nor downloadable files found there constitute part of this report.

We make available free of charge through our website, www.kitd.com, our annual reports on Form-10K and other reports that we file with the Securities and Exchange Commission, as well as certain of our corporate governance policies, including the charters for the Board of Directors’ audit, compensation and nominations and corporate governance committees and its code of ethics, corporate governance guidelines and whistleblower policy. We will also provide to any person without charge, upon request, a copy of any of the foregoing materials. Any such request must be made in writing to us, c/o Investor Relations, KIT digital, Inc., 26 West 17th Street, 2nd Floor, New York, New York 10010.

Organizational History

We were originally incorporated in Delaware in August 1998 under the name Virilitec Industries, Inc. For approximately five years prior to December 2003, Virilitec engaged in unrelated business activities. In December 2003, Virilitec completed a business combination with our legal predecessor, ROO Media Corporation (“ROO Media”), a Delaware corporation formed in March 2001, which was substantially engaged in our present line of business. During 2001 and 2002, ROO Media focused on developing and refining its products and solutions, commencing commercial sales of its solutions in late 2003. ROO Media originally developed a technology platform called “VX”, designed to provide a cost effective, robust and scalable solution to manage and syndicate video content over the Internet. In February 2004, we changed our corporate name to ROO Group, Inc. and in early 2011, we changed the product name “VX” to the “KIT Platform”.

In December 2007, we entered into an agreement with KIT Capital, Ltd. (“KIT Capital”), a company owned by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, under which KIT Capital has provided us managerial services and a substantial equity investment was made through its affiliate KIT Media, Ltd.

In May 2008, we changed our corporate name to our present name, KIT digital, Inc.

In May 2008, we completed a private placement of 2,142,858 shares of our common stock at a price of $7.00 per share, and warrants to purchase 2,142,858 shares of common stock at an exercise price of $11.90 per share, resulting in aggregate gross cash proceeds of $15,000. These warrants including an anti-dilution ratchet provision; as a result, the strike price became $7.00 per share as a result of the August 2009 public equity offering described below. In the private placement, KIT Media purchased 1,008,572 shares of common stock and warrants to purchase a like number of shares of common stock. All shares sold to KIT Media were at the same price and on the same terms as the other investors in the offering. Gavin Campion, our President, is also an investor in KIT Media, as are two other members of our board of directors.

In August 2009, we completed the sale of 4,554,000 shares of our common stock at a price of $7.00 per share in a public offering and contemporaneous listing on the Nasdaq Global Market, in which 4,004,000 shares were sold by us and 550,000 shares were sold by certain existing, unaffiliated stockholders. The gross proceeds of the common stock sold by us were $28,028. We did not receive any proceeds from the sale of shares by the selling stockholders. We issued to the underwriters 44,067 warrants to purchase shares of common stock with an exercise price of $8.40 per share exercisable for a period of five years and were valued under the Black-Scholes model as $181. In connection with the public offering, we received net cash proceeds of approximately $26,090 after underwriting discounts, commissions and fees, legal fees and expenses, and other fees. KIT Media, Ltd., controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, purchased $4,004 of common stock (572,000 shares) in the August 2009 offering, in part through the conversion into common stock of an interim note payable by us in the amount of $3,350. All shares sold to KIT Media were at the same price and on the same terms as the other investors in this offering.

On January 26, 2010, we completed an underwritten public offering of 2,980,000 shares of our common stock, pursuant to our shelf registration statement on Form S-3, which was originally filed and declared effective in October 2009, and related prospectus supplement dated January 21, 2010. We sold such shares in the offering at a price of $10.50 per share and received $31,290 in gross proceeds and approximately $28,890 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses. The impact of the public offering increased our total stockholders' equity by $28,890. As part of the offering, we granted the underwriters an over-allotment option to purchase an additional 447,000 shares of common stock at the same price per share through February 20, 2010. We subsequently sold 350,000 additional shares of common stock pursuant to the over-allotment option on February 23, 2010, and received $3,675 in gross proceeds and approximately $3,433 in net proceeds.

On March 7, 2010, our board of directors approved the repurchase of certain outstanding warrants with exercise prices below the then-current market price from certain warrant holders (who had acquired the warrants in the May 2008 private placement financing), including KIT Media, an entity controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer and Wellington Management Company ("Wellington"), an entity with greater than a 10% holding in KIT digital's outstanding common stock at the time of the transaction. KIT Media and Wellington were at the time considered related parties of the Company. The terms of the warrant repurchase were identical for KIT Media and Wellington, and the negotiation of such terms was led by Wellington. The Company offered to purchase and cancel these warrants at 133% of the intrinsic value of the warrants (but because intrinsic value was based on a 20-day trailing volume weighted average price of the underlying common stock at the time, the ultimate purchase price of the warrants ended up being below the actual intrinsic value at the date of purchase). These warrants with anti-ratchet dilution provisions totaling 3,030,747 were cancelled effective on March 31, 2010. These warrants were included in the warrant buyback liability as at March 31, 2010 and were paid after such date. We also repurchased and cancelled another 403,577 warrants with anti-ratchet dilution provisions during the year ended December 31, 2010, at varying prices, from parties other than KIT Media and Wellington, for $1,342.

On March 9, 2010, we completed an underwritten public offering of 1,541,624 shares of our common stock, pursuant to our shelf registration statement on Form S-3, which was originally filed and declared effective in February 2010, and related prospectus supplement dated March 4, 2010. We sold such shares in the offering at a price of $9.73 per share and received $15,000 in gross proceeds and approximately $14,075 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses. The impact of the public offering increased our total stockholders' equity by $14,075. We subsequently sold 231,244 additional shares of common stock pursuant to an underwriters' over-allotment option on March 22, 2010, and received $2,250 in gross proceeds and approximately $2,087 in net proceeds.

On April 27, 2010, we completed an underwritten public offering of 4,230,770 shares of our common stock, pursuant to our shelf registration statement on Form S-3, which was originally filed and declared effective in February 2010, and related prospectus supplement dated April 22, 2010. We sold such shares in the offering at a price of $13.00 per share and received $55,000 in gross proceeds and approximately $50,574 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses. We subsequently sold 634,615 additional shares of common stock pursuant to an underwriters' over-allotment option on May 6, 2010, and received $8,250 in gross proceeds and approximately $7,628 in net proceeds. KIT Capital purchased $1,300 of common stock (100,000 shares) in the April 2010 offering at the same price and on the same terms as the other investors in the offering.

On October 22, 2010, the U.S. Securities and Exchange Commission declared effective the registration statement on Form S-3 of KIT digital, Inc. filed on October 13, 2010. The registration statement permits us to issue, in one or more offerings, shares of common stock at an aggregate offering price not to exceed $250,000.

On November 24, 2010, we completed an underwritten public offering of 8,000,000 shares of our common stock, pursuant to our shelf registration statement on Form S-3 (No. 333-169918), which was originally filed and declared effective in October 2010, and related prospectus supplement dated November 19, 2010. We sold shares at a price of $12.00 per share and received $96,000 in gross proceeds and approximately $89,489 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses. We subsequently sold 1,200,000 additional shares of common stock pursuant to an underwriters' over-allotment option on December 10, 2010, and received $14,400 in gross proceeds and approximately $13,449 in net proceeds.

On December 24, 2010, we sold a portion of our business focusing on certain professional services and non-SaaS activities, allowing management to sharpen its focus on our core KIT Platform offerings. Activities spun out include certain encoding services and broadcast equipment installation services. The sale price of the transaction was approximately $12,000, including the repayment of outstanding loans to us.

Recent Business Acquisitions

KickApps Acquisition

On January 28, 2011, we acquired 100% ownership of KickApps Corporation, a Delaware corporation, through the merger of a wholly-owned subsidiary with and into KickApps. KickApps, headquartered in New York City, is a leading provider of solutions that enable the creation and management of next generation video-based and social experiences online. Its solutions consist of a suite of hosted social media applications and services that drive deeper relationships with customers, and which are used by some of the world's largest brands to grow and engage online audiences.

KickApps adds significant technology and product synergies to KIT digital, bringing a suite of self-serve deployable social solutions that are created using Web-based authoring tools. KickApps' Open Source Media Framework (OSMF) App Studio will serve as a unification point for all publishing-layer technologies across KIT digital's family of products.

KIT digital paid consideration of approximately US$44.7 million for KickApps on a cash-free, debt-free basis, and all in shares of KIT digital common stock that are subject to lock-up provisions—which will help ensure KickApps' shareholders and management's long-term commitment and upside in the combined business.

Under the Merger Agreement, at the closing of the transaction, KickApps stockholders received 3,010,294 shares of KIT digital's common stock. All vested KickApps options not exercised prior to the merger were cashed-out, and KIT digital will issue new options to KickApps employees with similar vesting provisions. Holders of KickApps common stock receiving total consideration in the merger of less than $7 do not receive any KIT digital common stock, but are instead paid in cash. We are holding 528,507 shares of the merger consideration in escrow for a period not to exceed 15 months following the merger to cover any warranty claims related to undisclosed commercial or tax liabilities or litigation. Our post-closing remedy for all claims will be limited to the escrowed funds, although the preferred stockholders of KickApps have agreed to indemnify us against certain liabilities up to the total value of the shares of our common stock issued to them.

Kewego Acquisition

On January 26, 2011, we entered into a stock purchase agreement with the shareholders of Kewego S.A., a company organized under the laws of France, pursuant to which we purchased all of the issued and outstanding shares of capital stock of Kewego. Kewego, based in Paris, provides enterprises, media operators, and communication agencies with professional IP-based, multi-screen video asset management solutions for managing, broadcasting and monetizing videos on IP connected devices, including PCs, mobile phones, iPads, connected TVs, and gaming consoles.

Kewego's platform brings to KIT digital a large set of robust application programming interfaces (APIs) that enable third party development and an agency ecosystem to drive sales channel partnerships. Kewego also enhances KIT's enterprise offering through onsite, digital signage deployments.

The consideration for all of Kewego's outstanding stock was €25,655, subject to a post-closing adjustment for working capital and net cash. The purchase price consisted of €8,750 in cash and the issuance of 1,411,704 shares of our common stock.

Kyte Acquisition

On January 25, 2011, through a wholly-owned subsidiary, we acquired decentraltv Corporation, a Delaware corporation doing business as Kyte. Kyte, based in San Francisco, is a leading cloud-based publishing platform that enables companies to manage and deliver live and on-demand video experiences to websites, mobile devices and connected TVs.

We plan to leverage Kyte's proprietary platform and application frameworks to serve and expand KIT's global client base. We believe our scale and expertise will make it possible for Kyte to realize the full potential of its pioneering innovations in online and mobile video, including new opportunities in the over-the-top connected device and enterprise video markets.

KIT digital paid consideration of approximately US$5.7 million on a cash-free, debt-free basis, plus certain future management incentive payments. The consideration was comprised of US$3.1 million in cash and the remainder in shares of KIT digital common stock.

At the closing of the acquisition, we paid $3,024 to the stockholders of Kyte, $582 to third parties for expenses for which Kyte was responsible, and issued for the benefit of the stockholders of Kyte 189,348 shares of our common stock, of which 56,803 shares are being held in escrow for a period of one year from closing to secure certain indemnification obligations of Kyte and its stockholders. On the one-year anniversary of the acquisition, KIT digital is obligated to pay up to an additional $500 in cash and issue up to an additional $500 in KIT digital common stock to former Kyte stockholders if specified financial milestones are achieved by that business.

Polymedia Acquisition - On Wednesday, March 16th, 2011 KIT digital executed a definitive agreement to acquire Polymedia S.p.A. Based in Milan, Italy, Polymedia is the IP video platform-provisioning subsidiary of TXT e-solutions, a public company listed on the Italian Stock Exchange (TXT IM). Polymedia develops multi-channel solutions for the acquisition, management and re-purposing of on-line digital IP-based content and video, and for its distribution across a variety of media, channels and devices, telecommunications carriers, cable, media and industrial enterprises.

Polymedia's core technology revolves around a set of proprietary tools that will allow KIT digital to more rapidly deploy its network operator and broadcaster solutions, and support various revenue models for premium IP video content. Polymedia offers particular expertise in metadata-related workflow and deep third party software integration. Additionally, the acquisition will reinforce KIT's leadership in Europe, the Middle East, and Africa.

In consideration for 100% of Polymedia's shares on a debt-free and cash-free basis, the transaction includes guaranteed payments of approximately $34.4 million at closing, comprised of $17.2 million in cash and up to $17.2 million in KIT digital common stock. The transaction is expected to close approximately mid-April 2011, pending review by Italian labor authorities.

Operations Strategy

Operational initiatives in 2010 included: (i) completion of technical and staff integration of acquisitions completed during the year; (ii) the roll-out of enhanced KIT Platform functionality across client deployments globally—including improvement of both "on-deck" and "off-deck" mobile publishing and delivery capabilities and enhancement of the KIT Platform's closed-network IPTV and hybrid set-top box capabilities; (iii) the expansion of our presence in the BRIC (Brazil, Russia, India, and China) markets via onshore office openings, commercial partnerships, joint ventures and selected acquisitions; and (iv) corporate marketing initiatives to be more widely visible as a global leader in the IP VAMS industry.

Our Growth Strategy

Our objective is to enhance our position as the leading provider of video technology and services. Key elements of our growth strategy include:

- invest in sales, marketing and branding to expand upon our leadership in cloud-based video asset management — we estimate that we are the largest international provider of software solutions for managing IP video content and it is our intention to continue to build our brand in such a way that is synonymous with ‘‘industrial grade’’ quality, professionalism and customer support;

- pursue new customers and territories — we are aggressively targeting potential customers through our direct sales force and believe that there are substantial market opportunities for our solutions in the Americas, Asia and Europe, as well as the BRIC markets;

- leverage existing and new strategic reselling partnerships with content delivery networks (CDNs), systems integration companies, hardware providers and other participants in the video management value chain, including collaborative sales and marketing efforts and the reselling of each other’s products and services;

- increase revenue from our existing client base — we seek to increase revenue from each of our customers by increasing their usage of our platform, increasing basic license fees by up-selling additional modules of the KIT Platform, and actively selling complementary creative and technical integration services;

- enhance our product offering — we intend to further develop our KIT software platform's capabilities and features by continuing to invest 7%+ of our gross revenues in ongoing research and development; and

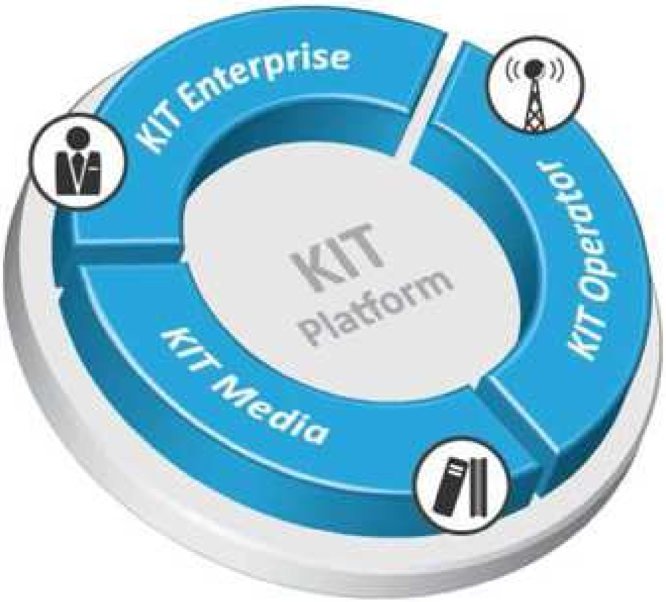
- complete accretive acquisitions which expand our client and geographical footprint — we intend to continue to pursue selected acquisitions that consolidate market share, expand our geographical footprint and customer reach, and further our position as the leading provider of enterprise-grade IP-based video management solutions.

Products and Services

The KIT Platform, our comprehensive software platform of cloud-based video asset management solutions helps more than 2,000 organizations of all types and sizes across 50 countries to produce, manage, and deliver their live and on-demand socially-enabled video assets from any source to any screen.

These organizations rely on us to deliver professional and Hollywood-quality video content to the screens of today (PCs, connected TVs, digital signage, mobile and tablet devices), to capture and stream over 50,000 live events a year, and to make video, audio and rich media presentations available on demand.

Our KIT Platform's modular approach enables our customers to take advantage of the solution set that is right for their business. Our software solutions include three major vertical offerings: KIT Enterprise, KIT Media and KIT Operator (as illustrated below).



KIT Media
Traditional broadcasters, content producers, syndicators, and online publishers use KIT Media to leverage IP video platforms and devices to reach new audiences globally and improve operational efficiencies.

KIT Enterprise
Global 1000 companies (from sectors like pharmaceutical, information technology, financial services, and automotive), non-profit organizations and government agencies use KIT Enterprise to help them to harness the power of video to improve their external or internal communications.

KIT Operator
Telecommunications companies, cable networks, ISPs and connected device manufacturers (which act as virtual network operators) use KIT Operator as a robust, multi-screen video asset management system allowing for organization of inbound content from outside providers, integration with internal customer identity and billing systems, programming and content packaging, and end-user experiences to their subscribers.

KIT digital's Industry-Specific Solutions. KIT digital helps its customers meet their specific business needs by picking and choosing particular modules from the KIT Platform which meet particular workflow requirements . KIT digital's customer support team is passionate about helping our clients leverage IP video to drive their business. Because each of our clients has unique objectives and requirements, we tailor our solutions and deployments to specific business needs. Below is a partial list of KIT Platform functional capabilities, with the ways in which they typically map against specific client vertical needs:

- Mobile Production Apps – Cost-effective production of live and on-demand video from any mobile device and prepare for delivery to any screen.
- File-based Asset Ingestion – Easy upload of any size or type of produced asset from a hard drive including flash, H.264, FLV, MPEG, MOV, PowerPoint slides, images and more.
- Film-Based Assets – Seamless ingest of long-format, Hollywood-quality films and prepare for delivery to any screen. KIT digital can accept and encode hard drives, film or tapes for ingestion.
- Satellite Ingestion and Conversion – Leverage of existing satellite infrastructure and conversion of satellite signal into the appropriate format for broadcast-quality delivery to the Web, mobile and tablet devices, and IPTV networks.
- Live Streaming – Capture, encoding, and streaming of live events for simultaneous broadcast on any screen in HD-quality.
- Self-Built Web Players – Enablement of self-production of live streaming and recorded video or pictures using simple point-and-click Web authoring tools to publish branded and user-generated content.
- Live Capture Backpack – Broadcast of professional, high quality video from a battery-operated wireless backpack for on-the-go streaming.
- Email Ingest – Emailing of videos or pictures from the Web or mobile device to a unique channel email address to allow for instantaneous or filtered publishing on multiple screens.
- API Ingest – Simple development, personalization, and implementation of customized video solutions for automatic ingestion and production work flows.

- VOD – Management of video-on-demand playlists, libraries, thumbnail images, metadata, advertisements, trailers, and analytics—on both a subscription and advertising-supported basis.

- Live – Delivery of HD live streaming videos to online, mobile and other OTT audiences, with automatic archiving of videos for on-demand viewing, and streams protected from unauthorized viewing and re-use.

- App Studio – Creation of feature-rich Flash and HTML5 media players and related social media capabilities (like content recommendation, content sharing, socially driven programming, and other audience engagement and feedback tools) with the App Studio Drag and Drop authoring tool.

- Linear Playlists – Quick set-up of linear playlists with live and on-demand content; provision of loop, live/loop, and live channels with editorial program information (EPG); editing of playlists in real-time by dragging and dropping programs into a schedule.

- Conditional Access – Protection of content from unauthorized viewing and re-use with a wide range of security options, from geo-blocking to token authentication to https-encrypted streams.

- Billing – Monetization of media assets by integrating various ad formats into videos such as classical banners, overlays, in-stream ads, and personalized and interactive ad-breaks.

- Analytics – Optimization of the effectiveness of campaigns and more effective reach of audiences with powerful campaign, reporting and analytics dashboards.

- CRM – Management of all collected customer data and provision of this information on a 24-hour self-administrated basis from all relevant modules for reporting and analytics purposes. Business intelligence is gathered across all multi-screen deliveries.

- DRM – Leverage of our state of the art, Hollywood-proven and MPAA-approved content handling and master file transformation facilities, and our preferred DRM partner relationships for optimum overall rights management.

- Internal Social Network – Connection of internal employees, colleagues and staff together in online and rich media-capable mobile environments where they can share and receive company updates, industry news, and more.

- External Social Features – Interaction with audiences and management of a very large set of integrated social experiences for websites and connected devices including custom forums, social sites, widgets, contests, Facebook pages, and video players.

- Web Players – Access to a video library, presentation of video or audio with related slides, enablement of links, modification of templates—either by the customer or by our professional services staff.

- Mobile Apps/Streaming – Distribution of live and on-demand media across more than 500 leading mobile platforms, and the development of customized, branded video apps to create mobile or social experiences.

- Connected Devices – Combination of TV, Web broadcast and social experiences by making TV channels, video-on-demand and customized apps available via connected devices such as Boxee, Roku and Google TV.

- Facebook Apps – Creation of dynamic, engaging branded Facebook Apps and Fan Page Tabs.

- Connected TV/STB – Enablement of audiences to create custom viewing experiences by seamlessly switching between the Web, TV, and mobile devices using a singular asset management back-end.

- Digital Signage – Deployment of IP video on dedicated screens for merchandising in retail environments or for internal corporate communications in office environments.

- Syndication – Multi-point publishing of content on sites and social networks using syndication or RSS tools.

- Content MarketPlace: Automatic delivery of large volumes of refined video and audio content based on pre-defined requirements to global users at different levels of access and authentication, with content thumbnails and deep localization provided by our professional services team.

Highly configurable cloud-based platform suite. The KIT Platform is delivered over IP as a subscription service using a SaaS model, eliminating the need for customers to buy, maintain and upgrade on-premise hardware and software. Our software solution is highly configurable, allowing customers to tailor their deployments to meet their unique requirements. Additionally, our architecture enables us to maintain high levels of availability, scale to meet demand, deploy standard configurations quickly and provide a safe and secure environment for our customers' video assets.

Professional Services

- **Integration Services –** Our software suite was designed to work with traditional, hardware-based video management deployments, conditional access solutions, CRM and billing systems, as well as large content management systems and enterprise resource planning (or ERP) software.

- **Marketing Services** – We offer our customers top-grade creative and professional services to support the successful implementation of their video strategy, including user experience design, branding and strategic planning.

- **Traditional Video and Digital Cinema Services** – We have over ten years experience working with the movie industry and Hollywood studios to help them transition from VHS to digital formats like DVD, Blu-ray and recently Digital Cinema and Internet streaming. We are a provider of master studio services and file management solutions for the purposes of digital cinema delivery, digital distribution and localization. Our digital cinema solutions cover the entire content management lifecycle, from ingestion, digitization and mezzanine file management to processing, authoring and securing content for replication and physical distribution.

- **Broadcast Engineering Services –** We have more than 20 years of broadcast engineering experience working with broadcasters to bridge the gap between traditional broadcast solutions and software-based new media systems. With our approach, we ensure that the production process and workflow remain streamlined and efficient while enabling broadcasters to upload and encode video clips for export to web and mobile environment. Our broadcast engineering services area includes implementation of KIT platform-enabled digital play-out facilities, recording and editing suites and remote content ingestion assets.

- **Content Services –**We work with content originators, publishers and syndicators to integrate, refine and distribute video content across multiple screens. KIT digital's content offerings are very flexible and cost effective and cover the whole production chain from raw footage to ready-paged content that is distributed to end users.

Our Technology

The KIT Platform is a highly scalable, multi-tenant application written in enterprise-class programming languages including C++ and Java, and leveraging standards based web services and APIs to ensure a high degree of modular extensibility. We use commercially available hardware and a combination of proprietary and commercially available software, including technologies acquired through acquisitions, to provide our solutions. This approach follows a technical design philosophy that utilizes modular, extensible subcomponents and exposes functionality via standards-based APIs. A universal services bus allows each discrete component to communicate using a common set of APIs, ensuring interoperability and allowing KIT digital to easily delivery highly customized solutions that meet the particular needs of the customer while minimizing custom development.

The Open Source Media Framework, or OSMF, a technology jointly developed by KickApps and Adobe, epitomizes the modular, standards-based approach that has been embraced by KIT digital. The OSMF apps studio serves as a common authoring tool across KIT's entire platform suite, allowing clients to create and deploy customized Flash and HTML5 social video experiences with point and click ease.

Our platform powers video experiences delivered to multiple screens and devices, including web browsers, native and web-based mobile and tablet applications, and connected set-top boxes and televisions.

We own or manage all of the hardware deployed in support of the KIT Platform. We have multiple redundant co-location facilities including Atlanta, Brisbane (Australia), Cologne, Dusseldorf, London, New York, Prague and Toronto, in addition to our primary location in Ashburn, Virginia. Our facilities are state-of-the-art and provide around-the-clock security personnel, video surveillance and biometric access screening, and are serviced by onsite electrical generators, fire detection and suppression systems. Our facilities afford us multiple Tier 1 interconnects to the global Internet. Our multiple co-location facilities provide increased platform uptime and application availability and redundancy, which are essential to support the business-critical needs of our customers.

We provide 24/7 performance and uptime monitoring of our platform services. We have a highly available, scalable infrastructure that utilizes load-balanced web server pools, redundant interconnected networks, switches and firewalls, intrusion detection, replicated databases and fault-tolerant storage devices. User and performance data are backed up on a daily basis and stored in multiple locations to ensure integrity and restoration capability. Application monitoring includes automated tools that ensure our KIT software platform is running and operating within performance benchmarks. Since migrating to our own delivery architecture in May 2008, our core platform uptime has been 100% — although there can be no assurance of perfect uptime in the future.

We have not been focused historically on the development of patents because we believe that the long-term commercial usage of our KIT platform and its component parts (dating back to 1999 for certain key elements) at this point provides us the best defensibility around our core intellectual property. We rely upon confidentiality agreements signed by our employees, consultants and third parties, and trade secret laws of general applicability, to safeguard our software and technology.

Customers

As of March 15, 2011, we had more than 2,000 customers. Our standard SaaS license agreement for our enterprise customers runs at least 24 months; our current average remaining contract life is approximately 18 months. SaaS fees are billed monthly, on both a basic license and usage fee basis. Our client contracts typically renew automatically in the absence of proactive termination at the end of the contract term, and we estimate that customer cancellations in our business have historically been under 2% per year.

Our professional services are contracted on a project basis and in some cases on an hourly basis.

As previously discussed, we provide services to customers in three primary vertical industry segments, including media distributors, general corporate enterprises and network operators. Our customer base is not concentrated in any particular industry. None of our customers accounted for more than 10% of revenues in the years ended December 31, 2010 and 2009. Set forth below is a representative list of our customers as of March 15, 2011:

ABC News, A&E Television, Airbus, American Express, AP, AstraZeneca, Astro, Autotrader.com, BBC, Bristol-Myers Squibb, British Telecom, Cinepost, Citadel Broadcasting, Comcast, CNN, Czech TV, Delta Airlines, ESPN, FedEx, FOX, GM, Google, Hewlett-Packard,, HBO, Johnson & Johnson, Joyce Meyer Ministries, The Knot, Microsoft, MSN, MTV, NY Post, National Geographic, O2 Ice Hockey League, Playtex, PMT, Prima TV, Reckord Outside Broadcasting, Salesforce.com, SAP, Snap-On Tools, Tabcorp, Tribeca Film Festival, Telecom Argentina, Telefonica, TV2Moro, United Business Media, U.S. Department of Veteran Affairs, Verizon, Vodafone, Volkswagen, Z1 and Yellow Pages.

Sales and Marketing

We primarily sell our software solutions directly through our sales force. To a lesser extent, we utilize distribution relationships such as resellers and affiliate partners. We target providers and users of IP video content through our:

- Field sales force: We have developed a field sales force and as of December 31, 2010 we had approximately 89 direct sales personnel in various geographic markets, including 33 in EMEA, 26 in Asia-Pacific and in the Americas (including both North and South America). Our direct sales force is responsible for identifying and managing individual sales opportunities in their respective regions. Certain sales representatives also have cross-regional ‘‘vertical’’ responsibilities, meaning they are responsible for identifying global sales opportunities in a specific industry vertical, such as classifieds, retail or publishing. These direct sales representatives are complemented by over 80 additional sales support, sales administration and channel sales professionals.

- Distribution partners: We maintain relationships with certain resellers and distribution partners that we believe have complementary efforts in the IP-video marketplace, and strong existing client bases with in-region sales forces. Currently, we have deployed formal reselling relationships as follows: Akamai, Aprimo, Can Communicate, Complete TV, DigiSoft, Digotel, Gartner, Harmonic/Omneon, LatinStock, Level 3, Limelight, MC Communications, MedIQ, Omnitech, Pixelpark, Sony, Spotzer, Technicolor, United Business Media, Vivocom and WebAlive.

  We intend to aggressively expand our reseller network, with a particular focus on content delivery networks (CDNs), systems integrators, content aggregators and IP-based hardware providers.

We focus our corporate marketing efforts on increasing brand awareness, communicating the KIT software platform advantages and generating qualified leads for our sales teams. Our corporate marketing plan is designed to continually elevate awareness of our brand and generate demand for our software solution. We rely on a number of vehicles in this area, including tradeshows, advertising, public relations, webinars, our website and collaborative relationships with complementary technology vendors.

Our Industry

We believe we are well positioned to take advantage of the growth within the Internet Protocol (IP)-based VAMS industry. Our industry's growth globally is expected to be driven by:

- the conversion of analog and traditional digital video formats to IP video;
- the continuing rise in the amount and breadth of IP-based video content;
- changes in consumer behavior and the growing consumer demand for IP-based video content;
- the proliferation of broadband Internet connections;
- the expansion and evolution of video-capable mobile networks;
- the increase of Internet-connected devices; and
- the rapid ''catch-up'' of emerging markets broadband and mobile network access.

Competition

We believe that few competitors currently provide the range of technology and services provided by KIT digital, but there are a number of competitors that provide certain elements of the products and services we offer, including:

- video asset management and enablement; and
- video-centric integration, interface design and creative services.

We believe the barriers to entry for the industry in which we operate include: (i) the intellectual property, timeframe and costs to develop commercially robust, feature-rich video content management platforms for online, mobile and IPTV networks, (ii) established enterprise-class business relationships and (iii) the time and resources involved to train and develop sales, account management and professional services staff with IP video and social media expertise.

Video content management and enablement. There are a number of companies that offer competing tools for enabling video content for consumption via the Internet, mobile networks and connected TVs, including but not limited to Deltatre, thePlatform, Arvato Mobile, Polymedia, Vision IPTV, Extend Media, Saffron Digital, Irdeto, Qumu, and Tvinci.

Video-centric systems integration, interface design and creative services. There are myriad broadcast systems integration companies and interactive marketing agencies globally, many of which have some expertise in IP-based video systems.

We believe that we set ourselves apart from our competitors through:

- the breadth and depth of the KIT suite functionality;
- our integrated online, mobile and IPTV (‘‘multi-screen’’) publishing capability;
- our integrated social media capabilities;
- our global customer and sales footprint, including multicultural and multilingual customer services and support;
- our advanced multi-format ingestion and multi-point publishing capabilities;
- our multi-format content syndication and repurposing capabilities; and
- our top-tier creative services and systems integration capabilities.

Research and Development

Our research and development personnel are dedicated to undertaking efforts to enhance and improve our existing services and create new services in response to our customers’ needs and market demand for software tools to manage and deliver IP-video. Accordingly, we have invested, and intend to continue to invest, significant time and resources in our development activities to establish and maintain ourselves as a leader in providing optimized IP-based video solutions that address the business needs of our customers. As of December 31, 2010, we had over 100 employees involved in tasks related to research and development. While our reported research and development expenses were $4.1 million and $4.7 million for the years ended December 31, 2010 and 2009, respectively, these figures are related primarily to acquisition accounting and the actual estimated level of past and future research and development expenditure in our business is approximately 7-9% of gross revenues. As a practice, we generally do not capitalize research and development, and these amounts are expensed.

Employees

As of December 31, 2010, we had a total of approximately 720 full-time employees, approximately 100 part-time employees and 22 consultants based in Asia, EMEA and the Americas. Our future success will depend in part on our ability to attract, retain and motivate highly qualified technical and management personnel for whom competition is intense. Our employees are not represented by any collective bargaining unit, though there is a work council set up in our Cologne, Germany office. We believe our relations with employees and contractors are good.

Government Regulation

We are subject to risks associated with governmental regulation and legal uncertainties. Few existing laws or regulations specifically apply to the Internet, other than laws and regulations generally applicable to businesses. Many laws and regulations, however, are pending and may be adopted in the United States, individual states and local jurisdictions and other countries with respect to the Internet. These laws may relate to many areas that impact our business, including content issues (such as obscenity, indecency and defamation), caching of content by server products, and the convergence of traditional communication services with Internet communications, including the future availability of broadband transmission capability and wireless networks. These types of regulations are likely to differ between countries and other political and geographic divisions. Other countries and political organizations are likely to impose or favor more and different regulation than that which has been proposed in the United States, thus furthering the complexity of regulation. The adoption of such laws or regulations, and uncertainties associated with their validity, interpretation, applicability and enforcement, may affect the available distribution channels for and costs associated with our products and services, and may affect the growth of the Internet. Such laws or regulations may harm our business. Our products and services may also become subject to investigation and regulation of foreign data protection authorities, including those in the European Union. Such activities could result in additional product and distribution costs for us in order to comply with such regulation.

Item 1A. Risk Factors.

You should carefully consider the risks and uncertainties described below, as well as other information provided to you in this report, including information at the beginning of this document entitled "Special Note Regarding Forward-Looking Information," and in other documents that we subsequently file with the SEC that update, supplement or supersede such information. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us or which we consider immaterial based on information currently available to us may also materially adversely affect us. If any of the events anticipated by the risks and uncertainties described occur, our results of operations and financial condition could be adversely affected, which could result in a decline in the price of our common stock.

Risks Related to Our Business

We have a history of annual net losses which may continue and which may negatively impact our ability to achieve our business objectives.

For the year ended December 31, 2010, we had revenue of $106,597 and a net loss available to common stockholders of $35,260. There can be no assurance that, even if our revenue increases, our future operations will result in net income. Our failure to increase our revenues or improve our gross margins will harm our business. We may not be able to sustain or increase profitability on a quarterly or annual basis in the future. If our revenues grow more slowly than we anticipate, our gross margins fail to improve or our operating expenses exceed our expectations, our operating results will suffer. The prices we charge for our Internet software and services may decrease, which would reduce our revenues and gross margins, and harm our business. If we are unable to sell our solutions at acceptable prices relative to our costs, or if we fail to develop and introduce on a timely basis new products from which we can derive additional revenues, our financial results will suffer.

Our operations have limited histories and therefore we cannot ensure the long-term successful operation of our business or the execution of our business plan.

Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by growing companies in new and rapidly evolving markets, such as the software and services markets in which we operate. We must meet many challenges including:

- establishing and maintaining broad market acceptance of our products and services and converting that acceptance into direct and indirect sources of revenue;
- establishing and maintaining adoption of our technology on a wide variety of platforms and devices;
- timely and successfully developing new products, product features and services and increasing the functionality and features of existing products and services;
- developing services and products that result in high degrees of corporate client satisfaction and high levels of end-customer usage;
- successfully responding to competition, including competition from emerging technologies and solutions;
- developing and maintaining strategic relationships to enhance the distribution, features, content and utility of our products and services; and
- identifying, attracting and retaining talented technical and creative services staff at reasonable market compensation rates in the markets in which we employ.

Our business strategy may be unsuccessful and we may be unable to address the risks we face in a cost-effective manner, if at all. If we are unable to successfully address these risks, our business will be harmed.

Our resources may not be sufficient to manage our expected growth; failure to properly manage our potential growth would be detrimental to our business.

We may fail to adequately manage our anticipated future growth. Any growth in our operations will place a significant strain on our administrative, financial and operational resources, and increase demands on our management and on our operational and administrative systems, controls and other resources. We cannot assure you that our existing personnel, systems, procedures or controls will be adequate to support our operations in the future or that we will be able to successfully implement appropriate measures consistent with our growth strategy. As part of this growth, we may have to implement new operational and financial systems, procedures and controls to expand, train and manage our employee base and maintain close coordination among our technical, accounting, finance, marketing and sales staff. We cannot guarantee that we will be able to do so, or that if we are able to do so, we will be able to effectively integrate them into our existing staff and systems. There may be greater strain on our systems mainly because we have acquired a number of businesses over the last 24 months and have had to devote significant management time and expense to the ongoing integration and alignment of management, systems, controls and marketing. To the extent we acquire other businesses, we will also need to integrate and assimilate new operations, technologies and personnel. If we are unable to manage growth effectively, such as if our sales and marketing efforts exceed our capacity to install, maintain and service our products or if new employees are unable to achieve performance levels, our business, operating results and financial condition could be materially and adversely affected.

Our competitors may have greater financial and other resources than we do and those advantages could make it difficult for us to compete with them.

The market for IP video content management is relatively new and constantly changing. We expect that competition in this industry will intensify. Increased competition may result in price reductions, reduced margins, loss of customers and changes in our business and marketing strategies, any of which could harm our business. Current and potential competitors may have longer operating histories, greater name recognition, more employees and significantly greater financial, technical, marketing, public relations and distribution resources than we do. In addition, new competitors with potentially unique or more desirable products or services may enter the market at any time. The competitive environment may require us to make changes in our products, pricing, licensing, services or marketing to maintain and extend our current brand and technology. Price concessions or the emergence of other pricing, licensing and distribution strategies or technology solutions of competitors may reduce our revenue, margins or market share. Other changes we have to make in response to competition could cause us to expend significant financial and other resources, disrupt our operations, strain relationships with partners, release products and enhancements before they are thoroughly tested or result in customer dissatisfaction, any of which could harm our operating results and stock price.

If other market participants in the general video management market enter into social media and IP-based VAMs, we may be negatively impacted.

If dedicated firmware vendors and systems integrators were to enter into our space, they may have longer operating histories, greater name recognition, more employees and significantly greater financial, technical, marketing, public relations and distribution resources than we do. The competitive environment may require us to make changes in our products, pricing, licensing, services or marketing to maintain and extend our current brand and technology. Price concessions or the emergence of other pricing, licensing and distribution strategies or technology solutions of competitors may reduce our revenue, margins or market share. Other changes we have to make in response to competition could cause us to expend significant financial and other resources, disrupt our operations, strain relationships with partners, release products and enhancements before they are thoroughly tested or result in customer dissatisfaction, any of which could harm our operating results and stock price.

If we do not successfully develop new software products and solutions, our business may be harmed.

Our business and operating results may be harmed if we fail to expand our software and services suite (either through internal product or capability development initiatives or through strategic partnerships and acquisitions) in such a way that achieves widespread market acceptance or that generates significant revenue and gross profits to offset our operating and other costs. We may not successfully identify, develop and market new product and service opportunities in a timely manner. If we introduce new products and services, they may not attain broad market acceptance or contribute meaningfully to our revenue or profitability. Competitive or technological developments may require us to make substantial, unanticipated investments in new products and technologies or in new strategic partnerships, and we may not have sufficient resources to make these investments. Because the markets for our solutions are subject to rapid change, we may need to expand and/or evolve our product and service offerings quickly. Delays and cost overruns could affect our ability to respond to technological changes, evolving industry standards, competitive developments or customer requirements and harm our business and operating results.

Any failure of major elements of our system and operations could lead to significant disruptions in our ability to serve customers, which could damage our reputation, reduce our revenues or otherwise harm our business.

Our business is dependent upon providing our customers with fast, efficient and reliable services. A reduction in the performance, reliability or availability of our network infrastructure may harm our ability to distribute our software to our customers, as well as our reputation and ability to attract and retain customers and content providers. Our systems and operations are susceptible to, and could be damaged or interrupted by outages caused by fire, flood, power loss, telecommunications failure, Internet or mobile network breakdown, earthquake and similar events. Our systems are also subject to human error, security breaches, power losses, computer viruses, break-ins, “denial of service” attacks, sabotage, intentional acts of vandalism and tampering designed to disrupt our computer systems and network communications, and our systems could be subject to greater vulnerability in periods of high employee turnover. A sudden and significant increase in traffic on our customers’ websites or demand from mobile users could strain the capacity of the software, hardware and telecommunications systems that we deploy or use. This could lead to slower response times or system failures. Our failure to protect our network against damage from any of these events could harm our business.

Our operations also depend on web browsers, ISPs (Internet service providers) and mobile networks to provide our clients’ end-users access to websites, IPTV and mobile content. Many of these providers have experienced outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to our systems. Any such outage, delay or difficulty could adversely affect our ability to effectively provide our software and services, which would harm our business.

We depend on various third parties to maintain much of our content delivery, storage and computer hardware operations. If the third parties’ hardware or operations fail, our business will be harmed.

A portion of our content delivery, storage and computer hardware operations are operated or safeguarded by third parties such as Akamai Technologies, Equinix, Internap, Limelight, RRSat, Satlink and various other content delivery and transport, hosting and telecommunications providers. If these providers’ operations, networks, hardware or security systems fail — particularly if they fail in unison — our reputation and business may suffer. A problem with, or failure of, these systems or operations could result in interruptions or increases in response times for our customers. If we cannot maintain our system in the event of unexpected occurrences, make necessary modifications and/or improvements to the technology, such deficiencies could have a material adverse effect upon our business, financial condition and results of operations.

We license technology from third parties. If we are unable to maintain these licenses, our operations and financial condition may be negatively impacted.

We license technology from third parties. The loss of, or our inability to maintain, these licenses could result in increased costs or delay sales of our software and services. We anticipate that we will continue to license technology from third parties in the future. This technology may not continue to be available on commercially reasonable terms, if at all. Although we do not believe that we are substantially dependent on any individual licensed technology, some of the component technologies that we license from third parties could be difficult for us to replace. The impairment of these third-party relationships, especially if this impairment were to occur in unison, could result in delays in the delivery of our software and services until equivalent technology, if available, is identified, licensed and integrated. This delay could adversely affect our operating results and financial condition.

Certain of our service delivery and content handling services are subject to industry regulations, certifications and approvals.

The commercialization of certain of the service delivery and content handling services we provide at times require or are made more costly due to industry acceptance and regulatory processes, such as ISO certification and strict content security handling standards for Hollywood studios. If we are unable to obtain or retain these or other formal and informal industry certifications in a timely manner, or at all, our operating results could be adversely affected.

If we do not adequately protect our intellectual property rights, we may experience a loss of revenue and our operations may be materially harmed.

We have not made a practice of registering patents or copyrights on the software and technology we have developed. We believe our intellectual property is protected by the long-term usage precedent for our software solutions, and we rely upon confidentiality agreements signed by our employees, consultants and third parties, and trade secret laws of general applicability, as an ongoing safeguard for our software and technology. We cannot assure you that we can adequately protect our intellectual property or successfully prosecute potential infringement of our intellectual property rights. Also, we cannot assure you that others will not assert rights in, or ownership of, trademarks and other proprietary rights of ours or that we will be able to successfully resolve these types of conflicts to our satisfaction. Our failure to protect our intellectual property rights may result in a loss of revenue and could materially harm our operations and financial condition.

If we are unable to retain the services of Kaleil Isaza Tuzman or Gavin Campion or if we are unable to successfully recruit qualified personnel, we may not be able to continue operations.

Our success depends to a significant extent upon the continued service of Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, and Gavin Campion, our President. The loss of the services of Messrs. Isaza Tuzman or Campion could have a material adverse effect on our growth, revenues and prospective business. We have entered into an executive management agreement with KIT Capital, Ltd., an entity controlled by Mr. Isaza Tuzman, including the services of Mr. Isaza Tuzman and other KIT Capital personnel, pursuant to which Mr. Isaza Tuzman serves as our Chief Executive Officer, for a term of three years scheduled to expire in April 2011. This agreement is currently being negotiated for renewal. We have also entered into an employment agreement with Mr. Campion. While we expect both Messrs. Isaza Tuzman and Campion to renew their employment arrangements with us under substantially similar terms, if either Mr. Isaza Tuzman or Mr. Campion were to resign or we are unable to retain either of their services beyond the term of their respective agreement with us, the loss could result in loss of sales, delays in new product development and diversion of management resources, and we could face high costs and substantial difficulty in hiring a qualified successor and could experience a loss in productivity while any such successor obtains the necessary training and experience. In addition, in order to successfully implement and manage our business plan, we are dependent upon, among other things, successfully recruiting qualified personnel who are familiar with the specific issues facing the IP video enablement industry. In particular, we must hire and retain experienced management personnel to help us continue to grow and manage our business, and skilled software engineers to further our research and development efforts. Competition for qualified personnel is intense. If we do not succeed in attracting new personnel or in retaining and motivating our current personnel, our business could be harmed.

We may not have successfully integrated recent acquisitions to realize the full benefits of the combined businesses.

Our recent acquisitions involve the integration of businesses that have previously operated separately. The difficulties of combining the operations of these businesses include:

- the challenge of effecting technical and staff integration while carrying on the ongoing businesses;
- the necessity of coordinating geographically separate organizations; and
- effective integration of personnel with diverse business backgrounds.

The process of completing the integration of these businesses could cause an interruption of, or loss of momentum in, the activities of our company and the loss of key personnel. The multinational nature of our operations can make it especially challenging to successfully integrate our recent acquisitions. The diversion of management's attention and any delays or difficulties encountered in connection with the acquisitions and the integration of these operations could have an adverse effect on our business, financial condition or results of operations.

Our growth strategy depends, in part, on our acquiring businesses, products and technologies and expanding their existing operations, which we may be unable to do.

Our growth strategy is based, in part, on our ability to acquire or invest in businesses, products and technologies. The success of this acquisition strategy will depend, in part, on our ability to accomplish the following:

- identify suitable businesses or assets to buy;
- complete the purchase of those businesses on terms acceptable to us;
- complete the acquisition(s) in the time frame and within the budget we expect; and
- improve the results of operations of each of the businesses that we buy and successfully integrate its operations on an accretive basis.

There can be no assurance that we will be successful in any or all of the factors above. Our failure to successfully implement our acquisition strategy could have an adverse effect on other aspects of our business strategy and our business in general. We may not be able to find appropriate acquisition candidates, accretively acquire those candidates that we identify or integrate acquired businesses effectively and profitably.

We may be subject to legal liability for providing third-party content.

We have certain arrangements to offer third-party content via certain of our clients' websites. We may be subject to claims concerning this content by virtue of our involvement in marketing, branding, broadcasting or providing access to it, even if we do not ourselves host, operate or provide access to the content. While our agreements with these parties most often provide that we will be indemnified against such liabilities, such indemnification may not be adequate or available. Investigating and defending any of these types of claims can be expensive, even if the claims do not result in liability. While to date we have not been subject to material claims, if any potential claims do result in liability, we could be required to pay damages or other penalties, which could harm our business and operating results.

Fluctuations in foreign currency exchange rates affect our operating results in U.S. dollar terms.

A portion of our revenues arises from international operations. Revenues generated and expenses incurred by our international subsidiaries are often denominated in the currencies of the local countries. While we seek to roughly match client revenues with associated costs of delivery and client service, our consolidated U.S. dollar financial statements are subject to fluctuations due to changes in exchange rates as the financial results of our international subsidiaries are translated from local currencies into U.S. dollars. In addition, our financial results are subject to changes in exchange rates that impact the settlement of transactions in non-local currencies.

We may be required to record a significant charge to earnings if our goodwill or amortizable intangible assets become impaired.

We are required under U.S. generally accepted accounting principles to test goodwill for impairment at least annually and to review our amortizable intangible assets for impairment when events or changes in circumstance indicate the carrying value may not be recoverable. Factors that could lead to impairment of goodwill and amortizable intangible assets include significant adverse changes in the business climate and declines in the financial condition of our business. We have recorded and may be required in the future to record additional charges to earnings if a portion of our goodwill or amortizable intangible assets becomes impaired. Any such charge would adversely impact our financial results.

Our international operations are subject to increased risks which could harm our business, operating results and financial condition.

In addition to uncertainty about our ability to continue to generate revenues from our foreign operations and expand our international market position, there are risks inherent in doing business internationally, including:

- trade barriers and changes in trade regulations;
- difficulties in developing, staffing and simultaneously managing a large number of varying foreign operations as a result of distance, language and cultural differences;
- the need to comply with varied local laws and regulations;
- longer payment cycles;
- possible credit risk and higher levels of payment fraud;
- profit repatriation restrictions and foreign currency exchange restrictions;
- political or social unrest, economic instability or human rights issues;
- geopolitical events, including acts of war and terrorism;
- import or export regulations;
- compliance with U.S. laws (such as the Foreign Corrupt Practices Act) and local laws prohibiting corrupt payments to government officials;
- laws and business practices that favor local competitors or prohibit foreign ownership of certain businesses; and
- different and more stringent user protection, data protection, privacy and other laws.

Violations of complex foreign and U.S. laws and regulations that apply to our international operations could result in fines, criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business and damage to our reputation.

Although we have implemented policies and procedures designed to promote compliance with these laws, there can be no assurance that our employees, contractors or agents will not violate our policies. These risks inherent in our international operations and expansion increase our costs of doing business internationally and could result in harm to our business, operating results and financial condition.

Risks Related to Our Common Stock

Our historic stock price has been volatile and the future market price for our common stock is likely to continue to be volatile. This may make it difficult for you to sell our common stock for a positive return on your investment.

The public market for our common stock has historically been volatile. Any future market price for our shares is likely to continue to be volatile. This price volatility may make it more difficult for you to sell shares when you want at prices you find attractive. The stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of specific companies. Broad market factors and the investing public’s negative perception of our business may reduce our stock price, regardless of our operating performance. Further, the market for our common stock is limited and we cannot assure you that a larger market will ever be developed or maintained. Market fluctuations and volatility, as well as general economic, market and political conditions, could reduce our market price. As a result, these factors may make it more difficult or impossible for you to sell our common stock for a positive return on your investment.

Shares of common stock issuable upon exercise of our outstanding stock options and warrants may adversely affect the market price of our common stock.

As of March 15, 2011, we had outstanding under our 2004 Stock Option Plan and 2008 Incentive Stock Plan stock options to purchase 5,228,756 shares of common stock and outstanding warrants to purchase 1,415,423 shares of common stock (for which cash would need to be remitted to us for exercise). The exercise of the stock options and warrants and the sales of common stock issuable pursuant to them, would reduce a stockholder's percentage voting and ownership interest in our company. The stock options and warrants are likely to be exercised when our common stock is trading at a price that is higher than the exercise price of these stock options and warrants.

The large number of shares eligible for future sale may adversely affect the market price of our common stock.

The sale, or availability for sale, of a substantial number of shares of common stock in the public market could materially adversely affect the market price of our common stock and could impair our ability to raise capital through the sale of our equity securities. As of March 15, 2011, there were 37,937,010 shares of our common stock issued and outstanding. Substantially all of these shares are freely transferable. Our executive officers and directors own (of record) approximately 3,838,298 shares of common stock, or 10.12% of our outstanding shares, which would be eligible for resale, subject to the volume and manner of sale limitations of Rule 144 under the Securities Act.

Our shares of common stock are traded on more than one exchange and this may result in price variations.

Our common stock is listed for trading on the Nasdaq Global Select Market and the Prague Stock Exchange. The trading prices of our shares on these two exchanges may differ due to spreads between functional trading currencies, different trading hours and other factors, and this may cause confusion to investors seeking to buy or sell our shares.

We have provisions in our certificate of incorporation that substantially eliminate the personal liability of members of our board of directors for violations of their fiduciary duty of care as a director and that allow us to indemnify our officers and directors. This could make it very difficult for you to bring any legal actions against our directors for such violations or could require us to pay any amounts incurred by our directors in any such actions.

Pursuant to our certificate of incorporation, members of our board of directors will have no liability for violations of their fiduciary duty of care as a director, except in limited circumstances. This means that you may be unable to prevail in a legal action against our directors even if you believe they have breached their fiduciary duty of care. In addition, our certificate of incorporation allows us to indemnify our directors from and against any and all expenses or liabilities arising from or in connection with their serving in such capacities with us. This means that if you were able to enforce an action against our directors or officers, in all likelihood we would be required to pay any expenses they incurred in defending the lawsuit and any judgment or settlement they otherwise would be required to pay.

Since some members of our board of directors are not residents of the United States and certain of our assets are located outside of the United States, you may not be able to enforce any U.S. judgment for claims you may bring against such directors or assets.

Three members of our board of directors are primary residents of Australia or the United Kingdom, and a material portion of our assets and a substantial portion of the assets of these directors are located outside the United States. As a result, it may be more difficult for you to enforce a lawsuit within the United States against these non-U.S. residents than if they were residents of the United States. Also, it may be more difficult for you to enforce any judgment obtained in the United States against our assets or the assets of our non-U.S. resident directors located outside the United States than if these assets were located within the United States. We cannot assure you that foreign courts would enforce liabilities predicated on U.S. federal securities laws in original actions commenced in such foreign jurisdiction, or judgments of U.S. courts obtained in actions based upon the civil liability provisions of U.S. federal securities laws.

Our officers and directors have significant voting power and may take actions that may not be in the best interests of other stockholders.

Our executive officers and directors currently beneficially own 11.28% of our common stock. If these stockholders act together, they will be able to exert significant control over our management and affairs requiring stockholder approval, including approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our common stock. This concentration of ownership may not be in the best interests of all of our stockholders.

We do not anticipate paying dividends in the foreseeable future; you should not buy our stock if you expect dividends.

We currently intend to retain our future earnings to support operations and to finance expansion and, therefore, we do not anticipate paying any cash dividends on our capital stock in the foreseeable future. You should not buy our stock if you are expecting to receive cash dividends.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We are a global company with our operational headquarters located in Prague, Czech Republic and principal offices in Atlanta, Cambridge (UK), Chennai, Cologne, Dubai, London, Melbourne (Australia), Mumbai, New York (executive office), Paris, San Francisco, and Stockholm. An index of our present office locations is illustrated below:

Our total rent expense was approximately $2,003 under offices leases for the year ended December 31, 2010.

Item 3. Legal Proceedings.

Other than as set forth below, we are not a party to any pending legal proceeding nor is our property the subject of a pending legal proceeding that is not in the ordinary course of business or otherwise material to the financial condition of our business.

In December 2007, two former consultants of ROO Media Corporation (ROO Media) (currently KIT Media Corporation) sued that entity together with ROO Group, Inc. (now KIT digital, Inc.) and its founder and former Vice Chairman and ROO Media's former President and Chief Operating Officer in New York Supreme Court, New York County, New York, alleging breach of an oral employment agreement, fraudulent inducement and other claims relating to the plaintiffs' employment at ROO Media. In March 2009, the court dismissed all of plaintiffs' claims except their breach of contract claim on the grounds that it is based on an alleged oral agreement, which plaintiffs may be able to prove. Defendants have answered the complaint, denying liability, and the case is now in discovery. We believe that there is no merit to this suit, and we intend to continue to defend vigorously.

In November 2007, our wholly-owned subsidiary, ROO HD, Inc., now KIT HD, Inc. ("KIT HD"), was named as the defendant in a purported class action lawsuit entitled Julie Vittengl et al. vs. ROO HD, Inc., in New York Supreme Court, Saratoga County, New York. The suit, brought by four former employees of Wurld Media, Inc. ("Wurld"), purportedly on behalf of themselves and "others similarly situated," claims that KIT HD's acquisition of certain assets of Wurld was a fraudulent conveyance and that KIT HD is the alter-ego of Wurld. Plaintiffs seek the appointment of a receiver to take charge of our property in constructive trust for plaintiffs and payment of plaintiffs' unpaid wages and costs of suit, both in an unspecified dollar amount. KIT HD filed its answer to the complaint in January 2008. In December 2009, plaintiffs served an amended complaint, dropping the class action allegations and adding us as a defendant; otherwise, it is essentially the same as its predecessor. In February 2010, we and KIT HD answered the amended complaint, and the case may shortly enter into discovery. We believe that the suit is without merit, and we and KIT HD intend to defend ourselves vigorously.

In May 2009, a former employee of Wurld filed suit against ten shareholders of Wurld, Wurld, ROO HD (now KIT HD), and ROO Group, Inc. (now KIT digital, Inc.), in New York Supreme Court, Albany County, New York. Plaintiff seeks to hold the ten largest shareholders of Wurld liable under Business Corporation Law § 630, for $100 in wages that Wurld allegedly failed to pay plaintiff. She further asserts a variety of claims based on the allegation that KIT HD's acquisition of certain assets of Wurld was a fraudulent conveyance, and that KIT HD is the successor to Wurld and liable for Wurld's debts. Based on these allegations, plaintiff seeks payment of her wages, the (unspecified) fair market value of her shares of stock in Wurld, rescission of the asset purchase agreement between Wurld and KIT HD, plus attorney's fees. In October 2009, the court dismissed plaintiff's claims against three shareholder/defendants on the grounds that BCL § 630 does not apply to Wurld because it is not a New York corporation, a decision that plaintiff is appealing. We and KIT HD have been served and answered, and the case is now in discovery. We believe that this lawsuit is without merit, and if necessary we intend to defend ourselves vigorously.

Item 4. Reserved

PART II

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

Common Stock Information

Our common stock has been traded on the Nasdaq Global Select Market since January 3, 2011 and prior to this on the Nasdaq Global Market since August 13, 2009, and the Prague Stock Exchange since January 21, 2010, under the symbol KITD. Prior to listing on the Nasdaq Global Market, from March 10, 2009 to August 12, 2009, our common stock was quoted on the OTC Bulletin Board under the symbol KDGL and, from May 29, 2008 to March 9, 2009 (the date of our 1-for-35 reverse stock split), our trading symbol was KITD.

The following table sets forth the range of high and low closing prices of our common stock as reported by the Nasdaq Global Select Market or the OTC Bulletin Board, as applicable, as for the periods indicated.

	Year Ended December 31,					
Quarter	**2009**		**2010**		**2011**	
	High	**Low**	**High**	**Low**	**High**	**Low**
First (through March 15, 2011)	$ 9.25	$ 5.95	$ 13.12	$ 9.47	$ 16.94	$ 12.38
Second	9.00	7.01	14.72	8.77		
Third	10.13	6.75	12.12	8.05		
Fourth	11.63	9.26	16.33	11.19		

These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual transactions. These prices have been adjusted from the actual prices for such periods to reflect the 1-for-35 reverse stock split which took place on March 9, 2009.

Equity Compensation Plan Information

The table below describes the securities authorized for issuance under our equity compensation plans as of December 31, 2010:

Equity Compensation Plan Information

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensations
Equity compensation plans approved by security holders (1)	3,035,724	$8.58	380,674
Equity compensation plans approved by security holders (2)	80,000	$7.03	262,858
Equity compensation plans not approved by security holders (3)	787,700	$8.62	712,300
Total	3,903,424	$8,56	1,355,832

(1) Consists of shares that may be granted under our 2008 Incentive Stock Plan.
(2) Consists of shares that may be granted under our 2004 Stock Option Plan.
(3) Consists of shares which may be granted under the 2008 Incentive Stock Plan due to the increase of 1,500,000 by the unanimous vote of the board of directors but are subject to ratification by our stockholders.

The closing price of our common stock on March 15, 2011, as reported by the Nasdaq Global Select Market, was $13.26 per share.

As of March 15, 2011, we had approximately 346 stockholders of record and a greater number of beneficial holders for whom shares are held in a “nominee” or “street” name.

The transfer agent of our common stock is Continental Stock Transfer & Trust Co., 17 Battery Place, New York, New York 10004, telephone number: (212) 509-4000.

Dividend Policy

We have not declared any dividends to date. We have no present intention of paying cash dividends on our common stock at any time in the foreseeable future as we intend to use earnings, if any, to generate growth. The payment by us of dividends, if any, in the future rests within the discretion of our board of directors and will depend upon, among other things, our earnings, capital requirements and financial condition, as well as other relevant factors. There are no restrictions in our certificate of incorporation or by-laws on declaring dividends.

Equity Repurchases

On December 22, 2010, we repurchased 6,176 warrants at an exercise price of $7 at intrinsic value for $57, and 1,608 warrants at an exercise price of $0.35 at intrinsic value for $25.

Item 6. Selected Financial Data.

Not required.

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

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Risk Factors” and elsewhere in this report. The following discussion should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this report

In this section, all dollar amounts are expressed in thousands.

Overview

We are a premium provider of end-to-end video asset management software (VAMS) and related services. The KIT Platform, our cloud-based solution delivered primarily in a software-as-a-service (SaaS) model, enables over 2,000 media distributor, enterprise and network operator clients to create, manage and deliver multi-screen video and social engagement experiences to audiences wherever they are. With deep experience that runs the gamut from traditional broadcast systems engineering to “over-the-top” (OTT) social video applications, we are uniquely positioned to deliver truly complete video solutions, from the lens of the camera to the eye of the audience (“lens to lens”), and guide our clients into the future of Internet Protocol (IP)-based interactive media. Our clients’ use of the KIT Platform includes end-consumer focused live and on-demand video distribution, as well as internal corporate deployments, including corporate communications, human resources, training, security and surveillance.

In addition to our KIT Platform solutions, we offer a range of related professional services supporting the wider value chain of video with a focus on systems integration for the capture, transcoding, storage, editing and play-out of video in film, television and other broadcasting environments. We also provide content services (such as localization and packaging) and advanced digital marketing services. We estimate that over 70% of our current revenues are generated by KIT Platform-related fees, with the remainder directly related to professional services. For KIT Platform use, we generally invoice customers monthly, and occasionally on a quarterly basis. For our professional services, we bill either on an hourly or project basis. We currently provide our software solutions and professional services internationally through our operational headquarters in Prague, Czech Republic, and our principal offices in Atlanta, Cambridge (UK), Chennai, Cologne, Dubai, London, Melbourne (Australia), Mumbai, New York, Paris, San Francisco and Stockholm. We have 9 other sales representative offices in an additional 7 countries.

As of March 15, 2011, our customer base consisted of 2,000+ enterprise customers from over 40 countries, including Airbus, American Express, The Associated Press, BBC, Best Buy, Bristol-Myers Squibb, Disney-ABC, ESPN Star, FedEx, General Motors, Google, Hewlett-Packard, Home Depot, IMG Worldwide, MediaCorp, Microsoft, MTV, NBC Universal, News Corp, Telefónica, Verizon, Vodafone and Volkswagen. Our clients usually enter into long-term contracts

We align our business and the solutions we offer into three primary vertical industry segments: (i) media distributors, (ii) general corporate enterprises and (iii) network operators. We manage our business across three major geographical profit and loss centers: (i) Europe, Middle East and Africa (EMEA), (ii) the Americas, and (iii) Asia-Pacific. We estimate that, as of March 15, 2011, approximately 40%, 35% and 25% of our current revenues are generated in EMEA, the Americas and Asia-Pacific, respectively.

Our success is driven primarily by our ability to attract new customers and to continue to develop our software suite. Our customers are typically large global corporations that are seeking software management tools for consumer-focused video distribution or internal corporate video use. Our revenue model consists of on-demand software subscription license fees, software usage fees, upfront license fees and professional services fees. We estimate approximately 70% to 75% of our current revenues are generated by VX platform-related fees, with the remainder directly related to professional services. We typically invoice customers on a monthly basis for the SaaS fees and by the hour or project for professional services fees.

Set forth below is a discussion of the financial condition and results of operations of our company, KIT digital, Inc. and its consolidated subsidiaries, for the years ended December 31, 2010 and 2009. The consolidated financial statements include the accounts of all the wholly-owned and majority-owned subsidiaries of KIT digital, Inc.

Critical Accounting Policies and Estimates

The policies discussed below are considered by our management to be critical to an understanding of our financial statements because their application places the most significant demands on our management’s judgment, with financial reporting results relying on our estimation about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described below. For these policies, our management cautions that future events rarely develop as forecast, and that best estimates may routinely require adjustment.

The SEC has issued cautionary advice to elicit more precise disclosure about accounting policies management believes are most critical in portraying our financial results and in requiring management’s most difficult subjective or complex judgments.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make judgments and estimates. On an ongoing basis, we evaluate our estimates, the most significant of which include establishing allowances for doubtful accounts and determining the recoverability of our long-lived tangible and intangible assets. The basis for our estimates are historical experience and various assumptions that are believed to be reasonable under the circumstances, given the available information at the time of the estimate, 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. Actual results may differ from the amounts estimated and recorded in our financial statements.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition. We recognize revenue in accordance with the accounting standard, which requires that four basic criteria be met before revenue can be recognized: (i) persuasive evidence that an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) product delivery has occurred or services have been rendered. We recognize revenue, net of sales taxes assessed by any governmental authority. The Company's material revenue streams are related to the delivery of IP video software solutions, including software-as-a-service ("SaaS") fees, software usage fees, enterprise license fees, set-up/support services, storage, hardware components, content delivery and content syndication. Our solutions also include technical integration services, interface design, branding, strategic planning, creative production, online marketing, media planning and analytics. The Company enters into revenue arrangements that may consist of multiple deliverables of components and services due to the needs of its customers. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services has been rendered, the sales price is fixed or determinable, and collectability of the sale price is reasonably assured. In addition to these general revenue recognition criteria, the following specific revenue recognition policies are followed:

Multiple-Element Arrangements — Arrangements with customers may include multiple deliverables, including any combination of components and services. For the Company's multiple-element arrangements, deliverables are separated into more than one unit of accounting when (i) the delivered element(s) have value to the customer on a stand-alone basis, and (ii) delivery of the undelivered element(s) is probable and substantially in the control of the Company. Based on the new accounting guidance adopted July 1, 2010 and applied retrospectively to January 1, 2010, revenue is then allocated to each unit of accounting based on the estimated selling price determined using a hierarchy of evidence based first on Vendor-Specific Objective Evidence ("VSOE") if it exists, based next on Third-Party Evidence ("TPE") if VSOE does not exist, and finally, if both VSOE and TPE do not exist, based on best estimate of selling price ("BESP").

The Company determines BESP for a deliverable in a multiple element arrangement by collecting all reasonably available data points including sales, cost and margin analysis of the product, and other inputs based on the Company's normal pricing practices. The Company has experience selling components, installation and integration services at a standard combined price and considers this to be BESP when contracting with customers. The determination of BESP is a formal process within the Company that includes review and approval by the Company's management.

After determination of the estimated selling price of each deliverable in a multiple-element arrangement, the arrangement consideration is then allocated using the relative selling price method. Under the relative selling price method, the estimated selling price for each deliverable is compared to the sum of the estimated selling price for all deliverables. The percentage that is calculated for each deliverable is then multiplied by the total contractual value of the multiple-element arrangement to determine the revenue allocated to each deliverable.

The revenue allocated to each deliverable will then be recorded in accordance with existing revenue recognition guidance for stand-alone component sales and services.

Services — Revenue for services is generally recognized at completion of the contractually required services.

Hardware Components — For hardware component sales (one deliverable only), revenue recognition generally occurs when products or equipment have been shipped, risk of loss has transferred to the customer, objective evidence exists that customer acceptance provisions have been met, no significant obligations remain and an allowance for discounts, returns and customer incentives can be reliably estimated. Recorded revenues are reduced by these allowances. The Company bases its estimates of these allowances on historical experience taking into consideration the type of products sold, the type of customer, and the specific type of transaction in each arrangement.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts based on the expected collectability of our accounts receivable, which requires a considerable amount of judgment in assessing the creditworthiness of customers and related aging of past due balances. The allowance for doubtful accounts as of December 31, 2010 and 2009 was $1023 and $874, respectively. Charges for bad debts recorded on the statement of operations were $875 in 2010 and $461 in 2009. Based on historical information, we believe that our allowance is adequate. Changes in general economic, business and market conditions could result in an impairment in the ability of our customers to make their required payments, which would have an adverse effect on cash flows and our results of operations.

Impairment of Goodwill. We evaluate the carrying value of our goodwill annually at the end of December and whenever events or circumstances make it more likely than not that an impairment may have occurred. Accounting Standards Codification ("ASC") 350, *Goodwill and Other Intangible Assets*, prescribes a two-step method for determining goodwill impairment. In the first step, we compare the estimated fair value of each reporting unit to its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds the estimated fair value, step two is completed to determine the amount of the impairment loss. Step two requires the allocation of the estimated fair value of the reporting unit to the assets, including any unrecognized intangible assets, and liabilities in a hypothetical purchase price allocation. Any remaining unallocated fair value represents the implied fair value of goodwill, which is compared to the corresponding carrying value of goodwill to compute the goodwill impairment amount. In 2010 and 2009, we did not record any goodwill impairment charges.

As part of our impairment analysis for each reporting unit, we estimate the fair value of each unit utilizing the income approach and market approach. The income approach requires management to estimate a number of factors for each reporting unit, including projected future operating results, economic projections, anticipated future cash flows, discount rates, and the allocation of shared service or corporate items. The market approach was used as a test of reasonableness of the conclusions reached in the income approach. The market approach estimates fair value using comparable marketplace fair value data from within a comparable industry grouping.

We also compared the sum of the estimated fair values of the reporting units to our total enterprise value as implied by the market value of our equity securities. This comparison indicated that, in total, our assumptions and estimates were not unreasonable.

Long-Lived Assets. Long-lived assets, including property, plant and equipment, and intangible assets with determinable lives, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be fully recoverable. An impairment is assessed if the undiscounted expected future cash flows generated from an asset are less than its carrying amount. Impairment losses are recognized for the amount by which the carrying value of an asset exceeds its fair value. The estimated useful lives of all long-lived assets are periodically reviewed and revised if necessary.

Results of Operations

The following discussion should be read in conjunction with the information set forth in the consolidated financial statements and the related notes thereto appearing elsewhere in this report.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenue. Consolidated revenue increased by $59,313 from $47,284 for the year ended December 31, 2009 to $106,597 for the year ended December 31, 2010, an increase of 125%. The increase is principally due to an increase in customers, increased spending by existing customers, and revenue from the acquired companies not included in prior period results.

Variable and Direct Third Party Costs

Cost of Goods and Services. These costs increased by $21,771 from $15,584 for the year ended December 31, 2009 to $37,355 for the year ended December 31, 2010. These costs represent the costs of equipment and services for the supply of digital media and IPTV solutions, services and components. The increase is primarily due to the acquisitions of Benchmark in May 2010, Megahertz in September 2010, and Brickbox in September 2010 plus an increase in these costs due to the increase in revenue over 2009.

Hosting, Delivery and Reporting. These costs increased by $2,888 from $1,547 for the year ended December 31, 2009 to $4,435 for the year ended December 31, 2010 an increase of 187%. These costs increased primarily due to the increase in revenue over 2009 including the acquisitions of Multicast in March 2010 and Feedroom in October 2010.

Content Costs. Content costs decreased by $412 from $1,378 for the year ended December 31, 2009 to $966 for the year ended December 31, 2010, a decrease of 30%. The decrease is primarily due to the reduction of the use of content in integrated sales activity and therefore the subsequent reduction in usage and the level of minimum guarantees paid for content.

Direct Third Party Creative Production Costs. Direct third party creative production costs increased by $176 from $3,211 for the year ended December 31, 2009 to $3,387 for the year ended December 31, 2009.

Selling, General and Administrative Expenses

Compensation, Travel and Associated Costs (Including Non-Cash Stock-Based Compensation). These costs increased by $14,732 from $16,309 for the year ended December 31, 2009 to $31,041 for the year ended December 31, 2010, an increase of 90%. The increase was primarily due to the acquisitions in 2010 and October 2009, which is offset in part by continuing cost cutting measures as we integrate the acquired businesses and some of these costs are included in restructuring and integration expenses. The non-cash stock-based compensation expense increased by $2,783, from $1,922 for the year ended December 31, 2009 to $4,705 for the year ended December 31, 2010 primarily due to the increase in stock options granted in 2010.

Legal, Accounting, Audit and Other Professional Services Fees. These expenses increased by $1,773 from $1,097 for the year ended December 31, 2009 to $2,870 for the year ended December 31, 2010, an increase of 162%. These costs increased primarily due to increases in accounting and audit fees due to compliance with the Sarbanes-Oxley Act Section 404(b) combined with an overall increase in these expenses from the acquisitions in 2010 and October 2009.

Office, Marketing and Other Corporate Costs. These expenses increased by $7,794 from $5,131 for the year ended December 31, 2009 to $12,925 for the year ended December 31, 2010, an increase of 152%. The increase was primarily due to the acquisitions in 2010 and October 2009.

Merger and Acquisition and Investor Relation Expenses. These expenses increased by $2,942 from $2,506 for the year ended December 31, 2009 to $5,448 for the year ended December 31, 2010, an increase of 117%. The increase is primarily due to the acquisitions in 2010.

Depreciation and Amortization. Depreciation and amortization expense increased 104% or $4,166 from $4,202 for the year ended December 31, 2009 to $8,368 for the year ended December 31, 2010. The increase was primarily due to the acquisitions in 2010 and October 2009.

Restructuring Charges. These expenses increased by $932 from $2,549 for the year ended December 31, 2009 to $3,481 for the year ended December 31, 2010, an increase of 37%. Restructuring charges consist of employee termination costs, contract settlements and facility closing costs.

Integration Expenses. These expenses increased by $12,110 from $4,429 for the year ended December 31, 2009 to $16,539 for the year ended December 31, 2010, an increase of 273%. Integration expenses consist of IT overlap, recruiting costs, relocation of headquarters, corporate rebranding activities due to acquisitions and relocations during the year. Integration expenses consist of cost overlap due to the integration of acquisitions.

Impairment of Intangible Asset. Impairment of intangible asset was $500 for the year ended December 31, 2009 and $438 for the year ended December 31, 2010. In 2009, we determined that customer lists from the acquisition of Kamera in May 2008 were impaired and therefore recorded a reduction of $500 to the intangible asset. In 2010, we determined that customer lists from the acquisition of Visual in October 2008 are impaired due to the sale of a portion of the business and therefore recorded a reduction of $438 to the intangible asset.

Interest Income. Interest income increased by $32 from $50 for the year ended December 31, 2009 to $82 for the year ended December 31, 2010. This decrease was primarily due to fluctuations in the level of our cash and cash equivalents.

Interest Expense. Interest expense increased by $341 from $519 for the year ended December 31, 2009 to $860 for the year ended December 31, 2010, an increase of 66%. This increase was mainly due to the issuance of secured notes in April and June of 2010.

Amortization of Deferred Financing Costs and Debt Discount. Amortization of deferred financing costs and debt discount was $52 for the year ended December 31, 2010 and $1,175 for the year ended December 31, 2009. These 2010 costs resulted from the issuance of secured notes payable of $5,000 in April 2010 and $1,000 in June 2010. These 2009 costs resulted from the issuance of $1,500 of a senior secured note in November 2008 and interim convertible promissory notes payable of $3,350 to KIT Media Ltd. and $350 to Granahan McCourt Capital, LLC during the quarters ended June 30, 2009 and September 30, 2009. The convertible promissory notes were repaid from the proceeds of the public offering in August 2009 and hence any remaining deferred financing costs or debt discount was written off.

Derivative expense. Derivative expense was $12,891 and $6,015 for the years ended December 31, 2010 and 2009, respectively. Under ASC 815-40, the company recorded an increase in the fair value of warrants containing reset provisions.

Other Income/(Expense). Other income/(expense) increased by a net $355. Other expense was $10 for the year ended December 31, 2009 as compared to other expense of $365 for the year ended December 31, 2010. Included in 2010 is a loss on disposal of $632 that related to the sale of subsidiary and is calculated as the proportional amount of the reporting unit value at December 31, 2010.

Net Loss Available to Common Shareholders. As a result of the factors described above, we reported net loss available to common shareholders of $34,260 for the year ended December 31, 2010 compared to net loss of $19,942 for the year ended December 31, 2009.

Liquidity and Capital Resources

As of December 31, 2010, we had cash and cash equivalents of $141,233 and a working capital surplus of approximately $142,838. Management anticipates that it has enough cash reserves and will generate sufficient cash flows from its operating activities to meet its capital requirements.

Net cash used in operating activities was $30,228 for the year ended December 31, 2010 compared to $13,618 for the year ended December 31, 2009, an increase of $16,610 or 122%. This is principally due to the increase in the cost overlap due to the integration of acquisitions.

Net cash used by investing activities was $22,363 for the year ended December 31, 2010 compared to $9,723 for the year ended December 31, 2009, a increase in net cash used in investing activities of $12,640, or 130%. In 2010, this primarily consists of net cash paid for acquisitions of $19,533, $2,000 paid into a restricted cash account and purchase of assets of fixed assets of $2,647. In 2009, this primarily consisted of net cash paid for the acquisitions or earn-out payments for acquisitions of $6,998, purchase of assets of $1,078 and purchase of software of $1,500.

Net cash provided by financing activities was $189,046 for the year ended December 31, 2010 compared to $24,576 for the year ended December 31, 2009. In 2010, this primarily consisted of net proceeds of $209,554 offset by payments for the buyback of warrants of $23,869. In 2009, this primarily consisted of net proceeds of $26,082 from the August 2009 private placement.

Contractual Obligations and Lease Commitments

The following is a schedule of future minimum payments of our commitments, as of December 31, 2010, for the next five years and thereafter:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Capital Leases	$ 822	$ 667	$ 150	$ 5	$ -
Operating / Property Leases	5,868	2,856	2,972	40	-
Total Commitments	$ 6,690	$ 3,523	$ 3,122	$ 45	$ -

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for the years ended December 31, 2010 and 2009. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

Recently-Issued Accounting Standards

In October 2009, the FASB issued Accounting Standards Update on Certain Revenue Arrangements That Include Software Elements, which changes the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing both software and non-software components that function together to deliver the product's essential functionality will no longer be within the scope of Software Revenue Recognition. This update is effective for fiscal years beginning on or after June 15, 2010 and early adoption is permitted. We do not expect the adoption of this update to have a material impact.

In October 2009, the FASB issued Accounting Standards Update on Multiple-Deliverable Revenue Arrangements, which addresses the accounting for multiple-deliverable arrangements and requires that the overall arrangement consideration be allocated to each deliverable in a revenue arrangement based on an estimated selling price when vendor specific objective evidence or third-party evidence of fair value is not available. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated to all deliverables using the relative selling price method. The Company adopted this new standard during the quarter ended September 30, 2010 and it has been applied retrospectively to January 1, 2010. The adoption of this standard did not have a material impact on prior results, but will impact how these arrangements will be recognized prospectively.

The new guidance changes the criteria required to (1) separate deliverables into separate units of accounting when deliverables are sold in a bundled arrangement and (2) to allocate the arrangement's consideration to each unit in the arrangement (such as, equipment, installation or commissioning services). Entities are now required to determine an estimated selling price for each separate deliverable following a hierarchy of evidence — Vendor-specific Objective Evidence ("VSOE"), Third Party Evidence ("TPE") and, if VSOE and TPE do not exist, best estimate of selling price ("BESP").

In December 2010, the FASB issued an accounting standard update for business combinations specifically related to the disclosures of supplementary pro forma information for business combinations. This guidance specifies that pro forma disclosures should be reported as if the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period and the pro forma disclosures must include a description of material, nonrecurring pro forma adjustments. This standard will be effective for business combinations with an acquisition date of January 1, 2011 or later. The adoption of the guidance is not expected to have a material impact on the Company's financial position or results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We conduct our operations in primary functional currencies: the United States dollar, the Euro, the British pound, the Australian dollar, the Swedish krona and the Czech koruna. We currently do not hedge any of our foreign currency exposures and are therefore subject to the risk of exchange rate fluctuations. However, we attempt to employ a "natural hedge" by matching as much as possible in like currencies our customer revenues with associated customer delivery costs. We invoice our international customers primarily in U.S. dollars, British pounds, Australian dollars, Euros, Swedish kronor and Czech koruna.

We are exposed to foreign exchange rate fluctuations as the financial results of foreign subsidiaries are translated into U.S. dollars in consolidation and as our foreign currency consumer receipts are converted into U.S. dollars. Our exposure to foreign exchange rate fluctuations also arises from payables and receivables to and from our foreign subsidiaries, vendors and customers.

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. We endeavor to place our cash and cash equivalents with high credit quality institutions to limit credit exposure. We have obtained callable cash collateral wherever we have identified credit risk exists with respect to these investments.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the wide variety of our customers who are dispersed across many geographic regions. We routinely assess the financial strength of customers and, based upon factors concerning credit risk, we establish an allowance for uncollectible accounts. Our management believes that accounts receivable credit risk exposure beyond such allowance is limited.

Item 8. Financial Statements and Supplementary Data.

The response to this item is submitted as a separate section of this report beginning on page F-1.

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

Not applicable.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (1) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure; and (2) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

Management's Annual Report on Internal Control Over Financial Reporting. The management of KIT digital, Inc. (the "Company"), is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles in the United States and includes those policies and procedures that:

1. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of the Company;

2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the company; and

3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The Company's internal control over financial reporting does not include internal control over financial reporting of Accela Communications, Inc, Megahertz Broadcast Systems, and Brickbox Digital Media s.r.o., wholly owned subsidiaries, whose financial statements reflect total assets and revenues constituting 7 and 8 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2010. Accela Communications, Inc, Megahertz Broadcast Systems, and Brickbox Digital Media s.r.o., were acquired during 2010 and therefore, management's assertion on the effectiveness of the Company's internal control over financial reporting excluded internal control over financial reporting of Accela Communications, Inc, Megahertz Broadcast Systems, and Brickbox Digital Media s.r.o.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. In making this assessment, the Company's management used the criteria set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our internal control over financial reporting, as prescribed above, for the period covered by this report. Based on our evaluation, our principal executive officer and principal financial officer concluded that the Company's internal control over financial reporting was effective as of December 31, 2010.

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

The Company's independent registered public accounting firm have audited, and reported on, the Company's internal control over financial reporting as of December 31, 2010. This report appears on page 37.

Changes in Internal Control Over Financial Reporting

As a result of increased market capitalization, acquisitions in during the fiscal year 2010 as well as an increase in business related to complex multi-element contracts, KIT engaged an outside firm to review and update its internal controls. The evaluation was performed during the 2nd quarter and implementation of updated and new controls occurred during the 3rd quarter. These new controls were evaluated reviewed and tested during the 3rd and 4th quarters. The summary of enhancements and updates are as follows:

- Enhanced global Human Resource entity level controls over employee communication and responsibility for internal controls as well as providing management with timely feedback on a confidential basis to take appropriate action.
- Added a dedicated Global SOX Compliance Lead resource for coordinating implementation and execution of all procedures and controls.
- Centralized global Human Resource function to control the on-boarding and termination process throughout all KIT offices around the world.
- Organizing the controls into a regional structure for routine daily and transactional controls as well as reporting results to corporate finance for the preparation of consolidated financial statements.
- Augmenting and updating revenue recognition controls for multi-element contracts.
- Standardizing controls as well as financial statement close checklists and timeline across all regions and locations across the company.
- Updated procedures and controls ensuring consistency across the regions for spreadsheet review and approval.
- Implementing a secure global electronic filing system for ensuring consistency of valid reporting from the regions to corporate.
- Updating tax controls to reflect the expanded global nature of the business.
- Updated all controls to reflect recent FASB Codification of standards and pronouncements
- IT General Controls across the global infrastructure of KIT as it relates to financial reporting
- Change management controls over development and implementation of systems that are relevant to financial reporting.
- Controls and procedures to ensure that information and communication between corporate and the regions related to reporting in accordance with US GAAP is properly facilitated.
- Created standardized global controls for treasury, banking and cash management for corporate and all regions.
- Updated delegation of authority as well as acquisition related controls for corporate and all regions.
- Updated controls over goodwill as well as other intangibles related to acquisitions.
- Updated management test plans to obtain testing coverage for each region based for control objectives to be achieved.

Management believes the internal control changes summarized above were necessary and significant to meet the needs of the continued growth of KIT through acquisitions and organically. The primary objective achieved by updating the internal controls is to standardize and streamline compliance across all KIT offices around the world as well as for producing monthly and quarterly financial statements in accordance with US GAAP. The combined effect of the implementation of the enhanced and revised internal controls is not expected to materially affect our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
KIT digital, Inc. and Subsidiaries

We have audited KIT digital, Inc. (a Delaware Corporation) and Subsidiaries' (the Company) internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting (Management's Report). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. Our audit of, and opinion on, the Company's internal control over financial reporting does not include internal control over financial reporting of Accela Communications, Inc, Megahertz Broadcast Systems, and Brickbox Digital Media s.r.o., wholly owned subsidiaries, whose financial statements reflect total assets and revenues constituting 7 and 8 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2010. As indicated in Management's Report, Accela Communications, Inc, Megahertz Broadcast Systems, and Brickbox Digital Media s.r.o., were acquired during 2010 and therefore, management's assertion on the effectiveness of the Company's internal control over financial reporting excluded internal control over financial reporting of Accela Communications, Inc, Megahertz Broadcast Systems, and Brickbox Digital Media s.r.o.

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

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

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

In our opinion, KIT digital Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of KIT digital, Inc. (a Delaware corporation) and Subsidiaries as of December 31, 2010 and 2009, and the related statements of operations and comprehensive loss, stockholders' equity, and cash flows for the years then ended and our report dated March 16, 2011expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP
New York, NY
March 16, 2011

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required under this item is incorporated herein by reference from our Proxy Statement relating to our Annual Meeting of Stockholders (the Proxy Statement).

Code of Ethics. We have adopted a Code of Business Conduct and Ethics (the Code) that applies to all of our employees (including our CEO and CFO) and directors. The Code is available on our website at www.kit-digital.com. We intend to satisfy the disclosure requirement regarding any amendment to or waiver of a provision of the Code applicable to any executive officer or director, by posting such information on our website.

Our corporate governance guidelines, whistleblower policy and the charters of the audit committee, compensation committee and nominations and corporate governance committee of the Board of Directors, as well as other corporate governance document materials are available on our website at www.kit-digital.com under the heading "Investors," then "Corporate Governance."

Item 11. Executive Compensation.

The information required under this item is incorporated herein by reference from the Proxy Statement.

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

The information required by this item is incorporated herein by reference from the Proxy Statement. Refer also to the equity compensation plan information set forth in Item 5 herein..

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

The information required by this item is incorporated herein by reference from the Proxy Statement.

Item 14. Principal Accountant Fees and Services.

The information required by this item is incorporated herein by reference from the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) and (2): The response to this portion of Item 15 is submitted as a separate section of this report beginning on page F-1.

(a)(3) Exhibits:

Exhibit Number	Description
2.1	Agreement and Plan of Merger dated as of December 2, 2003 by and among Virilitec Industries, Inc., ROO Media Corporation, VRLT Acquisition Corp., and Jacob Roth and Bella Roth.(1)
2.2	Stock Purchase Agreement dated as of March 11, 2004 by and among the Company and the shareholders of Reality Group Pty Ltd.(2)
2.3	Asset Purchase Agreement dated as of May 26, 2004 by and among the Company, Undercover Holdings Pty Ltd. and Undercover Media Pty Ltd.(3)
2.4	Stock Purchase Agreement dated as of September 10, 2004 by and among the Company and Avenue Group, Inc. in connection with the purchase of common stock of Bickhams Media, Inc.(4)
2.5	Stock Purchase Agreement dated as of November 1, 2004 by and between Bickhams Media, Inc., ROO Group, Inc., and Daniel and Vardit Aharonoff.(5)
2.6	Amendment No. 1 dated October 28, 2005 to Stock Purchase Agreement among ROO Group, Inc. and the shareholders of Reality Group Pty Ltd.(6)

2.7	Share Purchase Agreement dated October 28, 2005 by and among ROO Broadcasting Limited and the Sellers thereto.(6)
2.8	Share Purchase Agreement for the Acquisition of all Issued Shares of Visual Connection, a.s., dated October 5, 2008, between KIT digital, Inc. and KIT digital FZ-LLC (on the one hand), and Tomas Petru and Jakub Vanek (on the other hand).(7)
2.9	Agreement and Plan of Merger, dated September 30, 2009, between KIT digital, Inc., KIT Acquisition Corporation, The FeedRoom, Inc. and certain stockholders of The FeedRoom, Inc.(19)
2.10	Share Purchase Agreement, dated October 5, 2009, between International Management Group GmbH and KIT digital, Inc. for the acquisition of Nunet AG.(20)

2.11	Stock Purchase Agreement, dated as of May 14, 2010, by and among KIT digital, Inc., KIT digital, FZ-LLC, Benchmark Video Technologies Pte Ltd, and Benchmark Broadcast Systems (S) Pte Ltd.(21)
2.12	Agreement and Plan of Merger, dated as of January 28, 2011, by and among KIT digital, Inc., DealApps Corporation, KickApps Corporation and, for certain purposes, Steven J. Benson as Stockholder Representative.(23)
3.1	Certificate of Incorporation of Virilitec Industries, Inc.(8)
3.2	Certificate of Amendment of Certificate of Incorporation of Virilitec Industries, Inc. filed with the State of Delaware on October 31, 2003.(9)
3.3	Certificate of Amendment to the Amended Certificate of Incorporation of Virilitec Industries, Inc. filed with the State of Delaware on February 18, 2004.(9)
3.4	Certificate of Designation, Powers, Preferences and Rights of Series A Preferred Stock, filed with the State of Delaware on March 9, 2005.(10)
3.5	Certificate of Designation, Powers, Preferences and Rights of Series A Preferred Stock, filed with the State of Delaware on March 9, 2005.(10)
3.6	Amendment to the Certificate of Designation, Powers, Preferences and Rights of Series A Preferred Stock, filed with the State of Delaware on September 30, 2005.(11)
3.7	Certificate of Amendment to Amended Certificate of Incorporation, effective as of October 3, 2005.(11)
3.8	Certificate of Amendment to the Certificate of Incorporation filed with the Delaware Secretary of State on May 19, 2008.(12)
3.9	Certificate of Amendment of the Certificate of Incorporation filed with the Secretary of State of the State of Delaware effective March 9, 2009.(18)
3.10	Certificate of Amendment of the Certificate of Incorporation filed with the Secretary of State of the State of Delaware on September 30, 2010.(22)
3.11	By-laws.(8)
3.12	Amendment to By-laws.(13)
10.1	Employment Agreement with Robin Smyth, dated April 1, 2004.(4)
10.2	Employment Agreement with Robin Smyth, dated November 1, 2004.(9)
10.3	Agreement, dated January 25, 2007, by and among ROO Group, Inc. (now KIT digital, Inc.) and News Corporation.(15)
10.4	Securities Purchase Agreement dated May 8, 2008 among ROO Group, Inc. (now KIT digital, Inc.) and the purchasers signatory thereto.(16)
10.5	Stockholders Agreement, dated September 30, 2009, by and among KIT digital, Inc., Kaleil Isaza Tuzman and certain stockholders of The FeedRoom, Inc.(19)
10.6	Form of Convertible Promissory Note (Purchase) made by KIT digital, Inc. to International Management Group GmbH in the principal amount of EUR 1,662,500.(20)

10.7	Convertible Promissory Note (Indemnity) made by KIT digital, Inc. to International Management Group GmbH in the principal amount of EUR 58,250.(20)
21.1	Subsidiaries of the Company.(17)
*23.1	Consent of Grant Thornton LLP, independent registered public accounting firm.
*31.1	Certification of the Chairman and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of the Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Filed herewith.

(1) Incorporated by reference to Form 8-K, filed with the U.S. Securities and Exchange Commission (the “SEC”) on December 18, 2003.

(2) Incorporated by reference to Form 8-K, filed with the SEC on May 17, 2004.

(3) Incorporated by reference to Form 8-K, filed with the SEC on June 16, 2004.

(4) Incorporated by reference to Form 8-K, filed with the SEC on September 22, 2004.

(5) Incorporated by reference to Form 8-K/A, filed with the SEC on November 5, 2004.

(6) Incorporated by reference to Form 8-K/A, filed with the SEC on November 2, 2005.

(7) Incorporated by reference to Form 8-K, filed with the SEC on October 9, 2008.

(8) Incorporated by reference to Form 10-SB (File No. 000-25659), filed with the SEC on March 29, 1999.

(9) Incorporated by reference to Form SB-2 (File No. 333,120605), filed with the SEC on November 18, 2004.

(10) Incorporated by reference to Form 8-K, filed with the SEC on March 14, 2005.

(11) Incorporated by reference to Form 8-K, filed with the SEC on October 4, 2005.

(12) Incorporated by reference to Form 8-K, filed with the SEC on June 2, 2008.

(13) Incorporated by reference to Form 8-K, filed with the SEC on June 1, 2009.

(14) Incorporated by reference to Form 10-QSB, filed with the SEC on August 16, 2004.

(15) Incorporated by reference to Form 8-K/A, filed with the SEC on March 14, 2005.

(16) Incorporated by reference to Form 8-K, filed with the SEC on May 8, 2008.

(17) Incorporated by reference to 2008 Form 10-K, filed with the SEC on April 15, 2009.

(18) Incorporated by reference to Form 8-K, filed with the SEC on March 16, 2009.

(19) Incorporated by reference to Form 8-K, filed with the SEC on October 6, 2009.

(20) Incorporated by reference to Form 8-K, filed with the SEC on October 9, 2006.

(21) Incorporated by reference to Form 8-K, filed with the SEC on May 20, 2010.

(22) Incorporated by reference to Form 8-K, filed with the SEC on October 6, 2010.

(23) Incorporated by reference to Form 8-K, filed with the SEC on January 31, 2011.

SIGNATURES

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

Date: March 16, 2011

KIT DIGITAL, INC.

By:/s/ Kaleil Isaza Tuzman
Kaleil Isaza Tuzman
Chairman and Chief Executive Officer
(Principal Executive Officer)

By:/s/ Robin Smyth
Robin Smyth
Chief Financial Officer
(Principal Financial and Accounting Officer)

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

Name	Title	Date
/s/ Kaleil Isaza Tuzman Kaleil Isaza Tuzman	Chairman and Chief Executive Officer (Principal Executive Officer)	March 16, 2011
/s/ Gavin Campion Gavin Campion	President and Director	March 16, 2011
/s/ Robin Smyth Robin Smyth	Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 16, 2011
/s/ Christopher Williams Christopher Williams	Chief Technology Officer and Director	March 16, 2011
/s/ Daniel W. Hart Daniel W. Hart	Director	March 16, 2011
/s/ Lars Kroijer Lars Kroijer	Director	March 16, 2011
/s/ Joseph E. Mullin III Joseph E. Mullin III	Director	March 16, 2011
/s/ Santo Politi Santo Politi	Director	March 16, 2011
/s/ Wayne Walker Wayne Walker	Director	March 16, 2011

KIT digital, Inc. and Subsidiaries

FORM 10-K

ITEMS 8 and 15(a)(1) and (2)

INDEX OF FINANCIAL STATEMENTS

The following financial statements of KIT digital, Inc. and its subsidiaries required to be included in Items 8 and 15(a)(1) are listed below:

The financial statement schedules of KIT digital, Inc. and its subsidiaries to be included in Item 15(a)(2) are omitted because the conditions requiring their filing do not exist or because the required information is given in the financial statements, including the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
KIT digital, Inc. and Subsidiaries
We have audited the accompanying consolidated balance sheets of KIT digital, Inc. (a Delaware corporation) and Subsidiaries as of December 31, 2010 and 2009, and the related statements of operations and comprehensive loss, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KIT digital, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for revenue recognition for multiple element arrangements effective January 1, 2010 pursuant to the new accounting standard on "Multiple Deliverable Revenue Arrangements."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), KIT digital Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO*)* and our report dated March 16, 2011 expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP

New York, NY
March 16, 2011

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Share Data)

	December 31, 2010	December 31, 2009
Assets:		
Current assets:		
Cash and cash equivalents	$ 141,233	$ 6,791
Restricted cash	2,000	-
Investment	1,050	217
Accounts receivable, net	29,349	17,258
Unbilled revenue	537	2,960
Inventory, net	301	708
Loan receivable, current portion	2,486	-
Other current assets	5,104	2,205
Total current assets	182,060	30,139
Property and equipment, net	5,987	5,697
Loan receivable, net of current	8,361	-
Intangible assets	13,248	8,086
Goodwill	89,004	36,492
Total assets	$ 298,660	$ 80,414
Liabilities and Stockholders' Equity:		
Current liabilities:		
Bank overdraft	$ -	$ 2,944
Capital lease and other obligations, current portion	608	1,218
Secured notes payable, net of debt discount, current portion	1,709	-
Accounts payable	12,740	6,647
Accrued expenses	6,411	8,501
Income tax payable	858	312
Deferred tax liability	682	580
Acquisition liabilities, current portion	2,115	1,075
Derivative liability	6,096	21,314
Other current liabilities	7,110	3,455
Total current liabilities	38,329	46,046
Capital lease and other obligations, net of current	175	377
Secured notes payable, net of current	4,127	-
Acquisition liabilities, net of current	10,405	-
Total liabilities	53,036	46,423
Stockholders' Equity:		
Common stock, $0.0001 par value: authorized 80,000,000 and 30,000,000 shares, respectively; issued and outstanding 33,196,952 and 10,844,853, respectively	3	1
Additional paid-in capital	375,578	128,263
Accumulated deficit	(129,203)	(93,943)
Accumulated other comprehensive loss	(754)	(330)
Total stockholders' equity	245,624	33,991
Total liabilities and stockholders' equity	$ 298,660	$ 80,414

The accompanying notes are an integral part of these consolidated financial statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Amounts in Thousands, Except Share and Per Share Data)

	Year ended December 31, 2010	Year ended December 31, 2009
Revenue	$ 106,597	$ 47,284
Variable and direct third party costs:		
Cost of goods and services	37,355	15,584
Hosting, delivery and reporting	4,435	1,547
Content costs	966	1,378
Direct third party creative production costs	3,387	3,211
Total variable and direct third party costs	46,143	21,720
Gross profit	60,454	25,564
Selling, general and administrative expenses:		
Compensation, travel and associated costs (including non-cash stock-based compensation of $4,705 and $1,922, respectively)	31,041	16,309
Legal, accounting, audit and other professional service fees	2,870	1,097
Office, marketing and other corporate costs	12,925	5,131
Merger and acquisition and investor relations expenses	5,448	2,506
Depreciation and amortization	8,368	4,202
Restructuring charges	3,481	2,549
Integration expenses	16,539	4,429
Impairment of intangible assets	438	500
Total selling, general and administrative expenses	81,110	36,723
Loss from operations	(20,656)	(11,159)
Interest income	82	50
Interest expense	(860)	(519)
Amortization of deferred financing costs and debt discount	(52)	(1,175)
Derivative expense	(12,891)	(6,015)
Other income (expense), net	(365)	(10)
Net loss before income taxes	(34,742)	(18,828)
Income tax expense	(518)	(1,114)
Net loss available to common shareholders	$ (35,260)	$ (19,942)
Basic and diluted net loss per common share	$ (1.63)	$ (3.03)
Basic and diluted weighted average common shares outstanding	21,586,655	6,573,970
Comprehensive loss:		
Net loss	$ (35,260)	$ (19,942)
Foreign currency translation	(557)	(97)
Change in unrealized gain on investments, net	133	17
Comprehensive loss	$ (35,684)	$ (20,022)

The accompanying notes are an integral part of these consolidated financial statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in Thousands, Except Share Data)

	Common Stock	Common Stock Par Value	Additional Paid-in Capital
Balance - December 31, 2008	4,183,280	$ —	$ 101,057
Cumulative adjustment for derivative liabilities	—	—	(24,235)
Balance – January 1, 2009	4,183,280	—	76,822
Issue of stock in public offering	4,004,000	1	26,081
Issue of stock for repayment of loans	34,733	—	301
Issue of stock for exercise of stock options	14,057	—	39
Issue of stock for exercise of warrants	148,847	—	1,220
Issue of stock for acquisitions	2,411,357	—	22,281
Acquisition of non-controlling interest	—	—	(867)
Debt discount on notes	—	—	517
Issue of stock for compensation	35,376	—	261
Issue of stock for services	9,235	—	90
Round up due to the 1 for 35 reverse split	3,968	—	—
Stock-based compensation	—	—	1,518
Foreign currency translation adjustment	—	—	—
Fair market value adjustment for available for sale securities	—	—	—
Net loss	—	—	—
Balance - December 31, 2009	10,844,853	$ 1	$ 128,263
Issue of stock in public offering	19,168,253	2	209,552
Issue of stock for exercise of stock options	61,936	—	410
Issue of stock for exercise of warrants	592,645	—	7,079
Issue of stock for acquisitions	2,460,959	—	23,567
Issue of warrants for services	—	—	1,381
Debt discount on notes	—	—	210
Issue of stock for compensation	27,650	—	338
Issue of stock for services	40,656	—	411
Stock-based compensation	—	—	4,367
Foreign currency translation adjustment	—	—	—
Fair market value adjustment for available for sale securities	—	—	—
Net loss	—	—	—
Balance - December 31, 2010	33,196,952	$ 3	$ 375,578

The accompanying notes are an integral part of these consolidated financial statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in Thousands, Except Share Data)

	Accumulated (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance - December 31, 2008	$ (82,499)	$ (250)	$ 18,308
Cumulative adjustment for derivative liabilities	8,498	—	(15,737)
Balance – January 1, 2009	(74,001)	(250)	2,571
Issue of stock in public offering	—	—	26,082
Issue of stock for repayment of loans			301
Issue of stock for exercise of stock options	—	—	39
Issue of stock for exercise of warrants	—	—	1,220
Issue of stock for acquisitions	—	—	22,281
Acquisition of non-controlling interest	—	—	(867)
Debt discount on notes	—	—	517
Issue of stock for compensation	—	—	261
Issue of stock for services	—	—	90
Round up due to the 1 for 35 reverse split	—	—	—
Stock-based compensation	—	—	1,518
Foreign currency translation adjustment	—	(97)	(97)
Fair market value adjustment for available for sale securities	—	17	17
Net loss	(19,942)	—	(19,942)
Balance - December 31, 2009	$ (93,943)	$ (330)	$ 33,991
Issue of stock in public offering	—	—	209,554
Issue of stock for exercise of stock options	—	—	410
Issue of stock for exercise of warrants	—	—	7,079
Issue of stock for acquisitions	—	—	23,567
Issue of warrants for services	—	—	1,381
Debt discount on notes	—	—	210
Issue of stock for compensation	—	—	338
Issue of stock for services	—	—	411
Stock-based compensation	—	—	4,367
Foreign currency translation adjustment	—	(557)	(557)
Fair market value adjustment for available for sale securities	—	133	133
Net loss	(35,260)	—	(35,260)
Balance - December 31, 2010	$ (129,203)	$ (754)	$ 245,624

The accompanying notes are an integral part of these consolidated financial statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years ended December 31, 2010	2009
Operating activities:		
Net loss	$ (35,260)	$ (19,942)
Adjustments to reconcile net loss to net cash used by operating activities:		
Provision for doubtful accounts	558	461
Depreciation and amortization	4,059	1,847
Amortization of intangible assets	4,309	2,355
Amortization of deferred financing costs	52	108
Amortization of debt discount	—	1,067
Loss on disposal of property and equipment	111	—
Impairment of intangible assets	438	500
Loss on disposal of subsidiary	632	—
Derivative expense	12,891	6,015
Non-cash stock-based compensation	4,462	1,922
Non-cash warrants for services	1,381	-
Non-cash stock for services	411	90
Gain on bargain purchase	—	(26)
Changes in assets and liabilities:		
Accounts receivable	(25,807)	(7,002)
Unbilled revenue	2,408	(2,960)
Inventory	403	1,475
Other assets	(1,521)	117
Accounts payable	2,117	(481)
Accrued expenses	(1,475)	1,770
Income tax payable	515	103
Other liabilities	(512)	(1,037)
Total adjustments	5,032	6,324
Net cash used by operating activities – forward	(30,228)	(13,618)
Investing activities:		
Cash paid into restricted cash	(2,000)	—
Cash paid into investment	(700)	(200)
Cash paid in acquisitions, net	(19,533)	(6,998)
Cash received in sale of business, net Receipt of payment on loans receivable	1,993	—
Receipt of payment on loans receivable	524	—
Purchase of software	—	(1,500)
Proceeds from sale of equipment and domain name	—	53
Purchase of equipment	(2,647)	(1,078)
Net cash used by investing activities – forward	$ (22,363)	$ (9,723)

The accompanying notes are an integral part of these consolidated financial statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years ended December 31, 2010	2009
Net cash used by operating activities – forwarded	$ (30,228)	$ (13,618)
Net cash used by investing activities – forwarded	(22,363)	(9,723)
Financing activities:		
Proceeds from public offering, net	209,554	26,082
Payments for warrant buybacks	(23,869)	—
Bank overdraft and other obligations	1,006	94
Proceeds from exercise of stock options	410	39
Proceeds from issuance of secured loans	—	796
Payments of secured loans	(1,020)	(713)
Proceeds from issuance of secured notes	5,762	—
Payments of senior secured note	—	(1,500)
Proceeds from exercise of warrants	3,107	783
Repayments of notes payable	(4,500)	—
Payments on capital leases	(1,404)	(1,005)
Net cash provided by financing activities	189,046	24,576
Effect of exchange rate changes on cash and cash equivalents	(2,013)	(322)
Net increase (decrease) in cash and cash equivalents	134,442	913
Cash and cash equivalents - beginning of year	6,791	5,878
Cash and cash equivalents - end of year	$ 141,233	$ 6,791
Supplemental disclosures of cash flow information:		
Cash paid during the years for:		
Income taxes	$ 203	$ 80
Interest	$ 860	$ 519
Common stock issued in connection with acquisitions	$ 23,567	$ 22,281

The accompanying notes are an integral part of these consolidated financial statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(1) Basis of Presentation

KIT digital, Inc. ("we," "us," "our," the "Company" or "KIT digital"), through our operating subsidiaries, provides enterprise clients an end-to-end technology platform for managing Internet Protocol (“IP”)-based video assets across the browser, mobile device and IPTV set-top box-enabled television set. We offer creative interface design, branding, strategic planning and technical integration services to complement our “VX”-branded software platform. Our solutions includes the delivery of IP video software solutions, including software-as-a-service (“SaaS”) fees, enterprise license fees, software usage fees, set-up/support services, storage, hardware components, content delivery, content syndication, and advertising-based monetization. Our solutions also include technical integration services, interface design, branding, strategic planning, creative production, online marketing, media planning and analytics.

On March 6, 2009, we filed a certificate of amendment of our certificate of incorporation to (i) effect a 1-for-35 reverse stock split of our common stock; (ii) decrease the total number of shares of common stock authorized to be issued from 500,000,000 shares to 30,000,000 shares; and (iii) eliminate the authorization of a class of preferred stock. The changes made by the certificate of amendment were effective on March 9, 2009, and per share amounts for all periods presented in the accompanying financial statements have been adjusted for the reverse stock split. On September 30, 2010, we filed a certificate of amendment of our certificate of incorporation to increase the number of authorized shares of our common stock to 80,000,000 shares from 30,000,000 shares. The amendment was adopted by stockholders holding a majority of our outstanding shares of common stock at our annual meeting of stockholders held on September 30, 2010.

On August 13, 2009, our common stock began trading on the NASDAQ Global Market exchange under the ticker symbol “KITD.” Previously, our ticker symbol was “KDGL”, as quoted on the OTC Bulletin Board. On January 25, 2010, our common stock was accepted and began trading on the Main Market of the Prague Stock Exchange under the symbol KITD and may be traded interchangeably between the NASDAQ Global Select Market and the Prague Stock Exchange.

(2) Summary of Significant Accounting Policies

Principles of Consolidation - Our consolidated financial statements include the accounts of KIT digital, Inc., and all its wholly-owned and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Management Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Certain amounts included in the financial statements are estimated based on currently available information and management's judgment as to the outcome of future conditions and circumstances. Changes in the status of certain facts or circumstances could result in material changes to the estimates used in the preparation of financial statements and actual results could differ from the estimates and assumptions. Management makes estimates and assumptions for, but not limited to, allowance for doubtful accounts, revenue recognition, purchase price allocation, inventory reserves, tax assets and liabilities, useful lives of long-lived assets, stock-based compensation, fair value of derivative liabilities, impairment of tangible and intangible assets and other contingencies.

Foreign Currency Translation - Assets and liabilities of KIT digital’s foreign subsidiaries are translated at period end exchange rates and related revenues and expenses are translated at average exchange rates in effect during the reporting periods. Resulting translation adjustments are recorded as a component of accumulated other comprehensive income (loss) in stockholders' equity. Foreign currency transaction gains and losses are recorded in other income (expense), net.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments - On January 1, 2008, we adopted the standard that defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. This standard defines fair value as the amount that would be received upon sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy which prioritizes the types of inputs to valuation techniques that companies may use to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1). The next highest priority is given to inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2). The lowest priority is given to unobservable inputs in which there is little or no market data available and which require the reporting entity to develop its own assumptions (Level 3).

The assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy are Investments and Derivative Liabilities. Investments are measured using active quoted market prices (Level 1). See Note 5 for fair value hierarchy on the Derivative Liabilities.

Risk Concentrations - Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. We place our cash and cash equivalents with high credit quality institutions to limit credit exposure, and from time to time, obtain collateral for our accounts where we deem prudent and is feasible. We believe no significant concentration of credit risk exists with respect to these investments. The amount of cash held in foreign currencies as of December 31, 2010 and 2009 was $8,617 and $2,272, respectively. The amount of cash in excess of FDIC insured amounts as of December 31, 2010 and 2009, was $139,185 and $6,541, respectively.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the nature of our customers who are dispersed across many industries and geographic regions. As of December 31, 2010, one customer accounted for approximately 11% of our trade accounts receivable. As of December 31, 2009, three customers accounted for approximately 39.6% of our trade accounts receivable. We routinely assess the financial strength of customers and, based upon factors concerning credit risk, we establish an allowance for doubtful accounts. Management believes that accounts receivable credit risk exposure beyond such allowance is limited.

Goodwill - We evaluate the carrying value of our goodwill annually at the end of December and whenever events or circumstances make it more likely than not that an impairment may have occurred. Accounting standard on Goodwill and Other Intangible Assets, prescribes a two-step method for determining goodwill impairment. In the first step, we compare the estimated fair value of each reporting unit to its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds the estimated fair value, step two is completed to determine the amount of the impairment loss. Step two requires the allocation of the estimated fair value of the reporting unit to the assets, including any unrecognized intangible assets, and liabilities in a hypothetical purchase price allocation. Any remaining unallocated fair value represents the implied fair value of goodwill, which is compared to the corresponding carrying value of goodwill to compute the goodwill impairment amount. In 2010 and 2009, we did not record any goodwill impairment charges.

As part of our impairment analysis for each reporting unit, we estimate the fair value of each unit utilizing the income approach and market approach. The income approach requires management to estimate a number of factors for each reporting unit, including projected future operating results, economic projections, anticipated future cash flows, discount rates, and the allocation of shared service or corporate items. The market approach was used as a test of reasonableness of the conclusions reached in the income approach. The market approach estimates fair value using comparable marketplace fair value data from within a comparable industry grouping.

We also compared the sum of the estimated fair values of the reporting units to our total enterprise value as implied by the market value of our equity securities. This comparison indicated that, in total, our assumptions and estimates were not unreasonable.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

Long-Lived Assets – Long-lived assets, including property, plant and equipment, and intangible assets with determinable lives, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be fully recoverable. An impairment is assessed if the undiscounted expected future cash flows generated from an asset are less than its carrying amount. Impairment losses are recognized for the amount by which the carrying value of an asset exceeds its fair value. The estimated useful lives of all long-lived assets are periodically reviewed and revised, if necessary.

Cash and Cash Equivalents - We consider all highly liquid investments with original maturities of ninety days or less when purchased to be cash and cash equivalents. As of December 31, 2010 and 2009, the Company had $2,068 and $2,032, respectively, of cash equivalents in an account that pays interest at LIBOR plus 150 basis points. This account is guaranteed and backed by liquid collateral instruments, and can be redeemed with 14 days written notice.

Accounts Receivable - Trade accounts receivable are stated net of allowances for doubtful accounts. Specific customer provisions are made when a review of significant outstanding amounts, customer creditworthiness and current economic trends, indicates that collection is doubtful. In addition, provisions are made at differing amounts, based upon the balance and age of the receivable and the Company's historical collection experience. Trade accounts are charged off against the allowance for doubtful accounts or expense when it is probable the accounts will not be recovered. The allowance for doubtful accounts as of December 31, 2010 and 2009 was $1,023 and $874, respectively.

Inventory - Inventories are valued at the lower of cost (first-in, first-out method) or market and are comprised of finished goods. On a quarterly basis, we review inventory quantities on hand and analyze the provision for excess and obsolete inventory based primarily on product age in inventory and our estimated sales forecast, which is based on sales history and anticipated future demand. As of December 31, 2010 and 2009, our reserves for excess and obsolete inventory were $145 and $136, respectively.

Property and Equipment - Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided for using the straight-line and declining balance methods of accounting over the estimated useful lives of the assets which range from one year to ten years. Leasehold improvements are amortized over the shorter of its useful life or lease term. Routine maintenance and repair costs are charged to expense as incurred and renewals and improvements that extend the useful life of the assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is reported in the statement of operations.

Income Taxes - We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in operations in the period that includes the enactment date.

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance which would reduce the provision for income taxes.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

Derivative Financial Instruments - Upon the adoption of a new standard effective January 1, 2009, certain of our financial instruments with "down-round" protection features are no longer considered indexed to our Company's stock for purposes of determining whether they meet derivative accounting treatment. As such, these instruments no longer meet the conditions to obtain equity classification and are required to be carried as derivative liabilities, at fair value with changes in fair value reflected as income (expense). The fair value of the warrants issued was $15,736, $21,314 and $6,096 on January 1, 2009, December 31, 2009 and December 31, 2010, respectively. See Note 5, "Derivative Liabilities" for further information.

Revenue Recognition - We recognize revenue in accordance with the accounting standard, which requires that four basic criteria be met before revenue can be recognized: (i) persuasive evidence that an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) product delivery has occurred or services have been rendered. We recognize revenue, net of sales taxes assessed by any governmental authority. The Company's material revenue streams are related to the delivery of IP video software solutions, including software-as-a-service ("SaaS") fees, software usage fees, enterprise license fees, set-up/support services, storage, hardware components, content delivery and content syndication. Our solutions also include technical integration services, interface design, branding, strategic planning, creative production, online marketing, media planning and analytics. The Company enters into revenue arrangements that may consist of multiple deliverables of components and services due to the needs of its customers. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services has been rendered, the sales price is fixed or determinable, and collectability of the sale price is reasonably assured. In addition to these general revenue recognition criteria, the following specific revenue recognition policies are followed:

Multiple-Element Arrangements — Arrangements with customers may include multiple deliverables, including any combination of components and services. For the Company's multiple-element arrangements, deliverables are separated into more than one unit of accounting when (i) the delivered element(s) have value to the customer on a stand-alone basis, and (ii) delivery of the undelivered element(s) is probable and substantially in the control of the Company. Based on the new accounting guidance adopted July 1, 2010 and applied retroactively to January 1, 2010, revenue is then allocated to each unit of accounting based on the estimated selling price determined using a hierarchy of evidence based first on Vendor-Specific Objective Evidence ("VSOE") if it exists, based next on Third-Party Evidence ("TPE") if VSOE does not exist, and finally, if both VSOE and TPE do not exist, based on best estimate of selling price ("BESP").

The Company determines BESP for a deliverable in a multiple element arrangement by collecting all reasonably available data points including sales, cost and margin analysis of the product, and other inputs based on the Company's normal pricing practices. The Company has experience selling components, installation and integration services at a standard combined price and considers this to be BESP when contracting with customers. The determination of BESP is a formal process within the Company that includes review and approval by the Company's management.

After determination of the estimated selling price of each deliverable in a multiple-element arrangement, the arrangement consideration is then allocated using the relative selling price method. Under the relative selling price method, the estimated selling price for each deliverable is compared to the sum of the estimated selling price for all deliverables. The percentage that is calculated for each deliverable is then multiplied by the total contractual value of the multiple-element arrangement to determine the revenue allocated to each deliverable.

The revenue allocated to each deliverable will then be recorded in accordance with existing revenue recognition guidance for stand-alone component sales and services.

Services — Revenue for services is generally recognized at completion of the contractually required services.

Hardware Components — For hardware component sales (one deliverable only), revenue recognition generally occurs when products or equipment have been shipped, risk of loss has transferred to the customer, objective evidence exists that customer acceptance provisions have been met, no significant obligations remain and an allowance for discounts, returns and customer incentives can be reliably estimated. Recorded revenues are reduced by these allowances. The Company bases its estimates of these allowances on historical experience taking into consideration the type of products sold, the type of customer, and the specific type of transaction in each arrangement.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

Research and Development - Costs incurred in research and development are expensed as incurred and are included in the consolidated statement of operations and comprehensive loss in compensation, travel and associated costs and office, marketing and other corporate costs. Software development costs are required to be capitalized when a product's technological feasibility has been established through the date the product is available for general release to customers. We do not capitalize any software development costs, as technological feasibility is generally not established until a working model is completed, at which time substantially all development is complete.

Stock-Based Compensation - We record compensation expense for share-based awards issued to employees, directors and consultants in exchange for services provided. The amount of the compensation expense is based on the estimated fair value of the awards on their grant dates and is recognized over the requisite service periods. Our share-based awards include stock options, warrants and restricted stock awards. We use the Black-Scholes-Merton option-pricing model ("Black-Scholes") to measure fair value of option and warrant awards. The Black-Scholes model requires us to make significant judgments regarding the assumptions used within the model, the most significant of which are the expected stock price volatility, the expected life of the option award, the risk-free rate of return and dividends during the expected term.

Net Income (Loss) Per Share - We compute net income (loss) per common share under the provisions of the accounting standard which establishes standards for computing and presenting earnings per share. It requires us to report both basic net (loss) income per share, which is based on the weighted average number of common shares outstanding during the period, and diluted net (loss) income per share, which is based on the weighted average number of common shares outstanding plus all potentially dilutive common shares outstanding. All equivalent shares underlying options, warrants and unvested restricted shares were excluded from the calculation of diluted loss per share because we had net losses for all periods presented and therefore equivalent shares would have an anti-dilutive effect.

Recent Accounting Pronouncements – In October 2009, the FASB issued Accounting Standards Update on Certain Revenue Arrangements That Include Software Elements, which changes the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing both software and non-software components that function together to deliver the product's essential functionality will no longer be within the scope of Software Revenue Recognition. This update is effective for fiscal years beginning on or after June 15, 2010 and early adoption is permitted. We do not expect the adoption of this update to have a material impact.

In October 2009, the FASB issued Accounting Standards Update on Multiple-Deliverable Revenue Arrangements, which addresses the accounting for multiple-deliverable arrangements and requires that the overall arrangement consideration be allocated to each deliverable in a revenue arrangement based on an estimated selling price when vendor specific objective evidence or third-party evidence of fair value is not available. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated to all deliverables using the relative selling price method. The Company adopted this new standard during the quarter ended September 30, 2010 and it has been applied retrospectively to January 1, 2010. The adoption of this standard did not have a material impact on prior results, but will impact how these arrangements will be recognized prospectively.

The new guidance changes the criteria required to (1) separate deliverables into separate units of accounting when deliverables are sold in a bundled arrangement and (2) to allocate the arrangement's consideration to each unit in the arrangement (such as, equipment, installation or commissioning services). Entities are now required to determine an estimated selling price for each separate deliverable following a hierarchy of evidence — Vendor-Specific Objective Evidence ("VSOE"), Third-Party Evidence ("TPE") and, if VSOE and TPE do not exist, best estimate of selling price ("BESP").

In December 2010, the FASB issued an accounting standard update for business combinations specifically related to the disclosures of supplementary pro forma information for business combinations. This guidance specifies that pro forma disclosures should be reported as if the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period and the pro forma disclosures must include a description of material, nonrecurring pro forma adjustments. This standard will be effective for business combinations with an acquisition date of January 1, 2011 or later. The adoption of the guidance is not expected to have a material impact on the Company's financial position or results of operations.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(3) Acquisitions

On March 6, 2009, we acquired the remaining 49% outstanding share capital that we did not previously own in subsidiary Reality Group Pty. Ltd., an Australian marketing communications firm, in consideration of the issuance of 90,073 shares of common stock for a total purchase price of $631 which is recorded as a reduction to additional paid-in capital. The remaining balance of the non-controlling interest of $237 is recorded as part of the acquisition and recorded as additional paid-in capital.

On April 8, 2009, we acquired certain of the operating assets and assumed specified liabilities of Narrowstep, Inc., a United States and United Kingdom based internet TV platform company (“Narrowstep”) in exchange for 25,000 shares of restricted common stock valued at $213. The Company has allocated the aggregate cost of the acquisition to net tangible and identifiable intangible assets based on their estimated fair values.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of the Narrowstep acquisition (April 8, 2009).

Current assets	$	670
Property and equipment		296
Intangible assets - customer lists		313
Total assets acquired		1,279
Current liabilities		1,040
Total liabilities assumed		1,040
Net assets acquired	$	239
Gain on bargain purchase	$	26

A gain on bargain purchase of $26 was recorded to other income in the year ended December 31, 2009 in the consolidated statements of operations and comprehensive loss.

In November 2008, we purchased specified assets of Extreme Mobile Services Limited (also known as Juzou), a company formed under the laws of the United Kingdom. Juzou’s business involves content management and web services with live streaming capabilities. Under an Asset Purchase Agreement, dated November 15, 2008, we acquired the Juzou trademark and system and ongoing client and other operating contracts. The total purchase price of the assets was $800, payable in shares of our common stock based on meeting specified financial and operating targets over the ensuing two-year period, which has subsequently been amended in August 2009 to $570. At closing, we issued 13,715 shares of our common stock to Juzou valued at $120 against the total purchase price of which $104 was recorded as software. In September 2009, we paid $150 in cash and issued 10,559 shares valued at $90, which was recorded as software. In December 2009, we issued 7,165 shares valued at $70 for the consideration 12 months from closing, which was recorded as software.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(3) Acquisitions (Continued)

On October 1, 2009, we acquired The FeedRoom, Inc., a United States company engaged in online video communications ("FeedRoom") in exchange for 948,636 shares of KIT digital common stock (the "Merger Shares") and an additional 363,636 shares of our common stock issued in exchange for a $4,000 indirect investment in us by certain stockholders of FeedRoom immediately prior to the closing of the merger. The KIT digital common stock was issued to such stockholders at an effective price of $11.00 per share for a total purchase price of $12,631. The Merger Shares were delivered as follows: (i) 937,398 shares on closing; and (ii) 374,602 shares which will be retained by us for one year after the closing. The Company has allocated the aggregate cost of the acquisition to FeedRoom's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded to goodwill.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition (October 1, 2009).

Current assets	$	1,832
Property and equipment		1,166
Intangible assets – developed software		200
Intangible assets - customer list		1,600
Goodwill		11,075
Total assets acquired		15,873
Current liabilities		2,228
Net assets acquired	$	13,645

The results of operations of FeedRoom for the period from October 1, 2009 to December 31, 2009 have been included in the consolidated statements of operations and comprehensive loss.

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(3) Acquisitions (Continued)

On October 1, 2009, we acquired all Nunet AG, a German company engaged in video management for broadband, IPTV and mobile ("Nunet") for an aggregate purchase price of EUR 7,647, consisting of: a cash payment of $8,048 (EUR 5,400) paid at closing; a convertible promissory note of EUR 1,663 due March 31, 2011; and another convertible promissory note of EUR 584 due June 30, 2010. These convertible promissory notes have since been converted into 339,540 shares of common stock valued at $3,321 and purchased by an unrelated party. This acquisition expands our client base with major international mobile network operators and enhances our platform with mobile capabilities. An additional $430 (EUR 300) was paid to the former owner at closing to cover brokers, introducing parties, management incentives and other transaction-related costs. This amount was expensed and is included in merger and acquisition and investor relations expenses in the consolidated statement of operations and comprehensive loss. The Company has allocated the aggregate cost of the acquisition to Nunet's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded to goodwill.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition (October 1, 2009).

Current assets	$	2,167
Property and equipment		1,917
Intangible assets – developed software		439
Intangible assets - customer list		1,316
Goodwill		8,888
Total assets acquired		14,727
Current liabilities		2,049
Capital leases		1,124
Total liabilities assumed		3,173
Net assets acquired	$	11,554

The results of operations of Nunet for the period from October 1, 2009 to December 31, 2009 have been included in the consolidated statements of operations and comprehensive loss.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(3) Acquisitions

In late March 2010, we acquired Multicast Media Technologies, Inc., a United States company engaged in live event broadcasting, internet video and targeted multimedia communications ("Multicast"), in exchange for 1,312,034 shares of our common stock (the "Merger Shares") and $4,746 in cash (the "Cash Consideration"). We valued the 1,312,034 shares at a share price of $12.24 with a discount of $3,132 due to the restriction on the sale of these shares for a total value of $12,927. The merger consideration was subject to adjustment upwards or downwards to the extent that the closing working capital of Multicast was greater or less than zero and subject to the final fair valuation of Merger Shares. Total consideration was $17,272. The Cash Consideration and Merger Shares were delivered as follows: (i) $4,000 in cash and 842,500 shares of our stock promptly following the closing; and (ii) a "holdback amount" of an additional $746 in cash and 469,534 shares of KIT digital common stock, less any amount used by KIT digital to offset negative working capital and satisfy indemnity claims as described below, will be delivered to such stockholders not later than one year after the closing or such later date as all indemnity claims have been resolved. Of the total "holdback amount," $712 in cash and 196,798 Merger Shares were used to offset any negative working capital balance of Multicast as of the effective date of the merger. The remaining $34 in cash and 272,736 Merger Shares being held back by KIT digital will be used to indemnify KIT digital against any breaches of representations, warranties and covenants by Multicast, as well as against certain additional specified liabilities. The Company has allocated the aggregate cost of the acquisition to Multicast's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded to goodwill.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$	984
Property and equipment		1,123
Intangible assets – developed software		562
Intangible assets – customer list		3,087
Intangible assets – trademarks		100
Goodwill		18,810
Total assets acquired		24,666
Current liabilities and assumed debt		(6,998)
Net assets acquired	$	17,668

The results of operations of Multicast for the period from March 16, 2010 to December 31, 2010 have been included in the Consolidated Statements of Operations.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(3) Acquisitions (Continued)

On May 14, 2010, we acquired Benchmark Broadcast Systems Pte. Ltd., a Singapore company engaged in providing asset management solutions and integration of broadcast video systems, and subsidiaries ("Benchmark"), in exchange for 353,744 shares of our common stock and approximately $4,905 in cash (the "Cash Consideration") at the time of acquisition. We valued the 353,744 shares at a share price of $13.80 with a discount of $976 due to the restriction on the sale of these shares for a total value of $3,906. The cost of the acquisition of Benchmark was valued at $15,762. Additionally, the cost includes $1,119 for the working capital due to the seller and a fair value of the contingent consideration of $8,378 estimated to be due after one year or two years from closing based on a percentage of revenue and meeting earnings targets. Of these amounts, $2,115 is included in the Balance Sheet in "Acquisition liability" and $7,382 is in the Balance Sheet in "Acquisition liability, net of current." Pursuant to the agreement, we put $2,000 into escrow for potential future obligations, which is included in "Restricted Cash" in the Balance Sheet as of December 31, 2010. We have allocated the aggregate cost of the acquisition to Benchmark's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the preliminary values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$ 2,523
Property and equipment	166
Intangible assets – customer list	200
Intangible assets – backlog	1,100
Goodwill	16,842
Total assets acquired	20,831
Deferred tax liability	(211)
Current liabilities and assumed debt	(4,858)
Net assets acquired	$ 15,762

The results of operations of Benchmark for the period from May 14, 2010 to December 31, 2010 have been included in the Consolidated Statements of Operations

In June 2010, we paid $2,900 in cash and issued 122,911 shares of our common stock valued at $1,250 to the former shareholders of Visual Connection a.s. ("Visual"), pursuant to an amendment to the Visual Share Purchase Agreement dated October 5, 2008 ("Visual SPA") and in satisfaction of all remaining earn-out provisions. We have recorded an increase of $3,075 to "Goodwill" in the Balance Sheet as of September 30, 2010 and a reduction of $1,075 of the previously recorded contingent liability.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(3) Acquisitions (Continued)

On September 8, 2010, we acquired Accela Communications, Inc., a United States company engaged in providing on-demand, video-based enablement and measurement tools (“Accela”), in exchange for 332,764 shares of our common stock valued at a share price of $9.27 with a discount of $604 due to the restriction on the sale of these shares for a total value of $2,481 and approximately $2,936 in cash at the time of acquisition, which included $1,106 in cash paid to debtors of Accela. Additionally, the cost includes an offset of $108 due to KIT for the working capital adjustment, which is included in the Balance Sheet in “Other current assets”. Total consideration was $5,417. We have allocated the aggregate cost of the acquisition to Accela’s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$	880
Property and equipment		172
Intangible assets – software		190
Intangible assets – customer list		860
Intangible assets - trademark		10
Goodwill		4,531
Total assets acquired		6,643
Deferred tax liability		(203)
Current liabilities and assumed debt		(1,468)
Net assets acquired	$	4,972

The results of operations of Accela for the period from September 8, 2010 to December 31, 2010 have been included in the Consolidated Statements of Operations

KIT DIGITAL, INC. AND SUBSIDIARIES
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(3) Acquisitions (Continued)

On September 8, 2010, we acquired the assets of Megahertz Broadcast Systems, a United Kingdom company engaged in providing broadcast video systems integration (“Megahertz”), in exchange for $3,251 in cash at the time of acquisition. Additionally, the cost included $507 due to the seller for the working capital adjustment, which has been paid prior to December 31, 2010. We have allocated the aggregate cost of the acquisition to Megahertz’s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$	1,110
Property and equipment		165
Intangible assets – backlog		276
Intangible assets – customer list		399
Intangible assets – customer list		23
Goodwill		844
Total assets acquired		2,817
Current liabilities		(1,099)
Net assets acquired	$	1,718

The results of operations of Megahertz for the period from September 8, 2010 to December 31, 2010 have been included in the Consolidated Statements of Operations

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(3) Acquisitions (Continued)

On September 21, 2010, we acquired Brickbox Digital Media s.r.o., a Czech company engaged in providing digital video asset management solutions, and its international subsidiaries ("Brickbox"), in exchange for 339,476 shares of our common stock valued at a share price of $11.00 with a discount of $731 due to the restriction on the sale of these shares for a total value of $3,003 and approximately $7,600 in cash at the time of acquisition. Additionally, the cost includes a fair value for contingent consideration of $3,023 which will be based on 10 percent of revenue and meeting earnings targets over a four-year period after closing, which is included in the Balance Sheet in "Acquisition liability, net of current". We have allocated the aggregate cost of the acquisition to Brickbox's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$ 2,797
Property and equipment	908
Intangible assets – customer list	3,000
Intangible assets – noncompete	100
Goodwill	9,013
Total assets acquired	15,818
Deferred tax liability	(654)
Current liabilities and assumed debt	(3,027)
Net assets acquired	$ 12,137

The results of operations of Brickbox for the period from September 21, 2010 to December 31, 2010 have been included in the Consolidated Statements of Operations

Selected unaudited pro forma combined results of operations for the year ended December 30, 2009, assuming the Multicast, Benchmark, Accela, Megahertz and Brickbox acquisitions occurred on January 1, 2009 using actual unaudited figures from each entity prior to acquisition, are presented as follows:

Total revenue	$ 116,251
Net loss	$ (24,756)

Selected unaudited pro forma combined results of operations for the year ended December 31, 2010, assuming the Multicast, Benchmark, Accela, Megahertz and Brickbox acquisitions occurred on January 1, 2010 using actual unaudited figures from each entity prior to acquisition, are presented as follows:

Total revenue	$ 140,188
Net loss	$ (38,875)

The acquisitions of Nunet AG and The FeedRoom, Inc. from October 2009 are not presented above in the proforma combined results of operations for the year ended December 31, 2009 as portions of these businesses ceased and management believes that the organization and nature of these businesses have changed significantly after acquisition.

KIT DIGITAL, INC. AND SUBSIDIARIES
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(4) Acquisition Liabilities

	Year Ending December 31, 2010	Year Ending December 31, 2009
Acquisition liabilities, current portion		
Visual	$ -	$ 1,075
Benchmark	2,115	-
	$ 2,115	$ 1,075
Acquisition liabilities, net of current		
Benchmark	$ 7,382	$ -
BrickBox	3,023	-
	$ 10,405	$ -

On March 9, 2009, we issued 300,539 shares of our common stock in satisfaction of a $1,500 acquisition liability incurred in connection with the acquisition of Kamera Content AB ("Kamera") in 2008, which is included in goodwill. In September 2009, we recorded an additional liability of $1,083 as a result of an amendment to the underling share purchase agreement for full and final settlement of all future/potential earn-out payments. This has been recorded as additional goodwill in the consolidated balance sheet. In October 2009, we paid $1,700 and 110,805 shares valued at $883 to settle this liability.

In January 2009, we paid $180 in cash to the former shareholders of Visual Connection a.s. ("Visual"), pursuant to the Visual Share Purchase Agreement dated October 5, 2008 ("Visual SPA"). In March 2009, we issued 163,044 shares of our common stock to the former shareholders of Visual, pursuant to the Visual SPA, in satisfaction of a $1,500 earn out liability, which is included in goodwill. In September 2009, we issued 52,632 shares valued at $430 and $300 in cash to the former shareholders of Visual pursuant to an amendment to the Visual SPA and in satisfaction of the earn-out 12 months after closing and is included in goodwill. The liability included in the consolidated balance sheet in "Acquisition liability – Visual" is $1,075 as of December 31, 2009. In June 2010, we paid $2,900 in cash and issued 122,911 shares of our common stock valued at $1,250 to the former shareholders of Visual Connection a.s. ("Visual"), pursuant to an amendment to the Visual Share Purchase Agreement dated October 5, 2008 ("Visual SPA") and in satisfaction of all remaining earn-out provisions. We have recorded an increase of $3,075 to "Goodwill" in the Balance Sheet as of June 30, 2010 and a reduction of $1,075 of the previously recorded contingent liability.

(5) Derivative Liabilities

In June 2008, the Financial Accounting Standards Board issued a new accounting standard. Under this standard, instruments which contain full ratchet anti-dilution provisions will no longer be considered indexed to a company's own stock for purposes of determining whether it meets the first part of the scope exception. The adoption required us to (1) evaluate our instrument's contingent exercise provisions and (2) evaluate the instrument's settlement provisions. Based upon applying this approach to instruments within the scope of the consensus, we have determined that certain of our warrants which were classified in stockholders' equity on December 31, 2008, no longer meet the definition of Indexed to a Company's Own Stock provided in the Consensus. Accordingly, effective on January 1, 2009, we were required to reclassify those warrants, at their fair value, into liabilities. The accounting standard requires that the fair value of these liabilities be re-measured at the end of every reporting period with the change in value over the period reported in the statement of operations. The difference between the amount the warrants were originally recorded in the financial statements and the fair value of the instruments on January 1, 2009 was considered a cumulative effect of a change in accounting principle and required an adjustment to the opening balance of retained earnings and a reduction in additional paid-in capital in the amount of $8,498 and $24,235, respectively. The derivative liability as of January 1, 2009 was $15,737. The common shares indexed to the derivative financial instruments used in the calculation of the fair value and recorded as liabilities at January 1, 2009, December 31, 2009 and December 31, 2010 were 5,806,230, 4,794,400 and 679,400, respectively. The number of shares for the determination of liability have been computed based on the effective exercise price used in the valuation. The actual number of common shares indexed to the warrants at January 1, 2009, December 31, 2009 and December 31, 2010 were 2,886,038, 4,794,400 and 679,400, respectively.

We estimate fair values of derivative financial instruments using various techniques (and combinations thereof) that are considered to be consistent with the objective measuring fair values. In selecting the appropriate technique, we consider, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For less complex derivative instruments, such as free-standing warrants, we generally use the Black-Scholes model, adjusted for the effect of dilution, because it embodies all of the requisite assumptions (including trading volatility, estimated terms, dilution and risk free rates) necessary to fair value these instruments.

KIT DIGITAL, INC. AND SUBSIDIARIES
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(Unaudited)

(5) Derivative Liabilities (continued)

Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques (such as Black-Scholes model) are highly volatile and sensitive to changes in the trading market price of our common stock. Since derivative financial instruments are initially and subsequently carried at fair values, our income (expense) going forward will reflect the volatility in these estimate and assumption changes. Under the terms of the new accounting standard, increases in the trading price of the company's common stock and increases in fair value during a given financial quarter result in the application of non-cash derivative expense. Conversely, decreases in the trading price of the company's common stock and decreases in trading fair value during a given financial quarter result in the application of non-cash derivative income.

The following tables summarize the components of derivative liabilities:

	December 31, 2010	December 31, 2009	Re-measurement date January 1, 2009
Fair value of warrants with anti-dilution provisions	$ (6,096)	$ (21,314)	$ (15,736)
Significant assumptions (or ranges):			
Trading market values (1)	$ 16.04	$ 11.00	$ 5.25
Term (years) (3)	2.35	3.35 to 4.00	4.35 to 5.00
Volatility (1)	57.73%	61.98%	101.98%
Risk-free rate (2)	0.61%	1.7%	1.55%
Effective Exercise price (3)	$ 7	$ 7	$ 5.92(3)

Fair value hierarchy:

(1) Level 1 inputs are quoted prices in active markets for identical assets and liabilities, or derived there from. Our trading market values and the volatilities that are calculated thereupon are level 1 inputs.
(2) Level 2 inputs are inputs other than quoted prices that are observable. We use the current published yields for zero-coupon US Treasury Securities, with terms nearest the remaining term of the warrants for our risk free rate.
(3) Level 3 inputs are unobservable inputs. Inputs for which any parts are level 3 inputs are classified as level 3 in their entirety. The remaining term used equals the remaining contractual term as our best estimate of the expected term and the effective exercise price which is based on the stated exercise price adjusted for anti-dilution provisions.

The effects on our expense associated with changes in the fair values of our derivative financial instruments for the years ended December 31, 2010 and December 31, 2009 was $12,891 and $6,015, respectively.

On March 7, 2010, our board of directors approved the repurchase of certain outstanding warrants with exercise prices below the then-current market price from certain warrant holders (who had acquired the warrants in May 2008 private placement financings), including KIT Media, an entity controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer and Wellington Management Company ("Wellington"), an entity with greater than a 10% holding in KIT digital's outstanding common stock at the time of the transaction. KIT Media and Wellington were at the time considered related parties of the Company. The terms of the warrant repurchase were identical for KIT Media and Wellington, and the negotiation of such terms was led by Wellington. The Company offered to purchase and cancel these warrants at 133% of the intrinsic value of the warrants (but because intrinsic value was based on a 20-day trailing volume weighted average price of the underlying common stock at the time, the ultimate purchase price of the warrants ended up being below the actual intrinsic value at the date of purchase.). These warrants with anti-ratchet dilution provisions totaling 3,030,747 were cancelled effective on March 31, 2010. Total payments for the settlement of these warrants was $22,232 and a loss of $1,665 was recorded in the derivative expense in the statement of operations. These warrants were included in the warrant buyback liability as at March 31, 2010 and were paid after such date. We also repurchased and cancelled another 403,577 warrants with anti-ratchet dilution provisions during the year ended December 31, 2010, at varying prices, from parties other than KIT Media and Wellington, for $1,342.

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(6) Related Party Transactions

In December 2007, we entered into an agreement with KIT Capital, a company beneficially controlled and led by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, under which KIT Capital has provided us managerial services. The total amount paid to KIT Capital and included in our results of operations in the year ended December 31, 2010 and 2009 were $569 and $508, respectively.

On May 1, 2009, we issued a convertible interim promissory note up to a maximum of $5,000 to KIT Media, Ltd. of which we received gross proceeds of $2,250 in the quarter ended June 30, 2009 and $1,100 in the quarter ended September 30, 2009. Interest is payable monthly in arrears at 8% and matures on April 30, 2010. Interest of $51 was calculated and paid during 2009. A debt discount of $442 was recorded related to this debt and was amortized through the repayment date of August 18, 2009. As of August 18, 2009, these notes were repaid from the proceeds of the public offering.

KIT Media, Ltd., our largest single stockholder, controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, has purchased $4,004 of common stock (572,000 shares) in this August 18, 2009 offering, in part through the repayment of an interim note payable by us in the amount of $3,350. All shares sold to KIT Media were at the same price and on the same terms as the other investors in this offering. Gavin Campion, our President, is also an investor in KIT Media, as are several members of our board of directors.

KIT Media purchased $1,750 of common stock (179,856 shares) in the March 9, 2010 offering at the same price and on the same terms as the other investors in this offering.

KIT Capital purchased $1,300 of common stock (100,000 shares) in the April 27, 2010 offering at the same price and on the same terms as the other investors in this offering.

See Note 5, “Derivative Liabilities” for a description of warrant repurchases from KIT Media and Wellington.

See Note 12, “Commitments and Contingencies”, for a description of Management Agreement with KIT Capital.

See Note 13, “Stock Issuances”, for a description of warrant repurchase from Robin Smyth, Chief Financial Offcier.

(7) Property and Equipment

Property and equipment consisted of the following:

	December 31,		Estimated Useful
	2010	**2009**	**Lives in Years**
Office equipment capital lease	$ 196	$ 1,183	3 - 5
Motor vehicles capital lease	103	625	2.25 - 5
Computer software	1,150	806	1 - 4
Leasehold improvements	1,013	1,114	1 - 8.5
Furniture and fixtures	1,157	1,022	2 -10
Office and network equipment	9,338	4,696	1 -5
	12,957	9,446	
Accumulated depreciation and amortization	(6,970)	(3,749)	
	$ 5,987	$ 5,697	

Depreciation and amortization expense on property and equipment and capitalized internal-use software for the years ended December 31, 2010 and 2009 were $4,059 and $1,847 respectively.

KIT DIGITAL, INC. AND SUBSIDIARIES
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(8) Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill as of December 31, 2010 and 2009, respectively are as follows:

	Goodwill
Balance as of January 1, 2009	$ 15,167
Acquisitions	21,325
Balance as of December 31, 2009	$ 36,492
Acquisitions	53,144
Loss on disposal	(632)
Balance as of December 31, 2010	$ 89,004

Intangible assets include the following:

	December 31, 2010			
	Weighted Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with determinable lives:				
Software	3.25	$ 6,747	$ (4,057)	$ 2,690
Customer list	5.5	15,106	(4,944)	10,162
Trademarks	4.5	133	(35)	98
Other	1.5	376	(78)	298
Total		$ 22,362	$ (9,114)	$ 13,248

	December 31, 2009			
	Weighted Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with determinable lives:				
Software	3.25	$ 5,995	$ (2,559)	$ 3,436
Customer list	4.5	6,960	(2,310)	4,650
Total		$ 13,455	$ (5,369)	$ 8,086

Amortization expense on intangible assets for the years ended December 31, 2010 and 2009 were $4,309 and $2,355 respectively.

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(8) Goodwill and Other Intangible Assets (continued)

Estimated future annual amortization expense as of December 31, 2010 is as follows:

	Customer List	Software	Trademarks	Other	Total
2011	$ 2,382	$ 973	$ 28	$ 241	$ 3,624
2012	1,822	785	17	33	2,657
2013	1,703	584	17	24	2,328
2014	1,677	298	17	-	1,992
2015	1,536	50	17	-	1,603
Thereafter	1,042	-	2	-	1,044
Totals	$ 10,162	$ 2,690	$ 98	$ 298	$ 13,248

(9) Impairment of Intangible Asset

As of December 31, 2010, we determined that customer lists from the acquisition of Visual in October 2008 are impaired due to the sale in December 2010 of a portion of our business from this acquisition. We evaluated the ongoing value of these assets and based on this evaluation, we determined that customer lists with a carrying amount of $438 was impaired and therefore recorded a reduction of $438; this is recorded as loss on impairment of intangible assets in the consolidated statement of operations and comprehensive loss.

As of December 31, 2009, we determined that customer lists from the acquisition of Kamera in May 2008 are impaired. We evaluated the ongoing value of these assets and based on this evaluation, we determined that customer lists with a carrying amount of $891 was impaired and therefore recorded a reduction of $500; this is recorded as loss on impairment of intangible assets in the consolidated statement of operations and comprehensive loss.

(10) Notes Payable

In April 2010, we received $5,000 in gross proceeds from the issuance of a note to a third party investor. Interest is payable monthly in advance at 12.7% per year and matures on July 1, 2013. We paid interest only of $22 for April 2010 and agreed to pay interest only of $42 for the next nine months. Commencing on February 1, 2011, payments for principal and interest are due in thirty equal consecutive payments of $188. A final balloon payment of $538 will be due and payable upon maturity. The note is secured by the Company’s property, including accounts receivable and inventory. In conjunction with the borrowing, we issued to the lender a warrant entitling it to purchase, for $14.24 per share, 40,976 shares of our common stock with a five year life through April 15, 2015. A debt discount of $183 was recorded related to these warrants and is being amortized over the term of the loan.

In June 2010, we received $1,000 in gross proceeds from the issuance of a note to a third party investor. Interest is payable monthly in advance at 12.7% per year and matures on September 1, 2013. We paid interest only of $5 for June 2010 and agreed to pay interest only of $8 for the next nine months. Commencing on April 1, 2011 payments for principal and interest are due in thirty equal consecutive payments of $38. A final balloon payment of $108 will be due and payable upon maturity. The note is secured by the Company’s property, including accounts receivable and inventory. In conjunction with the borrowing, we issued to the lender a warrant entitling it to purchase, for $13.76 per share, 8,480 shares of our common stock with a five year life through June 14, 2015. A debt discount of $27 was recorded related to these warrants and is being amortized over the term of the loan.

KIT DIGITAL, INC. AND SUBSIDIARIES
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(11) Income Taxes

The Company accounts for its income taxes in accordance with ASC 740-10. Under ASC 740-10, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts existing assets and liabilities and their tax bases. ASC 740-10 also requires that deferred tax assets will not be realized based on all available positive and negative evidence.
Income (loss) before income tax consisted of the following:

	2010	2009
United States Operations	$ (21,503)	$ (13,087)
Foreign Operations	(13,239)	(5,741)
Total	$ (34,742)	$ (18,828)

The components of the income tax expense (benefit) for the years ended December 31 are as follows:

	2010	2009
Current Taxes:		
Federal	$ -	$ -
State	531	140
Foreign	1,094	157
Total current tax expense	1,625	297
Deferred Taxes:		
Federal	(187)	-
State	(16)	-
Foreign	(904)	817
Total deferred tax expense (benefit)	(1,107)	817
Provision for (benefit from) income taxes	$ 518	$ 1,114

The following table is a reconciliation from our income tax provision (benefit) based on the U.S. Federal statutory income tax rate to the income tax expense (benefit) reported for financial statement purposes:

	2010	2009
U.S. Statutory Rate	34.00%	34.00%
State and Local Taxes, net of federal benefit	1.00%	2.44%
Foreign Rate Different Than Statutory	(2.29)%	(4.46)%
Permanent Differences	(17.24)%	(15.68)%
Change in Valuation Allowance	(17.35)%	(22.21)%
Other	0.39%	-
	(1.49)%	(5.91)%

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(11) Income Taxes (continued)

The Tax effects of temporary differences and net operating loss carry forwards that give rise to deferred tax assets and liabilities are as follows:

	2010	2009
Deferred Tax Assets:		
Stock-Based Compensation	$ 2,671	$ 2,248
Compensation	116	141
Allowances for Doubtful Accounts	35	101
Depreciation and Amortization	511	125
Net Operating Losses	64,018	56,331
Restructuring Costs	995	257
Other	236	-
Total Deferred Tax Assets	68,582	59,203
Deferred Tax Liabilities:		
Intangible and Fixed Assets	(4,867)	(2,126)
Valuation Allowance	(64,397)	(57,657)
Net Deferred Tax Asset (Liability)	(682)	(580)

As of December 31, 2010, the Company had approximately $133,000 of Federal, $234,000 of State and Local, and $21,000 of Foreign net operating losses (NOLs). The Federal and State NOLs are available to offset future taxable income through 2030 and expire from 2019 to 2030. The majority of the foreign NOL's have no expiration.

The Company has not recognized a deferred asset for the NOLs at December 31, 2010 and expects to continue to provide a full valuation allowance until, or unless, it can sustain a level of profitability that demonstrates its ability to utilize these assets.
Additionally, the Federal and State utilization of the above NOLs, in accordance with section 382 of the Internal Revenue Service code, could be limited or expired before the utilization due to stock ownership changes that may have occurred in the past or will occur in the future. In certain foreign jurisdictions, the utilization of the NOLs may also be limited

During 2010, our valuation allowance increased by $6,740 from $57,657 in 2009 to $64,397 in 2010. We will continue to maintain the valuation allowance until sufficient positive evidence exists to support a full or partial reversal.

As a matter of course, the Company can be audited by federal, state and foreign tax authorities. No audits are currently in process.

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(11) Income Taxes (continued)

A list of open years by major jurisdictions follows:

Jurisdiction	Tax Years
United States	1999 to 2010
New York State	1999 to 2010
New York City	1999 to 2010
Australia	2004 to 2010
Germany	2005 to 2010
United Kingdom	2006 to 2010
Czech Republic	2001 to 2010
India	2006 to 2010
Canada	2008 to 2010

(12) Commitments and Contingencies

Leases - The Company is a party to a number of non-cancelable lease agreements primarily involving office premises, motor vehicles and computer equipment. Included in capital leases are equipment and motor vehicle leases which are generally for three to five year periods. Included in operating leases are office premises, equipment and motor vehicle leases which are generally for two to five year periods.

The following is a schedule of future minimum payments under capital leases and operating leases as of December 31, 2010.

Periods January to December unless stated otherwise	Capital	Operating Property	Total
2011	$ 667	$ 2,856	$ 3,523
2012	133	1,846	1,979
2013	10	873	883
2014	7	253	260
2015	5	38	43
Thereafter	-	2	2
Total Minimum Lease Payments	822	$ 5,868	$ 6,690
Less Amount Representing Interest	(39)		
Total Obligations Under Capital Leases	$ 783		

Rent expense amounted to $2,003 and $1,694 for the years ended December 31, 2010 and 2009, respectively.

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(12) Commitments and Contingencies (continued)

Employment Agreements - On December 18, 2007, the Company entered into the Management Agreement with KIT Capital for a term commencing on January 9, 2008 and terminating on January 9, 2011, unless sooner terminated or mutually extended. This agreement has been extended until March 31, 2011 to facilitate discussions with respect to renewing the agreement or entering into a similar agreement. The Management Agreement provided for an aggregate compensation for KIT Capital as follows: (i) $51 monthly (which has been subsequently adjusted downwards at various dates based on the headcount), which includes the cost of at least three employees inclusive of benefits and taxes, (ii) signing incentive payment of $69, (iii) an incentive bonus equal to the greater of (x) the preceding twelve months' base compensation or (y) the previous month's monthly installment of base compensation multiplied by twelve if the Company shall achieve 2 consecutive quarters of profitability or the Company's total monthly revenue equals or exceeds $6,000, and (iv) a " phantom stock plan " for 60,000 shares that vest over a 36-month period. The Management Agreement provides that upon termination of the Management Agreement or after the Management Agreement's expiration date for any reason except cause (as defined in the Management Agreement), the Company shall pay KIT Capital, in addition to any other payments due hereunder, a cash severance payment equal to the greater of (i) the total amount paid to KIT Capital during the preceding twelve months, including base compensation and all bonuses, and (ii) the previous month's monthly installment of base compensation multiplied by twelve.

Litigation - In December 2007, two former consultants of ROO Media Corporation (ROO Media) (currently KIT Media Corporation) sued that entity together with ROO Group, Inc. (currently KIT digital, Inc.) and its founder and former Vice Chairman and ROO Media's former President and Chief Operating Officer in New York Supreme Court, New York County, New York, alleging breach of an oral employment agreement, fraudulent inducement and other claims relating to the plaintiffs' employment at ROO Media. Last year, defendants moved to dismiss the complaint and, in March 2009, the court dismissed all of plaintiffs' claims except their breach of contract claim on the grounds that it is based on an alleged oral agreement, which plaintiffs may be able to prove. Defendants have answered the complaint, denying liability, and the case is now in discovery. We believe that there is no merit to this suit, and we intend to continue to defend vigorously.

In November 2007, the Company's wholly-owned subsidiary, ROO HD, Inc., now known as KIT HD, Inc. ("KIT HD"), was named as the defendant in a purported class action lawsuit entitled Julie Vittengl et al. vs. ROO HD, Inc., in New York Supreme Court, Saratoga County, New York. The suit, brought by four former employees of Wurld Media, Inc. ("Wurld"), purportedly on behalf of themselves and "others similarly situated," claims that KIT HD's acquisition of certain assets of Wurld was a fraudulent conveyance and that KIT HD is the alter-ego of Wurld. Plaintiffs seek the appointment of a receiver to take charge of the Company's property in constructive trust for plaintiffs and payment of plaintiffs' unpaid wages and costs of suit, both in an unspecified dollar amount. KIT HD filed its answer to the complaint in January 2008. In December 2009, plaintiffs served an amended complaint, dropping the class action allegations and adding the Company as a defendant; otherwise, it is essentially the same as its predecessor. Earlier this month, KIT HD and the Company answered the amended complaint, and the case will shortly enter into discovery. We believe that the suit is without merit, and the Company and KIT HD intend to defend themselves vigorously.

In May 2009, a former employee of Wurld, Plaintiff, filed suit against ten shareholders of Wurld, Wurld, ROO HD (n/k/a "KIT HD"), and ROO Group, Inc. (n/k/a the "Company"), in New York Supreme Court, Albany County, New York. Plaintiff, a former employee of Wurld, seeks to hold the ten largest shareholders of Wurld liable under Business Corporation Law § 630, for $100 in wages that Wurld allegedly failed to pay Plaintiff. She further asserts a variety of claims based on the allegation that KIT HD's acquisition of certain assets of Wurld was a fraudulent conveyance, and that KIT HD is the successor to Wurld and liable for Wurld's debts. Based on these allegations, plaintiff seeks payment of her wages, the (unspecified) fair market value of her shares of stock in Wurld, rescission of the asset purchase agreement between Wurld and KIT HD, plus attorney's fees. In October 2009, the court dismissed plaintiff's claims against three shareholder/defendants on the grounds that BCL § 630 does not apply to Wurld because it is not a New York corporation, a decision that plaintiff is appealing. KIT HD and the Company have been served and answered, and the case is now in discovery. We believe that this lawsuit is without merit, and if necessary the Company intends to defend itself vigorously.

KIT DIGITAL, INC. AND SUBSIDIARIES
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(13) Stock Issuances

On September 30, 2010, we filed a certificate of amendment of our certificate of incorporation to increase the number of authorized shares of our common stock to 80,000,000 shares from 30,000,000 shares. Our board viewed this increase of authorized shares as a means to maximize strategic flexibility. The amendment was adopted by stockholders holding a majority of our outstanding shares of common stock at our annual meeting of stockholders held on September 30, 2010.

During the quarter ended March 31, 2010, we issued 6,771,093 shares of common stock. Of this amount, we issued 2,980,000 shares in the January 2010 public offering, 350,000 shares in the February 2010 over-allotment, 1,541,624 shares in the March 2010 public offering, 231,244 shares in the March 2010 over-allotment, 1,312,034 shares for the acquisition of Multicast, 308,007 shares for the exercise of warrants with proceeds of $1,448, 7,622 shares for the exercise of options with proceeds of $41, 16,500 shares for compensation valued at $190 and 24,062 shares for services valued at $236.

On January 26, 2010, we completed an underwritten public offering of 2,980,000 shares of our common stock, pursuant to our shelf registration statement on Form S-3 (No. 333-162325), which was originally filed and declared effective in October 2009, and related prospectus supplement dated January 21, 2010. We sold such shares in the offering at a price of $10.50 per share and received $31,290 in gross proceeds and approximately $28,890 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses. As part of the offering, we granted the underwriters an over-allotment option to purchase an additional 447,000 shares of common stock at the same price per share through February 20, 2010. We subsequently sold 350,000 additional shares of common stock pursuant to the over-allotment option on February 23, 2010, and received $3,675 in gross proceeds and approximately $3,433 in net proceeds.

On March 9, 2010, we completed an underwritten public offering of 1,541,624 shares of our common stock, pursuant to our shelf registration statement on Form S-3 (No. 333-164655), which was originally filed and declared effective in February 2010, and related prospectus supplement dated March 4, 2010. We sold such shares in the offering at a price of $9.73 per share and received $15,000 in gross proceeds and approximately $14,075 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses. We subsequently sold 231,244 additional shares of common stock pursuant to an underwriters' over-allotment option on March 22, 2010, and received $2,250 in gross proceeds and approximately $2,087 in net proceeds.

KIT Media Ltd., an entity controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer ("KIT Media"), purchased $1,750 of common stock (179,856 shares) in the March 9, 2010 offering, at the same price and on the same terms as the other investors in this offering.

During the quarter ended June 30, 2010, we issued 5,614,333 shares of common stock. Of this amount, we issued 4,230,770 shares in the April 2010 public offering, 634,615 shares in the May 2010 over-allotment, 353,774 shares in the acquisition of Benchmark, 122,911 shares in the final payout of the acquisition of Visual, 260,151 shares for the exercise of warrants with proceeds of $1,582, 6,112 shares for the exercise of options with proceeds of $26 and 6,000 shares for services valued at $82.

On April 27, 2010, we completed an underwritten public offering of 4,230,770 shares of our common stock, pursuant to our shelf registration statement on Form S-3 (No. 333-164655), which was originally filed and declared effective in February 2010, and related prospectus supplement dated April 22, 2010. We sold such shares in the offering at a price of $13.00 per share and received $55,000 in gross proceeds and approximately $50,574 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses. We subsequently sold 634,615 additional shares of common stock pursuant to an underwriters' over-allotment option on May 6, 2010, and received $8,250 in gross proceeds and approximately $7,628 in net proceeds. KIT Capital purchased $1,300 of common stock (100,000 shares) in the April 27, 2010 offering at the same price and on the same terms as the other investors in this offering.

During the quarter ended September 30, 2010, we issued 683,773 shares of common stock. Of this amount, we issued 332,764 shares in the acquisition of Accela, 339,476 shares in the acquisition of Brickbox, 939 shares for the exercise of options with proceeds of $7 and 10,594 shares for services valued at $94.

On October 22, 2010, the U.S. Securities and Exchange Commission declared effective the registration statement on Form S-3 of KIT digital, Inc. filed on October 13, 2010. The registration statement permits the Company to issue, in one or more offerings, shares of common stock at an aggregate offering price not to exceed $250,000.

On November 24, 2010, we completed an underwritten public offering of 8,000,000 shares of our common stock, pursuant to our shelf registration statement on Form S-3 (No. 333-169918), which was originally filed and declared effective in October 2010, and related prospectus supplement dated November 19, 2010. We sold shares at a price of $12.00 per share and received $96,000 in gross proceeds and approximately $89,489 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses. We subsequently sold 1,200,000 additional shares of common stock pursuant to an underwriters' over-allotment option on December 10, 2010, and received $14,400 in gross proceeds and approximately $13,449 in net proceeds.

As of December 31, 2010, the outstanding warrants (excluding the warrants included in the derivative liability of 679,400 and stock-based compensation of 34,286) were 781,737 with a weighted average exercise price of $39.28. As of December 31, 2009, the outstanding warrants (excluding the warrants included in the derivative liability of 4,794,400 and stock-based compensation of 34,286) were 510,639 with a weighted average exercise price of $51.36.

During the quarter ended December 31, 2010, we issued 9,282,900 shares of common stock. Of this amount, we issued 8,000,000 shares in the November 2010 public offering, 1,200,000 shares in the December 2010 over-allotment, 24,487 shares for the exercise of warrants with proceeds of $77, 47,263 shares for the exercise of options with proceeds of $335 and 11,150 shares for compensation valued at $148.

In April 2010, the Company repurchased and cancelled a warrant to purchase 47,143 shares from Robin Smyth, our Chief Financial Officer. The terms of the warrant repurchase were identical to Wellington and KIT Media, the negotiation of which terms was led by Wellington, and has been described herein.

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(14) Stock-Based Compensation

On March 17, 2008, the board of directors adopted an incentive compensation plan (the "2008 Incentive Stock Plan"). The 2008 Incentive Stock Plan currently has reserved 857,143 shares of common stock for issuance. The 2004 Stock Option Plan has reserved 342,858 shares of common stock for issuance. In November 2009, our board of directors voted unanimously to increase the number of shares which may be issued under the 2008 Incentive Plan by 2,642,857 to an aggregate of 3,500,000 shares of common stock subject to ratification by our stockholders at our next Annual Meeting of Stockholders. At our annual meeting of stockholders held on September 30, 2010, our stockholders approved an amendment to our 2008 Incentive Stock Plan increasing the number of shares of common stock reserved for issuance thereunder by 2,642,857 shares to 3,500,000 shares from 857,143 shares. In December 2010, our board of directors voted unanimously to increase the number of shares which may be issued under the 2008 Incentive Plan by 1,500,000 to an aggregate of 5,000,000 shares of common stock subject to ratification by our stockholders. Subsequently, as a result of acquisition activity, our board of directors authorized at the board meeting on March 5, 2011 to increase the number of shares which may be issued under the 2008 Incentive Plan to a total of 6,000,000 shares, subject to the approval of our shareholders.

The Company's outstanding unvested stock options have maximum contractual terms of up to five years, principally vest on a quarterly basis ratably over four years and were granted at exercise prices equal to the market price of the Company's common stock on the date of grant. The Company's outstanding stock options are exercisable into shares of the Company's common stock. The Company measures the cost of employee services received in exchange for an award of equity instruments, including grants of employee stock options, warrants and restricted stock awards, based on the fair value of the award at the date of grant in accordance with the modified prospective method. The Company uses the Black-Scholes model for purposes of determining the fair value of stock options and warrants granted and recognizes compensation costs ratably over the requisite service period, net of estimated forfeitures. For restricted stock awards, the grant-date fair value is the quoted market price of the stock.

For the years ended December 31, 2010 and 2009, the Company recognized $4,705 and $1,922, respectively, of non-cash stock-based compensation expense in the consolidated statements of operations. Included in the 2010 amount of $4,705, is $148 of stock issued for compensation, $317 for restricted stock units vested in 2010 and $253 for restricted stock. Included in the 2009 amount of $1,922, is $261 of stock issued for compensation, $261 for a 2009 bonus accrued for which stock is to be issued in 2010 and $18 for director's compensation accrued and to be paid in stock in 2010. Also included in non-cash stock-based compensation are warrants to purchase 34,286 shares of common stock with an exercise price of $4.655 issued on March 30, 2008, that vest over three years from the issue date. During the year ended December 31, 2010, a total of 11,428 of these warrants vested with 31,428 vested and 2,858 unvested as of December 31, 2010. During the year ended December 31, 2009, a total of 11,428 of these warrants vested with 20,000 vested and 14,286 unvested as of December 31, 2009. The intrinsic value as of December 31, 2010 and 2009 of these outstanding warrants and exercisable warrants were $390 and $218, respectively.

As of December 31, 2010, there was approximately $17,693 of total unrecognized compensation cost related to unvested share-based compensation grants, which is expected to be amortized over a weighted-average period of 3.3 years. As of December 31, 2009, there was approximately $2,989 of total unrecognized compensation cost related to unvested share-based compensation grants, which is expected to be amortized over a weighted-average period of 3.1 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes model with the following weighted-average assumptions:

	Year Ended December 31, 2010	Year Ended December 31, 2009
Expected life (in years)	3.87	3.75
Risk-free interest rate	1.07%	2.87%
Volatility	65.34%	76.96%
Dividend yield	0	0

In 2010, we estimated the expected term of stock options using historical exercise experience and used a forfeiture rate of 25% for employees and 0% for officers and directors.

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(14) Stock-Based Compensation (continued)

A summary of the status of stock option awards and changes during the years ended December 31, 2009 and December 31, 2010 are presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Intrinsic Value
Outstanding at January 1, 2009	501,613	$ 5.25		
Granted	494,964	7.74		
Exercised	(14,054)	2.80		
Cancelled, expired, or forfeited	(104,550)	8.65		
Outstanding at December 31, 2009	877,973	7.14		
Granted	3,532,065	11.43		
Exercised	(61,936)	8.46		
Cancelled, expired, or forfeited	(444,678)	11.16		
Outstanding at December 31, 2010	3,903,424	10.54	4.22	$ 21,468
Exercisable at December 31, 2010	1,009,878	9.43	3.71	$ 6,673

The weighted-average grant-date fair value of option awards granted during the years ended December 31, 2010 and 2009 was $6.22 and $4.41, respectively.

(15) Sale of subsidiary

On December 24, 2010, we sold a portion of our business in the Czech Republic focusing on professional services and non-Saas activities, in exchange for $2,476 in cash to former owners of this business.

We also received $524 in cash as an initial payment against the loan outstanding to the company. The amount payable of $11,371 from the subsidiary at the time of sale to the company has been converted to a loan receivable secured by the assets of the former subsidiary. The balance as of 12/31/10 was $10,847.
In addition, we have entered into a re-seller agreement with the buyer for any future sales that are in line with our core activities.

We expect to have significant direct continuing cash flows from the retained portion of the subsidiary and have therefore presented results in continuing operations.

The following table summarizes the assets and liabilities sold at the date of disposal.

Current assets	$ 8,881
Property and equipment	585
Total assets	9,466
Total liabilities	(6,990)
Net assets sold	$ 2,476

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(16) Restructuring Charges

In the first quarter of 2010, management approved restructuring plans for entities acquired in the fourth quarter of 2009 which included a workforce reduction, reduction in costs related to excess and vacated facilities under non-cancelable leases and settlement of contracts. Management expects to make the remaining employee termination costs payments in 2011 and the facility closing costs and contract settlement payments into 2012.

The following table summarizes the restructuring charges for the years ended December 31, 2010 and 2009:

	Year ended December 31, 2010	Year ended December 31, 2009
Employee termination costs	$ 2,566	$ 708
Contract settlements	67	48
Facility closing costs	848	1,793
Total restructuring charges	$ 3,481	$ 2,549

The following table summarizes the restructuring activity for the two years ended December 31, 2009 and 2010:

	Employee Termination Costs	Contract Settlements	Facility Closing Costs	Total
Balance as of January 1, 2009	$ -	$ -	$ -	$ -
Additions	708	48	1,793	2,549
Reversal	-	-	-	-
Cash payments	(708)	(48)	(964)	(1,720)
Balance as of December 31, 2009	$ -	$ -	$ 829	$ 829
Additions	2,632	67	1,031	3,730
Reversal	(66)	-	(183)	(249)
Cash payments	(1,354)	(54)	(1,159)	(2,567)
Balance as of December 31, 2010	$ 1,212	$ 13	$ 518	$ 1,743

The accrued restructuring of $1,743 and $829 are included in accrued expenses in the consolidated balance sheets as of December 31, 2010 and 2009, respectively.

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(17) Integration Expenses

The Company has recorded integration charges related to the cost overlap due to the reorganization and integration of acquisitions of $16,539 for the year ended December 31, 2010.

The Company has recorded integration charges related to the redundancy in staff and consultants for the transition of technology infrastructure during reorganization due to the centralizing of resources in Prague of $4,429 for the year ended December 31, 2009.

(18) Segment Reporting

The following table provides revenue and assets by major geographical location.

	Year ended December 31, 2010	Year ended December 31, 2009
Revenue:		
EMEA	$ 57,517	$ 33,106
AsiaPac	26,489	10,501
Americas	22,591	3,677
Total revenue	$ 106,597	$ 47,284

	December 31, 2010	December 31, 2009
Assets:		
EMEA	$ 41,574	$ 21,887
AsiaPac	10,861	3,743
Americas	9,119	4,447
Corporate	237,106	50,337
Total assets	$ 298,660	$ 80,414

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(19) Subsequent Events

Kickapps Acquisition - On January 28, 2011, KIT digital, Inc. acquired 100% ownership of KickApps Corporation, a Delaware corporation (“KickApps”), through a merger of a wholly-owned subsidiary of KIT digital with and into KickApps. KickApps, headquarted in New York City, is a leading provider of solutions that enable the creation and management of next generation video-based Web experiences. Its solutions consist of a suite of hosted social and media applications and services that drives deeper relationships with customers, and which are used by some of the world’s largest brands to grow and engage online audiences.

Under the Merger Agreement, at the closing of the transaction, KickApps stockholders received 3,010,294 shares of KIT digital’s common stock. All vested KickApps options not exercised prior to the merger were cashed-out, and KIT digital will issue new options to KickApps employees with similar vesting provisions. Holders of KickApps common stock receiving total consideration in the merger of less than $7 do not receive any KIT digital common stock, but are instead paid in cash.

KIT digital will hold 528,507 shares of the merger consideration in escrow for a period not to exceed 15 months following the merger to cover any warranty claims related to undisclosed commercial or tax liabilities or litigation. KIT digital's post-closing remedy for all claims will be limited to the escrowed funds, although the preferred stockholders of KickApps have agreed to indemnify KIT digital against certain liabilities up to the total value of the shares of KIT digital common stock issued to them.

All KIT digital common stock issued in exchange for KickApps preferred stock will be subject to contractual restrictions on their transfer, with 60% of such stock being released from this restriction on the first anniversary of the merger and the balance on the second anniversary of the merger. In addition, certain members of management of KickApps have agreed to be bound by the transfer restriction with respect to the KIT digital common stock issued in exchange for their KickApps common stock. The shares of KIT digital common stock issued in this transaction are subject to certain demand Form S-3 and piggyback registration rights after the transfer restriction has terminated.

Kewego Acquisition - On January 26, 2011, KIT digital entered into a Stock Purchase Agreement with the shareholders of Kewego S.A., a société anonyme organized under the laws of France (“Kewego”), pursuant to which KIT digital purchased, on the same date, all of the issued and outstanding shares of capital stock of Kewego. Kewego, based in Paris, provides enterprises, media operators, and communication agencies with professional IP-based, multi-screen video asset management solutions for managing, broadcasting and monetizing videos on IP connected devices, including PCs, mobile phones, iPads, connected TVs and gaming consoles.

The consideration for all of Kewego’s outstanding stock was €25,655, subject to a customary post-closing adjustment for working capital and net cash. The purchase price consisted of €8,750 in cash and the issuance of 1,411,704 shares of KIT digital common stock. The shares of KIT digital common stock were issued pursuant to an exemption from registration under Regulation S promulgated under the Securities Act of 1933, as amended.

Kyte Acquisition - On January 25, 2011, KIT digital, through a wholly-owned subsidiary, acquired decentraltv Corporation, a Delaware corporation doing business as Kyte (“Kyte”). Kyte, based in San Francisco, is a leading cloud-based publishing platform that enables companies to deliver live and on-demand video experiences to websites, mobile devices and connected TVs.

At the closing of the acquisition, KIT digital paid $3,023 to the stockholders of Kyte, $582 to third parties for expenses for which Kyte was responsible, and issued for the benefit of the stockholders of Kyte 189,348 shares of its common stock, of which 56,803 shares are to be held in escrow for a period of one year to secure certain indemnification obligations of Kyte and its stockholders. On the one-year anniversary of the acquisition, KIT digital is obligated to pay up to an additional $500 in cash and issue up to an additional $500 in KIT digital common stock to former Kyte stockholders if specified financial milestones are achieved by that business.

Polymedia Acquisition - On March 16, 2011 KIT digital, Inc. signed a definitive agreement to acquire Polymedia for a net consideration of $34.4 million, plus certain limited performance-based earn outs. Based in Milan, Italy, Polymedia is the IP video platform-provisioning subsidiary of TXT e-solutions, a public company listed on the Italian Stock Exchange (TXT IM).

In consideration for 100% of Polymedia's shares on a debt-free and cash-free basis, the transaction includes guaranteed payments of approximately $34.4 million at closing, comprised of $17.2 million in cash and up to $17.2 million in KIT digital common stock. KIT digital retains the right to pay any portion of the stock consideration in cash at its sole election for a period of approximately 90 days from the date of closing of the transaction. A certain additional amount will be paid in cash as an offset against positive working capital at closing, and the transaction includes up to $4.2 million of KIT digital common stock or cash, at KIT digital's election, pursuant to aggressive, corporate performance-based earn-outs at the first and second anniversary of the transaction.

The Company is in the process of gathering the necessary information for the initial allocations for these acquisitions.

EXHIBIT IV

REGISTRATION STATEMENT ON FORM S-3 FILED BY KIT DIGITAL, INC. WITH THE SEC ON MAY 24, 2011

S-3 1 v224005_s3.htm

As filed with the Securities and Exchange Commission on May 24, 2011

Registration Statement No. 333-______

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

KIT digital, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**11-3447894**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

26 West 17th Street - 2nd Floor
New York, New York 10011
Tel.: +1 (212) 661-4111
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Kaleil Isaza Tuzman
Chairman and Chief Executive Officer
KIT digital, Inc.
26 West 17th Street - 2nd Floor
New York, New York 10011
Tel.: +1 (212) 661-4111

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:
Spencer G. Feldman, Esq.
Greenberg Traurig, LLP
MetLife Building
200 Park Avenue - 15th Floor
New York, New York 10166
Tel.: (212) 801-9200
Fax: (212) 801-6400
E-mail: feldmans@gtlaw.com

Approximate date of commencement of proposed sale to public: From time to time after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ☐

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ☒

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ☐

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ☐

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

Large accelerated filer ☐ Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

CALCULATION OF REGISTRATION FEE

Title of Shares to be Registered	**Amount to be Registered** (1)	**Proposed Maximum Offering Price Per Share**	**Proposed Maximum Aggregate Offering Price**	**Amount of Registration Fee**
Common Stock, par value $0.0001 per share	1,443,643	$ 11.595(2)	$16,739,040.59(2)	$ 1,943.40

(1) This registration statement also relates to an indeterminate number of shares of the Registrant’s common stock that may be issued upon stock splits, stock dividends or similar transactions in accordance with Rule 416 under the Securities Act of 1933, as amended (the “Securities Act”).

(2) Estimated solely for the purpose of calculating the registration fee, and based upon the average of the high and low prices of the Registrant’s common stock as reported on the Nasdaq Global Select Market on May 23, 2011, in accordance with Rule 457(c) under the Securities Act.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. The selling stockholders named in this prospectus may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and the selling stockholders named in this prospectus are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to completion, dated May 24, 2011

PROSPECTUS

KIT digital, Inc.

1,443,643 Shares of Common Stock

This prospectus relates to the offer and sale by the selling stockholders identified in this prospectus, and any of their respective pledgees, donees, transferees or other successors in interest, of up to 1,443,643 shares of common stock of KIT digital, Inc. We are filing the registration statement (of which this prospectus is a part) at this time to fulfill contractual obligations to do so, which we undertook at the time of the original issuance of the shares described in this prospectus. We will not receive any of the proceeds from the sale of the common stock by the selling stockholders.

We have agreed to pay all legal, accounting, registration and related fees and expenses in connection with the registration of these shares and to indemnify the selling stockholders against all losses, claims, damages and liabilities, including liabilities under the Securities Act of 1933, in connection with any misrepresentation made by us in this prospectus. The selling stockholders will pay all underwriting discounts and selling commissions, if any, in connection with the sale of their shares.

The selling stockholders identified in this prospectus, or their respective pledgees, donees, transferees or other successors-in-interest, may offer the shares from time to time through public or private transactions at prevailing market prices, at prices related to prevailing market prices or at privately negotiated prices.

Our common stock is traded on the Nasdaq Global Select Market under the symbol “KITD.” On May 23, 2011, the closing sale price of the common stock on Nasdaq was $11.51 per share. We urge you to obtain current market quotations for our common stock.

Investing in our common stock involves a high degree of risk. See “Risk Factors” beginning on page 1.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is ___________, 2011

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We have not authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus.

PROSPECTUS SUMMARY

This summary highlights important features of this offering and the information included or incorporated by reference in this prospectus. This summary does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, especially the risks of investing in our common stock discussed under "Risk Factors."

Unless the context otherwise requires, references in this prospectus to "KIT digital," "we," "us" and "our" refer to KIT digital, Inc. and its subsidiaries.

KIT digital, Inc.

KIT digital is a premium provider of end-to-end video management software and related services. The KIT Platform, our cloud-based video asset management system, enables over 2,200 media & entertainment, network operator and non-media enterprise clients to produce, manage and deliver socially-enabled video experiences to audiences wherever they are. With experience that runs the gamut from traditional broadcast systems engineering to "over-the-top" broadband TV applications, we are uniquely positioned to deliver complete video solutions, from the lens of the camera to the eye of the audience ("lens to lens"), and guide our clients into the future of broadband-delivered TV. Applications of our KIT Platform include end-consumer focused live and on-demand multi-screen video experiences, as well as internal enterprise deployments, including corporate communications, human resources, training, security and surveillance.

The KIT Platform's broadcast-grade, modular architecture enables us to deliver highly customized solutions that meet the demands of the world's most advanced and large-scale broadband video deployments. Our platform architecture follows an underlying technical design philosophy that employs separable, extensible subcomponents and exposes functionality via standards-based APIs (application programming interfaces). This core methodology provides a flexible deployment model that includes cloud, managed private cloud, and hybrid cloud options, while allowing the platform to be easily extended through the addition of new, discrete components, as well as integration with third-party solutions. The KIT Platform leverages third-party application and content delivery services to ensure a high degree of scalability, while minimizing operational and maintenance costs.

We offer a range of professional services supporting the design, integration and management of our platform deployments, including systems integration for the capture, transcoding, storage, editing and play-out of video in cinematic, television and other broadcast mediums. We also provide content services (such as localization, editing and packaging) and advanced digital marketing services. We estimate that KIT Platform-related fees generate approximately 70% of our current revenues, with the remainder directly related to professional services.

The KIT Platform is delivered primarily in a software-as-a-service (SaaS) model, with customers invoiced monthly, and occasionally on a quarterly basis. For our professional services, we bill either on an hourly or project basis.

We provide our software solutions and professional services through our executive offices in New York, operational headquarters in Prague, Czech Republic, and other principal offices in Atlanta, Beijing, Boston, Buenos Aires, Chennai, Cologne, Dubai, Ely (UK), Hong Kong, London, Los Angeles, Madrid, Melbourne (Australia), Mumbai, Paris, San Diego, San Francisco, Singapore, Sofia, Stockholm, Sydney and York (UK). We have additional sales representatives in a number of other countries.

As of May 15, 2011, our customer base consisted of more than 2,200 enterprise customers from over 50 countries, including Airbus, American Express, The Associated Press, BBC, Best Buy, Bristol-Myers Squibb, Disney-ABC, ESPN Star, FedEx, General Motors, Google, Hewlett-Packard, Home Depot, IMG Worldwide, MediaCorp, Microsoft, MTV, NBC Universal, News Corp, Telefónica, Verizon, Vodafone and Volkswagen. Our clients usually enter into long-term contracts. Our average remaining contract length is approximately 24 months, with automatic renewal features.

We were incorporated under the laws of the State of Delaware in August 1998, and commenced operations in our current line of business in December 2003. Our principal executive offices are located at 26 West 17th Street - 2nd Floor, New York, New York 10011, and our telephone number is +1 (212) 661-4111. Our operational headquarters are located at 113 Slezka, Prague 3, Prague, Czech Republic.

We maintain a corporate website at www.kitd.com. Other information regarding our company can be found on our corporate website under "Investor Relations." The contents of our website and the downloadable files found there are not incorporated by reference into this prospectus and should not be considered to be part of this prospectus.

The Offering

Common stock offered by selling stockholders	1,443,643 shares
Common stock outstanding (as of May 23, 2011)	41,384,539 shares
Use of proceeds	We will not receive any proceeds from the sale of shares in this offering.
Nasdaq Global Select Market symbol	KITD

RISK FACTORS

Investing in our common stock involves significant risks. Please see the risk factors under the heading “Risk Factors” in our most recent Annual Report on Form 10-K, as revised or supplemented by our Quarterly Reports on Form 10-Q filed with the SEC since the filing of our most recent Annual Report on Form 10-K, each of which are on file with the SEC and are incorporated by reference in this prospectus. Before making an investment decision, you should carefully consider these risks as well as other information we include or incorporate by reference in this prospectus and any prospectus supplement. The risks and uncertainties we have described are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations.

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This prospectus includes and incorporates forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements, other than statements of historical facts, included or incorporated in this prospectus regarding our strategy, future operations, financial position, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. The words “anticipates,” “believes,” “estimates,” “expects,” “intends,” “may,” “plans,” “projects,” “will,” “would” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. There are a number of important factors that could cause our actual results to differ materially from those indicated by these forward-looking statements. These important factors include the factors that we identify in the documents we incorporate by reference in this prospectus, as well as other information we include or incorporate by reference in this prospectus. See “Risk Factors.” You should read these factors and other cautionary statements made in this prospectus, and in the documents we incorporate by reference as being applicable to all related forward-looking statements wherever they appear in the prospectus, and in the documents incorporated by reference. We do not assume any obligation to update any forward-looking statements made by us, except as required by U.S. federal securities laws.

USE OF PROCEEDS

We will not receive any proceeds from the sale of shares by the selling stockholders. The selling stockholders will pay all underwriting discounts, selling commissions and expenses incurred by them for brokerage, accounting, tax or legal services or any other expenses incurred by the selling stockholders in connection with the sale of the shares. We will bear all other costs, fees and expenses incurred in effecting the registration of the shares covered by this prospectus, including, without limitation, all registration and filing fees, Nasdaq listing fees and fees and expenses of our counsel and our accountants.

DESCRIPTION OF TRANSACTIONS

Issuance of Shares in Polymedia Acquisition

On May 17, 2011, pursuant to a Sale and Purchase Agreement, dated March 15, 2011, we acquired from TXT e-Solutions S.p.A. ("TXT") all of the outstanding capital stock of Polymedia S.p.A., an Italian joint stock company ("Polymedia"). Headquartered in Milan, Italy with sales representative offices in several European cities, Polymedia provides major network operators, broadcasters, media portals and industrial enterprises across Europe, North Africa and the Middle East with hosted IP video platform solutions that manage the entire lifecycle of video content from acquisition to distribution. Polymedia's solutions have particularly deep capabilities in metadata-related workflow and third-party software integration.

The purchase price for the acquisition of all of Polymedia's outstanding capital stock was 24,746,000 Euros, consisting of 12,373,000 Euros in cash, and 12,373,000 Euros represented by 1,178,381 shares of our common stock (the "Consideration Shares"). The Consideration Shares are covered by this prospectus.

The number of Consideration Shares was calculated based on the volume weighted average price of our common stock during the 45 consecutive trading days ending on the fifth trading day immediately preceding the date of the Sale and Purchase Agreement, which equaled 10.50 Euros (or $14.59) per share (the "Final Average Closing Price").

We also agreed in the Sale and Purchase Agreement, provided Polymedia reaches specified revenue and gross margin targets over the first two years post-closing, to issue up to 3,000,000 Euros in additional shares of our common stock to TXT. These shares are not covered by this prospectus.

Of the Consideration Shares issued to TXT at closing, 354,286 shares of common stock are being held in an escrow account for a period of up to 12 months following the closing to cover any losses or damages we may incur by reason of any misrepresentation or breach of warranty by TXT under the Sale and Purchase Agreement.

We agreed to prepare and promptly file a shelf registration statement with the U.S. Securities and Exchange Commission ("SEC") under the Securities Act of 1933 covering the resale of the Consideration Shares issued to TXT at closing, and thereafter use our best efforts to have the registration statement declared effective within 45 days following the closing date (or 120 days following the closing date in the event the registration statement is reviewed by the SEC) and to keep it effective for one year after the closing date. If we fail to have the registration statement declared effective within the specified time periods, as well as in the events we fail to maintain the effectiveness of the registration statement throughout the period of one year after the closing date referred to above or the trading of our common stock on Nasdaq is suspended (temporarily or indefinitely), TXT has the right to require us to repurchase for cash the shares of common stock TXT received in the acquisition at a price in an amount equal to the product of (i) the number of Consideration Shares to be repurchased by us and (ii) the Final Average Closing Price.

We issued the Consideration Shares in the acquisition pursuant to an exemption from registration under Regulation S promulgated under the Securities Act of 1933. The Consideration Shares offered in the acquisition have not been registered under the Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

Payment of Brickbox Deferred Purchase Price

Pursuant to a Securities Purchase Agreement, dated September 21, 2010, we purchased all of the outstanding capital stock of Brickbox Digital Media s.r.o. (“Brickbox”), located in the Czech Republic, for an initial purchase price of approximately $10,100,000 (after a working capital adjustment and $1,000,000 hold-back related to consolidation of Brickbox’s minority interests), with $3,500,000 being paid in the form of 339,476 shares of our common stock and approximately $6,600,000 being paid in cash. Of the total purchase price, $1,580,000 in cash and 67,895 shares of common stock were placed into escrow to secure indemnities made to us with respect to the representations, warranties and obligations of the former Brickbox owners. We were also obligated under certain circumstances to make payments to the former Brickbox owners following the first, second and third anniversaries of the acquisition closing date. The shares issued at closing to the former Brickbox owners were previously registered with the SEC in October 2010.

On May 22, 2011, the parties agreed to settle any and all deferred purchase price payments required to be made by us under the Securities Purchase Agreement by KIT digital making a single payment of $3,000,000 to the former Brickbox owners, represented by 265,262 shares of our common stock (using a stock price per share based on the volume weighted average price of our common stock during the 30 consecutive trading days ended May 20, 2011). We believe this upfront settlement of future earn-out obligations to former Brickbox shareholders represents a net savings over time to KIT digital, and allows us to better align management incentives with our business metrics and objectives going forward.

We issued these settlement shares pursuant to an exemption from registration under Regulation D promulgated under the Securities Act of 1933 and we agreed to register these shares with the SEC in this registration statement.

Our estimate of approximately 41.3 million shares outstanding pro forma of the completion of our acquisitions of ioko365 Limited and Polymedia, communicated in our press release of May 9, 2011, was already inclusive of the shares we expected to issue in settlement of the Brickbox deferred payment obligations.

SELLING STOCKHOLDERS

This prospectus relates to the resale from time to time of up to 1,443,643 shares of our common stock by the selling stockholders.

The following table, based upon information currently known by us, sets forth as of May 23, 2011: (i) the number of shares held of record or beneficially by the selling stockholders as of such date (as determined below) and (ii) the number of shares that may be offered under this prospectus by the selling stockholders. Beneficial ownership includes shares of common stock plus any securities held by the holder exercisable for or convertible into shares of common stock within 60 days after May 23, 2011, in accordance with Rule 13d-3(d)(1) under the Exchange Act. The inclusion of any shares in this table does not constitute an admission of beneficial ownership for the selling stockholders named below.

None of the selling stockholders has held any position or office, or has otherwise had a material relationship, with us or any of our subsidiaries within the past three years other than as described in “Description of Transactions” above. To our knowledge, the selling stockholders named in the table have sole voting and investment power with respect to their respective shares of common stock.

None of the selling stockholders is a broker-dealer, nor affiliated with a broker-dealer. The selling stockholders acquired their respective shares in the ordinary course of such selling stockholder’s business and, at the time of the acquisition of the shares to be resold pursuant to this prospectus, the selling stockholders had no agreements or understandings, directly or indirectly, with any person to distribute them.

Name of Selling Stockholder	Common Stock Beneficially Owned Prior to the Offering	Common Stock Offered Pursuant to this Prospectus	Common Stock Owned Upon Completion of this Offering (1)	Percentage of Common Stock Owned Upon Completion of this Offering
TXT e-Solutions S.p.A. (2) Via Frigia no. 27 20126, Milan Italy	1,178,381	1,178,381	-	-
Daniel Hromádko Taboritska 72/12 Prague 3, 130 00 Czech Republic	79,833	8,842	70,991	*
Pavel Chižňak c/o Corsum Group s.r.o. Opatovicka 4 110 00, Prague 1 Czech Republic	79,833	8,842	70,991	*
Jonathan Charles Finnerty No. 6 The Crescent Rutherway, Oxford OX2 6QY	71,834	8,842	62,992	*
Ronnie C. Brooks 1706 Morgan Lane Redondo Beach, CA 90278	27,384	17,684	9,700	*
A.P.D. Apotheosis Investments Limited (3) c/o Ms. Stella Constantinou, President 21 Vasili Michailidi Postal Code 3026 Limassol, Cyprus	259,954	221,052	38,902	*
		1,443,643		

* Less than 1% of outstanding shares of common stock.

(1) We do not know when or in what amounts the selling stockholders may offer shares for sale. The selling stockholders may not sell any or all of the shares offered by this prospectus. Because the selling stockholders may offer all or some of the shares pursuant to this offering, and because there are currently no agreements, arrangements or understandings with respect to the sale of any of the shares, we cannot estimate the number of the shares that will be held by the selling stockholders after completion of the offering. However, for purposes of this table, we have assumed that, after completion of the offering, none of the shares covered by this prospectus will be held by the selling stockholders.

(2) Alvise Braga Illa, as the Chairman of the Board of Directors of TXT e-Solutions S.p.A. (“TXT”), has sole voting and dispositive power of the shares owned by TXT offered under this prospectus.

(3) Stella Constaninou, as the President of A.P.D. Apotheosis Investments Limited (“A.P.D.”), has sole voting and dispositive power of the shares owned by A.P.D. offered under this prospectus.

PLAN OF DISTRIBUTION

The selling stockholders, and any of their respective pledgees, donees, transferees or other successors in interest, may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices, and may be effected in transactions, which may involve crosses or block transactions, pursuant to one or more of the following methods:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- one or more underwritten offerings on a firm commitment or best efforts basis;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated, which commissions or discounts may be less than or in excess of those customary in the types of transactions involved. Any profits on the resale of shares of common stock by a broker-dealer acting as principal might be deemed to be underwriting discounts or commissions under the Securities Act. Discounts, concessions, commissions and similar selling expenses, if any, attributable to the sale of shares will be borne by the selling stockholders. The selling stockholders may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the shares if liabilities are imposed on that person under the Securities Act.

The selling stockholders may from time to time pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time under this prospectus after we have filed a supplement to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act supplementing or amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus.

The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the respective donees, transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus and may sell the shares of common stock from time to time under this prospectus after we have filed a supplement to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of supplementing or amending the list of selling stockholders to include the respective donee, pledgee, transferee or other successors in interest as selling stockholders under this prospectus.

Under the securities laws of some states, the shares of our common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of our common stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

The selling stockholders and any broker-dealers or agents that are involved in selling the shares of common stock may be deemed to be “underwriters” within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares of common stock purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

We are required to pay all legal, accounting, registration, printing and related fees and expenses incident to the registration of the shares of common stock being registered. We have agreed to indemnify the selling stockholders against all losses, claims, damages and liabilities, including liabilities under the Securities Act, in connection with any misrepresentation made by us in this prospectus.

The selling stockholders have advised us that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of their shares of common stock, nor is there an underwriter or coordinating broker acting in connection with a proposed sale of shares of common stock by the selling stockholders. If we are notified by any selling stockholders that any material arrangement has been entered into with a broker-dealer for the sale of shares of common stock, if required, we will file a supplement to this prospectus.

The selling stockholders and any other person participating in such distribution will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including, without limitation, to the extent applicable, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of our common stock by the selling stockholders and any other participating person. To the extent applicable, Regulation M may also restrict the ability of any person engaged in the distribution of the shares of our common stock to engage in market-making activities with respect to the shares of our common stock. All of the foregoing may affect the marketability of the shares of our common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of our common stock.

There can be no assurance that the selling stockholders will sell any or all of the shares of our common stock registered pursuant to the registration statement, of which this prospectus forms a part.

LEGAL MATTERS

Greenberg Traurig, LLP has opined as to the legality of the shares of common stock being offered by this registration statement.

EXPERTS

The audited consolidated financial statements, and management’s assessment of the effectiveness of internal control over financial reporting of KIT digital, Inc. incorporated by reference in this prospectus and elsewhere in the registration statement have been so incorporated by reference in reliance upon the reports of Grant Thornton LLP, independent registered public accountants, upon the authority of said firm as experts in accounting and auditing in giving said reports.

The financial statements of ioko365 Limited as of September 30, 2010 and 2009 and each of the two years then ended included in our current report on Form 8-K/A dated May 24, 2011, have been audited by Garbutt & Elliott LLP, independent auditors, as set forth in their report thereon, included therein, and incorporated herein by reference. Such financial statements are incorporated herein by reference in reliance upon such report given on the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file reports, proxy statements and other documents with the SEC. You may read and copy any document we file at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, DC 20549. You should call 1-800-SEC-0330 for more information on the operation of the public reference room. Our SEC filings are also available to you on the SEC's Internet site at http://www.sec.gov. The SEC's Internet site contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

This prospectus is part of a registration statement that we filed with the SEC. The registration statement contains more information than this prospectus regarding us and our common stock, including certain exhibits and schedules. You can obtain a copy of the registration statement from the SEC at the address listed above or from the SEC's Internet site.

Our Internet address is www.kit-digital.com. The information on our Internet website is not incorporated by reference in this prospectus.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to "incorporate" into this prospectus information that we file with the SEC in other documents. This means that we can disclose important information to you by referring to other documents that contain that information. Any information that we incorporate by reference is considered part of this prospectus. The documents and reports that we list below are incorporated by reference into this prospectus. In addition, all documents and reports which we file pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus are incorporated by reference in this prospectus as of the respective filing dates of these documents and reports. Statements contained in documents that we file with the SEC and that are incorporated by reference in this prospectus will automatically update and supersede information contained in this prospectus, including information in previously filed documents or reports that have been incorporated by reference in this prospectus, to the extent the new information differs from or is inconsistent with the old information.

We have filed the following documents with the SEC. These documents are incorporated herein by reference as of their respective dates of filing:

(1) Our Annual Report on Form 10-K for the year ended December 31, 2010, as amended;

(2) Our Current Report on Form 10-Q for the quarter ended March 31, 2011;

(3) Our Current Reports on Form 8-K filed January 31, 2011, February 1, 2011, March 17, 2011, March 18, 2011, April 15, 2011, May 9, 2011 and May 23, 2011, and on Form 8-K/A filed May 24, 2011;

(4) All of our filings pursuant to the Exchange Act after the date of filing the initial registration statement and prior to the effectiveness of the registration statement; and

(5) The description of our common stock contained in our Registration Statement on Form 8-A filed on August 11, 2009, including any amendments or reports filed for the purpose of updating that description.

You may request a copy of these documents, which will be provided to you at no cost, by contacting:

KIT digital, Inc.
26 West 17th Street - 2nd Floor
New York, New York 10011
Attn: Investor Relations
Tel.: +1 (212) 661-4111

You should rely only on the information contained in this prospectus, including information incorporated by reference as described above, or any prospectus supplement that we have specifically referred you to. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of those documents or that any document incorporated by reference is accurate as of any date other than its filing date. You should not consider this prospectus to be an offer or solicitation relating to the securities in any jurisdiction in which such an offer or solicitation relating to the securities is not authorized. Furthermore, you should not consider this prospectus to be an offer or solicitation relating to the securities if the person making the offer or solicitation is not qualified to do so, or if it is unlawful for you to receive such an offer or solicitation.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

The following table sets forth the various expenses to be incurred in connection with the sale and distribution of the securities being registered hereby, all of which will be borne by KIT digital (except any underwriting discounts and commissions and expenses incurred by the selling stockholders for brokerage, accounting, tax or legal services or any other expenses incurred by the selling stockholders in connection with the sale of the shares). All amounts shown are estimates except the SEC registration fee.

SEC registration fee	$ 1,943.40
Legal fees and expenses	15,000.00
Accounting fees and expenses	10,000.00
Miscellaneous expenses	3,056.60
Total Expenses	$ 30,000.00

Item 15. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law (“DGCL”) empowers a Delaware corporation to indemnify any persons who are, or are threatened to be made, parties to any threatened, pending or completed legal action, suit or proceeding, whether civil, criminal, administrative, or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person was an officer or director of such corporation, or is or was serving at the request of such corporation as a director, officer, employee, or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys’ fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit, or proceeding, provided that such officer or director acted in good faith and in a manner he reasonably believed to be in or not opposed to the corporation’s best interests, and, for criminal proceedings, had no reasonable cause to believe his conduct was illegal. A Delaware corporation may indemnify officers and directors in an action by or in the right of the corporation under the same conditions, except that no indemnification is permitted without judicial approval if the officer or director is adjudged to be liable to the corporation in the performance of his duty. Where an officer or director is successful on the merits or otherwise in the defense of any action referred to above, the corporation must indemnify him against the expenses which such officer or director actually and reasonably incurred.

Our certificate of incorporation and by-laws provide that we will indemnify, to the fullest extent permitted by the DGCL, each director or officer of our company, whom we refer to as an “Indemnitee.” Such indemnification includes payment by us, in advance of the final disposition of a civil or criminal action, suit, or proceeding, of expenses incurred by a director or officer in defending such action, suit, or proceeding upon receipt of any undertaking by or on behalf of such director or officer to repay such payment if it is ultimately determined that he or she is not entitled to be indemnified by us.

Under Delaware law, to the extent that an Indemnitee is successful on the merits in defense of a suit or proceeding brought against him or her by reason of the fact that he or she is or was a director, officer, or agent of our company, or serves or served any other enterprise or organization at the request of our company, we shall indemnify him or her against expenses (including attorneys’ fees) actually and reasonably incurred in connection with such action.

If unsuccessful in defense of a third-party civil suit or a criminal suit, or if such a suit is settled, an Indemnitee may be indemnified under Delaware law against both (i) expenses, including attorney’s fees, and (ii) judgments, fines, and amounts paid in settlement if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of our company, and, with respect to any criminal action, had no reasonable cause to believe his or her conduct was unlawful.

If unsuccessful in defense of a suit brought by or in the right of our company, where the suit is settled, an Indemnitee may be indemnified under Delaware law only against expenses (including attorneys' fees) actually and reasonably incurred in the defense or settlement of the suit if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of our company except that if the Indemnitee is adjudged to be liable for negligence or misconduct in the performance of his or her duty to our company, he or she cannot be made whole even for expenses unless a court determines that he or she is fully and reasonably entitled to indemnification for such expenses.

Also under Delaware law, expenses incurred by an officer or director in defending a civil or criminal action, suit, or proceeding may be paid by our company in advance of the final disposition of the suit, action, or proceeding upon receipt of an undertaking by or on behalf of the officer or director to repay such amount if it is ultimately determined that he or she is not entitled to be indemnified by our company. We may also advance expenses incurred by other employees and agents of our company upon such terms and conditions, if any, that our board of directors of the registrant deems appropriate.

Reference is made to "Undertakings" below, for the registrant's undertakings in this registration statement with respect to indemnification of liabilities arising under the Securities Act of 1933, as amended.

Item 16. Exhibits.

The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed as part of this Registration Statement on Form S-3.

Item 17. Undertakings.

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act");

(ii) To reflect in the prospectus any facts or events arising after the effective date of this Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this Registration Statement. Notwithstanding the foregoing, any increase or decrease in the volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective Registration Statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in this Registration Statement or any material change to such information in this Registration Statement;

provided, however, that paragraphs (1)(i), (1)(ii) and (1)(iii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are incorporated by reference in this Registration Statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the Registration Statement.

(2) That, for the purposes of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act that is incorporated by reference in this Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the indemnification provisions described herein, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on May 24, 2011.

KIT digital, Inc.

By: /s/Kaleil Isaza Tuzman
Kaleil Isaza Tuzman
Chairman and Chief Executive Officer

We, the undersigned officers and directors of KIT digital, Inc., hereby severally constitute and appoint Kaleil Isaza Tuzman and Robin Smyth, and each of them singly, our true and lawful attorneys with full power to any of them, and to each of them singly, to sign for us and in our names in the capacities indicated below the Registration Statement on Form S-3 filed herewith and any and all pre-effective and post-effective amendments to said Registration Statement and generally to do all such things in our name and behalf in our capacities as officers and directors to enable KIT digital, Inc. to comply with the provisions of the Securities Act of 1933, as amended, and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to said Registration Statement and any and all amendments thereto.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/Kaleil Isaza Tuzman Kaleil Isaza Tuzman	Chairman and Chief Executive Officer (Principal Executive Officer)	May 24, 2011
/s/Gavin Campion Gavin Campion	President and Director	May 24, 2011
/s/Robin Smyth Robin Smyth	Chief Financial Officer and Director (Principal Financial and Accounting Officer)	May 24, 2011
/s/Christopher Williams Christopher Williams	Executive Vice President, Product Development and Director	May 24, 2011
/s/Daniel W. Hart Daniel W. Hart	Director	May 24, 2011
/s/Lars Kroijer Lars Kroijer	Director	May 24, 2011
/s/Joseph E. Mullin III Joseph E. Mullin III	Director	May 24, 2011
/s/Santo Politi Santo Politi	Director	May 24, 2011
/s/Wayne Walker Wayne Walker	Director	May 24, 2011

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger dated as of December 2, 2003 by and among Virilitec Industries, Inc., ROO Media Corporation, VRLT Acquisition Corp., and Jacob Roth and Bella Roth.(1)
2.2	Stock Purchase Agreement dated as of March 11, 2004 by and among the Company and the shareholders of Reality Group Pty Ltd.(2)
2.3	Asset Purchase Agreement dated as of May 26, 2004 by and among the Company, Undercover Holdings Pty Ltd. and Undercover Media Pty Ltd.(3)
2.4	Stock Purchase Agreement dated as of September 10, 2004 by and among the Company and Avenue Group, Inc. in connection with the purchase of common stock of Bickhams Media, Inc.(4)
2.5	Stock Purchase Agreement dated as of November 1, 2004 by and between Bickhams Media, Inc., ROO Group, Inc., and Daniel and Vardit Aharonoff.(5)
2.6	Amendment No. 1 dated October 28, 2005 to Stock Purchase Agreement among ROO Group, Inc. and the shareholders of Reality Group Pty Ltd.(6)
2.7	Share Purchase Agreement dated October 28, 2005 by and among ROO Broadcasting Limited and the Sellers thereto.(6)
2.8	Share Purchase Agreement for the Acquisition of all Issued Shares of Visual Connection, a.s., dated October 5, 2008, between KIT digital, Inc. and KIT digital FZ-LLC (on the one hand), and Tomas Petru and Jakub Vanek (on the other hand).(7)
2.9	Agreement and Plan of Merger, dated September 30, 2009, between KIT digital, Inc., KIT Acquisition Corporation, The FeedRoom, Inc. and certain stockholders of The FeedRoom, Inc.(17)
2.10	Share Purchase Agreement, dated October 5, 2009, between International Management Group GmbH and KIT digital, Inc. for the acquisition of Nunet AG.(18)
2.11	Stock Purchase Agreement, dated as of May 14, 2010, by and among KIT digital, Inc., KIT digital, FZ-LLC, Benchmark Video Technologies Pte Ltd, and Benchmark Broadcast Systems (S) Pte Ltd.(19)
2.12	Agreement and Plan of Merger, dated as of January 28, 2011, by and among KIT digital, Inc., DealApps Corporation, KickApps Corporation and, for certain purposes, Steven J. Benson as stockholder representative.(21)
2.13	Securities Purchase Agreement, dated as of April 11, 2011, by and among KIT digital, Inc., ioko365 Limited, the stockholders of ioko365 Limited and Allan Dunn, as stockholder representative.(22)
2.14	Sale and Purchase Agreement, dated March 15, 2011, between TXT e-solutions S.p.A., Polymedia S.r.l. and KIT digital, Inc. (23)
3.1	Certificate of Incorporation of Virilitec Industries, Inc.(8)
3.2	Certificate of Amendment of Certificate of Incorporation of Virilitec Industries, Inc. filed with the State of Delaware on October 31, 2003.(9)

3.3	Certificate of Amendment to the Amended Certificate of Incorporation of Virilitec Industries, Inc. filed with the State of Delaware on February 18, 2004.(9)
3.4	Certificate of Designation, Powers, Preferences and Rights of Series A Preferred Stock, filed with the State of Delaware on March 9, 2005.(10)
3.5	Certificate of Designation, Powers, Preferences and Rights of Series A Preferred Stock, filed with the State of Delaware on March 9, 2005.(10)
3.6	Amendment to the Certificate of Designation, Powers, Preferences and Rights of Series A Preferred Stock, filed with the State of Delaware on September 30, 2005.(11)
3.7	Certificate of Amendment to Amended Certificate of Incorporation, effective as of October 3, 2005.(11)
3.8	Certificate of Amendment to the Certificate of Incorporation filed with the Delaware Secretary of State on May 19, 2008.(12)
3.9	Certificate of Amendment of the Certificate of Incorporation filed with the Secretary of State of the State of Delaware effective March 9, 2009.(16)
3.10	Certificate of Amendment of the Certificate of Incorporation filed with the Secretary of State of the State of Delaware on September 30, 2010.(20)
3.11	By-laws.(8)
3.12	Amendment to By-laws.(13)
*5.1	Opinion of Greenberg Traurig, LLP, counsel to the Registrant, as to the legality of the shares of common stock.
*23.1	Consent of Greenberg Traurig, LLP (included in the opinion filed as Exhibit 5.1).
*23.2	Consent of Grant Thornton LLP, independent registered public accounting firm.
*23.3	Consent of Garbutt & Elliott, LLP, independent auditors.
*24.1	Power of Attorney (set forth on signature page of the registration statement).

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* Filed herewith.

(1) Incorporated by reference to Form 8-K, filed with the U.S. Securities and Exchange Commission (the “SEC”) on December 18, 2003.

(2) Incorporated by reference to Form 8-K, filed with the SEC on May 17, 2004.

(3) Incorporated by reference to Form 8-K, filed with the SEC on June 16, 2004.

(4) Incorporated by reference to Form 8-K, filed with the SEC on September 22, 2004.

(5) Incorporated by reference to Form 8-K/A, filed with the SEC on November 5, 2004.

(6) Incorporated by reference to Form 8-K/A, filed with the SEC on November 2, 2005.

(7) Incorporated by reference to Form 8-K, filed with the SEC on October 9, 2008.

(8) Incorporated by reference to Form 10-SB (File No. 000-25659), filed with the SEC on March 29, 1999.

(9) Incorporated by reference to Form SB-2 (File No. 333,120605), filed with the SEC on November 18, 2004.

(10) Incorporated by reference to Form 8-K, filed with the SEC on March 14, 2005.

(11) Incorporated by reference to Form 8-K, filed with the SEC on October 4, 2005.

(12) Incorporated by reference to Form 8-K, filed with the SEC on June 2, 2008.

(13) Incorporated by reference to Form 8-K, filed with the SEC on June 1, 2009.

(14) Incorporated by reference to Form 10-QSB, filed with the SEC on August 16, 2004.

(15) Incorporated by reference to 2008 Form 10-K, filed with the SEC on April 15, 2009.

(16) Incorporated by reference to Form 8-K, filed with the SEC on March 16, 2009.

(17) Incorporated by reference to Form 8-K, filed with the SEC on October 6, 2009.

(18) Incorporated by reference to Form 8-K, filed with the SEC on October 9, 2006.

(19) Incorporated by reference to Form 8-K, filed with the SEC on May 20, 2010.

(20) Incorporated by reference to Form 8-K, filed with the SEC on October 6, 2010.

(21) Incorporated by reference to Form 8-K, filed with the SEC on January 31, 2011.

(22) Incorporated by reference to Form 8-K, filed with the SEC on May 9, 2011, as amended on Form 8-K/A filed with the SEC on May 24, 2011.

(23) Incorporated by reference to Form 8-K, filed with the SEC on May 23, 2011.

EXHIBIT V

**AMENDMENT NO. 1 TO FORM 10-K ON FORM 10-K/A FILED BY KIT DIGITAL, INC.
WITH THE SEC ON MAY 2, 2011**

10-K/A 1 v220591_10ka.htm

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

AMENDMENT NO. 1 TO
FORM 10-K ON FORM 10-K/A

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

OR

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

Commission file number: 001-34437

KIT digital, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**11-3447894** (I.R.S. Employer Identification No.)
26 West 17th Street - 2nd Floor **New York, New York** (Address of principal executive offices)	**10011** (Zip code)

Registrant's telephone number, including area code:+1(212) 661-4111

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

Title of each Class	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	The Nasdaq Global Select Market

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes

☐ No ☐(not required)

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 the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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

Large accelerated filer ☐	Accelerated filer ☑
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

As of June 30, 2010 (the last business day of the most recent second fiscal quarter), the aggregate market value of outstanding shares of voting stock held by non-affiliates of the registrant was $126,468,000.

As of April 29, 2011, 38,404,833 shares of the registrant's common stock were issued and outstanding.

KIT digital, Inc.

AMENDMENT NO. 1 TO 2010 FORM 10-K ANNUAL REPORT

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SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This report includes and incorporates forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the United States Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included or incorporated in this report regarding our strategy, future operations, financial position, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. There are a number of important factors that could cause our actual results to differ materially from those indicated by these forward-looking statements. These important factors include the factors that we identify in the documents we incorporate by reference in this report, as well as other information we include or incorporate by reference in this report. See "Risk Factors." You should read these factors and other cautionary statements made in this report, and in the documents we incorporate by reference as being applicable to all related forward-looking statements wherever they appear in this report, and in the documents incorporated by reference. Except to the extent required by U.S. federal securities laws, we do not assume any obligation to update any forward-looking statements made by us.

EXPLANATORY NOTE

This amendment to our Annual Report on Form 10-K for the year ended December 31, 2010 is being filed to add Items 10 through 14 of Part III of the Annual Report on Form 10-K, which were omitted in reliance on General Instruction G(3) thereto.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors and Executive Officers

The following table sets forth the names and ages of our directors and executive officers, and their positions with us, as of March 31, 2011:

Name	Age	Position with Company	Director Since
Kaleil Isaza Tuzman	39	Chairman of the Board and Chief Executive Officer	2008
Gavin Campion	38	President and Director	2008
Robin Smyth	57	Chief Financial Officer and Director	2003
Christopher Williams	52	Executive Vice President, Product Development and Director	2010
Daniel W. Hart	37	Director	2008
Lars Kroijer	39	Director	2008
Joseph E. Mullin III	37	Director	2010
Santo Politi	45	Director	2011
Wayne Walker	52	Director	2008

The principal occupations for the past five years (and, in some instances, for prior years) of each of our directors and executive officers are as follows:

Kaleil Isaza Tuzman was elected Chairman of the Board and has served as our Chief Executive Officer since January 2008. Mr. Isaza Tuzman has worked in the digital media industry since the late 1990s as a venture capitalist and entrepreneur. From 2005 to 2007, he served as the President and Chief Operating Officer of JumpTV Inc., subsequently acquired by Neulion, Inc. (TSX: NLN), a leader in IP-based broadcasting of international television and sports. From 2002 to date, Mr. Isaza Tuzman has served as the Managing Partner of KIT Capital, Ltd. (“KIT Capital”), a software and digital media-focused restructuring and merchant banking firm which merged into Dubai-based merchant bank KCP Capital in 2008. From 2001 to 2002, he served as Chairman and Chief Executive Officer of KPE, Inc., a leading digital media services company. Prior to that, Mr. Isaza Tuzman worked at Goldman Sachs, in investment banking and equities risk arbitrage. He has been a member of the Council on Foreign Relations, and has acted as a U.S. trade representative. Mr. Isaza Tuzman graduated *magna cum laude* and holds an A.B. from Harvard University and holds graduate certificates in International Relations from El Colegio de México and in Latin American Studies from Harvard University.

As the Chairman, Chief Executive Officer and one of our largest stockholders (through entities controlled by him including KIT Media Ltd. (“KIT Media”) and KIT Capital), Mr. Isaza Tuzman leads the board and guides the company. Mr. Isaza Tuzman brings extensive IP video industry knowledge to the company and a deep background in technology growth companies, emerging markets, mergers and acquisitions, and capital market activities. His service as Chairman and Chief Executive Officer creates a critical link between management and the board.

Gavin Campion has served as our President since April 2008 and elected as a Director in November 2008. From January 2005 to March 2008, he served as managing director of Sputnik Agency Pty Ltd., an Australian-based interactive marketing agency. In 1999, Mr. Campion co-founded Reality Group Pty Ltd., a subsidiary of KIT digital, which has attracted blue-chip advertising customers. From 2004 to 2008, Mr. Campion served as Chief Executive Officer of Shoppers Advantage, a leading Australian e-commerce company, and as a director of Presidential Card, Australia’s largest discount loyalty program. Mr. Campion received his B.A. with honors in marketing from the University of Huddersfield in England.

Mr. Campion’s 14+ years of experience in digital media and growth companies, day-to-day operational leadership of the company and in-depth knowledge of our products and services make him well qualified as a member of our board.

Robin Smyth has served as a Director since December 2003 and has served as our Chief Financial Officer since December 2003, except for a five-month leave from April 27 to September 28, 2009. From 1998 to 2001, Mr. Smyth was a partner at Infinity International, a consulting and IT recruitment operation. From 1990 to 1998, he worked for Computer Consultants International. He is also on the board of directors of a number of wholly-owned subsidiaries of KIT digital. Mr. Smyth received his undergraduate degree in economics from Monash University in Australia.

Mr. Smyth demonstrates extensive knowledge of complex, cross-border financial, accounting and operational issues highly relevant to our business. He also brings transactional expertise, including mergers and acquisitions, equity offerings and bank financings.

Christopher Williams has served as a Director since May 2010 and has served as Executive Vice President, Product Development since June 2010. He has 30 years of experience founding and managing technology companies. He was previously the Chief Technology Officer of Infinetics Technologies, Inc., a developer of a new generation of high performance network routers and services for the cloud computing and mobile network markets, which he co-founded in September 2009, and Free Flow Power Corporation, the largest developer of river hydrokinetic electric power projects in North America, which he co-founded in July 2007. Since November 2003, Mr. Williams has also been the managing director of Newforth Partners LLC, a provider of strategic consulting, M&A and private placement services to small and mid-sized high technology companies. Since July 2008, he has been a member of the board of directors of Asparity Decision Solutions, a provider of decision support and data solutions in healthcare and employee benefits. Mr. Williams previously served as the Chief Technology Officer to Reverbix, Inc., a supplier of voice community and messaging platforms, from May 2005 to July 2007. Mr. Williams received a B.S. degree in Electrical Engineering and Computer Science from the Massachusetts Institute of Technology.

Mr. Williams provides nearly 30 years' experience in leading and managing technology and product development operations in quickly evolving industries.

Daniel W. Hart has served as a Director since March 2008. Mr. Hart is the founder and managing partner of River Road Ventures, a private equity and advisory firm, since February 2004. River Road Ventures merged into KCP Capital in 2008. Prior to founding River Road Ventures, Mr. Hart founded Fundamental Capital, an investment partnership which integrated operational management with early-stage venture capital. Mr. Hart's entrepreneurial and investing background has focused on the digital media, wireless, semiconductor, enterprise software areas. Mr. Hart is a board member of KIT Media. Mr. Hart holds an A.B. in economics from Harvard University.

Mr. Hart's over 15 years of day-to-day operational leadership of technology companies and his service as a board member and investor in many early-stage and growth companies make him well qualified a member of our board.

Lars Kroijer has served as a Director since February 2008. Mr. Kroijer is the founder and Chief Executive Officer of Holte Capital Ltd., a special situations hedge fund, since April 2002. From June 1999 to March 2002, Mr. Kroijer worked for HBK Investments focusing on special situations investing and event-driven arbitrage. Prior to that, Mr. Kroijer worked for SC Fundamental, a value-focused hedge fund, and for Lazard Frères, a boutique investment banking firm. Mr. Kroijer graduated *magna cum laude* and holds an A.B. from Harvard University and an M.B.A. from Harvard Business School.

Mr. Kroijer has extensive knowledge of capital markets and risk analysis in particular, making his input invaluable to our board's discussions of our capital markets activities, cash management and risk mitigation.

Joseph E. Mullin III has served as a Director since August 2010 and is Chairman of our Audit Committee. Mr. Mullin was previously a Portfolio Manager based in London for Millennium Global Investments Ltd., an independent, privately-owned investment management firm, where he held several positions including Senior Analyst since October 2007. Prior to Millenium Global, Mr. Mullin was a Research Analyst at WL Ross & Co. LLC (now part of Invesco Ltd.), a larger buy-out and restructuring focused asset management firm, from April 2001 to October 2007. Mr. Mullin began his career as a Financial Analyst in the Investment Banking Division of Goldman Sachs & Co. Mr. Mullin holds an A.B. degree from Harvard College.

Mr. Mullin's experience in private equity investing, operational and financial restructuring, and the emerging markets (with a focus on Latin America) make him well qualified to be a member of our board.

Santo Politi has served as a Director since January 2011. He is a co-founder and General Partner of Spark Capital, a media, entertainment and technology focused venture fund, as well as a General Partner of several of its venture investment partnerships. Since its founding in 2005, Mr. Politi has been involved in leading Spark Capital's investments in more than 50 private technology companies including companies in the internet video field. From December 2005 to January 2011, Mr. Politi served as a director of KickApps Corporation, which was recently acquired by KIT digital. Prior to founding Spark Capital, Mr. Politi was a Partner at Charles River Ventures, a venture capital fund, from 2001 to 2004, the President of New Media for Blockbuster Entertainment from 1999 to 2000, and co-founder of BT Venture Partners, an early-stage venture capital firm affiliated with Bankers Trust, from 1997 to 1999. Mr. Politi has also previously held various engineering and management positions with the Video Systems Division of Matsushita Electric Industrial from 1993 to 1997, Panasonic Broadcast and Televisions Systems Company from 1990 to 1993 and Western Instruments, a subsidiary of Schlumberger Industries, from 1989 to 1990. Mr. Politi was the recipient of an Emmy® Excellence in Technology Award. He has also been named multiple times to the Forbes Midas List, which ranks top venture capitalists who have created the most wealth for their investors. Mr. Politi holds an M.B.A. degree in finance from the Wharton School of the University of Pennsylvania.

Mr. Politi's in-depth knowledge of the IP video market and the broad range of companies in the industry make him well qualified as a member of our board of directors. He also brings transactional expertise including mergers and acquisitions and capital markets.

Wayne Walker has served as a Director since January 2008 and is Chairman of our Compensation Committee and our Nominations and Corporate Governance Committee. Mr. Walker has served as the managing partner of Walker Nell Partners, Inc. since 2004. He has more than 20 years of experience in corporate law and corporate restructuring. Prior to establishing Walker Nell, he served as the Principal of Parente Randolph, LLC, an accounting and consulting firm, from July 2001 to February 2004. He served as Senior Counsel of DuPont Corporation from 1984 to 1998 and as Chairman of Habitat for Humanity from 1995 to 1998. He holds a B.A. from Loyola University New Orleans and a J.D. from Catholic University of America. He also studied finance for non-financial managers at the University of Chicago's Graduate School of Business.

Mr. Walker is well qualified to serve as a director of our company due to his substantial knowledge and over 20 years of working experience in corporate controls and governance, restructuring and corporate litigation.

Board of Directors

Our board of directors held 6 meetings during 2010. Each director then serving attended 75% or more of the aggregate of: (1) the total number of board meetings; and (2) the total number of meetings of the committee(s) of which he is a member, if any. We do not have a written policy on board attendance at annual meetings of stockholders; however we do schedule a board meeting immediately after the annual meeting for which members attending receive compensation. The table below describes the board's committees.

Committee Name	Members	Number of Meetings in 2010	Principal Functions
Audit Committee	J. Mullin (Chairman) S. Politi W. Walker	8	• Recommending to the board of directors the engagement or discharge of our independent public accountants, including pre-approving all audit and non-audit related services; • The appointment, compensation, retention and oversight of the work of the independent auditor engaged by us to prepare or issue an audit report or perform other audit review or attest services for us; • Establishing procedures for the receipt, retention and treatment of complaints received regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; • Approving the scope of the financial audit; • Requiring the rotation of the lead audit partner; • Consulting regarding the completeness of our financial statements; • Reviewing changes in accounting principles; • Reviewing the audit plan and results of the auditing engagement with our independent auditors and with our officers; • Reviewing with our officers, the scope and nature and adequacy of our internal accounting and other internal controls over financial reporting and disclosure controls and procedures; • Reviewing the adequacy of the Audit Committee Charter at least annually; • Meeting with our Internal Auditor on a regular basis; • Performing an internal evaluation of the Audit Committee on an annual basis; and • Reporting to the board of directors on the Audit Committee's activities, conclusions and recommendations.
Compensation Committee	W. Walker (Chairman) L. Kroijer J. Mullin	6	• Approving and evaluating the compensation of directors and executive officers. • Establishing strategies and compensation policies and programs for employees to provide incentives for delivery of value to our stockholders. • Establishing policies to hire and retain senior executives, with the objectives of aligning the compensation of senior management with our business and the interests of our stockholders. • Together with management, surveying the amount and types of executive compensation paid by comparable companies, and engaging consultants as necessary to assist them; • Periodically reviewing corporate goals and objectives relevant to executive compensation and making recommendations to the board for changes;

			• Assisting management in evaluating each executive officer's performance in light of corporate goals and objectives, and recommending to the board (for approval by the independent directors) the executive officers' compensation levels based on this evaluation; • Overseeing our stock option plan or other stock-based plans with respect to our executive officers and employee board members, who are subject to the short-swing profit restrictions of Section 16 of the Securities Exchange Act of 1934, as amended; • Reviewing the overall performance of our employee benefit plans and making recommendations to the board regarding incentive-compensation plans and equity-based plans; • Together with the Nominations and Corporate Governance Committee, reviewing and making recommendations to the independent directors of the board regarding the form and amount of director compensation; • Ensuring that our compensation policies meet or exceed all legal and regulatory requirements and any other requirements imposed on us by the board; and • Producing an annual report on executive compensation for inclusion in our proxy statement.
Nominations and Corporate Governance	W. Walker (Chairman) L. Kroijer J. Mullin	6	• Identifying individuals qualified to become board members and recommending that the board select a group of director nominees for each next annual meeting of stockholders. • Ensuring that the Audit, Compensation and Nominations and Corporate Governance Committees of the board have the benefit of qualified and experienced “independent” directors. • Developing and recommending to the board a set of effective corporate governance policies and procedures, and reviewing and reassessing the adequacy of such guidelines annually and recommending to the board any changes deemed appropriate. • Periodically reviewing the charters of all board committees and recommending to the committees and board any changes deemed appropriate; • Developing policies on the size and composition of the board; • Conducting annual evaluations of the performance of the board, committees of the board and individual directors; • Reviewing conflicts of interest and the independence status of directors;

			• Together with the Compensation Committee, reviewing and making recommendations to the independent directors of the board regarding the form and amount of director compensation; • Reviewing the structure of our senior staffing and management succession plans with the Chief Executive Officer; • Together with the Compensation Committee, developing criteria to assist the board's assessment of the Chief Executive Officer's leadership of our company; and • Generally advising the board (as a whole) on corporate governance matters.
Technology and Product Development	C. Williams (Chairman) D. Hart G. Campion	2	• Monitoring and reviewing our product technology strategy. • Monitoring and reviewing our major product development-related expenditures and initiatives in support of our evolving global business needs. • Areas of review include but are not limited to: significant new product lines or technology investments, the technology component of mergers and acquisitions, the on-going market relevance of our technology platform, our response to external technology based threats and opportunities, the competitiveness of our technology platform and related products, and the mitigation of any risks in the above areas.
Mergers and Acquisitions	D. Hart (Chairman) L. Kroijer J. Mullin S. Politi	0	• Reviewing and assessing potential mergers, acquisitions, strategic investments, divestures and joint ventures.

Director Independence

The board of directors has determined that Messrs. Hart, Kroijer, Mullin, Politi and Walker are “independent,” as independence is defined in the listing standards for the Nasdaq Stock Market. Accordingly, five of the nine directors are independent. Although Mr. Hart is a board member of KIT Media, one of our largest single stockholders, he is neither a controlling shareholder nor employee of KIT Media, and is not disqualified under Nasdaq’s independence standards from being considered an independent director by us.

Board Leadership Structure

Kaleil Isaza Tuzman has been our Chairman of the Board and Chief Executive Officer since December 2007 when Mr. Isaza Tuzman, through entities controlled by him, made a significant investment in our company and assumed management control of the company. We believe that having one person, particularly Mr. Isaza Tuzman with his wealth of industry and executive management experience, his extensive knowledge of the operations of the company and his own history of innovation and strategic thinking, serve as both Chief Executive Officer and Chairman is the best leadership structure for us because it demonstrates to our employees, customers and stockholders that the company is under strong leadership, with a single person setting the tone and having primary responsibility for managing our operations. This unity of leadership promotes strategy development and execution, timely decision-making and effective management of our resources. We believe that we have been well-served by this structure.

As described above, five of our nine directors are independent. In addition, all of the directors on each of the Audit Committee, Compensation Committee and Nominations and Corporate Governance Committee are independent directors and each of these committees is led by a committee chair. The committee chairs set the agendas for their committees and report to the full board on their work. As required by Nasdaq, our independent directors meet in executive session without management present as frequently as they deem appropriate, typically at the time of each regular in-person board meeting. All of our independent directors are highly accomplished and experienced business people in their respective fields, who have demonstrated leadership in significant enterprises and are familiar with board processes. Our independent directors bring experience, oversight and expertise from outside the company and industry, while our Chairman and Chief Executive Officer and Messrs. Campion, Smyth and Williams bring company-specific experience and expertise.

Risk Oversight

While the board of directors is responsible for overseeing our risk management, the board has delegated many of these functions to the Audit Committee. Under its charter, the Audit Committee is responsible for discussing with management and the independent auditors our major financial risk exposures, the guidelines and policies by which risk assessment and management is undertaken, and the steps management has taken to monitor and control risk exposure. In addition to the Audit Committee’s work in overseeing risk management, the full board regularly engages in discussions of the most significant risks that we are facing and how those risks are being managed, and the board receives reports on risk management from senior officers of the company and from the chair of the Audit Committee. In addition, the Chairman and Chief Executive Officer’s extensive knowledge of the company uniquely qualifies him to lead the board in assessing risks. The board of directors believes that the work undertaken by the Audit Committee, the full board and the Chairman and Chief Executive Officer, enables the board to effectively oversee our risk management function.

Audit Committee

The Audit Committee is comprised of three non-employee directors, each of whom is independent as defined under Nasdaq’s listing standards. The board of directors has determined that each committee member qualifies as an “audit committee financial expert.” The Audit Committee functions pursuant to a written charter, under which the committee has such powers as may be assigned to it by the board from time to time. The Audit Committee was established in 2008. In 2007 and until the formation of the Audit Committee in 2008, the entire board of directors performed the functions of the Audit Committee.

Compensation Committee

The Compensation Committee is comprised of three non-employee directors, each of whom is independent as defined under Nasdaq’s listing standards. The Compensation Committee functions pursuant to a written charter, under which the committee has such powers as may be assigned to it by the board from time to time. The Compensation Committee was established in 2008. In 2007 and until the formation of the Compensation Committee in 2008, the entire board of directors performed the functions of the Compensation Committee.

In general, the Compensation Committee formulates and recommends compensation policies for board approval, oversees and implements these board-approved policies, and keeps the board apprised of its activities on a regular basis. In addition, the Compensation Committee together with the Nominations and Corporate Governance Committee, develops criteria to assist the board's assessment of the Chief Executive Officer's leadership of our company.

Nominations and Corporate Governance Committee

The Nominations and Corporate Governance Committee is comprised of three non-employee directors, each of whom is independent as defined under Nasdaq's listing standards. The Nominations and Corporate Governance Committee functions pursuant to a written charter, under which the committee has such powers as may be assigned to it by the board from time to time. The Nominations and Corporate Governance Committee was established in 2008. In 2007 and until the formation of the Nominations and Corporate Governance Committee in 2008, the entire board of directors performed the functions of the Nominations and Corporate Governance Committee. The Nominations and Corporate Governance Committee will consider candidates for director recommended by our stockholders.

The Nominations and Corporate Governance Committee is responsible for the Company's qualification and nomination of potential board members. Pursuant to the committee's charter, the Nominations Committee reviews the qualities and skills of prospective members of the board of directors and generally requires that director candidates be qualified individuals who, if added to the board of directors, would provide the mix of director characteristics, experience, perspectives and skills appropriate for our company. Criteria for selection of candidates include, but are not limited to: (i) business and financial acumen, as determined by the independent directors in their discretion, (ii) qualities reflecting a proven record of accomplishment and ability to work with others, (iii) knowledge of our industry, (iv) relevant experience and knowledge of corporate governance practices, and (v) expertise in an area relevant to us. Potential board members should not have commitments that would conflict with the time commitments of a director of the company.

While we do not have a formal diversity policy for board membership, the board does seek to ensure that its membership consists of sufficiently diverse backgrounds, meaning a mix of backgrounds and experiences that will enhance the quality of the board's deliberations and decisions. In considering candidates for the board, the independent directors consider, among other factors, diversity with respect to viewpoints, skills, experience and other demographics.

Technology and Product Development Committee

In July 2010, the board of directors established a Technology and Product Development Committee. The principal functions of this committee are to monitor and review our product technology strategy and major product development-related expenditures and initiatives in support of our evolving global business needs. The committee, which may include management directors and individuals who are not directors, is currently composed of Messrs. Williams (Chairman), Hart and Campion.

Mergers and Acquisitions Committee

In August 2010, the board of directors established a Mergers and Acquisitions Committee. The principal functions of this committee are to review and assess, and assist the board in reviewing and assessing, potential mergers, acquisitions, strategic investments, divestitures and joint ventures. The committee, which may include management directors and individuals who are not directors, is currently composed of Messrs. Hart (Chairman), Kroijer, Mullin and Politi.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own more than 10% of a registered class of our equity securities, to file with the Securities and Exchange Commission reports of ownership and changes in ownership of common stock and other equity securities. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish us with copies of all Section 16 (a) forms they file.

Based solely on review of the copies of such reports furnished to us or written or oral representations that no other reports were required, we believe that during 2010, all filing requirements applicable to its officers, directors and greater than 10% beneficial owners were complied with.

Item 11. Executive Compensation.

The following table describes the compensation awarded to the Chief Executive Officer and our two most highly compensated executive officers (other than the CEO) who were serving as executive officers on December 31, 2010 (the “Named Executive Officers”):

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($) (4)	Option Awards ($) (5)	Stock Awards ($) (5)(6)	Total ($)
Kaleil Isaza Tuzman (1) (amounts paid to KIT Capital, a company controlled by Mr. Isaza Tuzman) Chairman and Chief Executive	2010	253,492	150,000	1,557,750	1,637,800	3,599,042
Officer	2009	277,789	—	—	—	277,789
Gavin Campion (2)	2010	200,000	150,000	1,004,400	1,047,433	2,401,833
President and Director	2009	200,000	—	—	—	200,000
Robin Smyth (3) Chief Financial Officer, Secretary, Treasurer and	2010	200,000	150,000	641,700	672,360	1,664,060
Director	2009	148,250	—	—	—	148,250

(1) Kaleil Isaza Tuzman serves as our Chairman and Chief Executive Officer and was appointed to these positions on January 9, 2008. The total amount paid to KIT Capital (the entity that provides his services) in 2010 and 2009 was $418,750 and $477,750, respectively, of which $253,492 and $277,789, respectively, was paid to Mr. Isaza Tuzman, and the remainder was paid to other KIT Capital personnel dedicated full-time to KIT digital. These amounts include employer taxes, healthcare costs and other benefits. It also includes KIT Capital corporate fees, including legal, accounting, insurance, data hosting and parking related to KIT digital. The Bonus listed above applies to 2010 only, but the Option Awards and Stock Awards compensation listed for 2010 represent the estimated total compensation related to an executive compensation program which was instituted during 2010, and is subject to performance and time-based vesting thresholds over a period of several years.

(2) Mr. Campion serves as our President and a director. Mr. Campion was appointed President in April 2008 and was appointed as a director in November 2008. The compensation listed is only for Mr. Campion's services as an executive officer, upon his appointment as President and not for his prior service. The Bonus listed above applies to 2010 only, but the Option Awards and Stock Awards compensation listed for 2010 represent the estimated total compensation related to an executive compensation program which was instituted during 2010, and is subject to performance and time-based vesting thresholds over a period of several years.

(3) Mr. Smyth served as our Chief Financial Officer, Secretary and Treasurer through April 27, 2009 and, after a five-month leave, rejoined us on September 28, 2009. The Bonus listed above applies to 2010 only, but the Option Awards and Stock Awards compensation listed for 2010 represent the estimated total compensation related to an executive compensation program which was instituted during 2010, and is subject to performance and time-based vesting thresholds over a period of several years.

(4) Represents a bonus awarded by the Compensation Committee related to achieving particular operational and strategic milestones in 2010. Such amount was paid in 2011.

(5) Amounts reflect the aggregate grant-date fair value in accordance with FASB ASC Topic 718 for equity awards granted to the Named Executive Officers during the applicable year, even if such equity awards are actually earned over a period of several years. The assumptions we use in calculating these amounts are discussed in Note 14 of the Notes to our consolidated financial statements for the year ended December 31, 2010 included in our Annual Report on Form 10-K.

(6) Includes both Time-based RSUs and Performance and Time-based RSUs. The Time-based RSU's vest in forty-eight (48) equal monthly installments based on continued employment. The Performance and Time-based RSUs vest in forty-eight (48) equal monthly installments based on continued employment and the Company's stock 20-day volume weighted average stock price exceeds the grant date closing price by 115% for 50% of the grant and by 130% for 50% of the grant. Both of these performance targets were met before the end of October 2010.

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

KIT Capital Management Agreement. During 2010 and 2009, the managerial services of Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, and two non-executive personnel, were provided to us through KIT Capital, which is beneficially controlled by Mr. Isaza Tuzman. For these services, we paid KIT Capital aggregate fees of $418,750 in 2010 and $477,750 in 2009 for these three individuals, of which $286, 438 in 2010 and $277,789 in 2009 was paid to Mr. Isaza Tuzman and the remainder to other KIT Capital personnel dedicated full-time to KIT digital, as well as for employer taxes, healthcare costs, corporate fees and other expenses related to KIT Capital's work with KIT digital.

Under the Executive Management Agreement with KIT Capital, dated as of December 18, 2007, the services of Mr. Isaza Tuzman and two non-executive personnel have been provided to us and our subsidiaries at an initial monthly rate of $50,800, with an incentive bonus equal to the greater of (i) the preceding 12 months' base compensation or (ii) the previous month's monthly installment of base compensation multiplied by 12 if we achieve two consecutive quarters of profitability or our total monthly revenue equals or exceeds $6.0 million. The Management Agreement commenced on January 9, 2008 and expired on January 9, 2011, unless sooner terminated or extended by mutual agreement. This agreement has been extended until May 15, 2011 to facilitate discussions with respect to renewing the agreement or entering into a similar agreement.

Under the Management Agreement, we issued to KIT Capital stock options to purchase 60,000 shares of our common stock at an exercise price of $6.11 per share, of which 20,000 options vested as of January 9, 2008, and the remainder vest in equal monthly increments over a period of three years. We also established a "phantom" stock plan, pursuant to which we granted "phantom" shares equal to 60,000 shares of common stock vesting in equal monthly increments over a three-year period.

In addition, under the Management Agreement, KIT Capital received the right to: (a) purchase up to 5,100,000 shares of series A preferred stock from the holders of such shares; (b) purchase from us (i) up to $5.0 million of our common stock at a price per share of no higher than a 15% premium to the closing price of the common stock on December 18, 2007, and (ii) up to an additional $10.0 million of our common stock at a price not exceeding 90% of the five-day trailing weighted average trading price of the common stock at the time of purchase; and (c) include any such purchased shares of preferred stock and common stock in a registration statement filed by us with the SEC.

Notwithstanding these agreements, subsequent to the date of the Management Agreement, (a) we effected the automatic conversion of all then outstanding shares of series A preferred stock into 11,429 shares of common stock, thereby preventing KIT Capital from purchasing such shares, (b) we requested KIT Capital to waive its registration rights in respect of its purchase of 1,008,572 shares of common stock and warrants to purchase a like number of shares in our May 2008 financing, and (c) at the recommendation of our financial advisor, KIT Capital waived its right to purchase an additional $10.0 million in securities due to the potential negative effect on the market price with such a large controlling stockholder. For facilitating these corporate actions and waiving its rights as described above, and for KIT Capital's investment of $5.0 million at a time when similar third-party financing transactions were unavailable and we required such funds in connection with pending acquisition transactions, we issued to KIT Capital a warrant to purchase 580,358 shares of our common stock (representing 65% warrant coverage on KIT Capital's investment, as compared to 100% warrant coverage in the May 2008 financing transaction), for a term of five years commencing on December 31, 2008, at an exercise price of $11.90 per share, subject to the occurrence of certain events that could potentially reduce the exercise price to $5.60 per share.

The Management Agreement provides that upon termination of the agreement or after the expiration date for any reason, except cause (as defined in the Management Agreement), we are required to pay KIT Capital, in addition to any other payments due, a cash severance payment equal to the greater of (i) the total amount paid to KIT Capital during the preceding 12 months, including base compensation and all bonuses, or (ii) the previous month's installment of base compensation multiplied by 12.

Gavin Campion Employment Agreement. In March 2008, we entered into an employment agreement with Gavin Campion to serve as our President. Pursuant to the terms of his agreement, Mr. Campion will serve as our President for an indefinite term, unless terminated by either party upon no less than 30 days written notice. If the agreement is terminated by Mr. Campion (or by us for the reasons specified below) prior to two years of consecutive service (April 1, 2010), Mr. Campion will be required to reimburse us for all expenses related to his employment. Mr. Campion’s initial base compensation under the agreement is fixed at $200,000 (inclusive of his transportation and housing allowance). Mr. Campion also received stock options to purchase 34,286 shares of our common stock upon entering into the agreement. We are entitled to terminate Mr. Campion without advance notice and without the payment of any benefits upon the occurrence of certain events, including if Mr. Campion engages in fraud, dishonesty or any other act of material misconduct in the performance of his duties on our behalf, or Mr. Campion violates any material provision of his employment agreement which is not cured under any applicable cure period allowable under the agreement.

Robin Smyth Employment Agreement. In September 2009, we entered into an employment agreement with Robin Smyth to serve as our Chief Financial Officer. Pursuant to the terms of his agreement, Mr. Smyth will serve as our Chief Financial Officer for an indefinite term, unless terminated by either party upon no less than 30 days written notice. If the agreement is terminated by Mr. Smyth (or by us for the reasons specified below) prior to one year of consecutive service (October 1, 2010), Mr. Smyth will be required to reimburse us for all expenses related to his employment. Mr. Smyth’s initial base compensation under the agreement is fixed at $200,000 (inclusive of his transportation and housing allowance). We are entitled to terminate Mr. Smyth without advance notice and without the payment of any benefits upon the occurrence of certain events, including if Mr. Smyth engages in fraud, dishonesty or any other act of material misconduct in the performance of his duties on our behalf, or Mr. Smyth violates any material provision of his employment agreement which is not cured under any applicable cure period allowable under the agreement.

KIT digital 2004 Stock Option Plan

In April 2004, our board of directors adopted a stock option plan (the 2004 Option Plan). Pursuant to this plan, which expires on April 1, 2014, incentive stock options or non-qualified options to purchase an aggregate of 28,572 shares of common stock may be issued, as adjusted. The plan may be administered by our board of directors or by a committee to which administration of the plan, or part of the plan, may be delegated by our board of directors. Options granted under this plan are not generally transferable by the optionee except by will, the laws of descent and distribution or pursuant to a qualified domestic relations order, and are exercisable during the lifetime of the optionee only by such optionee. Options granted under the plan vest in such increments as is determined by our board of directors or designated committee. To the extent that options are vested, they must be exercised within a maximum of three months of the end of the optionee's status as an employee, director or consultant, or within a maximum of 12 months after such optionee's termination or by death or disability, but in no event later than the expiration of the option term. The exercise price of all stock options granted under the plan will be determined by our board of directors or designated committee. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of our outstanding capital stock, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date.

In November 2006, our board of directors increased the number of shares which may be issued under the 2004 Option Plan to an aggregate of 228,572 shares of common stock. The number of shares subject to the 2004 Option Plan was subsequently increased to 342,858 shares effective April 3, 2007.

To date, we have 80,000 options outstanding under the 2004 Option Plan, as amended, of which all are issued to KIT Capital Our board of directors believes in order to attract and retain the services of executives and other key employees, it is necessary for us to have the ability and flexibility to provide a compensation package which compares favorably with those offered by other companies and, accordingly, voted unanimously to adopt the 2008 Incentive Stock Plan.

KIT digital 2008 Incentive Stock Plan

In March 2008, our board of directors adopted the KIT digital, Inc. 2008 Incentive Stock Plan (the 2008 Incentive Plan) and initially reserved 400,000 shares of common stock for issuance. Our board of directors voted unanimously to adopt the amendment to the 2008 Incentive Plan, providing for an additional 457,143 shares of common stock available for future grants under the 2008 Incentive Plan. The holders of a majority of our outstanding shares of common stock approved the amendment to our 2008 Incentive Plan at our stockholders meeting held on November 6, 2008. In November 2009, our board of directors voted unanimously to increase the number of shares which may be issued under the 2008 Incentive Plan by 2,642,857 to an aggregate of 3,500,000 shares of common stock, which was ratified by our stockholders at our annual stockholders meeting on September 30, 2010. In December 2010, our board of directors voted unanimously to increase the number of shares which may be issued under the 2008 Incentive Plan by 1,500,000 to an aggregate of 5,000,000 shares of common stock subject to ratification by our stockholders. Subsequently, as a result of acquisition activity, our board of directors authorized at the board meeting on March 5, 2011 to increase the number of shares which may be issued under the 2008 Incentive Plan to a total of 6,000,000 shares, subject to ratification by our stockholders.

Set forth below is a summary of the 2008 Incentive Plan, but this summary is qualified in its entirety by reference to the full text of the 2008 Incentive Plan, which has been filed with the SEC, and any stockholder who wishes to obtain a copy of the 2008 Incentive Plan may do so by written request to KIT digital, Inc., 26 West 17th Street - 2nd Floor, New York, New York 10011, Attention: Mr. Robin Smyth, Chief Financial Officer.

Under the 2008 Incentive Plan, options may be granted which are intended to qualify as Incentive Stock Options under Section 422 of the Internal Revenue Code of 1986, or which are not intended to qualify as Incentive Stock Options. In addition, direct grants of stock, restricted stock units or restricted stock may be awarded.

Purpose. The primary purpose of the 2008 Incentive Plan is to attract and retain the best available personnel in order to promote the success of our business and to facilitate the ownership of our stock by employees and others who provide services to us.

Administration. The 2008 Incentive Plan is administered by our board of directors, provided that the board may delegate such administration to the Compensation Committee.

Eligibility. Under the 2008 Incentive Plan, options may be granted to employees, officers, directors or consultants, as provided in the 2008 Incentive Plan.

Terms of Options. The term of each option granted under the 2008 Incentive Plan will be contained in a stock option agreement between the optionee and us and such terms will be determined by the board of directors consistent with the provisions of the 2008 Incentive Plan, including the following:

- **Purchase Price.** The purchase price of the common stock subject to each incentive stock option will not be less than the fair market value (as set forth in the 2008 Incentive Plan), or in the case of the grant of an incentive stock option to a principal stockholder, not less that 110% of fair market value of such common stock at the time such option is granted.

- **Vesting.** The dates on which each option (or portion thereof) will be exercisable and the conditions precedent to such exercise, if any, will be fixed by the board of directors, in its discretion, at the time such option is granted. Unless otherwise provided in the grant agreement, in the event of a change of control (as set forth in the 2008 Incentive Plan), 50% of the vesting restrictions will terminate.

- **Expiration.** Any option granted to an employee will become exercisable over a period of no longer than five years. No option will in any event be exercisable after five years from, and no Incentive Stock Option granted to a ten percent stockholder will become exercisable after the expiration of five years from the date of the option.

- **Transferability.** No option will be transferable, except by will or the laws of descent and distribution, and any option may be exercised during the lifetime of the optionee only by such optionee. No option granted under the 2008 Incentive Plan shall be subject to execution, attachment or other process.

- **Option Adjustments.** In the event of any change in the outstanding stock by reason of a stock split, stock dividend, combination or reclassification of shares, recapitalization, merger, or similar event, the board or the committee may adjust proportionally (a) the number of shares of common stock (i) reserved under the 2008 Incentive Plan, (ii) available for Incentive Stock Options and Nonstatutory Options and (iii) covered by outstanding stock awards or restricted stock purchase offers; (b) the stock prices related to outstanding grants; and (c) the appropriate fair market value and other price determinations for such grants. In the event of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the board or the committee will be authorized to issue or assume stock options, whether or not in a transaction to which Section 424(a) of the Code applies, and other grants by means of substitution of new grant agreements for previously issued grants or an assumption of previously issued grants.

- **Termination, Modification and Amendment.** The board may, insofar as permitted by law, from time to time, suspend or terminate the 2008 Incentive Plan or revise or amend it in any respect whatsoever, except that without the approval of the stockholders, no such revision or amendment may (i) increase the number of shares subject to the 2008 Incentive Plan, (ii) decrease the price at which grants may be granted, (iii) materially increase the benefits to participants, or (iv) change the class of persons eligible to receive grants under the 2008 Incentive Plan; provided no such action may alter or impair the rights and obligations under any option, or stock award, or restricted stock purchase offer outstanding as of the date thereof without the written consent of the participant.

Grants of Plan-Based Awards

The following table sets forth information with respect to grants of plan-based awards to our Named Executive Officers during the year ended December 31, 2010 under our 2008 Incentive Plan:

		Options			Stock Awards	
Name/Award	**Grant Date**	**Number of Securities Underlying Options (#) Unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**	**Equity Incentive Plan Awards: Number of Shares, Units or Other Rights (#)**	**Grant Date Fair Value of Stock and Options Awards ($) (1)**
Kaleil Isaza Tuzman						
Stock options (2)	8/30/2010	335,000	8.62	8/30/2015	—	1,557,750
Time-Based RSUs (3)	8/30/2010	—	—	—	94,000	810,280
Performance and Time-Based RSUs (4)	8/30/2010	—	—	—	96,000	827,520
Gavin Campion						
Stock options (2)	8/30/2010	216,000	8.62	8/30/2015	—	1,004,400
Time-Based RSUs (3)	8/30/2010	—	—	—	73,512	633,673
Performance and Time-Based RSUs (4)	8/30/2010	—	—	—	48,000	413,760
Robin Smyth						
Stock options (2)	8/30/2010	138,000	8.62	8/30/2015	—	641,700
Time-Based RSUs (3)	8/30/2010	—	—	—	50,000	431,000
Performance and Time-Based RSUs (4)	8/30/2010	—	—	—	28,000	241,360

(1) Amounts reflect the aggregate grant-date fair value in accordance with FASB ASC Topic 718 for equity awards granted to the Named Executive Officers during the applicable year. The assumptions we use in calculating these amounts are discussed in Note 14 of the Notes to our consolidated financial statements for the year ended December 31, 2010 included in our Annual Report on Form 10-K.

(2) Consists of stock options that vest in forty-eight (48) equal monthly installments based on continued employment.

(3) Consists of Time-based RSUs that vest in forty-eight (48) equal monthly installments based on continued employment.

(4) Consists of Performance and Time-based RSUs that vest in forty-eight (48) equal monthly installments based on continued employment and the Company's stock 20-day volume weighted average stock price exceeds the grant date closing price by 115% for 50% of the grant and by 130% for 50% of the grant. Both of these performance targets were met before the end of October 2010.

Outstanding Equity Awards at December 31, 2010

The following table sets forth information with respect to outstanding equity incentive awards held by our Named Executive Officers as of December 31, 2010:

	Options				Stock Awards	
Name/Award	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (8)**
Kaleil Isaza Tuzman						
Stock options under the 2004 Option Plan (1)	58,888	1,112	6.11	1/9/2013	—	—
Stock options under the 2004 Option Plan (3)	12,500	7,500	9.80	6/21/2013	—	—
Stock options (5)	27,917	307,083	8.62	8/30/2015	—	—
Time-Based RSUs (6)	—	—	—	—	86,167	1,382,119
Performance and Time-Based RSUs (7)	—	—	—	—	88,000	1,411,520
Gavin Campion						
Stock options (2)	26,919	7,367	2.80	3/17/2013	—	—
Stock options (3)	12,500	7,500	9.80	6/21/2013	—	—
Stock options (5)	18,000	198,000	8.62	8/30/2015	—	—
Time-Based RSUs (6)	—	—	—	—	67,385	1,080,855
Performance and Time-Based RSUs (7)	—	—	—	—	44,000	705,760
Robin Smyth						
Stock options (4)	11,715	0	2.80	3/17/2013	—	—
Stock options (3)	4,463	2,680	9.80	6/21/2013	—	—
Stock options (5)	11,500	126,500	8.62	8/30/2015	—	—
Time-Based RSUs (6)	—	—	—	—	45,833	735,161
Performance and Time-Based RSUs (7)	—	—	—	—	25,667	411,699

(1) Consists of stock options with an initial amount vested immediately and the balance vesting in thirty-six (36) equal monthly installments.
(2) Consists of stock options with an initial amount vested immediately and the balance vesting in sixteen (16) equal quarterly installments.
(3) Consists of stock options vesting in sixteen (16) equal quarterly installments.
(4) Consists of stock options with an initial amount vested immediately.
(5) Consists of stock options that vest in forty-eight (48) equal monthly installments based on continued employment.
(6) Consists of Time-based RSUs that vest in forty-eight (48) equal monthly installments based on continued employment.
(7) Consists of Performance and Time-based RSUs that vest in forty-eight (48) equal monthly installments based on continued employment and the Company's stock 20-day volume weighted average stock price exceeds the grant date closing price by 115% for 50% of the grant and by 130% for 50% of the grant. Both of these performance targets were met before the end of October 2010.
(8) Based on the $16.04 closing sale price of our common stock on December 31, 2010 as reported by the NASDAQ Global Select Market.

The table below describes the securities authorized for issuance under our equity compensation plans as of December 31, 2010:

Equity Compensation Plan Information

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights**	**Number of Securities Remaining Available for Future Issuance under Equity Compensations (1)**
Equity compensation plans approved by security holders	3,035,724	$ 8.58	380,674
Equity compensation plans approved by security holders (2)	80,000	$ 7.03	262,858
Equity compensation plans not approved by security holders (3)	787,700	$ 8.62	712,300
Total	3,903,424	$ 8.56	1,355,832

(1) Consists of shares that may be granted under our 2008 Incentive Stock Plan.

(2) Consists of shares that may be granted under our 2004 Stock Option Plan.

(3) Consists of an additional 1,500,000 authorized shares that may be granted under our 2008 Incentive Stock Plan, which increase was approved by our board of directors and is subject to ratification by our stockholders at our 2011 annual meeting of stockholders.

Directors Compensation

All directors are reimbursed for their reasonable out-of-pocket expenses incurred in connection with their duties to us. With the exception of Messrs. Isaza Tuzman, Campion and Smyth (who instead receive compensation for their service as officers of our company), all directors receive compensation for their services. To date, we have compensated directors mostly through stock options granted under our incentive compensation plans. Directors receive the following compensation package:

- Grant of stock options to purchase 8,143 shares of our common stock pursuant to our 2008 Incentive Stock Plan.

- Annual compensation in the amount of $37,500, payable quarterly, which may be paid in either cash or stock options (priced using the "Black-Scholes-Merton" options pricing model), or a combination of both. The form of payment (i.e., cash, stock options or a combination) will be determined by us in our sole discretion; provided that if we are operating income (or EBITDA) positive in the preceding calendar year, such determination may be made by each independent director. The lead independent director will receive annual compensation in the amount of $50,000 in consideration for broader responsibilities.

- Fees of $2,000 per board meeting attended; $1,500 per committee meeting chaired; and $750 per committee meeting attended but not chaired. The foregoing fees will be discounted by 50% when meetings are attended or chaired telephonically. Payment will be made according to the same schedule and in the same manner as set forth in the paragraph above.

The following table shows non-employee director compensation in 2010:

Name and	Fees Earned or Paid in Cash ($)	Option Awards ($) (1)	Total ($)
Kamal El-Tayara (2)	42,469	21,879	64,348
Steven G. Felsher (2)	—	68,811	68,811
Daniel W. Hart	—	70,841	70,841
Lars Kroijer	—	76,840	76,840
Joseph E. Mullin III	—	26,313	26,313
Wayne Walker	—	77,472	77,472
Chris Williams (3)	—	42,199	42,199

(1) The determination of value of option awards is based upon the Black-Scholes-Merton Option pricing model, details and assumptions of which are set out in our financial statements. The amounts represent annual amortization of fair value of stock options granted to the named director.

(2) Messrs. El-Tayara and Felsher resigned from our board in January 2011 and August 2010, respectively.

(3) Mr. Williams has served as Executive Vice President, Product Development since June 2010 but is not considered an executive officer of the company.

Code of Ethics

We have adopted a Code of Ethics which applies to our directors, Chief Executive Officer and Chief Financial Officer, as well as our other senior officers. The full text of the Code of Ethics can be found under "Corporate Governance" on the Investor Relations page of our corporate website, which is at *www.kitd.com.*

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

The following table below shows how our common stock is beneficially owned by our directors and executive officers and by owners of more than 5% of our outstanding common stock as of March 31, 2011. Each person or entity, except KIT Media Ltd., KIT Capital, Ltd., FMR LLC, Wellington Management Company and Zivar Investments Ltd., LLP, maintains a mailing address c/o KIT digital, Inc., 26 West 17th Street, 2nd Floor, New York, New York 10011.

Beneficial ownership is determined in accordance with the rules of the Commission and includes voting and investment power with respect to shares. Beneficial ownership includes any shares that the person has the right to acquire within 60 days after April 29, 2011, through the exercise of any stock option or other equity right.

Security Ownership of Certain Beneficial Owners and Management

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Common Stock (1)
KIT Media Ltd. Mill Mall, Suite 6 Wickhams Cay 1 P.O. Box 3085 Road Town, Tortola British Virgin Islands	2,720,432(2)	7.1%
KIT Capital, Ltd. P.O. Box 112888 Dubai, United Arab Emirates	300,046(3)	*
Kaleil Isaza Tuzman, sum of above	3,020,478(2)(3)	7.9%
Gavin Campion	118,145(4)	*
Robin Smyth	96,851(5)	*
Christopher Williams	12,147(6)	*
Daniel W. Hart	50,580(7)	*
Lars Kroijer	58,338(8)	*
Joseph E. Mullin III	8,171(9)	*
Santo Politi	965,587(10)	2.5%
Wayne Walker	53,523(11)	*
FMR LLC 82 Devonshire Street Boston, MA 02169	5,268,770(12)	13.7%
Wellington Management Company, LLP 75 State Street Boston, MA 02169	2,792,668(13)	11.5%
Zivar Investments Ltd. 10/8 International Commercial Centre Casemates Square, Gibraltar, Gibraltar	1,998,880(14)	5.2%
All directors and executive officers as a group (9 persons)	4,383,819	11.3%

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* Less than 1% of the outstanding common stock.

(1) Applicable percentage ownership is based on 38,404,833 shares of common stock outstanding as of April 29, 2011.

(2) Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, holds a controlling interest in KIT Media and holds the voting and dispositive power of the shares directly held by KIT Media. For purposes of voting, on an actual basis, KIT Media owns 7.1% of our outstanding shares. For purposes of voting, on an actual basis, Mr. Isaza Tuzman owns 7.9% of our outstanding shares.

(3) Represents (a) 127,858 shares of common stock, (b) 73,750 shares of common stock issuable upon the exercise of stock options granted under the 2004 Stock Option Plan, (c) 62,813 shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Plan and (d) 35,625 shares of common stock issuable under RSUs under the 2008 Incentive Plan. Mr. Isaza Tuzman holds a controlling interest in KIT Capital and holds the voting and dispositive power of the shares directly held by KIT Capital. For purposes of voting, on an actual basis, KIT Capital owns 0.3% of our outstanding shares. For purposes of voting, on an actual basis, Mr. Isaza Tuzman owns 7.9% of our outstanding shares.

(4) Represents (a) 12,719 shares of common stock, (b) 82,642 shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Plan and (c) 22,784 shares of common stock issuable under RSUs under the 2008 Incentive Plan. For purposes of voting, on an actual basis, Mr. Campion owns less than 1% of our outstanding shares.

(5) Represents (a) 5,441 shares of common stock, (b) 42,499 shares of common stock issuable upon exercise of stock options granted under the 2008 Incentive Plan, (c) 34,286 shares of common stock issuable upon exercise of warrants and have an expiration date of March 30, 2012 and (d) 14,625 shares of common stock issuable under RSUs under the 2008 Incentive Plan. For purposes of voting, on an actual basis, Mr. Smyth owns less than 1% of our outstanding shares.

(6) Represents shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Plan. For purposes of voting, on an actual basis, Mr. Williams owns no outstanding shares.

(7) Represents shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Plan, which are currently exercisable. For purposes of voting, on an actual basis, Mr. Hart owns no outstanding shares.

(8) Represents (a) 6,143 shares of common stock and (b) 52,195 shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Plan. For purposes of voting, on an actual basis, Mr. Kroijer owns less than 1% of our outstanding shares.

(9) Represents shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Plan. For purposes of voting, on an actual basis, Mr. Mullin owns no outstanding shares.

(10) Represents shares of common stock. Santo Politi is a managing member of Spark Management Partners, LLC, the general partner of Spark Capital, LP, Spark Capital Founders' Fund, LP and Spark Member Fund, LP, the direct holders of the stock. Voting and investment power over the Issuer's stock is shared by managing members of Spark Management Partners, LLC. For purposes of voting, on an actual basis, Mr. Politi indirectly owns 2.5% of our outstanding shares.

(11) Represents (a) 1,118 shares of common stock and (b) 52,405 shares of common stock issuable upon the exercise of stock options granted under the 2008 Incentive Plan. For purposes of voting, on an actual basis, Mr. Walker owns less than 1% of our outstanding shares.

(12) As reported in a Schedule 13G filed with the SEC on February 14, 2011. For purposes of voting, on an actual basis, FMR LLC beneficially owns 13.7% of our outstanding shares.

(13) As reported in a Schedule 13G filed with the SEC on April 11, 2011. Wellington Management Company, LLP, in its capacity as investment adviser, may be deemed to beneficially own such shares of common stock which are held of record by clients of Wellington Management Company, LLP. None of these clients owns more than 5% of our outstanding shares of common stock. For purposes of voting, on an actual basis, Wellington Management Company, LLP owns 11.5% of our outstanding shares.

(14) As reported in a Schedule 13G filed with the SEC on May 5, 2010. For purposes of voting, on an actual basis, Zivar Investments Ltd. owns 5.2% of our outstanding shares.

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

Other than the Executive Management Agreement described under “Compensation of Officers and Directors - Employment and Management Contracts, Termination of Employment and Change-in-Control Arrangements” below are transactions requiring disclosure between us and our related persons, promoters or control persons.

Each of the directors Gavin Campion, Daniel W. Hart, Lars Kroijer and Joseph E. Mullin III is a minority investor in KIT Media Ltd., one of our largest single stockholders controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer. Mr. Hart is also a board member of KIT Media.

Over a period of 60 days between June 2009 and August 2009, KIT Media made $3,350,000 available to us through an interim convertible promissory note bearing an 8% interest rate per annum and convertible into the next common stock offering under terms identical with other investors in the offering. In connection with our acquisition of certain assets of Narrowstep Inc. in April 2009, Granahan McCourt Capital, LLC, a stockholder of Narrowstep, loaned us $350,000, pursuant to a convertible promissory note on substantially the same terms as the KIT Media note described above. The KIT Media and Granahan McCourt notes payable were converted into common stock in our August 2009 public offering. Together with its additional cash investment of $654,000, KIT Media purchased a total of 572,000 shares of common stock in our August 2009 public offering. In a subsequent public offering completed in March 2010, KIT Media invested another $1,750,000, purchasing 179,856 shares of our common stock. In a public offering in April 2010, KIT Capital invested $1,300,000, purchasing 100,000 shares of our common stock. In each case, KIT Media and KIT Capital purchased shares at the same price and on the same terms as the other investors in the public offerings.

On March 7, 2010, our board of directors approved the repurchase of certain outstanding warrants with exercise prices below the then-current market price from certain warrant holders (who had acquired the warrants in May 2008 private placement financings), including KIT Media and Wellington Management Company ("Wellington"), an entity with greater than a 10% holding in KIT digital's outstanding common stock at the time of the transaction. KIT Media and Wellington were at the time considered related parties of the Company. The terms of the warrant repurchase were identical for KIT Media and Wellington, and the negotiation of such terms was led by Wellington. The Company offered to purchase and cancel these warrants at 133% of the intrinsic value of the warrants (but because intrinsic value was based on a 20-day trailing volume weighted average price of the underlying common stock at the time, the ultimate purchase price of the warrants ended up being below the actual intrinsic value at the date of purchase.). These warrants with anti-ratchet dilution provisions totaling 3,030,747 were cancelled effective on March 31, 2010. Total payments for the settlement of these warrants was $22,232,000 and a loss of $1,665,000 was recorded in the derivative expense in the statement of operations. These warrants were included in the warrant buyback liability as at March 31, 2010 and were paid after such date. We also repurchased and cancelled another 403,577 warrants with anti-ratchet dilution provisions during the year ended December 31, 2010, at varying prices, from parties other than KIT Media and Wellington, for $1,342,000.

In April 2010, the Company repurchased and cancelled a warrant to purchase 47,143 shares from Robin Smyth, our Chief Financial Officer. The terms of the warrant repurchase were identical to Wellington and KIT Media, the negotiation of which terms was led by Wellington, and has been described herein.

Item 14. Principal Accountant Fees and Services.

The following table presents aggregate fees billed to us for professional services rendered by Grant Thornton LLP since October 2, 2009. Prior to September 21, 2009, MSPC, Certified Public Accountants and Advisors, A Professional Corporation, served as our independent registered public accounting firm.

Grant Thornton

	2010 Fees	2009 Fees
Audit Fees	$ 906,470	$ 407,449
Audit-Related Fees	—	—
Tax Fees	—	—
Total Fees	$ 906,470	$ 407,449

MSPC

	2010 Fees	2009 Fees
Audit Fees	$ 20,708	$ 65,042
Audit-Related Fees	—	—
Tax Fees	—	—
Total Fees	$ 20,708	$ 65,042

Audit fees were for professional services rendered for the audit of our annual consolidated financial statements and review of consolidated financial statements included in our quarterly reports on Form 10-Q and services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements.

Audit-related fees were for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "Audit Fees."

Tax fees were for professional services rendered for federal, state and international tax compliance, tax advice and tax planning.

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 independent registered public accounting firm. These services may include audit services, audit-related services, tax services 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 registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with the 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.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) and (2): The response to this portion of Item 15 is submitted as a separate section of this report beginning on page F-1.

(a)(3) Exhibits:

Exhibit Number	Description
31.1	Certification of the Chairman and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

Date: May 2, 2011

KIT DIGITAL, INC.

By: /s/ Kaleil Isaza Tuzman
Kaleil Isaza Tuzman
Chairman and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Robin Smyth
Robin Smyth
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT VI

QUARTERLY REPORT ON FORM 10-Q FILED BY KIT DIGITAL, INC. WITH THE SEC ON MAY 10, 2011

10-Q 1 v221727_10q.htm

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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from __________ to __________

Commission file number 001-34437

KIT digital, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**11-3447894**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
26 West 17th Street, 2nd Floor, New York, New York	**10011**
(Address of Principal Executive Offices)	(Zip Code)

+1 (212) 661-4111
(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large accelerated Filer ☐	Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

As of May 9, 2011, there were 39,940,271 shares of the issuer's common stock outstanding.

KIT digital, Inc.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Share Data)

	March 31, 2011 (Unaudited)	December 31, 2010 (A)
Assets:		
Current assets:		
Cash and cash equivalents	$ 109,665	$ 141,233
Restricted cash	2,000	2,000
Investment	1,349	1,050
Accounts receivable, net	34,037	29,349
Unbilled revenue	6,105	537
Inventory, net	423	301
Loan receivable, current portion	2,938	2,486
Other current assets	10,089	5,104
Total current assets	166,606	182,060
Property and equipment, net	8,459	5,987
Loan receivable, net of current	7,684	8,361
Intangible assets	18,691	13,248
Goodwill	151,075	89,004
Total assets	$ 352,515	$ 298,660
Liabilities and Stockholders' Equity:		
Current liabilities:		
Capital lease and other obligations, current portion	$ 438	$ 608
Secured notes payable, net of debt discount, current portion	1,983	1,709
Accounts payable	15,588	12,740
Accrued expenses	11,058	6,411
Deferred revenue	4,163	4,223
Income tax payable	271	858
Deferred tax liability	682	682
Acquisition liabilities, current portion	7,613	2,115
Derivative liability	3,487	6,096
Other current liabilities	5,898	2,887
Total current liabilities	51,181	38,329
Capital lease and other obligations, net of current	176	175
Secured notes payable, net of current	3,606	4,127
Acquisition liabilities, net of current	13,285	10,405
Total liabilities	68,248	53,036
Stockholders' Equity:		
Common stock, $0.0001 par value: authorized 80,000,000 shares; issued and outstanding 37,941,419 and 33,196,952, respectively	4	3
Additional paid-in capital	425,814	375,578
Accumulated deficit	(141,704)	(129,203)
Accumulated other comprehensive loss	153	(754)
Total stockholders' equity	284,267	245,624
Total liabilities and stockholders' equity	$ 352,515	$ 298,660

(A) - Reference is made to the Company’s Annual Report on Form 10-K for the year ended December 31, 2010, filed with the U.S. Securities and Exchange Commission on March 17, 2011.

The Accompanying Notes are an Integral Part of these Consolidated Financial Statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

	Three months ended March 31, 2011	Three months ended March 31, 2010
Revenue	$ 34,450	$ 17,364
Variable and direct third party costs:		
Cost of goods and services	10,747	4,352
Hosting, delivery and reporting	1,086	1,074
Content costs	276	235
Direct third party creative production costs	365	890
Total variable and direct third party costs	12,474	6,551
Gross profit	21,976	10,813
Selling, general and administrative expenses:		
Compensation, travel and associated costs (including non-cash stock-based compensation of $2,027 and $552, respectively)	12,307	5,650
Legal, accounting, audit and other professional service fees	637	690
Office, marketing and other corporate costs	3,991	2,064
Merger and acquisition related expenses	5,250	1,219
Depreciation and amortization	2,434	1,654
Restructuring charges	3,318	3,693
Integration expenses	8,688	2,921
Total selling, general and administrative expenses	36,625	17,891
Loss from operations	(14,649)	(7,078)
Interest income	72	1
Interest expense	(270)	(92)
Amortization of deferred financing costs and debt discount	(19)	-
Derivative income (expense)	2,610	(11,443)
Other income (expense), net	(106)	184
Net loss before income taxes	(12,362)	(18,428)
Income tax expense	(139)	(14)
Net loss available to common shareholders	$ (12,501)	$ (18,442)
Basic and diluted net loss per common share	$ (0.34)	$ (1.33)
Basic and diluted weighted average common shares outstanding	36,573,031	13,878,912
Comprehensive loss:		
Net loss	$ (12,501)	$ (18,442)
Foreign currency translation	858	(432)
Change in unrealized gain on investments, net	49	69
Comprehensive loss	$ (11,594)	$ (18,805)

The Accompanying Notes are an Integral Part of these Consolidated Financial Statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in Thousands, Except Share Data)
(Unaudited)

	Common Stock	Common Stock Par Value	Additional Paid-in Capital
Balance – December 31, 2010	33,196,952	$ 3	$ 375,578
Issue of stock for exercise of stock options	52,354	—	390
Issue of stock for exercise of warrants	57,251	—	—
Issue of stock for acquisitions	4,634,862	1	47,407
Issue of warrants for services	—	—	412
Stock-based compensation	—	—	2,027
Foreign currency translation adjustment	—	—	—
Fair market value adjustment for available for sale securities	—	—	—
Net loss	—	—	—
Balance – March 31, 2011	37,941,419	$ 4	$ 425,814

	Accumulated (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance – December 31, 2010	$ (129,203)	$ (754)	$ 245,624
Issue of stock for exercise of stock options	—	—	390
Issue of stock for exercise of warrants	—	—	—
Issue of stock for acquisitions	—	—	47,408
Issue of warrants for services	—	—	412
Stock-based compensation	—	—	2,027
Foreign currency translation adjustment		858	858
Fair market value adjustment for available for sale securities	—	49	49
Net loss	(12,501)	—	(12,501)
Balance – March 31, 2011	$ (141,704)	$ 153	$ 284,267

The Accompanying Notes are an Integral Part of these Consolidated Financial Statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)
(Unaudited)

	Three months ended March 31, 2011	2010
Operating Activities:		
Net loss	$ (12,501)	$ (18,442)
Adjustments to reconcile net loss to net cash used by operating activities:		
Provision for doubtful accounts	1,005	84
Depreciation	985	927
Amortization of intangible assets	1,448	727
Less: merger and acquisition expenses	1,535	460
Amortization of debt discount	17	-
Derivative (income) expense	(2,610)	11,443
Non-cash stock based compensation	2,027	552
Non-cash warrants for services	412	451
Non-cash stock for services	-	235
Changes in assets and liabilities:		
Accounts receivable	(437)	(6,828)
Unbilled revenue	(5,496)	553
Inventories	(122)	49
Other assets	(2,632)	(181)
Accounts payable	521	4,439
Accrued expenses	4,255	1,030
Income tax payable	(591)	(11)
Deferred revenue	1,034	(163)
Other liabilities	2,085	(804)
Total adjustments	3,436	12,963
Net cash used by operating activities – forward	(9,065)	(5,479)
Investing Activities:		
Cash paid into investment	(250)	(700)
Cash paid in acquisitions	(21,512)	(4,746)
Cash received in acquisitions	865	396
Receipt of payment on notes receivable	224	-
Merger and acquisition expenses	(1,535)	(460)
Purchase of equipment	(1,170)	(310)
Net cash used by investing activities - forward	$ (23,378)	$ (5,820)

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Amounts in Thousands)
(Unaudited)

	Three months ended March 31, 2011	2010
Net cash used by operating activities – forwarded	$ (9,065)	$ (5,479)
Net cash used by investing activities – forwarded	(23,378)	(5,820)
Financing Activities:		
Proceeds from public offering, net	-	48,487
Proceeds from exercise of stock options	389	41
Proceeds from exercise of warrants	-	1,448
Payments for warrant buybacks	-	(1,158)
Bank overdraft and other obligations	-	(386)
Payments of secured notes	(264)	(1,020)
Repayments of notes payable	-	(4,500)
Payments on capital leases	(184)	(261)
Net cash (used) provided by financing activities	(59)	42,651
Effect of exchange rate changes on cash	934	(320)
Net (decrease) increase in cash and cash equivalents	(31,568)	31,032
Cash and cash equivalents - beginning of period	141,233	6,791
Cash and cash equivalents - end of period	$ 109,665	$ 37,823
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 139	$ -
Interest	$ 270	$ 92
Non-cash investing and financing activities:		
Common stock issued in connection with acquisitions	$ 47,408	$ 13,120

The Accompanying Notes are an Integral Part of these Consolidated Financial Statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

(1) Nature of Business and Nature of Presentation

KIT digital, Inc. ("we," "us," "our," the "Company" or "KIT digital"), through our operating subsidiaries, provide enterprise clients an end-to-end technology platform for managing Internet Protocol ("IP")-based video assets across online browser environments, mobile and tablet devices and connected television sets. We also offer creative interface design, marketing services, content transformation services, systems integration and broadcast engineering services to complement our KIT Platform software. Our revenues are comprised primarily by software-as-a-service ("SaaS") fees, enterprise software license fees, software usage fees, software set-up/support services fees, hardware component integration and set-up/support services fees, content transformation services fees and content storage and delivery fees.

The accompanying interim consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim financial information. These financial statements include the accounts of KIT digital and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in the accompanying financial statements.

Certain information and footnote disclosures normally included in the Company's annual audited consolidated financial statements and accompanying notes have been condensed or omitted in these interim financial statements. Accordingly, the unaudited consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and accompanying notes included in KIT digital's annual report on Form 10-K for the year ended December 31, 2010, filed with the U.S. Securities and Exchange Commission.

The results of operations presented in this quarterly report on Form 10-Q are not necessarily indicative of the results of operations that may be expected for any future periods. In the opinion of management, these unaudited consolidated financial statements include all adjustments and accruals, consisting only of normal recurring adjustments, that are necessary for a fair statement of the results of all interim periods reported herein.

(2) Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update on Certain Revenue Arrangements That Include Software Elements, which changes the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing both software and non-software components that function together to deliver the product's essential functionality will no longer be within the scope of Software Revenue Recognition. This update is effective for fiscal years beginning on or after June 15, 2010 and early adoption is permitted. The adoption of this update did not have a material impact on our operating results.

In October 2009, the FASB issued Accounting Standards Update on Multiple-Deliverable Revenue Arrangements, which addresses the accounting for multiple-deliverable arrangements and requires that the overall arrangement consideration be allocated to each deliverable in a revenue arrangement based on an estimated selling price when vendor specific objective evidence or third-party evidence of fair value is not available. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated to all deliverables using the relative selling price method. The new guidance changes the criteria required to (1) separate deliverables into separate units of accounting when deliverables are sold in a bundled arrangement and (2) to allocate the arrangement's consideration to each unit in the arrangement (such as, equipment, installation or commissioning services). Entities are now required to determine an estimated selling price for each separate deliverable following a hierarchy of evidence — Vendor-Specific Objective Evidence ("VSOE"), Third-Party Evidence ("TPE") and, if VSOE and TPE do not exist, best estimate of selling price ("BESP"). The Company adopted this new standard during the quarter ended September 30, 2010 and it has been applied retrospectively to January 1, 2010. The adoption of this standard did not have a material impact on prior results, but will impact how these arrangements will be recognized prospectively.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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In December 2010, the FASB issued an accounting standard update for business combinations specifically related to the disclosures of supplementary pro forma information for business combinations. This guidance specifies that pro forma disclosures should be reported as if the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period and the pro forma disclosures must include a description of material, nonrecurring pro forma adjustments. This standard will be effective for business combinations with an acquisition date of January 1, 2011 or later. The adoption of the guidance did not have a material impact on the Company's financial position or results of operations.

(3) Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of ninety days or less when purchased to be cash and cash equivalents. As of March 31, 2011 and December 31, 2010, the Company had $2,076 and $2,068, respectively, of cash equivalents in an account that pays interest at LIBOR plus 150 basis points. This account is guaranteed and backed by liquid collateral instruments, and can be redeemed with 14 days prior written notice.

(4) Fair Value of Financial Instruments

Fair value is the amount that would be received upon sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy which prioritizes the types of inputs to valuation techniques that companies may use to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1). The next highest priority is given to inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2). The lowest priority is given to unobservable inputs in which there is little or no market data available and which require the reporting entity to develop its own assumptions (Level 3).

The assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy are Investments and Derivative Liabilities. Investments are measured using net asset value as a practical expedient (Level 2). See Note 11 for fair value hierarchy on the Derivative Liabilities.

(5) Accounts Receivable

Trade accounts receivable are stated net of allowances for doubtful accounts. Specific customer provisions are made when a review of significant outstanding amounts, customer creditworthiness and current economic trends, indicates that collection is doubtful. In addition, provisions are made at differing amounts, based upon the balance and age of the receivable and the Company’s historical collection experience. Trade accounts are charged off against the allowance for doubtful accounts or expense when it is probable the accounts will not be recovered. The allowance for doubtful accounts as of March 31, 2011 and December 31, 2010 was $2,020 and $1,023, respectively.

(6) Concentration of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. We place our cash and cash equivalents with high credit quality institutions to limit credit exposure, and from time to time, obtain collateral for our accounts where we deem prudent and is feasible. As of March 31, 2011, we held cash and cash equivalents of $10,356 in financial institutions outside of the United States. We believe no significant concentration of credit risk exists with respect to these investments. The amount held in foreign currencies as of March 31, 2011 and December 31, 2010 was $9,738 and $8,617, respectively. The amount of cash in excess of FDIC insured amounts as of March 31, 2011 and December 31, 2010, was $107,224 and $139,185, respectively.

KIT DIGITAL, INC. AND SUBSIDIARIES
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Concentrations of credit risk with respect to trade accounts receivable are limited due to the nature of our customers who are dispersed across many industries and geographic regions. As of March 31, 2011, no customer accounted for 10% of our trade accounts receivable. As of December 31, 2010, one customer accounted for 11.1% of our trade accounts receivable. As of March 31, 2011 and 2010, no customer accounted for 10.0% of the quarterly revenue. As of March 31, 2010, we held accounts receivable of $27,988 outside of the United States. We routinely assess the financial strength of customers and, based upon factors concerning credit risk, we establish an allowance for doubtful accounts. Management believes that accounts receivable credit risk exposure beyond such allowance is limited.

(7) Inventory

Inventory is valued at the lower of cost (first-in, first-out method) or market and are comprised of finished goods. On a quarterly basis, we review inventory quantities on hand and analyze the provision for excess and obsolete inventory based primarily on product age in inventory and our estimated sales forecast, which is based on sales history and anticipated future demand. As of March 31, 2011 and December 31, 2010, our reserves for excess and obsolete inventory were $142 and $145, respectively.

(8) Goodwill and Intangible Assets

The change in the carrying amount of goodwill is as follows:

	Goodwill
Balance as of December 31, 2010	$ 89,004
Acquisitions	62,071
Balance as of March 31, 2011	$ 151,075

Intangible assets include the following:

	March 31, 2011			
	Weighted Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with determinable lives:				
Software	4.3	$ 10,320	$ (4,560)	$ 5,760
Customer list	5.25	18,424	(5,809)	12,615
Trademarks	4.75	133	(52)	81
Other	1.25	376	(141)	235
Total		$ 29,253	$ (10,562)	$ 18,691

KIT DIGITAL, INC. AND SUBSIDIARIES
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	December 31, 2010			
	Weighted Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with determinable lives:				
Software	3.25	$ 6,747	$ (4,057)	$ 2,690
Customer list	5.5	15,106	(4,944)	10,162
Trademarks	4.5	133	(35)	98
Other	1.5	376	(78)	298
Total		$ 22,362	$ (9,114)	$ 13,248

Amortization expense on intangible assets for the three months ended March 31, 2011 and 2010 were $1,448 and $727 respectively.

Estimated future annual amortization expense as of March 31, 2011 is as follows:

	Software	Customer List	Trademarks	Other	Total
2011	$ 1,124	$ 2,018	$ 12	$ 178	$ 3,332
2012	1,500	2,375	17	33	3,925
2013	1,298	2,256	17	24	3,595
2014	1,013	2,230	17	-	3,260
2015	764	2,089	17	-	2,870
Thereafter	61	1,647	1	-	1,709
Totals	$ 5,760	$ 12,615	$ 81	$ 235	$ 18,691

(9) Acquisitions

KickApps Acquisition

On January 28, 2011, we acquired KickApps Corporation, a Delaware corporation ("KickApps"), a provider of solutions that enable the creation and management of next generation video-based Web experiences, in exchange for $4,027 in cash and 3,010,296 shares of our common stock valued at a price of $13.55 (with a discount of $11,981 due to the restriction on the sale of these shares), for a total of $28,808. We are holding 528,507 shares of the merger consideration in escrow for a period not to exceed 15 months following the merger to cover any warranty claims related to undisclosed commercial or tax liabilities or litigation. All of our common stock issued in exchange for KickApps is subject to contractual restrictions on transfer, with 60% of such stock being released from this restriction on the first anniversary of the merger and the balance on the second anniversary of the merger. We have allocated the aggregate cost of the acquisition to KickApps' net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

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Current assets	$	2,356
Property and equipment		1,326
Intangible assets – internally developed software		500
Intangible assets – customer list		2,500
Goodwill		28,906
Total assets acquired		35,588
Current liabilities		(2,753)
Net assets acquired	$	32,835

The results of operations of KickApps for the period from January 29, 2011 to March 31, 2011 have been included in the Consolidated Statements of Operations.

Kyte Acquisition

On January 25, 2011, we acquired decentraltv Corporation, a Delaware corporation doing business as Kyte ("Kyte"), a cloud-based publishing platform that enables companies to deliver live and on-demand video experiences to websites, mobile devices and connected TVs, in exchange for $3,605 in cash and 189,348 shares of our common stock at a price of $13.91 (with a discount of $265 due to the restriction on the sale of these shares for 6 months), for a total of $2,369. Additionally, the cost included contingent consideration of $1,000 to be paid on the one-year anniversary of the acquisition in cash and stock to former Kyte stockholders if specified financial milestones are achieved by that business, which is included in the Balance Sheet in "Acquisition Liability, net of current". We will hold 56,803 shares of the consideration in escrow for a period of one year to secure certain indemnification obligations. We have allocated the aggregate cost of the acquisition to Kyte's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$	464
Property and equipment		71
Intangible assets – developed software		1,000
Intangible assets – customer list		400
Goodwill		5,137
Total assets acquired		7,072
Current liabilities		(98)
Net assets acquired	$	6,974

The results of operations of Kyte for the period from January 26, 2011 to March 31, 2011 have been included in the Consolidated Statements of Operations.

KIT DIGITAL, INC. AND SUBSIDIARIES
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(Unaudited)

Kewego Acquisition

On January 26, 2011, we acquired Kewego S.A., a société anonyme organized under the laws of France (“Kewego”), a provider of professional IP-based, multi-screen video asset management solutions for IP connected devices, including PCs, mobile phones, iPads, connected TVs and gaming consoles, in exchange for $11,965 in cash and 1,411,704 shares of our common stock valued at a price of $14.36 (with a discount of $4,320 due to the restriction on the sale of these shares for 1 year), for a total of $15,952. We have allocated the aggregate cost of the acquisition to Kewego’s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$	10,063
Property and equipment		388
Intangible assets – developed software		500
Intangible assets – customer list		2,001
Goodwill		21,332
Total assets acquired		34,284
Current liabilities		(6,367)
Net assets acquired	$	27,917

The results of operations of Kewego for the period from January 27, 2011 to March 31, 2011 have been included in the Consolidated Statements of Operations.

WWB Acquisition

On February 21, 2011, we acquired the assets of Worldwide Broadcast Systems Inc. (“WWB”), a United States based company engaged in providing broadcast video systems integration to customers in South and Central America, in exchange for $1,900 in cash and 23,514 shares of our common stock valued at a price of $13.25 (with a discount of $33 due to the restriction on the sale of these shares for 6 months), for a total of $279. Additionally, the cost includes a fair value for contingent consideration of $4,505, which will be based on a percentage of revenue over a three-year period after closing, which is included in the Balance Sheet in “Acquisition Liability, net of current”. We have allocated the aggregate cost of the acquisition to WWB’s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$	89
Goodwill		6,595
Total assets acquired		6,684
Current liabilities		(-)
Net assets acquired	$	6,684

The results of operations of WWB for the period from February 22, 2011 to March 31, 2011 have been included in the Consolidated Statements of Operations.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Brickbox Acquisition

On September 21, 2010, we acquired Brickbox Digital Media s.r.o., a Czech company engaged in providing digital video asset management solutions, and its international subsidiaries (“Brickbox”), in exchange for 339,476 shares of our common stock valued at a share price of $11.00 with a discount of $731 due to the restriction on the sale of these shares for 1 year for a total value of $3,003 and approximately $7,600 in cash at the time of acquisition. Additionally, the cost includes a fair value for contingent consideration of $3,023 which will be based on 10 percent of revenue and meeting earnings targets over a four-year period after closing, which is included in the Balance Sheet in “Acquisition liability, net of current”. We have allocated the aggregate cost of the acquisition to Brickbox’s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$	2,797
Property and equipment		908
Intangible assets – customer list		3,000
Intangible assets – noncompete		100
Goodwill		9,013
Total assets acquired		15,818
Deferred tax liability		(654)
Current liabilities and assumed debt		(3,027)
Net assets acquired	$	12,137

The results of operations of Brickbox have been included in the Consolidated Statements of Operations since September 21, 2010.

Selected unaudited pro forma combined results of operations for the quarter ended March 31, 2010, assuming the acquisitions of Multicast, Benchmark, Brickbox, Accela, Megahertz, Kyte, Kewego, KickApps and WWB, as well as the disposition of certain professional services-related business activities, occurred on January 1, 2010 using actual unaudited figures from each entity prior to acquisition (including business units and activities which were subsequently terminated), are presented as follows:

Total revenue	$	31,127
Net loss	$	(23,845)

Selected unaudited pro forma combined results of operations for the quarter ended March 31, 2011, assuming the Kyte, Kewego, KickApps and WWB acquisitions were completed and the disposition of certain elements of the professional services business represented by Visual Connection occurred on January 1, 2011 using actual unaudited figures from each entity prior to acquisition/disposition, are presented as follows. Note that the Company ceased certain non-core operations in the context of post-transaction restructuring of certain of the above acquisitions during the course of 2010 and the first quarter of 2011. Adjusting for this effect, management estimates that the implied organic growth of 18.7% year-over-year for the period in question would be approximately 38%.

Total revenue	$	36,949
Net loss	$	(13,334)

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)

(10) Acquisition Liabilities

	March 31, 2011	December 31, 2010
Acquisition liabilities, current portion		
Benchmark	$ 5,497	$ 2,115
Kyte	1,000	-
WWB	1,116	-
	$ 7,613	$ 2,115
Acquisition liabilities, net of current		
Benchmark	$ 6,872	$ 7,382
Brickbox	3,023	3,023
WWB	3,390	-
	$ 13,285	$ 10,405

The fair value of the acquisition-related contingent consideration for Benchmark included above was $8,378 on the acquisition date of May 14, 2010. As of March 31, 2011, the fair value of the acquisition-related contingent consideration for the first anniversary on May 15, 2012 for Benchmark increased by $2,873 based on changes in management's estimates and other factors that occurred during the three months ended March 31, 2011. The increase in the liability was recorded as a charge to earnings and is included in the Merger and acquisition and investor relations expenses line item in the Consolidated Statements of Operations.

(11) Derivative Liabilities

In June 2008, the Financial Accounting Standards Board issued a new accounting standard. Under this standard, instruments which contain full ratchet anti-dilution provisions will no longer be considered indexed to a company's own stock for purposes of determining whether it meets the first part of the scope exception. The adoption required us to (1) evaluate our instrument's contingent exercise provisions and (2) evaluate the instrument's settlement provisions. Based upon applying this approach to instruments within the scope of the consensus, we have determined that certain of our warrants which were classified in stockholders' equity on December 31, 2008, no longer meet the definition of Indexed to a Company's Own Stock provided in the Consensus. Accordingly, effective on January 1, 2009, we were required to reclassify those warrants, at their fair value, into liabilities. The accounting standard requires that the fair value of these liabilities be re-measured at the end of every reporting period with the change in value over the period reported in the statement of operations. The difference between the amount the warrants were originally recorded in the financial statements and the fair value of the instruments on January 1, 2009 was considered a cumulative effect of a change in accounting principle and required an adjustment to the opening balance of retained earnings and a reduction in additional paid-in capital in the amount of $8,498 and $24,235, respectively. The derivative liability as of January 1, 2009 was $15,737. The common shares indexed to the derivative financial instruments used in the calculation of the fair value and recorded as liabilities at January 1, 2009, December 31, 2009, December 31, 2010 and March 31, 2011 were 5,806,230, 4,794,400, 679,400 and 679,400, respectively. The number of shares for the determination of liability have been computed based on the effective exercise price used in the valuation. The actual number of common shares indexed to the warrants at January 1, 2009, December 31, 2009, December 31, 2010 and March 31, 2011 were 2,886,038, 4,794,400, 679,400 and 679,400, respectively.

We estimate fair values of derivative financial instruments using various techniques (and combinations thereof) that are considered to be consistent with the objective measuring fair values. In selecting the appropriate technique, we consider, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For less complex derivative instruments, such as free-standing warrants, we generally use the Black-Scholes model, adjusted for the effect of dilution, because it embodies all of the requisite assumptions (including trading volatility, estimated terms, dilution and risk free rates) necessary to fair value these instruments.

KIT DIGITAL, INC. AND SUBSIDIARIES
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Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques (such as Black-Scholes model) are highly volatile and sensitive to changes in the trading market price of our common stock. Since derivative financial instruments are initially and subsequently carried at fair values, our income (expense) going forward will reflect the volatility in these estimate and assumption changes. Under the terms of the new accounting standard, increases in the trading price of the company's common stock and increases in fair value during a given financial quarter result in the application of non-cash derivative expense. Conversely, decreases in the trading price of the company's common stock and decreases in trading fair value during a given financial quarter result in the application of non-cash derivative income.

The following table summarizes the components of derivative liabilities as of March 31, 2011, December 31, 2010 and the re-measurement date, January 1, 2009:

	March 31, 2011	December 31, 2010	Re-measurement date January 1, 2009
Fair value of warrants with anti-dilution provisions	$ (3,487)	$ (6,096)	$ (15,736)
Significant assumptions (or ranges):			
Trading market values (1)	$ 12.04	$ 16.04	5.25
Term (years)	2.11	2.35	$ 4.35 to 5.00
Volatility (1)	53.10%	57.73%	101.98%
Risk-free rate (2)	0.80%	0.61%	1.55%
Effective Exercise price (3)	$ 7.00	$ 7.00	$ 5.92

Fair value hierarchy:

(1) Level 1 inputs are quoted prices in active markets for identical assets and liabilities, or derived there from. Our trading market values and the volatilities that are calculated thereupon are level 1 inputs.
(2) Level 2 inputs are inputs other than quoted prices that are observable. We use the current published yields for zero-coupon US Treasury Securities, with terms nearest the remaining term of the warrants for our risk free rate.
(3) Level 3 inputs are unobservable inputs. Inputs for which any parts are level 3 inputs are classified as level 3 in their entirety. The remaining term used equals the remaining contractual term as our best estimate of the expected term and the effective exercise price which is based on the stated exercise price adjusted for anti-dilution provisions.

The effects on our income (expense) associated with changes in the fair values of our derivative financial instruments for the three months ended March 31, 2011 and 2010 was $2,610 and $(11,443), respectively. Included in the $(11,443) expense for the three months ended March 31, 2010 is a loss on settlement of $(3,037) related to the repurchase of warrants.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

On March 7, 2010, our board of directors approved the repurchase of certain outstanding warrants with exercise prices below the then-current market price from certain warrant holders (who had acquired the warrants in May 2008 private placement financings), including KIT Media, an entity controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer and Wellington Management Company ("Wellington"), an entity with greater than a 10% holding in KIT digital's outstanding common stock at the time of the transaction. KIT Media and Wellington were at the time considered related parties of the Company. The terms of the warrant repurchase were identical for KIT Media and Wellington, and the negotiation of such terms was led by Wellington. The Company offered to purchase and cancel these warrants at 133% of the intrinsic value of the warrants (but because intrinsic value was based on a 20-day trailing volume weighted average price of the underlying common stock at the time, the ultimate purchase price of the warrants ended up being below the actual intrinsic value at the date of purchase.). These warrants with anti-ratchet dilution provisions totaling 3,030,747 were cancelled effective on March 31, 2010. Total payments for the settlement of these warrants was $22,232 and a loss of $1,665 was recorded in the derivative expense in the statement of operations. These warrants were included in the warrant buyback liability as at March 31, 2010 and were paid after such date. We also repurchased and cancelled another 403,577 warrants with anti-ratchet dilution provisions during the year ended December 31, 2010, at varying prices, from parties other than KIT Media and Wellington, for $1,342.

(12) Stock-Based Compensation

On March 17, 2008, the board of directors adopted an incentive compensation plan (the "2008 Incentive Stock Plan"). The 2008 Incentive Stock Plan currently has reserved 857,143 shares of common stock for issuance. The 2004 Stock Option Plan has reserved 342,858 shares of common stock for issuance. In November 2009, our board of directors voted unanimously to increase the number of shares which may be issued under the 2008 Incentive Plan by 2,642,857 to an aggregate of 3,500,000 shares of common stock subject to ratification by our stockholders at our next Annual Meeting of Stockholders. At our annual meeting of stockholders held on September 30, 2010, our stockholders approved an amendment to our 2008 Incentive Stock Plan increasing the number of shares of common stock reserved for issuance thereunder by 2,642,857 shares to 3,500,000 shares from 857,143 shares. In December 2010, our board of directors voted unanimously to increase the number of shares which may be issued under the 2008 Incentive Plan by 1,500,000 to an aggregate of 5,000,000 shares of common stock subject to ratification by our stockholders. Subsequently, as a result of acquisition activity, our board of directors authorized at the board meeting on March 5, 2011 to increase the number of shares which may be issued under the 2008 Incentive Plan to a total of 6,000,000 shares, subject to the approval of our shareholders.

The Company's outstanding unvested stock options have maximum contractual terms of up to five years, principally vest on a quarterly basis ratably over four years and were granted at exercise prices equal to the market price of the Company's common stock on the date of grant. The Company's outstanding stock options are exercisable into shares of the Company's common stock. The Company measures the cost of employee services received in exchange for an award of equity instruments, including grants of employee stock options, warrants and restricted stock awards, based on the fair value of the award at the date of grant in accordance with the modified prospective method. The Company uses the Black-Scholes model for purposes of determining the fair value of stock options and warrants granted and recognizes compensation costs ratably over the requisite service period, net of estimated forfeitures. For restricted stock awards, the grant-date fair value is the quoted market price of the stock.

For the three months ended March 31, 2011 and 2010, we recognized $2,027 and $552, respectively, of non-cash stock-based compensation expense in the consolidated statements of operations. Also included in non-cash stock-based compensation are warrants to purchase 34,286 shares of common stock with an exercise price of $4.655 issued on March 30, 2008, that vest over three years from the issue date. During the three months ended March 31, 2011, a total of 2,858 of these warrants vested with 34,286 vested and none unvested as of March 31, 2011. The intrinsic value as of March 31, 2011 of these outstanding warrants and exercisable warrants are $253.

As of March 31, 2011, there was approximately $27,010 of total unrecognized compensation cost related to unvested share-based compensation grants, which is expected to be amortized over a weighted-average period of 3.4 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes model with the following weighted-average assumptions:

KIT DIGITAL, INC. AND SUBSIDIARIES
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(Unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Expected life (in years)	4.00	5.00
Risk-free interest rate	1.64%	2.35%
Volatility	78.11%	31.50%
Dividend yield	0%	0%

In 2010 and 2011, we estimated the expected term of stock options using historical exercise experience and used a forfeiture rate of 25% for employees and 0% for officers and directors

A summary of the status of stock option awards and changes during the three months ended March 31, 2011 are presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Intrinsic Value
Outstanding at December 31, 2010	3,903,424	10.54		
Granted	1,496,500	13.63		
Exercised	(52,354)	7.43		
Cancelled, expired, or forfeited	(108,173)	8.64		
Outstanding at March 31, 2011	5,239,397	10.00	4.24	$ 10,713
Exercisable at March 31, 2011	1,236,299	8.22	3.63	$ 4,717

The weighted-average grant-date fair value of option awards granted during the three months ended March 31, 2011 was $7.89.

(13) Stock Issuances

During the quarter ended March 31, 2011, we issued 4,744,467 shares of common stock. Of this amount, we issued 189,348 shares for the acquisition of Kyte, 1,411,704 shares for the acquisition of Kewego, 3,010,296 shares for the acquisition of KickApps, 23,514 shares for the acquisition of WWB, 57,251 shares for the exercise of warrants, 52,354 shares for the exercise of options with proceeds of $390.

As of March 31, 2011, the outstanding warrants (excluding the warrants included in the derivative liability of 679,400 and stock-based compensation of 34,286) were 839,072 with a weighted average exercise price of $38.00. As of December 31, 2010, the outstanding warrants (excluding the warrants included in the derivative liability of 679,400 and stock-based compensation of 34,286) were 781,737 with a weighted average exercise price of $39.28.

(14) Restructuring Charges

In the first quarter of 2010, management approved restructuring plans for entities acquired in the fourth quarter of 2009 which included a workforce reduction, reduction in costs related to excess and vacated facilities under non-cancelable leases and settlement of contracts.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The following table summarizes the restructuring activity for the three months ended March 31, 2011 for the plan approved in first quarter 2010:

	Employee Termination Costs	Contract Settlements	Facility Closing Costs	Total
Balance as of December 31, 2010	$ 1,212	$ 13	$ 518	$ 1,743
Additions	-	-	-	-
Reversal	(654)	-	-	(654)
Cash payments	(558)	(2)	(96)	(656)
Balance as of March 31, 2011	$ -	$ 11	$ 422	$ 433

The accrued restructuring of $433 is included in accrued expenses in the consolidated balance sheets as of March 31, 2011.

In the first quarter of 2011, management approved a companywide restructuring plan related to the acquisitions o which it completed in the quarter, as well as its subsequent acquisition of Polymedia, which includes a workforce reduction, reduction in costs related to excess and vacated facilities under non-cancelable leases and settlement of contracts.

The following table summarizes the restructuring activity for the quarter ended March 31, 2011 for the plan approved in first quarter 2011:

	Employee Termination Costs	Contract Settlements	Facility Closing Costs	Total
Additions	$ 3,972	$ -	$ -	$ 3,972
Cash payments	-	-	-	-
Balance as of March 31, 2011	$ 3,972	$ -	$ -	$ 3,972

The accrued restructuring of $3,972 is included in accrued expenses in the consolidated balance sheets as of March 31, 2011.

The following table summarizes the restructuring charges:

	Three months ended March 31, 2011	Three months ended March 31, 2010
Employee termination costs	$ 3,318	$ 2,632
Contract settlements	-	41
Facility closing costs	-	1,020
Total restructuring charges	$ 3,318	$ 3,693

(15) Integration Expenses

The Company has recorded integration charges related to the cost overlap due to the reorganization and integration of acquisitions of $8,688 for the three months ended March 31, 2011.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

The Company has recorded integration charges related to the redundancy in staff and consultants for the transition of technology infrastructure during reorganization due to the centralizing of resources in Prague of $2,921 for the three months ended March 31, 2010.

(16) Segment Reporting

The following table provides revenue and assets by major geographical location.

	Three months ended March 31, 2011	Three months ended March 31, 2010
Revenue:		
EMEA	$ 17,272	$ 12,043
AsiaPac	8,678	2,817
Americas	8,500	2,504
Total revenue	$ 34,450	$ 17,364

	March 31, 2011	December 31, 2010
Assets:		
EMEA	$ 53,842	$ 41,574
AsiaPac	13,149	10,861
Americas	15,499	9,119
Corporate	270,025	237,106
Total assets	$ 352,515	$ 298,660

(17) Related Party Transactions

In December 2007, we entered into an agreement with KIT Capital, Ltd. ("KIT Capital"), a company wholly owned by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, which includes the managerial services of Mr. Isaza Tuzman and two other junior employees. The total amount paid to KIT Capital and included in our results of operations in the three months ended March 31, 2011 and 2010 were $97 and $108, respectively.

KIT Media purchased $1,750 of common stock (179,856 shares) in the March 9, 2010 offering at the same price and on the same terms as the other investors in this offering.

See Note 10, "Derivative Liabilities" for a description of warrant repurchases from KIT Media and Wellington.

(18) Subsequent Events

Polymedia Acquisition

On March 16, 2011 we signed a definitive agreement to acquire Polymedia for a net consideration of $34.4 million, plus certain limited performance-based earn outs. Based in Milan, Italy, Polymedia is the IP video platform-provisioning subsidiary of TXT e-solutions, a public company listed on the Italian Stock Exchange (TXT IM).

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

In consideration for 100% of Polymedia's shares on a debt-free and cash-free basis, the transaction includes guaranteed payments of approximately $34.4 million at closing, comprised of $17.2 million in cash and up to $17.2 million in our common stock. We retain the right to pay any portion of the stock consideration in cash at our sole election for a period of approximately 90 days from the date of closing of the transaction. If we pay any portion in shares of our common stock, we must file a registration statement no later than five business days following the closing with the SEC. Also, we must use all reasonable efforts to cause the registration statement to be declared effective with the SEC as soon as possible, but in any event no later than 45 days after the date of filing with the SEC or in the event the SEC reviews the registration statement, then 120 days after the date it is filed. We must also ensure this registration statement remains effective for one year after the closing date of the Polymedia acquisition. If the registration statement is not effective with the parameters outlined above, then we will at the request of the Seller repurchase any shares then held by the seller. A certain additional amount will be paid in cash as an offset against positive working capital at closing, and the transaction includes up to $4.2 million of KIT digital common stock or cash, at KIT digital's election, pursuant to aggressive corporate performance-based earn-outs at the first and second anniversary of the transaction.

Ioko Acquisition

On May 3, 2011, we acquired ioko365 Ltd. ("ioko") a private company incorporated in England and Wales with principal offices in San Diego, California and London, England and York, England, for total prospective net consideration of approximately $79.4 million, including future performance-based incentive payments. ioko provides end-to-end managed cloud-based platform solutions for multi-screen video delivery over connected Internet Protocol (IP) devices to tier-one telecommunication, cable, media and entertainment companies around the world, with a particular focus on North American, Northern European and Australasian markets.

Based on the closing price of our shares of common stock of $11.51 on April 8, 2011, the total gross consideration paid upfront for ioko was approximately $91.4 million, comprised of $74 million in cash and 1,509,804 restricted shares of our common stock. After adjusting for approximately $19 million of cash and approximately $9 million of additional positive net working capital expected on ioko's balance sheet at closing, the net upfront consideration paid for ioko was approximately $63.4 million on a debt-free and cash-free basis.

The net upfront consideration of $63.4 million is exclusive of performance-based earn-outs, incentive and personnel retention payments, which are estimated not to exceed $16 million over a period of 30 months after closing, payable in restricted shares of our common stock. Therefore, prospective net consideration over time is expected not to exceed $79.4 million in total.

We anticipate assuming a modest amount of short-term debt, in order to finance ioko's accounts receivables and working capital requirements.

The Company is in the process of gathering the necessary information for the initial allocations for these acquisitions.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Amounts in Thousands, Except Share and Per Share Data)

Overview

Through our operating subsidiaries, we are in the business of providing software solutions that enable our customers to manage and distribute video content through Internet websites, mobile and tablet devices and both closed network Internet Protocol television ("IPTV") and over-the-top ("OTT") connected television environments. Our core video asset management software suite, marketed under the "KIT Platform" brand, includes online and mobile video players, ingestion and trans-coding for Internet and mobile connected devices, live and video-on-demand OTT and IPTV video serving, editing and content transformation, content meta-tagging, content localization and syndication, digital rights management, hosting, storage, content delivery and content syndication. We currently provide IP video solutions internationally through over 25 offices globally, including principal locations in Atlanta, Beijing, Boston, Buenos Aires, Cairo, Chennai, Cologne, Delhi, Dubai, Ely (UK), Grenoble (France), London, Madrid, Melbourne (Australia), Mumbai, New York, Paris, Prague, San Francisco, Singapore, Sydney, and Stockholm. In support of our KIT Platform deployments, we provide systems integration, broadcast engineering services, content transformation servces and integrated marketing services.

Set forth below is a discussion of the financial condition and results of operations of KIT digital, Inc. and its consolidated subsidiaries (collectively, "we," "us" or "our"), for the three months ended March 31, 2011 and 2010. The following discussion should be read in conjunction with the information set forth in the consolidated financial statements and the related notes thereto appearing elsewhere in this report.

Results of Operations - Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010

Revenue. Consolidated revenue increased by $17,086 from $17,364 for the three months ended March 31, 2010 to $34,450 for the three months ended March 31, 2011, an increase of 98%. This increase is primarily due to an increase in customers, increased spending by existing customers, and revenue from the acquired companies not included in prior period results.

Variable and Direct Third Party Costs

Cost of Goods and Services. Cost of goods and services increased by $6,395 from $4,352 for the three months ended March 31, 2010 to $10,747 for the three months ended March 31, 2011, an increase of 147%. These costs represent the costs of equipment and services for the supply of digital media and IPTV solutions, services and components. The increase is primarily due to the acquisitions of Benchmark in May 2010, Megahertz in September 2010, and Brickbox in September 2010 plus an increase in these costs due to the increase in revenue over 2010.

Hosting, Delivery and Reporting. These costs increased by $12 from $1,074 for the three months ended March 31, 2010 to $1,086 for the three months ended March 31, 2011, an increase of 1%. These costs increased by a minor amount primarily because the increase due to the recent acquisitions has been offset by reductions in costs due to contract renegotiations.

Content Costs. Content costs increased by $41 from $235 for the three months ended March 31, 2010 to $276 for the three months ended March 31, 2011.

Direct Third Party Creative Production Costs. Direct third party creative production costs decreased by $525 from $890 for the three months ended March 31, 2010 to $365 for the three months ended March 31, 2011, a decrease of 59% attributable to an decrease in revenue requiring creative production costs.

General and Administrative Expenses

Compensation, Travel and Associated Costs (Including Non-Cash Stock-Based Compensation). These costs increased by $6,657 from $5,650 for the three months ended March 31, 2010 to $12,307 for the three months ended March 31, 2011, an increase of 118%. The increase was primarily due to the acquisitions in 2010 and 2011, which is offset in part by continuing cost cutting measures as we integrate the acquired businesses and some of these costs are included in integration expenses. The non-cash stock-based compensation expense increased by $1,475, from $552 for the three months ended March 31, 2010 to $2,027 for the three months ended March 31, 2011 primarily due to the increase in stock options granted in 2010.

Legal, Accounting, Audit and Other Professional Services Fees. These expenses decreased by $53 from $690 for the three months ended March 31, 2010 to $637 for the three months ended March 31, 2011, a decrease of 8%.

Office, Marketing and Other Corporate Costs. These expenses increased by $1,927 from $2,064 for the three months ended March 31, 2010 to $3,991 for the three months ended March 31, 2011, an increase of 93%. The increase was primarily due to the acquisitions in 2010 and 2011.

Merger and Acquisition Related Expenses. Merger and acquisition related expenses increased by $4,031 from $1,219 for the three months ended March 31, 2010 to $5,250 for the three months ended March 31, 2011, an increase of 331%. The increase is primarily due to the acquisition-related contingent consideration for Benchmark of $2,873 and acquisitions in 2011.

Depreciation and Amortization. Depreciation and amortization expense increased by $780 from $1,654 for the three months ended March 31, 2010 to $2,434 for the three months ended March 31, 2011, an increase of 47%. The increase was primarily due to the acquisitions in 2010 and 2011.

Restructuring Charges. Restructuring charges decreased by $375, from an expense of $3,693 for the three months ended March 31, 2010 to $3,318 for the three months ended March 31, 2011. This is due to the approval by management of two different restructuring plans with one in the first quarter of 2010 and one in the first quarter of 2011.

Integration expenses. Integration expenses increased by $5,767 from $2,921 for the three months ended March 31, 2010 to $8,688 for the three months ended March 31, 2011. Integration expenses in 2010 consist of IT overlap, recruiting costs, relocation of headquarters, corporate rebranding activities due to acquisitions and relocations during the year. Integration expenses in 2011 consist of cost overlap due to the integration of acquisitions.

Interest Income. Interest income increased by $71 from $1 for the three months ended March 31, 2010 to $72 for the three months ended March 31, 2011. This increase was primarily due to the fluctuation in the level of our cash and cash equivalents.

Interest Expense. Interest expense increased by $178 from $92 for the three months ended March 31, 2010 to $270 for the three months ended March 31, 2011, an increase of 193%. This increase was mainly due to the issuance of secured notes in April and June of 2010.

Amortization of Deferred Financing Costs and Debt Discount. Amortization of deferred financing costs and debt discount was $19 for the three months ended March 31, 2011. These costs resulted from the issuance of secured notes payable of $5,000 in April 2010 and $1,000 in June 2010.

Derivative expense. Derivative expense was $11,443 for the three months ended March 31, 2010 as compared to derivative income of $2,610 for the three months ended March 31, 2011. Derivative income or expense is the change in the period based on the fair value of warrants containing reset provisions.

Other Income/(Expense). Other income/(expense) changed by $290 from $184 in other income for the three months ended March 31, 2010 to other expense of $106 for the three months ended March 31, 2011, primarily due to an increase in foreign currency loss.

Net Loss Available to Common Shareholders. As a result of the factors described above, we reported net loss available to common shareholders of $12,501 for the three months ended March 31, 2011 compared to a net loss available to common shareholders of $18,442 for the three months ended March 31, 2010, a decrease in net loss of $5,941.

Liquidity and Capital Resources

As of March 31, 2011, we had cash and cash equivalents of $109,665 and working capital of approximately $116,625. We plan to primarily use net proceeds of the most recent equity offering to finance the costs of acquiring or investing in competitive and complementary businesses, products and technologies as a part of our growth strategy. Since March 31, 2011, we have signed definitive agreements with both Polymedia and ioko and will pay net cash of approximately $84 million in May 2011. Management anticipates that going-forward, we will generate sufficient cash flows from operating activities to meet our capital requirements. We believe that we have sufficient liquidity to finance our operational and acquisition plan for the next twelve months.

Net cash used by operating activities was $9,065 for the three months ended March 31, 2011, compared to $5,479 for the three months ended March 31, 2010, an increase of $3,586. This is due to the increase in the restructuring and integration of acquisitions.

Net cash used by investing activities was $23,378 for the three months ended March 31, 2011, compared to $5,820 for the three months ended March 31, 2010, an increase in net cash used in investing activities of $17,558. The increase in net cash used in investing activities is primarily attributable to the increase in cash paid in acquisitions in 2011 as compared to 2010.

Net cash used by financing activities was $59 for the three months ended March 31, 2011, compared to net cash provided by financing activities of $42,651 for the three months ended March 31, 2010 a decrease of $42,710. In 2010, this primarily consisted of net proceeds of $48,487 offset by repayments of Notes Payable of $4,500.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the United States Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this Form 10-Q regarding our strategy, future operations, financial position, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. The words “anticipates,” “believes,” “estimates,” “expects,” “intends,” “may,” “plans,” “projects,” “will,” “would” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. There are a number of important factors that could cause our actual results to differ materially from those indicated by these forward-looking statements. These important factors include risks related to our history of net losses and accumulated deficits, integration of acquired businesses, future capital requirements, competition and technological advances, dependence on the market for digital advertising, and other factors that we identify in this Form 10-Q and in other filings we make with the SEC. For additional factors that can affect these forward-looking statements, see the “Risk Factors” section in our Annual Report on Form 10-K for the year ended December 31, 2010. You should read these factors and other cautionary statements made in this Form 10-Q as being applicable to all related forward-looking statements wherever they appear in the Form 10-Q. Except to the extent required by federal securities laws, we do not assume any obligation to update any forward-looking statements made by us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

See Item 7A of Part II of our annual report on Form 10-K for the year ended December 31, 2010. There have been no material changes since disclosure in the most recently filed Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (1) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure; and (2) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

Changes in Internal Control Over Financial Reporting

There was no change to our internal controls or in other factors that could affect these controls during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are subject to various legal proceedings and actions arising in the normal course of our business. While the results of all such proceedings and actions cannot be predicted, management believes, based on facts known to management today, that the ultimate outcome of all such proceedings and actions will not have a material adverse affect on our consolidated financial position, results of operation, or cash flows.

ITEM 1A. RISK FACTORS.

There are no material changes in the risk factors previously disclosed in our annual report on Form 10-K for the year ended December 31, 2010.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS.

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

KIT DIGITAL, INC.

Dated: May 10, 2011	By:	/s/ Kaleil Isaza Tuzman Kaleil Isaza Tuzman Chairman and Chief Executive Officer (principal executive officer)
Dated: May 10, 2011	By:	/s/ Robin Smyth Robin Smyth Chief Financial Officer (principal financial and accounting officer)

EXHIBIT VII

SUBSIDIARIES OF KIT DIGITAL, INC

SUBSIDIARIES OF KIT DIGITAL, INC.

Name of Subsidiary	Name of Parent Company	Percentage Owned	State of Incorporation	Principal Executive Offices
Reality Group Pty. Ltd	KIT digital, Inc.	100%	Australia	Level 1, 116-122 Chapel Street, Windsor, Victoria 3181 Australia
Kamera Content AB	KIT digital, Inc.	100%	Sweden	Drottninggatan 92-94, SE-111 36 Stockholm, Sweden
KIT digital FZ LLC	KIT digital, Inc.	100%	Dubai, UAE	Dubai Media City, Business Central Towers, Suite 902, Dubai UAE
KIT HD, Inc.	KIT digital, Inc.	100%	New York	205 Hudson Street, 8th Floor, New York, NY 10013, U.S.A.
KIT digital Pty. Ltd.	KIT digital, Inc.	100%	Australia	Level 1, 116-122 Chapel Street, Windsor, Victoria 3181 Australia
KIT digital Limited	KIT digital, Inc.	100%	United Kingdom	1718 Margaret Street 3rd Floor, London W1W 8RP UK
Sputnik Agency Pty. Ltd.	KIT digital, Inc.	100%	Australia	Level 1, 116-122 Chapel Street, Windsor, Victoria 3181 Australia
Morpheum Internet Services Pty Ltd.	KIT Media Corporation	100%	Australia	Level 1, 116-122 Chapel Street, Windsor, Victoria 3181 Australia
Kamera (S) PTE Ltd	Kamera Content AB	95%	Singapore	10 Anson Road, #32-11 International Plaza, Singapore 079903
Swegypt Company for Telecommunications (S.A.E)	Kamera Content AB	55%	Egypt	1121 Corniche El Nile St., Maspero, Cairo, Egypt 11221

The FeedRoom, Inc.	KIT digital, Inc.	100%	Delaware	26 West 17th Street 2nd Floor, New York, NY 10011, U.S.A.
KIT digital GMBH	KIT digital, Inc.	100%	Germany	Carlswerkstraße 13d, D-51063 Cologne, Germany
KIT digital Prague a.s.	KIT digital FZ LLC	100%	Czech Republic	Slezská 2526/113, 130 00 Prague 3, Czech Republic
KIT digital Canada Inc.	KIT digital, Inc.	100%	Canada	2585 Skymark Avenue, Mississauga, Ontario, Canada L4W 4L5
Multicast Media Technologies, Inc.	KIT digital, Inc.	100%	Georgia	1100 Circle 75 Parkway Suite 600, Atlanta, GA 30339, U.S.A.
Benchmark Broadcast Systems Pte. Ltd.	KIT digital FZ LLC	100%	Singapore	PM Industrial Building 135 Joo Seng Road #05-04 Singapore, 368363 Singapore
Benchmark Broadcast Systems Pvt. Ltd	Benchmark Broadcast Systems Pte. Ltd.	100%	Chennai	#58, Electrical & Electronics Industrial Estate Perungudi, Chennai-600096, Tamil Nadu
Benchmark Microsystems Pvt. Ltd.	Benchmark Broadcast Systems Pte. Ltd.	100%	Chennai	#58, Electrical & Electronics Industrial Estate Perungudi, Chennai-600096, Tamil Nadu
Benchmark Technologies Co. Ltd.	Benchmark Broadcast Systems Pte. Ltd.	100%	China	20th Floor QingYun Modern Plaza West of North San Huan Rd, Haidian District, China
Accela Communications, Inc.	KIT digital, Inc.	100%	Delaware	136 Turnpike Road, Southborough, MA 01772, U.S.A.
Megahertz broadcast Systems	KIT digital, Inc.	100%	United Kingdom	Unit 39 Lancaster Way Business Park Witchford, Ely, CB6 3NW

Brickbox Digital Media s.r.o.	KIT digital, Inc. KIT digital FZ LLC	1% 99%	Czech Republic	Krátká 2286/10, 100 00 prague 10
Brickbox Digital Media Magyorzsag, Kft.	Brickbox Digital Media s.r.o.	100%	Hungary	Kelenföldi út 2, 1115 Budapest, Hungary
Brickbox Digital Media, s.r.l.	Brickbox Digital Media s.r.o.	100%	Romania	Str. Paleologu 24, Bucuresti 30552, Sectorul 3, Bucuresti, Romania
BRICKBOX RESEARCH AND DEVELOPMENT s.r.o.	Brickbox Digital Media s.r.o.	100%	Czech Republic	Příkop 843/4, 602 00 Brno, Czech Republic
International Digital Management Limited	Brickbox Digital Media s.r.o.	100%	United Kingdom	Number 6 The Crescent, Rutherway, Oxford, Oxfordshire, OX2 6QY
International Digital Management LLC	Brickbox Digital Media s.r.o.	100%	California	5340 102nd St Los Angeles CA 90045 U.S.A.
International Digital Management OOD	Brickbox Digital Media s.r.o.	100%	Bulgaria	3 Business Park Sofia Str, Mladost 4, Sofia, 1766 Bulgaria
ioko365 Limited	KIT digital, Inc.	100%	United Kingdom	1 Innovation Close, Heslington, York, North Yorkshire, YO10 5ZD
KickApps Corporation	KIT digital, Inc.	100%	New York	26 West 17th Street 2nd Floor, New York, NY 10011, U.S.A.
Kewego S.A.	KIT digital, Inc.	100%	France	111, rue Cardinet Paris, 75017 France
Kewego Deutschland GmbH	Kewego S.A.	100%	Germany	Stiglmaierplatz/Dachauer Str. 37, D-80335 München
Kewego Grenoble SAS	Kewego S.A.	100%	France	31 Che du Vieux Chene, 38240 Meylan, France

Kewego UK Ltd	Kewego S.A.	100%	United Kingdom	Farringdon Place, 20 Farringdon Road London, EC1M 3AP
Kewego Espana sru	Kewego S.A.	100%	Spain	Calle Josepha Valcarcel 828027, Madrid
Decentral.tv Corp.	KIT digital, Inc.	100%	San Francisco	442 Post Street 10th Floor San Francisco, CA 94102, U.S.A.
Polymedia S.p.A.	KIT digital, Inc.	100%	Milan	Via Frigia, 27 Milan, MI 20126, Italy