KIT digital, Inc. (KITD)

10-K

Annual report pursuant to section 13 and 15(d)
Filed on 03/30/2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☑ **ANNUAL REPORT PURSU**
For the fiscal year ended De

☐ **TRANSITION REPORT P**
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)

26 West 17th Street, 2nd Floor
New York, New York
(Address of principal executive offices)

Registrant's telephone number, including area code: +1 (646) 553-4845

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 Stock Market, LLC

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 ☐

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, 2011 (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 $332,828,000.

As of March 28, 2012, 47,400,099 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 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this annual report on Form 10-K where indicated.

KIT digital, Inc.

2011 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 this report, as well as the other information we include in the documents we 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.

PART I

Item 1. Business.

Overview

KIT digital is a premium provider of end-to-end video management software and services. Our KIT Video Platform, a cloud-based video asset management system, enables clients in the enterprise, media and entertainment and network operator markets to produce, manage and deliver multiscreen social video experiences to audiences wherever they are. We service approximately 2,450 clients in more than 50 countries including some of the world's biggest brands such as Airbus, AT&T, The Associated Press, BBC, Best Buy, Bristol-Myers Squibb, BSkyB, Disney-ABC, FedEx, Google, HP, MTV, News Corp, Telecom Argentina, Telefonica, Universal Studios, Verizon, Vodafone and Volkswagen.

Our KIT Video Platform allows for content capture (including live production and satellite downlink, and from video libraries in file or physical format), management (including transcoding, meta tagging and data analysis) and delivery to end users on multiple screens and in multiple formats. The KIT Video Platform's two editions, KIT Cloud and KIT Cosmos, are built on a common architecture and object model, and each caters to different ends of the video market — from enterprises deploying internal video systems to broadcasters and telecommunication companies deploying multiscreen "TV Everywhere" initiatives. KIT Cosmos is a managed private cloud or on-premise solution for advanced, broadcast-grade multiscreen broadband TV deployments, while KIT Cloud is a multi-tenant cloud, turnkey solution for multiscreen social video experiences.

Our KIT Video Platform is deployed across three primary client markets: network operators, media and entertainment, and enterprise (non-media). Applications of our platform include end-consumer focused live and on-demand multiscreen video experiences, as well as internal enterprise deployments including corporate communications, human resources, training, and security and surveillance.

Our business operates across three major geographical profit and loss centers: (i) Europe, the Middle East and Africa (EMEA), (ii) the Americas and (iii) Asia-Pacific. We estimate that, as of March 15, 2012, approximately 50%, 35% and 15% of our current revenues are generated in EMEA, the Americas and Asia-Pacific, respectively.

Our global operational headquarters are located in Prague, Czech Republic and we maintain 16 additional principal offices around the world. Our regional headquarters for EMEA are located in London, our Americas operations are headquartered in New York, and our Asia-Pacific operations are headquartered in Beijing, China.

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, New York 10011 and our telephone number is +1 (646) 553-4845. 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 10-K and other reports that we file with the U.S. 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 10011.

Recent Developments

On March 23, 2012, we announced several significant management and board changes, as follows:

- Kaleil Isaza Tuzman, our current Chairman and Chief Executive Officer, will assume the role of non-executive Chairman of the Board effective March 31, 2012.

- Barak Bar-Cohen, our current Chief Administrative Officer, will assume the role of interim Chief Executive Officer on March 31, 2012, while we conduct a search, internally and externally, for a permanent Chief Executive Officer.

- Santo Politi, an independent member of our board of directors, resigned as a director of the company.

- Gavin Campion, our President, Robin Smyth, our Chief Financial Officer, and Christopher Williams, our Chief Technology Officer, resigned as directors of the company, but retain their positions as officers of the company.

Industry Background

Our sector's growth is driven by the ongoing proliferation of connected devices, enhanced broadband connectivity and changing consumer behavior. The industry is evolving from traditional broadcast television to multi-screen over-the-top, or("OTT"), and multi-platform premium video-on-demand solutions. Today, we believe software systems that are powering Internet protocol, or IP, video make up less than 10% of the global video management market, with most of the market still served by dedicated hardware and firmware solutions. We expect IP and software-based systems to expand dramatically and constitute the majority of video management market within the next five to ten years.

Today, there is broad and growing industry demand for a platform technology to support video experiences on browsers, smartphones, tablets, smart TVs and other connected devices. Broadband connectivity is expanding, with 4G and LTE introductions globally, and a general shift in consumer behavior to on-demand and mobile premium content, as well as social media. As a result, our KIT Video Platform and related professional services offerings are being asked to support multi-billion dollar business plans and business units within large multiple system operators ("MSOs"), telecommunications companies and major broadcasters. In the past, these efforts tended to be more experimental and generally resident within a client's internal research and development efforts. Over the past year in particular, we have seen larger client opportunities coming to us more quickly than we anticipated as OTT video deployments have quickly progressed from internal/experimental to core business initiatives around the world which require external vendor support.

Among some of the third-party data points that support the rapid changes and high-growth profile of our industry are the following:

- The number of homes using the Internet to watch television shows and movies on the TV screen has reached more than 42 million across the United States and Europe, according to the latest research from Strategy Analytics' Connected Home Devices (CHD) service.

- According to IDC's "Worldwide Internet Broadband Bandwidth Demand 2012-2015 Forecast," HD video content will drive a new level of bandwidth demand, with more than 50% of video and audio streaming destined for a connected TV (either directly or indirectly), an iPad or another mobile device or tablet.

- By 2015, according to the Cisco Video Networking Index (VNI), there will be more than 15 billion video-capable Internet-connected devices in use, and every second, one million minutes of video content will cross the network.

- Also, according to Cisco's VNI: Mobile video traffic exceeded 50% of total mobile data traffic for the first time in 2011. Mobile video will increase 25-fold between 2011 and 2016, accounting for over 70% of total mobile data traffic by the end of the forecast period.

Furthering this growth are some of the functional advantages of IP video solutions, which we believe together mark an important turning point for the industry. Some of those advantages are:

- A transition from a capital expenditure intensive infrastructure support model to an operating expense model, allowing providers to quickly scale as their businesses grow.
- Unified multi-channel analytics provide deep insights into business models and user behaviors.
- The opportunity to explore new business models with syndication and lower friction sales channels available to content owners.
- Flexibility to adapt to new devices, streaming formats, security measures and consumption patterns without major re-engineering of the core service.

KIT Video Platform

Our KIT Video Platform is a video asset management software system that enables media and entertainment, network operator and non-media enterprise clients to produce, manage and deliver live and on-demand, socially-enabled video experiences from any source to any screen. For example, the platform allows providers who utilize its system to:

- Reach and grow "anytime/anywhere" audiences securely and cost effectively with linear, live and video-on-demand programming.
- Deliver high quality and consistent live and on-demand broadband TV experiences across a wide range of browser-based devices, connected TVs, gaming consoles and more than 500 leading mobile and tablet environments.
- Engage audiences more deeply through advanced social media and interactive video companion features, including custom forums, social sites, widgets, contests and Facebook pages and apps.
- Monetize video assets with flexible advertising, pay-per-view and subscription based models. We support third-party ad platform integration and standard ad formats including banners, overlays and in-stream ad units.
- Capture and deliver linear or scheduled live broadcasts to any screen for smooth uninterrupted viewing, and take advantage of innovative live-streaming features such as content sharing and recommendation, in-stream advertising, adaptive bitrate, audience analytics and secure live encoding.
- Easily create custom video apps and players that are designed and built for delivery to any screen and support Flash, HTML5 and Silverlight.
- Protect premium content from unauthorized viewing and reuse with a wide range of security options, digital rights management and encryption solutions.

Our KIT Video Platform's open architecture provides a flexible deployment model that includes cloud, hybrid cloud and private cloud hosting options, while allowing platform functionality to be easily extended through the addition of new components and facilitating integration with third-party point solutions.

The platform's broadcast-grade quality of service is made possible by the KIT Platform Operations Manager, a proprietary operational support system (“OSS”), for broadband head-ends that reduces the cost, risk, complexity and time-to-market of deploying broadband-delivered video solutions. The KIT Connected Device Framework provides an efficient and cost-effective way to enable seamless delivery of a unified experience of social video apps to connected TVs, set-top boxes, game consoles, tablets and smartphones. We eliminate the need for costly mobile application development by leveraging the KIT App Studio authoring tool to develop compelling native apps with drag and drop ease.

Our KIT Video Platform's two editions, KIT Cloud and KIT Cosmos, are built on a common architecture and object model, and each caters to different ends of the video market — from enterprises deploying internal video systems to broadcasters and telecommunications companies deploying multiscreen “TV Everywhere” initiatives. KIT Cosmos is a managed private cloud solution for advanced, broadcast-grade multiscreen broadband TV deployments, while KIT Cloud is a multi-tenant cloud, turnkey solution for multiscreen social video experiences.

KIT Cosmos

KIT Cosmos is a modular and extensible solution engineered to optimize the management and delivery of broadcast-grade Internet protocol television, (“IPTV”), and OTT multiscreen video. Delivered through “hybrid” cloud and managed private cloud deployments, KIT Cosmos is designed to meet the integration, content protection and quality-of-service demands of advanced TV Everywhere initiatives. KIT Cosmos’ modular architecture provides highly customized solutions that meet the demands of the world’s most advanced and large-scale broadband video deployments. KIT Cosmos can provide an end-to-end solution for a multiscreen, digital rights management-enabled video-on-demand store, using advertising, pay-per-view or subscription-based subscription models.

KIT Cloud

KIT Cloud is a turnkey but highly advanced cloud-based solution for multiscreen interactive and social video publishing and monetization. KIT Cloud is designed for organizations seeking a simplified entry point to broadband video. It combines online, mobile and social video delivery so that content providers can seamlessly publish professional video content, engage audiences on any screen and monetize their premium content assets. KIT Cloud features include video-on-demand (uploads, transcoding and management), live video (encoding and management), and social components (forums, boards, badges and Facebook apps).

Markets

Network Operators

Our solutions enable cable companies and MSOs to combine and expand their television and broadband offerings and extend their services beyond the traditional set-top box to the world of connected devices such as PCs, game consoles, portable media players, tablets and mobile phones. Satellite providers can offer new video services to reach other connected devices as an extension of their traditional subscription business, thereby moving beyond the question of push vs. pull video-on-demand, to offer customers solutions that are competitive with the capabilities of terrestrial video providers. Telecommunications companies are making major investments in delivering television and video to the home. Our solutions allow them to provide multichannel television and video on-demand programming to connected IP devices throughout the home. We can provide these operators with OTT solutions for subscription pay TV, a content aggregation platform and a movie video-on-demand storefront platform

Media Companies

Broadcasters/Television. Market dynamics are changing due to innovations in digital media and the increase in connected devices. As a result, broadcasters, content owners and video publishers alike are rethinking conventional business models and adopting multiscreen broadband TV strategies to maintain audience loyalty, stimulate demand, add value to core offerings and generate new revenue.

We believe there is a market in providing media and broadcast companies with managed cloud-based platform solutions and integration services that enable them to revamp their existing legacy delivery models with next generation IP-based systems to deliver socially-enabled multiscreen experiences to audiences wherever they are.

The requirements are broader and more complex than can be met by pure-play online video platform providers, or OVPs. What’s needed to effectively deliver these services is a deep understanding of traditional broadcast systems coupled with modern platform software capabilities. For broadcasters who can effectively bridge these worlds, an opportunity exists to leap ahead of the competition with OTT video delivery.

Our advanced broadcast-grade OTT solutions offer broadcasters reliability, sharply reduced costs and an efficient, centralized way to manage pay-per-view, advertising and subscription-based revenue models. These new delivery mechanisms are helping broadcasters provide geo-targeted and demographically relevant content to increase viewership and drive advertising revenues.

Other segments of the media and entertainment industry use OTT video solutions in a variety of ways, including:

Music:

- Fan community
- Tour promotion
- Video blogs

News Media:

- Field reporting
- Eyewitness footage
- Content syndication

Sports:

- Fan interaction
- Multi-platform engagement
- Live event coverage
- On-demand premium content

Non-Media Enterprises. Our KIT Video 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.

An enterprise-wide business video strategy may include live video webcasting, video on-demand and digital signage/ syndication capabilities, all functioning transparently on an organization's existing information technology infrastructure. For all of these applications, enterprises need to effectively create or acquire multimedia content, manage and distribute those assets through a single platform with the ability to have live interaction with the audience.

Brands and Agencies. Marketing and communications professionals build awareness, generate demand, improve conversion rates and enhance customer loyalty through various uses of IP video including:

- Customized web TV channels
- Lead generation webcasts
- Product tutorials, demos and eDetailing
- Multimedia libraries
- Customer testimonials
- Corporate overviews
- Continuing education
- On-location digital signage

Corporate. Multi-device, broadband video is proving to be a very effective tool for internal communications with employees, channel partners and investors because it can be delivered with high frequency to global audiences anywhere, anytime. With increasing travel costs and movement toward environmental alternatives, enterprise businesses are looking to cut costs and extract more value from available resources without sacrificing effective and efficient operations. IP video allows them to do that through:

- Town hall meetings
- Culture and community
- Education and training
- Human resources updates

- Investor relations
- Sales and channel partner training

Government and Non-profits. In the face of declining budgets and support, government agencies and not for profit organizations need to communicate more broadly and efficiently to reach new audiences and build support for their mission. IP video technology enables organizations to expand their footprint and encourage activism among an increasingly connected audience. Not-for-profits can easily share important and time-sensitive information with users that serves as a hub to build awareness, participate in discussions, and showcase their community achievements. Sample use cases include:

- Town hall meetings
- Live broadcasts of events, speeches, etc.
- Training/informational videos
- Fundraising tool
- Community building

Professional Services

We offer an extensive suite of professional and integration services supporting the design, integration and management of our platform deployments, as well as digital content services (such as localization, editing and packaging) and advanced digital marketing services.

With a wide variety of engagement models, our strategic consulting team provides market research, strategic auditing, strategic planning, consulting engagements and educational seminars.

Broadcast Systems Integration

We have been designing and delivering broadcast and media systems to our customers all over the world for nearly three decades. We apply design and construction expertise to installed and mobile broadcast facilities such as newsrooms, studios, control rooms, transmission centers, Earth stations, disaster recovery suites and outside broadcast vehicles. We are also involved with the build out of large-scale audio-visual communications systems for sports stadiums and conference centers.

User Experience and Creative Services

We design intuitive and engaging interfaces through a process that includes discovery; concept and analysis; prototyping and user testing; refining and updating; and design and development. We also provide web development consulting based on complex multiple device distribution. We develop solutions that are integrated with broadcasters' back end digital asset management platforms, rights management and airtime sales. The web development services team has strong expertise in devices, media formats, conditional access/DRM, ad servicing and content management.

Managed Services

We provide a suite of managed platform services that reduce the time to market, cost, risk and complexity of deploying broadband-delivered video solutions. Our combination of integrated information technology infrastructure library, or ITIL, service management, security and quality assurance increases functionality and scalability while minimizing operational and maintenance costs. We have hosting facilities, suitable for global connectivity, backed by strong content delivery partnerships.

Growth Strategy

Our objective is to power the global emergence of multi-source to multi-screen video. We intend to build upon our position as the leading provider of IP video platform solutions and services to network operators, media companies and non-media enterprises. Key elements of our growth strategy include:

- ***Tier 1 and Tier 2***. Focus on tier 1 and tier 2 telco opportunities across targeted sectors (e.g., broadcasters) and geographies (e.g., U.S., Asia-Pacific, Latin America).

- ***"Same Store Sales Growth."*** Divisional cross-selling and up-selling within existing client organizations, expanding usage of our platform by existing clients, increasing basic license fees by selling additional modules of our KIT Video Platform, and selling complementary creative and technical integration services.

- ***Partnerships.*** Leverage existing and new strategic partnerships with systems integration companies, content delivery networks (CDNs), 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.

- ***Marketing.*** Invest in sales, marketing and branding. Leverage resellers to serve the KIT Cloud market.

- ***Services.*** Leverage managed services for incremental revenues.

- ***Product Evolution.*** Productize the social video experience through KIT Cloud, using tools that enable customization of badges, forums and the like.

- ***Corporate Development.*** Supplement our organic growth with selective accretive acquisitions that expand our client and geographical footprint. We continue to evaluate regional competitors or small complementary product focus acquisitions with a bias towards funding such acquisitions, if they occur, out of future cash flow from operations.

Customers

As of March 15, 2012, we had approximately 2,450 customers. None of our customers accounted for more than 10% of our annual revenues for the years ended December 31, 2011, 2010 and 2009, and none of our customers had a gross receivable balance exceeding 10% of our gross accounts receivable at December 31, 2011 or December 31, 2010. Set forth below is a representative list of some of our customers as of March 15, 2012:

ABC News
A&E Television
Airbus
American Express
The Associated Press
AstraZeneca
Astro
AT&T
Autotrader.com
BBC
Bristol-Myers Squibb
British Telecom
BSkyB
Cinepost
Citadel Broadcasting
Comcast
CNN
Czech TV
Delta Airlines
Disney-ABC
ESPN
FedEx
FOX
Foxtel
GM
Google
Hewlett-Packard
HBO
Johnson & Johnson
Joyce Meyer Ministries
Mediaset
Microsoft
MSN
MTV
NY Post
National Geographic
News Corp
O2 Ice Hockey League
Playtex
PMT
Prima TV
RAI
Reckord Outside Broadcasting
Salesforce.com
SAP
Sky Germany
Snap-On Tools
Tabcorp
Tribeca Film Festival
Telecom Argentina
Telefonica
TV2Moro
United Business Media
U.S. Department of Veteran Affairs
Universal Studios
Verizon
Vodafone
Volkswagen
Z1
Yellow Pages

Competition

Among our competitors, we believe that we are well positioned to take advantage of burgeoning demand within our industry, given that, based on our industry knowledge, we believe we have the largest set of referenceable accounts and deployments, the deepest technology offering and the largest geographical and customer footprint. There are a number of competitors that provide certain elements of the products and services we offer. We categorize those companies broadly into three groups:

Managed Solutions Providers for IP Video Distribution. There are several companies that offer managed solutions for the distribution of premium video to IP-connected devices. These solutions are suited for targeting multi-service, video service and mobile service providers for the efficient delivery of premium video services to their customers. These companies include, but are not limited to, Deltatre, thePlatform, QuickPlay Media, Endavo, LabOne and Mondia Media.

Online Video Platform Providers. There are a number of companies that we believe are most appropriately classified as OVPs, whose focus is primarily on the small and medium sized business market. OVPs generally offer SaaS (software as a service) solutions for managing, publishing and measuring online video content. We have a limited competitive overlap with these companies through our KIT Cloud offering, though we operate in the same broad space by providing software solutions for IP video. We believe that our broadcast and carrier grade solutions significantly differentiate our capabilities from others in this category, as does our platform operations manager, our connected device framework and our more extensive social video capabilities. These companies include, but are not limited to, Brightcove, Ooyala, Kaltura, SyQiC and Flumotion.

Systems Integrators. We also compete with systems integrators, particularly in serving tier 1 and tier 2 deployments. Generally, we do not believe that these companies have proprietary software solutions for robust content management systems to serve their end markets. However, they do have substantial resources and can compete on the basis of customized solutions and integration with other related and/or competitive vendors. While we actively compete with these parties, we also work with them as a subcontractor on many deployments. These companies include, but are not limited to, Alcatel-Lucent, Accenture, Cisco and Ericsson. IBM is also a systems integrator in this segment of the market, but is now a formal partner of ours, such that we jointly support each other in deployments awarded separately, and are actively pursuing new business together. We believe this group of companies offers additional opportunities for us to grow our business through partnerships and other such cooperative arrangements.

Platform-as-a-Service (PaaS) Model

We derive our revenues from PaaS license fees and usage fees, enterprise license fees and professional services fees. For the year ended December 31, 2011, we recorded consolidated revenue of $214,932, as compared to revenue of $106,597 for the year ended December 31, 2010 and $47,284 for the year ended December 31, 2009.

Our platform as a service business model involves approximately 70% platform revenues under long-term client contracts with low client attrition and this offers us a predictable revenue stream. Approximately two-thirds of the growth in revenue in our business is derived solely from increased platform and services usage by our existing client base, which is driven by general industry trends like more connected devices, better broadband connectivity around the world, changing consumer behavior towards viewership or premium content on mobile, tablet and connected devices.

Our typical PaaS license agreement for our enterprise customers covers multiple years, with PaaS fees billed monthly, based on both basic license and usage fees. 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.

Approximately 70% of our current revenues are generated by KIT Video Platform-related fees, with the remainder directly related to professional services. For KIT Video Platform use, we generally invoice customers monthly, and occasionally on a quarterly basis. Our clients usually enter into long-term contracts.

Our professional services are contracted on a project basis and in some cases on an hourly 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, Belmont (CA), Ely (UK), Chennai, Cologne, Delhi, Dubai, London, Melbourne (Australia), Milan, New York (principal executive office), Paris, Singapore and Stockholm. We have sales representative offices in a number of other countries.

Technology and Intellectual Property

While historically we have not focused on the development of patents and have successfully relied upon use precedent, the continued evolution of the company, our market segments and industry-wide trends in patent portfolio strategy has resulted in us giving greater emphasis to the development of an intellectual property portfolio in recent periods. We now have patents and have patents pending in several key areas related to our core technology systems including content personalization and recommendation, video delivery user interfaces, methods of monetizing content via advertising and related methods, and optimizing delivery of video content over hybrid networks. In addition, 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.

Organizational History

We were originally incorporated in Delaware in August 1998 under the name Virilitec Industries, Inc. Until 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 Video 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 included an anti-dilution ratchet provision; as a result, the exercise price became $7.00 per share after our 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 $26,082 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 our outstanding common stock at the time of the transaction. KIT Media and Wellington were at the time considered related parties of our company. The terms of the warrant repurchase were identical for KIT Media and Wellington, and the negotiation of such terms was led by Wellington. We 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). The 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 the 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 the 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 our registration statement on Form S-3 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, 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 the 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-PaaS activities, allowing management to focus on our core KIT Video Platform offerings. Activities spun out included certain encoding services and broadcast equipment installation services. The sale price of the transaction was approximately $12,000, including the issuance of a note receivable for outstanding loans due to us.

On September 20, 2011, we completed an underwritten public offering of 3,680,000 shares of our common stock, pursuant to our shelf registration statement on Form S-3, which was originally filed and declared effective in October 2010, and related prospectus supplement dated September 15, 2011. We sold shares at a price of $9.50 per share and received $34,960 in gross proceeds and approximately $32,000 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses. The closing of the offering included 480,000 shares of common stock pursuant to the underwriters' over-allotment option that was exercised immediately.

Summary of Significant 2011 Business Acquisitions

KickApps

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 added significant technology and product synergies, bringing to us a suite of self-serve deployable social solutions that are created using Web-based authoring tools. KickApps' Open Source Media Framework (OSMF) App Studio serves as a unification point for all publishing-layer technologies across our family of products.

We paid consideration of approximately $32,046 for KickApps which was comprised of $4,027 in cash and 2,990,551 shares of our common stock valued at a price of $13.55 (with a discount of $12,503 due to the restriction on the sale of these shares), for a total of $28,019. 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.

Kewego

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 brought us a large set of application programming interfaces (APIs) that enable third party development and an agency ecosystem to drive sales channel partnerships. Kewego also enhanced our enterprise offering through onsite, digital signage deployments.

We paid consideration of approximately $11,965 in cash and 1,411,704 shares of our common stock valued at a price of $14.36 (with a discount of $4,689 due to the restriction on the sale of these shares for 1 year), for a total of $15,341.

ioko

On May 2, 2011, we completed the acquisition of 100% of the capital stock of ioko365 Ltd ("ioko"). ioko, based in San Diego, California and London, U.K., provided end-to-end managed cloud-based platform solutions for multi-screen video delivery over connected IP devices to tier-one telco, cable, media and entertainment companies around the world, with a particular focus on North American, Northern European and Australasian markets. ioko's sophisticated OTT capabilities — allowing premium video services delivered over the Internet to be formatted for and presented on televisions and other connected devices — and its closed-network IPTV solutions are anticipated to add further depth to our OTT and connected device platform offerings for its network operator and media and entertainment verticals.

Total consideration was $74,478 in cash and 1,509,804 of our common stock valued at a price of $10.88 (with a discount of $3,905 due to the restriction on the sale of these shares) for a total value of $12,522. In addition, the cost includes a fair value of contingent consideration of $3,360 based on meeting revenue and earnings targets during the twelve month periods ending March 31, 2012 and March 31, 2013. We are holding $9,000 of the cash and 232,378 shares of the merger consideration in escrow for a period not to exceed 18 months following the merger. Included in this agreement is an employee incentive plan for a total potential payment of our common stock of $7,500 upon meeting specified performance targets during the 12 month periods ending March 31, 2012 and March 31, 2013 and the six month period ending September 30, 2013.

Polymedia

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 countries, Polymedia provided 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 capabilities in metadata-related workflow and third-party software integration.

Total consideration was $24,283 in cash and 1,178,381 of our common stock valued at a price of $11.89 (with a discount of $969 due to the restriction on the sale of the shares in escrow) for a total of $13,041. In addition, the cost includes a fair value of contingent consideration of $2,750 based on meeting specified revenue and gross margin targets during the 12-month periods ending May 31, 2012 and May 31, 2013.We are holding 354,286 shares of the merger consideration in escrow for a period of up to 12 months following the closing date.

Sezmi

On December 30, 2011, we acquired from Sezmi Corporation (“Sezmi”) substantially all of its assets and assumed certain of its liabilities. Headquartered in Belmont, California, Sezmi was a leading global provider of broadband-broadcast hybrid TV solutions. Sezmi employs a cloud-based software-as-a-service model and its target customers are service operators, such as telecommunication companies and Internet service providers, as well as content providers who desire to provide licensed or owned video content to subscribers across mobile and Internet protocol (IP)-connected home entertainment devices.

Total consideration was $7,850 in cash, the assumption of $16,526 in liabilities, $2,625 owed to the shareholders of Sezmi which will be issued in shares and held in escrow for a period of up to 12 months following the closing date and contingent consideration based upon revenue and other targets totaling $25,003.

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, 2011, we had approximately 200 employees involved in tasks related to research and development. Our research and development expenses were $15.7 million, $4.1 million and $4.7 million for the years ended December 31, 2011, 2010 and 2009, respectively. As a practice, we generally do not capitalize research and development, and these amounts are expensed.

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.

Employees

As of March 28, 2012, we had a total of approximately 1,450 employees globally, including approximately 150 part-time employees and approximately 300 contractors. 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 under German labor law in our Cologne, Germany office. We believe our relations with employees and contractors are good.

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 market 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, 2011, we had revenue of $214,932 and a net loss available to common stockholders of $25,356. 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 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 three years 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.

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.

The market price of our common stock could be subject to significant fluctuation in response to rumors or developments relating to possible transactions and the activities of the strategic transaction committee.

As we have previously disclosed, we have from time to time received expressions of interest concerning the possible purchase of our company. Due to recent inquiries and conversations, in January our board established a strategic transaction committee of independent directors to allow for responsible and efficient review of such opportunities as they arise. The company has not made a decision to pursue a strategic transaction nor has it entered into any agreement with a prospective purchaser with regard to any such transaction, and the establishment of the board committee should not be considered indicative of any pending or future transaction.

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 ("video asset management systems"), we may be negatively impacted.

If dedicated firmware vendors were to enter into our space, they may have longer operating histories, greater name recognition, more employees and 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.

If we are unable to maintain or expand our direct sales capabilities, we may not be able to generate anticipated revenues.

We rely primarily on our direct sales force to sell a substantial portion of our software and services (although we also use channels and partnerships for sales). As of March 28, 2012, we had a team of approximately 120 dedicated sales and sales support professionals. We generally expand our sales force to generate increased revenue from new customers. Failure to hire or retain qualified sales personnel may preclude us from expanding our business and generating anticipated revenue. Competition for such personnel is intense, and there can be no assurance that we will be able to retain our existing sales personnel or attract, assimilate or retain enough highly qualified sales personnel. Certain companies with which we compete for experienced personnel may have greater resources than we have. New sales hires require training and take time to achieve full productivity. If we experience high turnover in our sales force in the future, we cannot be certain that new hires will become as productive as necessary to maintain or increase our revenue within anticipated timeframes.

Our business depends substantially on customers renewing and upgrading their subscriptions for our services. Any decline in our customer renewals and upgrades would harm our future operating results.

We typically maintain multi-year working relationships with our customers. Most of our customer contracts cover multi-year periods and contain an automatic renewal clause; however, optional notification of non-renewal is permitted to be given by customers at the end of the contract term. Maintaining the renewal rate of our contracts is important to our future success. Our customers have no obligation to renew their relationship with us after the expiration of the term of their agreements, and occasionally customers have elected not to do so. We cannot guarantee that customer agreements will be renewed at the same pace as they have been previously. Our renewal rates, which have been very high, may decline due to a variety of factors, including:

- the performance and functionality of the KIT Video Platform;
- the availability, price, performance and functionality of competing platforms and services;
- our ability to demonstrate to new customers the value of our platform within initial contract terms;
- the relative ease of moving to a competing software platform or service;
- the effects of economic downturns, including the current global economic recession; or
- reductions in our customers’ spending levels.

If our renewal rates are lower than anticipated or decline for any reason, or if customers renew on terms less favorable to us, our revenue may be negatively impacted and our profitability and gross margin may be harmed, which would have a material adverse effect on our business, results of operations and financial condition.

The average sales price of the KIT Video Platform or our services may decrease, which may reduce our profitability.

Although we have been able to maintain or increase our prices historically, the average sales price for the KIT Video Platform or our services may decline for a variety of reasons, including competitive pricing pressures, a change in the mix of our services, anticipation of the introduction of new solutions or promotional programs. Competition continues to increase in the market for end-to-end VAMS and related services and we expect competition to further increase in the future, thereby leading to increased pricing pressures. We cannot assure you that we will be successful maintaining our prices at levels that will allow us to reach profitability. Failure to maintain our prices could have an adverse effect on our business, results of operations and financial condition.

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. 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 (Internet protocol television) 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.

Our success depends on our customers’ continued high-speed access to the Internet and the continued reliability of the Internet infrastructure.

Our future sales growth depends on our customers’ high-speed access to the Internet, as well as the continued maintenance and development of the Internet infrastructure. The future delivery of our services will depend on third-party Internet service providers to expand high-speed Internet access, to maintain a reliable network with the necessary speed, data capacity and security, and to develop complementary products and services, including high-speed modems, for providing reliable and timely Internet access and services. The success of our business depends directly on the continued accessibility, maintenance and improvement of the Internet as a convenient means of customer interaction, as well as an efficient medium for the delivery and distribution of information among businesses and by businesses to their employees. All of these factors are out of our control. If for any reason the Internet does not remain a widespread communications medium and commercial platform, the demand for our services would be significantly reduced, which would harm our business, results of operations and financial condition.

To the extent that the Internet continues to experience increased numbers of users, frequency of use or bandwidth requirements, the Internet may become congested and be unable to support the demands placed on it, and its performance or reliability may decline. Any future Internet outages or delays could adversely affect our ability to provide services to our customers, which could adversely affect 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, such as those required by the Motion Picture Association of America (MPAA). 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.

Historically, we have not had a mandatory practice of registering patents or copyrights on the software and technology we have developed. We believe our intellectual property is better protected by the long-term usage precedent for our software solutions than by patent filings, 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 found to infringe on the proprietary rights of others, we could be required to redesign aspects of the KIT Video Platform, pay significant royalties or enter into license agreements with third parties, which may significantly increase our costs or adversely affect our results of operations.

Although we believe that our core intellectual property is protected by usage precedents that supersede the statute of limitation for copyright infringement claims in most jurisdictions worldwide, a third-party may assert that our technology or services violates its intellectual property rights. Any claims, regardless of their merit, could:

- be expensive and time-consuming to defend;
- force us to temporarily or permanently stop providing services that incorporate the challenged intellectual property;
- require us to redesign our technology and services;
- divert management’s attention and other company resources; and

- require us to enter into royalty or licensing agreements in order to obtain the right to use necessary technologies, which may not be available on terms acceptable to us, if at all.

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. Although we believe we are in compliance with all legal requirements for content use in all jurisdictions, 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 ("natural hedging," which is oriented to maximizing predictability of operating cash flow), 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.

A significant portion of our operations is conducted through our subsidiaries, and we therefore rely on our subsidiaries to make funds available to us.

A significant portion of our operations is conducted through our subsidiaries. We, therefore, will be dependent upon the receipt of dividends or other distributions from our subsidiaries. The declaration of dividends by our subsidiaries will be subject to the discretion of their boards of directors and will depend on a number of factors, including their results of operations, financial condition, liquidity requirements and indebtedness and restrictions imposed by applicable law. Our inability to receive funds from our operating subsidiaries would adversely affect our ability to meet our obligations and to make dividend payments and other distributions, if any, to holders of our common stock.

Our operating results may fluctuate from quarter to quarter, which could make them difficult to predict.

Our quarterly operating results are tied to certain financial and operational metrics that have fluctuated in the past and may fluctuate significantly in the future. As a result, you should not rely upon our past quarterly operating results as indicators of future performance.

Our operating results depend on numerous factors, many of which are outside of our control. In addition to the other risks described in this "Risk Factors" section, the following risks could cause our operating results to fluctuate:

- our ability to retain existing customers and attract new customers;

- the mix of annual and monthly customers at any given time;

- the timing and amount of costs of new and existing marketing and advertising efforts;

- the timing and amount of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure;

- the cost and timing of the development and introduction of new product and service offerings by us or our competitors; and

- system or service failures, security breaches or network downtime.

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.

If we fail to maintain proper and effective internal controls in the future, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, investors' views of us and, as a result, the value of our common stock.

Ensuring that we have effective internal control over financial reporting and disclosure controls and procedures in place is a costly and time-consuming effort that needs to be frequently evaluated. As a public company, we conduct an annual management assessment of the effectiveness of our internal controls over financial reporting and receive a report from our independent registered public accounting firm addressing the effectiveness of our internal controls over financial reporting for compliance with Section 404 of the Sarbanes-Oxley Act of 2002. If we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or if we or our independent registered public accounting firm identify ongoing deficiencies in our internal controls over financial reporting that could rise to the level of a material weakness, we may not be able to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal controls over financial reporting, we will be unable to assert that our internal controls over financial reporting are effective. If we are unable to assert that our internal controls over financial reporting are effective, or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls over financial reporting, we could be subject to investigations or sanctions by the U.S. Securities and Exchange Commission or other regulatory authorities, and we could lose investor confidence in the accuracy and completeness of our financial reports, which could cause an adverse effect on the market price of our common stock, our business, reputation, financial position and results of operation. In addition, we could be required to expend significant management time and financial resources to correct any material weaknesses that may be identified or to respond to any regulatory investigations or proceedings.

We have had a material weakness in internal control over financial reporting in the past and cannot assure you that additional material weaknesses will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in material misstatements in our financial statements which could require us to restate financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on our stock price.

During the past year ended December 31, 2011 management has identified a material weakness in our internal controls over financial reporting as defined in the Public Company Accounting Oversight Board's Auditing Standard No. 5. We cannot assure you that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional significant deficiencies or material weaknesses, cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting required under Section 404. The existence of a material weakness could result in our financial statements that could result in a restatement of financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

Our use of "open source" software could negatively affect our ability to sell our services and subject us to possible litigation.

A small portion of the technology licensed by us incorporates "open source" software, and we may incorporate open source software in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses. If we fail to comply with these licenses, we may be subject to certain conditions, including requirements that we offer our services that incorporate the open source software for no cost, that we make available source code for modifications or derivative works we create based upon, incorporating or using the open source software and that we license such modifications or alterations under the terms of the particular open source license. If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur legal expenses defending against such allegations and could be subject to damages, enjoined from the sale of our services that contained the open source software and required to comply with the foregoing conditions, which could disrupt the distribution and sale of some of our services.

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.

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.

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 December 31, 2011, we had outstanding under our 2004 Stock Option Plan and 2008 Incentive Stock Plan stock options to purchase 6,415,669 shares of common stock and 1,689,250 performance and time-based restricted stock units, and outstanding warrants to purchase 1,305,767 shares of common stock. The issuance of common stock pursuant to the stock options, restricted stock units and warrants 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.

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 Prague Stock Exchange. We are in the process of moving our secondary listing from the Prague Stock Exchange to the London Stock Exchange. The trading prices of our shares on two different exchanges may vary 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.

If equity research analysts do not publish research or reports about our business or if they issue unfavorable commentary or downgrade our common stock, the price of our common stock could decline.

The trading market for our common stock relies in part on the research and reports that equity research analysts publish about us and our business. We do not control these analysts. The price of our common stock could decline if one or more equity analysts downgrade our common stock or if analysts issue other unfavorable commentary or cease publishing reports about us or our business.

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.

Provisions of Delaware law and our charter documents could delay or prevent an acquisition of our company, even if the acquisition would be beneficial to our stockholders, and could make it more difficult for you to change management.

Provisions of Delaware law and our certificate of incorporation, as amended, and by-laws, as amended, may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. These provisions may also prevent or delay attempts by stockholders to replace or remove our current management or members of our board of directors. These provisions include:

- advance notice requirements for stockholder proposals and nominations;
- limitations on the ability of stockholders to call special meetings; and
- the ability of our board of directors to adopt, amend or repeal our by-laws.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which limits business combination transactions with stockholders of 15% or more of our outstanding voting stock that our board of directors has not approved. These provisions and other similar provisions make it more difficult for stockholders or potential acquirers to acquire us without negotiation. These provisions may apply even if some stockholders may consider the transaction beneficial to them.

As a result, these provisions could limit the price that investors are willing to pay in the future for shares of our common stock. These provisions might also discourage a potential acquisition proposal or tender offer, even if the acquisition proposal or tender offer is at a premium over the then current market price for our common stock.

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.

Some members of our board of directors are non-U.S. residents, 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 6.8% 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.

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. Additionally, under our term loan, we may not pay cash dividends on our common stock without the consent of the lender. 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 executive offices in New York, our operational headquarters in Prague, Czech Republic, and other principal offices in locations such as Atlanta, Belmont (CA), Boston, Cologne, Delhi, Dubai, Ely (UK), London, Melbourne (Australia), Milan, Paris, San Diego, Singapore, Stockholm and York (UK). We have additional sales representatives in a number of other countries. An index of our present office locations, including sales representative offices, is illustrated below:

Our total rent expense was approximately $3,114 and $2,003 under office leases for the years ended December 31, 2011 and 2010, respectively.

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, according to the court, plaintiffs may be able to prove. In July 2011, following the completion of discovery, defendants made a motion for summary judgment dismissing the remaining claim in the case. Briefing and oral argument on that motion were recently completed and a decision is expected in the spring of 2012. If defendants win this motion, the case is completed, except for the possibility of an appeal by plaintiffs. If defendants do not prevail, the case will go to trial. 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 is currently in 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 appealed to the intermediate appellate court and lost. Plaintiff pursued her appeal to the Court of Appeals (New York State's highest court) and, in early March 2012, she lost that appeal. Consequently, all of plaintiff's claims against the Wurld shareholder defendants are, or will be, finally dismissed; and this case should move into the discovery phase, as the plaintiff is now likely to move ahead with her claims against us and KIT HD. We and KIT HD have been served and answered. We believe that this lawsuit is without merit and we intend to defend ourself vigorously.

Our company and Mr. Isaza Tuzman have been required to produce documents to the SEC under two simultaneous February 24, 2012 subpoenas issued by the SEC. The investigation includes and we believe may focus on June 2010 transactions in company common stock and a related Form 4 filing by Mr. Isaza Tuzman that reported a purchase of 54,645 shares of company common stock, but we cannot be certain of its scope or outcome. We are cooperating fully with the SEC.

Item 4. Mine Safety Disclosures.

Not applicable.

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 trades on the Nasdaq Stock Market under the symbol KITD, and has been listed on the Nasdaq Global Market from August 13, 2009 to December 30, 2011 and the Nasdaq Global Select Market from January 3, 2011 to date. Our common stock has also traded on the Prague Stock Exchange since January 21, 2010, under the same symbol. We are in the process of moving our secondary listing from the Prague Stock Exchange to the London Stock Exchange.

The following table sets forth the range of high and low closing prices of our common stock as reported by the Nasdaq Stock Market for the periods indicated.

Quarter	2010	
	High	Low
First (through March 28, 2012)	$ 13.12	$
Second	14.89	
Third	12.12	
Fourth	16.33	1

On March 28, 2012, the last reported sale price of our common stock on the Nasdaq Global Select Market was $6.51 per share.

As of March 28, 2012, we had approximately 477 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 never paid dividends to holders of our common stock and we do not anticipate paying any cash dividends in the foreseeable future as we intend to retain any earnings for use in our business. Any future determination to pay dividends will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors that our board of directors deems relevant. Under our term loan, we may not pay cash dividends on our common stock without the consent of the lender.

Recent Sales of Unregistered Securities

None.

Equity Repurchases

None.

Equity Compensation Plan Information

The table below describes the securities authorized for issuance under our equity compensation plans as of December 31, 2011:

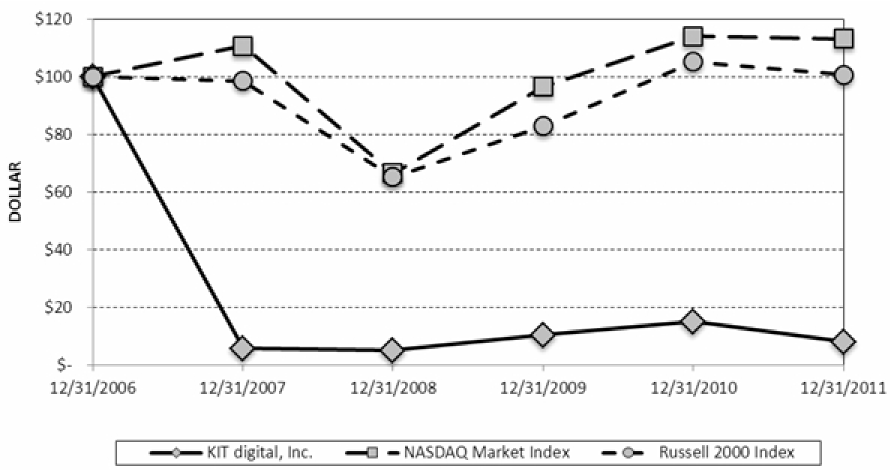
Equity Compensation Plan Information

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, RSU's and Rights
Equity compensation plans approved by security holders (1)	6,335,669
Equity compensation plans approved by security holders (2)	1,689,250
Sub-total	8,024,919
Equity compensation plans approved by security holders (3)	80,000
Equity compensation plans not approved by security holders	-
Total	8,104,919

(1) Consists of shares that may be granted under our 2008 Incentive Stock Plan for option exercises.
(2) Consists of shares that may be granted under our 2008 Incentive Stock Plan for RSUs.
(3) Consists of shares that may be granted under our 2004 Stock Option Plan.

Comparative Stock Performance Graph

The following comparative stock performance graph and table compares the cumulative total stockholder return on our common stock to that of the Nasdaq Market Index and the Russell 2000 Index for the five fiscal year period ended December 31, 2011, the date of our fiscal year end. The following comparative stock performance graph and table assumes that a $100 investment was made at the close of trading on December 31, 2006 in our common stock and in each index, and that dividends, if any, were reinvested. The stock price performance shown on the graph below should not be considered indicative of future price performance



	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
KIT digital, Inc.	$ 100.00	$ 5.57	$ 4.92	$ 10.31	$ 15.04	$ 7.92
NASDAQ Market Index	100.00	110.66	66.41	96.54	114.06	113.16
Russell 2000 Index	100.00	98.44	65.17	82.87	105.14	100.73

(1) We have elected to use the Russell 2000 Index because it includes companies with market capitalizations most similar to our own.

Item 6. Selected Financial Data.

You should read the data set forth below in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes appearing elsewhere in this report. The selected consolidated financial data set forth below for the years ended December 31, 2011, 2010 and 2009, and the consolidated balance sheet data as of December 31, 2011 and 2010 are derived from our audited consolidated financial statements appearing elsewhere in this report. The selected consolidated statement of operations data for the year ended December 31, 2008 and 2007 and the consolidated balance sheet data as of December 31, 2009, 2008 and 2007 are derived from our audited consolidated financial statements that are not included in this report.

	Ye	
	2011	**2010**
		(In thousand
Consolidated Statement of Operations Data:		
Revenue	$ 214,932	$ 106,59
Gross profit	158,554	60,45
Total general and administrative expenses	186,383	81,11
Loss from operations	(27,829)	(20,65
Net loss available to common stockholders	$ (27,123)	$ (35,26
Net loss per share:		
Basic	$ (0.66)	$ (1.6
Diluted	$ (0.66)	$ (1.6
Weighted average number of shares outstanding:		
Basic	41,355,265	21,586,65
Diluted	41,355,265	21,586,65
Comprehensive loss	$ (30,260)	$ (35,68
Consolidated Balance Sheet Data (at end of period):		
Cash and cash equivalents	$ 45,660	$ 141,23
Working capital (deficiency)	66,578	143,73
Total assets	501,737	298,66
Total liabilities	148,067	53,03
Total stockholders’ equity	353,670	245,62

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

KIT digital is a premium provider of end-to-end video management software and services. Our KIT Video Platform, a cloud-based video asset management system, enables clients in the enterprise, media and entertainment and network operator markets to produce, manage and deliver multiscreen social video experiences to audiences wherever they are. We service approximately 2,450 clients in more than 50 countries including some of the world’s biggest brands such as Airbus, The Associated Press, AT&T, BBC, Best Buy, Bristol-Myers Squibb, BSkyB, Disney-ABC, FedEx, Google, HP, News Corp, Telecom Argentina, Telefonica, Universal Studios, Verizon, Vodafone and Volkswagen.

Our KIT Video Platform allows for content capture (including live production and satellite downlink, and from video libraries in file or physical format), management (including transcoding, meta tagging and data analysis) and delivery to end users on multiple screens and in multiple formats. The KIT Video Platform's two editions, KIT Cloud and KIT Cosmos, are built on a common architecture and object model, and each caters to different ends of the video market — from enterprises deploying internal video systems to broadcasters and telecommunication companies deploying multiscreen “TV Everywhere” initiatives. KIT Cosmos is a managed private cloud solution for advanced, broadcast-grade multiscreen broadband TV deployments, while KIT Cloud is a multi-tenant cloud, turnkey solution for multiscreen social video experiences.

Our KIT Video Platform is deployed across three primary client markets: network operators, media and entertainment, and enterprise (non-media). Applications of our platform include end-consumer focused live and on-demand multiscreen video experiences, as well as internal enterprise deployments including corporate communications, human resources, training, and security and surveillance.

Our business operates across three major geographical profit and loss centers: (i) Europe, the Middle East and Africa (EMEA), (ii) the Americas and (iii) Asia-Pacific. We estimate that, as of March 15, 2012, approximately 50%, 35% and 15% of our current revenues are generated in EMEA, the Americas and Asia-Pacific, respectively.

We derive our revenues from platform-as-a-service (“PaaS”) license fees and usage fees, enterprise license fees and professional services fees. For the year ended December 31, 2011, we recorded consolidated revenue of $214,932, as compared to revenue of $106,597 for the year ended December 31, 2010 and $47,284 for the year ended December 31, 2009.

Our PaaS model involves long-term client contracts with low client attrition and this offers us a predictable revenue stream. Approximately two-thirds of the growth in revenues in our business is derived from higher platform and services usage by our existing client base, which is driven by general industry trends like more connected devices, better broadband connectivity around the world, changing consumer behavior towards viewership or premium content on mobile, tablet and connected devices.

Our standard PaaS license agreement for our enterprise customers runs at least 24 months. PaaS fees are billed monthly, and occasionally quarterly, 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.

Approximately 70% of our current revenues are generated by KIT Video Platform-related fees, with the remainder directly related to professional services.

Our professional services are contracted on a project basis and in some cases on an hourly 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, 2011 and 2010. 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, we caution that future events rarely develop as forecast, and that best estimates may routinely require adjustment.

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. We caution that future events rarely develop as forecast, and that best estimates may routinely require adjustment. 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. Our 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. We enter into revenue arrangements that may consist of multiple deliverables of components and services due to the needs of its customers. 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 hardware components, software and services and make up less than 20% of our revenue arrangements. For our 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 our control. 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 general timing of the delivery of components and performance of services within our multiple-element arrangements are completed within three to six months of commencement. Our arrangements generally do not include any provisions for cancellation, termination, or refunds that would impact recognized revenue.

We determine 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 our normal pricing practices. We have experience selling components, installation and integration services at a standard combined price and consider this to be BESP when contracting with customers. The determination of BESP is a formal process within our company that includes review and approval by our 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 when the contractually required services have been delivered and approved by the customer.

Software – Software revenue is recognized separately if it has stand-alone value, works on customer available hardware and does not require any significant production, modification or customization. When the software does require significant production, modification or customization, the revenue is recognized when the software and modifications are delivered and accepted. Delivery constitutes the customer having access to the software and evidence of acceptance from the customer. If the software is available on-line or delivered electronically, evidence may also include the provision of authorization codes for use.

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. If software is delivered as an integral functional part of the hardware then the revenue for the hardware and software is recognized as a single unit of revenue. Recorded revenues are reduced by these allowances. We base our 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, 2011 and 2010 was $3,432 and $1,023, respectively. Charges for bad debts recorded on the statement of operations were $1,708 in 2011 and $875 in 2010. 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 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.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. Our reporting units are consistent with our operating segments, which include Digital Media Solutions and Professional Services. We did not report financial information for these operating segments in 2009, 2010 and 2011 as the Professional Services segment represented less than 10% of our total assets and revenues in 2009, less than 5% of our total assets and revenues in 2010 and significantly less in 2011. In 2011, we continued to evaluate our goodwill for impairment using these two reporting units. The carrying value of goodwill of each business combination was assigned to one of these reporting units as of the acquisition date. We completed our annual evaluation of goodwill by reporting unit as of December 31, 2011. Our assessment of goodwill impairment indicated that the fair value of each of our reporting units exceeded its carrying value and therefore goodwill in each of the reporting units was not impaired. The fair value of these reporting units exceeded its carrying value by at least 38% as of December 31, 2011, as compared to at least 32% as of December 31, 2010.

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.

The determination of the fair value of the reporting units and the allocation of that value to individual assets and liabilities within those reporting units requires management to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to: the selection of appropriate peer group companies; control premiums appropriate for acquisitions in the industries in which we compete; the discount rate; terminal growth rates; and forecasts of net sales, operating income, depreciation and amortization and capital expenditures. Although we believe our estimates of fair value are reasonable, actual financial results could differ from those estimates due to the inherent uncertainty involved in making such estimates. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on the fair value of the reporting units. 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. However, future declines in the overall market value of our equity securities may indicate that the fair value of one or more reporting units has declined below their carrying value.

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, 2011 Compared to Year ended December 31, 2010

Revenue. Consolidated revenue increased by $108,335 from $106,597 for the year ended December 31, 2010 to $214,932 for the year ended December 31, 2011, an increase of 102%. This increase was primarily due to increased spending by existing customers, an increase in customers and revenue from the acquired companies not included in prior period results. In 2011, our average monthly revenue per client continued to increase, reflecting the company’s focus on higher-end opportunities in the market and large, multi-year contracts in emerging geographies. The company’s client base has increased from 1,000 customers in the beginning of 2010 to over 2,300 customers at present. The acquisitions which were the primary contributors to inorganic growth in 2011 over 2010 were Ioko, Megahertz, Polymedia, Kewego and Brickbox.

Variable and Direct Third Party Costs

Cost of Goods and Services (exclusive of depreciation shown separately below). These costs increased by $6,464 from $37,355 for the year ended December 31, 2010 to $43,819 for the year ended December 31, 2011, an increase of 17%. These costs represent the costs of equipment and services for the supply of digital media and IPTV solutions, services and components. The increase was primarily due to the acquisitions of Benchmark in May 2010, Megahertz in September 2010 and Brickbox in September 2010, which provided digital video asset management solutions and broadcast video systems integration, and the acquisition of ioko in May 2011. There was also an increase in these costs due to the increase in revenue over 2010, not including the acquisitions. These costs will continue to increase beyond 2011 due to the increase in the sale of services for the supply of digital media solutions, services and components, but overall our total gross margin is expected to increase or remain stable due to our overall revenue mix being constituted by approximately 70% in KIT Platform-related fees.

Hosting, Delivery, Reporting and Content Costs. These costs increased by $5,302 from $5,401 for the year ended December 31, 2010 to $10,703 for the year ended December 31, 2011, an increase of 98%. These costs increased primarily due to the increase in revenue over 2010 and costs relating to the acquisition of ioko in May 2011 for hosting, delivery and reporting offset by the decrease of $522 for 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. We expect these costs to decrease as an overall percentage of revenue through the continued consolidation of our data centers and price negotiations with our content delivery providers due to our increased size and bargaining power.

Direct Third Party Creative Production Costs. Direct third party creative production costs decreased by $1,531 from $3,387 for the year ended December 31, 2010 to $1,856 for the year ended December 31, 2011, a decrease of 45% attributable to a 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 $75,314 from $31,041 for the year ended December 31, 2010 to $106,355 for the year ended December 31, 2011, an increase of 243%. The increase was primarily due to the acquisitions in 2010 and 2011, which was offset in part by continuing cost cutting measures as we integrate the acquired businesses and some of these costs were included in integration expenses. The non-cash stock-based compensation expense increased by $13,625, from $4,705 for the year ended December 31, 2010 to $18,830 for the year ended December 31, 2011 primarily due to the increase in stock options granted in 2010 and 2011, $7,311 accrued for compensation to be issued in stock and $2,419 for restricted stock units and restricted stock vested in 2011.

Legal, Accounting, Audit and Other Professional Services Fees. These expenses increased by $553 from $2,870 for the year ended December 31, 2010 to $3,423 for the year ended December 31, 2011, an increase of 19%. These costs increased primarily due to increases in accounting and audit fees combined with an overall increase in these expenses from the acquisitions. We expect these costs to remain materially the same but decrease as a percentage of revenue due to a strategy to maintain these overall costs by negotiation of consulting agreements.

Office, Marketing and Other Corporate Costs. These expenses increased by $6,815 from $12,925 for the year ended December 31, 2010 to $19,740 for the year ended December 31, 2011, an increase of 53%. The increase was primarily due to the acquisitions which increased our number of offices and overall office costs. We expect these costs as a percentage of revenue to decrease in 2011 as we consolidate office space and manage our office costs through cost-cutting policies and negotiations with vendors.

Merger and Acquisition Related Expenses. Merger and acquisition related expenses increased by $12,131 from $5,448 for the year ended December 31, 2010 to $17,579 for the year ended December 31, 2011, an increase of 223%. The increase was primarily due to the significant number of acquisitions in 2011. We expect these costs to decrease substantially going forward due to the completion of these acquisitions.

Depreciation and Amortization. Depreciation and amortization expense increased by $6,544 from $8,368 for the year ended December 31, 2010 to $14,912 for the year ended December 31, 2011, an increase of 78%. The increase was primarily due to the acquisitions in 2010 and 2011.

Restructuring Charges. Restructuring charges were $3,352 for the year ended December 31, 2011 and $3,481 for the year ended December 31, 2010. These charges reflect the 2011 plan that was initiated in the first quarter of 2011 and the 2010 plan that was initiated in the first quarter of 2010.

Integration Expenses. Integration expenses increased by $4,483 from $16,539 for the year ended December 31, 2010 to $21,022 for the year ended December 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 consisted of cost overlap due to the integration of acquisitions. There were no costs included in integration expenses in the fourth quarter of 2011.

Interest Income. Interest income increased by $135 from $82 for the year ended December 31, 2010 to $217 for the year ended December 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 $1,603 from $860 for the year ended December 31, 2010 to $2,463 for the year ended December 31, 2011, an increase of 186%. This increase was mainly due to the issuance of secured notes in April and June 2010 and May 2011 and $480 expensed in 2011 related to the discount on the acquisition liabilities.

Amortization of Deferred Financing Costs and Debt Discount. Amortization of deferred financing costs and debt discount was $302 for the year ended December 31, 2011 and $52 for the year ended December 31, 2010. These costs resulted from the issuance of secured notes payable of $5,000 in April 2010, $1,000 in June 2010 and $15,000 in May 2011.

Derivative Income (Expense). Derivative expense was $12,891 for the year ended December 31, 2010 as compared to derivative income of $3,679 for the year ended December 31, 2011. Derivative income or expense is the change in the period based on the fair value of warrants containing reset provisions.

Loss on impairment of investment. Loss on impairment of investment was $2,104 for the year ended December 31, 2011. Loss on impairment of investment reflects the impairment of an investment of $2,104 which had collateral instruments that could not be substantiated as of December 31, 2011 and therefore was deemed to be impaired.

Other Income/(Expense). Other income/(expense) changed by $2,860 from $365 in other expense for the year ended December 31, 2010 to other income of $2,495 for the year ended December 31, 2011, primarily due to a gain on settlement of $1,473 related to the Benchmark earn-out paid in the form of 816,592 shares of our common stock valued at $7,905 in satisfaction of $9,378 of earn-out liability, income related to a business tax credit of $500 and decrease 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 $27,123 for the year ended December 31, 2011 compared to a net loss available to common shareholders of $35,260 for the year ended December 31, 2010, a decrease in net loss of $8,137.

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. This increase includes organic growth of approximately 40%. In 2010, our average monthly revenue per client increased, reflecting the company's focus on higher-end opportunities in the market and large, multi-year contracts in emerging geographies. The company's client base has increased from 1,000 customers in 2009 to over 2,000 customers at present. The acquisitions that primarily contributed to inorganic revenue growth in 2010 over 2009 were Multicast (completed in March 2010) and Benchmark (completed in May 2010).

Variable and Direct Third Party Costs

Cost of Goods and Services (exclusive of depreciation shown separately below). 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 was primarily due to the acquisitions of Benchmark in May 2010, Megahertz in September 2010, and Brickbox in September 2010 which provided digital video asset management solutions and broadcast video systems integration. The costs included in the year ended December 31, 2010 for these three acquisitions were $16,724. There was also an increase in these costs due to the increase in revenue over 2009, not including the acquisitions. These costs will continue to increase in 2011 due to the increase in the sale of services for the supply of digital media solutions, services and components, but overall our total gross margin is expected to increase due to our overall revenue mix.

Hosting, Delivery, Reporting and Content Costs. These costs increased by $2,476 from $2,925 for the year ended December 31, 2009 to $5,401 for the year ended December 31, 2010 an increase of 85%. These costs increased primarily due to the increase in revenue over 2009 and the acquisitions of Multicast in March 2010 and Feedroom and Nunet in October 2010 offset by the decrease of content costs of $412 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. These acquisitions increased the overall number of data centers which in turn increased related costs. We expect these costs to decrease as an overall percentage of revenue through the continued consolidation of our data centers and price negotiations with our content delivery providers due to our increased size and bargaining power.

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. These costs remained materially the same but can vary from period to period depending on the number of projects that include these types of costs. We do not expect these costs to materially change in 2011.

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. We expect these costs to increase in 2011 due to our increased scale, but we expect these costs to remain materially the same as a percentage of revenue.

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. We expect these absolute costs to remain materially the same but decrease as a percentage of revenue due to an overall strategy to maintain these overall costs by negotiation of consulting agreements and by moving some of these functions in-house.

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 which increased our number of offices and overall office costs. We expect these costs as a percentage of revenue to decrease in 2011 as we consolidate office space and manage our office costs through cost-cutting policies and negotiations with vendors.

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. We expect these costs to increase further due to the number of relatively large acquisitions announced or expected to occur in 2011.

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. We expect these expenses to increase further in 2011 due to tangible and intangible assets from recent acquisitions.

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. We expect these costs to increase further in 2011 due to the number of relatively large acquisitions and consequent restructuring plans.

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. We expect these costs to remain at similar levels as a percentage of revenues as a result of the plan to fully integrate acquired businesses by the third quarter of 2011 .

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. The value of our derivatives vary based on a number of factors but in 2011 the number of these derivative instruments has decreased dramatically and we do not plan on issuing any additional derivative instruments.

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 $35,260 for the year ended December 31, 2010 compared to net loss of $19,942 for the year ended December 31, 2009.

2012 Outlook

We believe that we have established a leadership position in our market, both in terms of market share and technology. In 2012, we expect to build upon our leadership position by (i) furthering our penetration into Tier 1 and Tier 2 network operators, by means of both direct sales as well as partnership relationships with systems integrators and related technology solutions companies, (ii) growing revenues from existing customers through expanded license agreements and increased utilization fees, (iii) providing consultative professional services to foster new business and managed services to nurture ongoing relationships, and (iii) enhancing sales of our KIT Cloud offering through expanded reseller arrangements. We also intend to utilize our product and targeting strategy to expand sales by implementing shorter product implementation cycles and more directly targeting the less-penetrated mid-tier segment of the market.

We have completed the intensive “consolidation phase” of our multi-year strategic plan. In 2012 and going forward, we believe that we will be reviewing acquisition opportunities as more typically befits a growing software company of our scope, size and market profile. We believe the pace and magnitude of our acquisition activity will decrease. We believe that at this stage of our lifecycle, acquisitions are most likely to be suitable for expanding our pool of resources for implementing tier 1 and tier 2 deployments, adding complementary pieces to our end-to-end technology offering, and bolstering our market strength in targeted geographic regions. We will continue to be selective in the acquisition market, considering opportunities if they are accretive financially and attractive strategically, with a significant bias toward funding potential acquisitions from cash flows from operations.

Financially, we believe that we are well positioned to achieve strong organic revenue growth and generate positive cash flows. We anticipate organic revenue growth of approximately 25 – 30% in 2012, and we expect to generate positive and growing cash flows from operations.

Liquidity and Capital Resources

As of December 31, 2011, we had cash and cash equivalents of $45,660 and a working capital surplus of approximately $66,578. Management anticipates that it has enough cash reserves and will generate sufficient cash flows from its operating activities to fund its operations, anticipated capital expenditures and debt repayment obligations for at least the next 12 months.

As of December 31, 2011, we were in default of a debt covenant on all of our secured notes payable which states that we must maintain at least 75% of the dollar value of worldwide cash with one or more banks located in the United States. We have received a waiver from the lender for the period through March 31, 2012. No adjustment was made for the default due to the waiver from the lender. Additionally, we are currently in discussions with the lender to ensure that we are in compliance with this debt covenant in the future.

Our ability to meet our short and long-term liquidity needs depends on our future operating performance and on economic, financial, competitive and other factors. See “Risks Related to Our Business” under Item 1A. Risk Factors for more detail. Our financial projections are based on assumptions, which we believe are reasonable but contain significant uncertainties. These projections include an increase in revenue, improved operating margins and significant decreases in costs related to the restructuring and integration of acquired companies.

Year ended December 31, 2011 Compared to Year ended December 31, 2010

Net cash used in operating activities was $14,861 for the year ended December 31, 2011 compared to $30,228 for the year ended December 31, 2010, a decrease of $15,367. This is principally due to the decrease in net loss.

Net cash used by investing activities was $129,982 for the year ended December 31, 2011 compared to $22,363 for the year ended December 31, 2010, an increase in net cash used in investing activities of $107,619. In 2011, this primarily consists of net cash paid for acquisitions of $115,412, purchase of software of $1,900 and purchase of property and equipment of $8,006. 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 equipment of $2,647.

Net cash provided by financing activities was $49,416 for the year ended December 31, 2011 compared to $189,046 for the year ended December 31, 2010. In 2011, this primarily consisted of net proceeds from public offering of $31,985, proceeds from issuance of secured notes of $15,000 and proceeds from exercise of warrants of $2,999. In 2010, this primarily consisted of net proceeds of public offerings of $209,554 offset by payments for the buyback of warrants of $23,869.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

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 equipment 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.

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.

Seasonality

We do not have a seasonal business cycle. Our revenues and operating profits are generally derived evenly throughout the months of the year.

Climate Change

We do not believe there is anything unique to our business which would result in climate change regulations having a disproportional affect on us as compared to U.S. industry overall.

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for the years ended December 31, 2011, 2010 and 2009. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

Contractual Obligations and Lease Commitments

The following is a schedule of future minimum payments of our commitments as of December 31, 2011, for the next five years and thereafter:

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Capital Leases	$ 262	$ 120	$ 130	$ 12	$ -
Operating / Property Leases	18,096	5,444	6,111	3,409	3,132
Notes Payable	2,525	2,525	-	-	-
Secured Notes Payable	18,274	6,406	11,868	-	-
Acquisition Liability	52,809	16,952	34,107	1,750	-

Total Obligations	$ 91,966	$ 31,447	$ 52,216	$ 5,171	$ 3,132

On April 15, 2010, we entered into a Loan and Security Agreement for a term loan in the principal amount of $5.0 million. The loan bears interest at a fixed rate of 0.833% per month through July 1, 2013, and thereafter is repayable in 30 monthly installments of principal and fixed interest, with each installment equal to 3.75% of the principal amount. A final “balloon” payment of 7.01% of the principal amount is due on July 1, 2013, the date of the final amortization payment. The loan is secured by liens and security interests on all of our assets, including intellectual property in the United States and internationally. We are required to comply with customary performance covenants contained in the loan agreement and are prohibited from paying any cash dividends on our common stock without the lender’s prior written consent. The loan agreement does not contain financial covenants. In conjunction with the loan, we issued to the lender a warrant to purchase 40,976 shares of our common stock at an exercise price of $14.24 per share, exercisable through April 15, 2015.

On June 10, 2010, we entered into a Supplement to the Loan and Security Agreement dated April 15, 2010 for a term loan in the principal amount of $1.0 million. The loan bears interest at a fixed rate of 0.833% per month through March 1, 2013, and thereafter is repayable in 30 monthly installments of principal and fixed interest, with each installment equal to 3.75% of the principal amount. A final “balloon” payment of 7.01% of the principal amount is due on September 1, 2013, the date of the final amortization payment. The loan is secured by liens and security interests on all of our assets, including intellectual property in the United States and internationally. We are required to comply with customary performance covenants contained in the loan agreement and are prohibited from paying any cash dividends on our common stock without the lender’s prior written consent. The loan agreement does not contain financial covenants. In conjunction with the loan, we issued to the lender a warrant to purchase 8,480 shares of our common stock at an exercise price of $13.76 per share, exercisable through June 14, 2015.

On May 16, 2011, we entered into a Loan and Security Agreement for a term loan in the principal amount of $15.0 million. The loan bears interest at a fixed rate of 0.813% per month through January 31, 2012, and thereafter is repayable in 30 monthly installments of principal and fixed interest, with each installment equal to 3.739% of the principal amount. A final “balloon” payment of 7.662% of the principal amount is due on July 1, 2014, the date of the final amortization payment. The loan is secured by liens and security interests on all of our assets, including intellectual property in the United States and internationally. We are required to comply with customary performance covenants contained in the loan agreement and are prohibited from paying any cash dividends on our common stock without the lender’s prior written consent. The loan agreement does not contain financial covenants. Additionally, in the event of a change of control or merger of our company on or before November 13, 2018, we are required to pay a success bonus to the lender of $3.5 million. In conjunction with the loan, we issued to the lender a warrant to purchase 141,083 shares of our common stock at an exercise price of $13.29 per share, exercisable through May 16, 2018.

Recently-Issued Accounting Standards

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 was 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 our financial position or results of operations.

In May 2011, the Financial Accounting Standards Board (FASB) issued a new accounting standard update which amends the fair value measurement guidance and includes some enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements based on unobservable inputs. The standard is effective for fiscal years beginning after December 15, 2011. We will adopt this standard in the first quarter of 2012 and we do not expect the adoption will have a material impact on our financial statements and disclosures.

In June 2011, the FASB issued a new accounting standard which eliminates the current option to report other comprehensive income and its components in the statement of stockholders' equity. Instead, an entity will be required to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. The adoption of this standard will not have a material impact, as we were already presenting in this manner. Therefore, we have already adopted this standard.

In September 2011, the FASB issued a revised accounting standard, which is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. The guidance is effective January 1, 2012 with early adoption permitted. We intend to adopt this guidance effective January 1, 2012. The adoption of the guidance is not expected to have a material impact on our 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 required by Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, management has evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures.

As described below, a material weakness was identified in our internal control over financial reporting due to lack of finance personnel with understanding of US GAAP to ensure that all transactions were reported in accordance with US GAAP on a timely basis. The Public Company Accounting Oversight Board's Auditing Standard No. 5 defines a material weakness as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. As a result of the material weakness, our chief executive officer and chief financial officer have concluded that, as of December 31st 2011, the end of the period covered by this report, our disclosure controls and procedures were ineffective at a reasonable assurance level. Notwithstanding the material weakness discussed below, our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that the consolidated financial statements included in this Form 10-K present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

Management's Annual Report on Internal Control Over Financial Reporting. The management of our company is responsible for establishing and maintaining adequate internal control over financial reporting. Our 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, our principal executive and principal financial officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles in the United States and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- 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
- Provide reasonable assurance regarding the 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.

Our internal control over financial reporting does not include internal control over financial reporting of Digital Media Productions a.s., our wholly owned subsidiary, whose financial statement reflect total assets and revenues of less than 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2011. Digital Media Productions, a.s. was acquired during 3rd quarter of 2011 and therefore, management's assertion on the effectiveness of our internal control over financial reporting excluded internal control over financial reporting of Digital Media Productions, a.s.

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.

Management, including our Chief Executive Officer and Chief Financial Officer assessed the effectiveness of our internal control over financial reporting as of December 31, 2011. In making this assessment, our management used the criteria set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Based on management's assessment including consideration of the control deficiencies discussed below, management has concluded that the company's internal control over financial reporting was ineffective as of December 31, 2011. A material weakness was identified in its internal control over financial reporting related to the lack of US GAAP trained finance personnel in the regional and local offices responsible for providing monthly financial information for US GAAP consolidated financial statements. There were not enough qualified resources at corporate to review and ensure that all transactions were reported in accordance with US GAAP on a timely basis.

Our independent registered public accounting firm has audited, and reported on, our internal control over financial reporting as of December 31, 2011. This report appears on page 47.

Changes in Internal Control Over Financial Reporting

During the first quarter of 2011, we hired as permanent positions, a Director of Internal Controls and a Global Director of Tax to take into account the additional complexities and internal control workload anticipated for fiscal year 2011. Additionally, as a result of increased market capitalization and acquisitions during the first and second quarters of fiscal year 2011, we re-evaluated our overall internal controls to take into account the acquisitions of KickApps, Kyte, Kewego, Polymedia and ioko.

KIT digital finance management met with the each of the local finance teams and reviewed the policies, procedures and controls as they applied to each new acquisition, making minor adjustments as required. These controls were put into place effective at the end of the third quarter of 2011 and were tested in the third quarter for the financial statement closing process and in the fourth quarter for transactional controls.

During the third quarter of 2011, we put in place a new financial statement close control structure that requires Finance Directors to review the controls, accuracy, completeness and validity for the entities included their respective responsibilities. Those entity reporting packages are then submitted to corporate for further analytical review and evaluation. The summary of enhancements and updates are as follows:

- Implemented a global ERP accounting system (NetSuite) that included financials, purchase order and consolidated financial reporting.
- 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 digital 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 acquisitions.
- Standardizing controls, as well as financial statement close checklists and timeline, across all regions and locations across the company.
- 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 as well as the profitability of KIT digital on a consolidated and local basis.
- Changed 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 management test plans to obtain testing coverage for each region based on control objectives to be achieved.

Remediation Plan

Management has been actively engaged in developing remediation plans to address the above material weakness. The remediation efforts expected to be implemented include the following:

- Aggressive recruitment and hiring of additional Senior Corporate Financial Resources.
- Add an internal audit function that will perform risk based audits of compliance with US GAAP reporting and compliance with policies, procedures and controls.
- Update and enhance documentation and training of non-corporate finance personnel regarding US GAAP accounting rules.
- Enhance and expand the corporate review and evaluation of material balances presented in the local books.
- Improve and expand account reconciliation procedures and reviews of local management accounts as well as standardize the monthly reporting package to corporate.
- Expand internal reviews and confirmations of material assets and liabilities.

Management believes the completion of the implementation of Global NetSuite ERP for all entities, which was completed as of December 31, 2011, allows for more real-time and enhanced corporate reviews of local management accounts. Management will work with the Audit Committee to finalize a detailed plan and timetable for implementing the updates, changes and enhancements described above. Management believes the foregoing efforts will effectively remediate the material weakness. As the company continues to grow, management may determine to take additional measures to address control deficiencies or determine to modify the remediation plan described above.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
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, 2011, based on criteria established in *Internal Control—Integrated Fram*ework 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 assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual 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 Digital Media Productions a.s., a wholly owned subsidiary, whose financial statements reflect total assets and revenues constituting approximately 1 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2011. As indicated in Management's Report, Digital Media Productions a.s., was acquired in October 2011, and therefore, management's assertion on the effectiveness of the Company's internal control over financial reporting excluded internal control over financial reporting of Digital Media Productions a.s.

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.

A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment.

- The Company does not currently have sufficient accounting personnel with an adequate understanding of US GAAP to timely review and ensure that all transactions were reported in accordance with US GAAP.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, KIT digital, Inc. and Subsidiaries has not maintained effective internal control over financial reporting as of December 31, 2011, 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, 2011 and 2010, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. The material weakness identified above was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2011 financial statements, and this report does not affect our report dated March 30, 2012, which expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

New York, New York
March 30, 2012

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) Financial Statements

Included in Part II, Item 8 of this Report

(a)(2) Financial Statement Schedules

Included in Part II, Item 8 of this Report

(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)
2.13	Securities Purchase Agreement, dated as of April 11, 2011, among KIT digital, Inc., ioko365 Limited, the stockholders of ioko365 Limited listed in a signature page thereto, and Allan Dunn, as stockholder representative.(24)
2.14	Sale and Purchase Agreement, dated March 15, 2011, between TXT e-solutions S.p.A., Polymedia S.p.A. and KIT digital, Inc., as amended.(25)
2.15	Asset Purchase Agreement, dated as of December 30, 2011, between KIT digital, Inc. and Sezmi Corporation.(28)
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 Stat
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 effecti
3.10	Certificate of Amendment of the Certificate of Incorporation filed with the Secretary of State of the State of Delaware on Sep
3.11	Certificate of Amendment of the Certificate of Incorporation filed with the Secretary of State of the State of Delaware effecti
3.12	By-laws.(8)
3.13	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)
+10.8	2008 Incentive Stock Plan, as amended.(26)
*+10.9	Transition Agreement, dated March 23, 2012, between KIT digital, Inc. and Kaleil Isaza Tuzman.
*10.10	Loan and Security Agreement, dated as of May 16, 2011, between KIT digital, Inc. and Venture Lending & Leasing VI, Inc.
*21.1	Subsidiaries of KIT digital, Inc.
*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.

\+ Indicates management contract or compensatory plan.

(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.

(24) Incorporated by reference to Form 8-K, filed with the SEC on May 9, 2011.

(25) Incorporated by reference to Form 8-K, filed with the SEC on May 23, 2011.

(26) Incorporated by reference to Form 8-K, filed with the SEC on October 14, 2011.

(27) Incorporated by reference to Form 8-K, filed with the SEC on October 24, 2011.

(28) Incorporated by reference to Form 8-K, filed with the SEC on January 6, 2012.

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 30, 2012

KIT DIGITAL, INC.

By:

By: /s/ Robin Smyth
Robin Smyth
Chief Financial Officer and S
(Principal Financial and Acco

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
/s/ Kaleil Isaza Tuzman Kaleil Isaza Tuzman
/s/ Robin Smyth Robin Smyth
/s/ Daniel W. Hart Daniel W. Hart
/s/ Lars Kroijer Lars Kroijer
/s/ Joseph E. Mullin III Joseph E. Mullin III
/s/ Wayne Walker Wayne Walker

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:

Note: All other financial statement schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
KIT digital, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of KIT digital, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. 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 also 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 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, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, 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 30, 2012 expressed an adverse opinion thereon.

/s/ GRANT THORNTON LLP

New York, New York
March 30, 2012

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Share Data)

	December 31, 2011	Dece
Assets:		
Current assets:		
Cash and cash equivalents	$ 45,660	$
Restricted cash	238	
Investments	1,915	
Accounts receivable, net	73,970	
Unbilled revenue	13,899	
Inventory, net	1,338	
Loan receivable, current portion	2,756	
Deferred tax assets, current portion	399	
Other current assets	11,350	
Total current assets	151,525	
Property and equipment, net	12,070	
Loan receivable, net of current	5,876	
Deferred tax assets, net of current	600	
Intangible assets	64,835	
Goodwill	263,274	
Total assets	$ 498,180	$
Liabilities and Stockholders' Equity:		
Current liabilities:		
Capital lease and other obligations, current portion	$ 171	$
Secured notes payable, net of debt discount, current portion	6,406	
Notes payable	2,525	
Accounts payable	18,245	
Accrued expenses	6,763	
Deferred revenue	5,083	
Income tax payable	1,207	
Deferred tax liability, current portion	344	
Acquisition liabilities, current portion	16,952	
Derivative liability	557	
Other current liabilities	26,694	
Total current liabilities	84,947	
Capital lease and other obligations, net of current	91	
Secured notes payable, net of current	11,868	
Deferred tax liability, net of current	11,747	
Acquisition liabilities, net of current	35,857	
Total liabilities	144,510	
Equity:		
Stockholders' equity:		
Common stock, $0.0001 par value: authorized 150,000,000 shares; issued and outstanding 46,342,851 and 33,196,952, respectively	5	
Additional paid-in capital	513,882	
Accumulated deficit	(156,326)	
Accumulated other comprehensive loss	(3,891)	
Total stockholders' equity	353,670	
Total liabilities and stockholders' equity	$ 498,180	$

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)

		Years ended	
		2011	2
Revenue	$	214,932	$
Variable and direct third party costs:			
Cost of goods and services (exclusive of depreciation shown separately below)		43,819	
Hosting, delivery, reporting and content costs		10,703	
Direct third party creative production costs		1,856	
Total variable and direct third party costs		56,378	
Gross profit		158,554	
General and administrative expenses:			
Compensation, travel and associated costs (including non-cash stock-based compensation of $18,330, $4,705 and $1,922, respectively)		106,355	
Legal, accounting, audit and other professional service fees		3,423	
Office, marketing and other corporate costs		19,740	
Merger and acquisition and investor relations expenses		17,579	
Depreciation and amortization		14,912	
Restructuring charges		3,352	
Integration expenses		21,022	
Impairment of intangible assets		-	
Total general and administrative expenses		186,383	
Loss from operations		(27,829)	
Interest income		217	
Interest expense		(2,463)	
Amortization of deferred financing costs and debt discount		(302)	
Derivative income (expense)		3,679	
Loss on impairment of investment		(2,104)	
Other (expense) income		2,495	
Loss before income taxes		(26,307)	
Income tax expense		(816)	
Net loss available to common shareholders	$	(27,123)	$
Basic and diluted net loss per common share	$	(0.66)	$
Basic and diluted weighted average common shares outstanding		41,355,265	2
Comprehensive income (loss):			
Net loss	$	(27,123)	$
Foreign currency translation		(3,189)	
Change in unrealized gain on investments, net		52	
Comprehensive loss:	$	(30,260)	$

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	**Comm Par**
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	
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	$
Issue of stock in public offering	19,168,253	
Issue of stock for exercise of stock options	61,936	
Issue of stock for exercise of warrants	592,645	
Issue of stock for acquisitions	2,460,959	
Issue of warrants for services	—	
Debt discount on notes	—	
Issue of stock for compensation	27,650	
Issue of stock for services	40,656	
Stock-based compensation	—	
Foreign currency translation adjustment	—	
Fair market value adjustment for available for sale securities	—	
Net loss	—	
Balance - December 31, 2010	33,196,952	$
Issue of stock in public offering	3,680,000	
Issue of stock for exercise of stock options	234,190	
Issue of stock for exercise of warrants	485,630	
Issue of stock for acquisitions	8,521,737	
Issue of warrants for services	—	
Debt discount on notes	—	
Issue of stock for compensation	25,423	
Issue of stock for services	198,919	
Stock-based compensation	—	
Foreign currency translation adjustment	—	
Fair market value adjustment for available for sale securities	—	
Net loss	—	

Balance - December 31, 2011	46,342,851	$

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	Accum O Compr Inc (L
Balance - December 31, 2008	$ (82,499)	$
Cumulative adjustment for derivative liabilities	8,498	
Balance – January 1, 2009	(74,001)	
Issue of stock in public offering	—	
Issue of stock for repayment of loans		
Issue of stock for exercise of stock options	—	
Issue of stock for exercise of warrants	—	
Issue of stock for acquisitions	—	
Acquisition of non-controlling interest	—	
Debt discount on notes	—	
Issue of stock for compensation	—	
Issue of stock for services	—	
Round up due to the 1 for 35 reverse split	—	
Stock-based compensation	—	
Foreign currency translation adjustment	—	
Fair market value adjustment for available for sale securities	—	
Net loss	(19,942)	
Balance - December 31, 2009	$ (93,943)	$
Issue of stock in public offering	—	
Issue of stock for exercise of stock options	—	
Issue of stock for exercise of warrants	—	
Issue of stock for acquisitions	—	
Issue of warrants for services	—	
Debt discount on notes	—	
Issue of stock for compensation	—	
Issue of stock for services	—	
Stock-based compensation	—	
Foreign currency translation adjustment	—	
Fair market value adjustment for available for sale securities	—	
Net loss	(35,260)	
Balance - December 31, 2010	$ (129,203)	$
Issue of stock in public offering	—	
Issue of stock for exercise of stock options	—	
Issue of stock for exercise of warrants	—	
Issue of stock for acquisitions	—	
Issue of warrants for services	—	
Debt discount on notes	—	
Issue of stock for compensation	—	

Issue of stock for services	—	
Stock-based compensation	—	
Foreign currency translation adjustment	—	
Fair market value adjustment for available for sale securities	—	
Net loss	(27,123)	
Balance - December 31, 2011	$ (156,326)	$

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 en	
	2011	
Operating activities:		
Net loss	$ (27,123)	$
Adjustments to reconcile net loss to net cash used by operating activities:		
Provision for doubtful accounts	1,810	
Depreciation and amortization	5,110	
Amortization of intangible assets	9,802	
Amortization of deferred financing costs	8	
Amortization of debt discount	294	
Loss on disposal of property and equipment	—	
Impairment of intangible assets	—	
Loss on disposal of subsidiary	—	
Derivative expense	(3,679)	
Non-cash stock-based compensation	18,330	
Non-cash warrants for services	1,882	
Non-cash stock for services	367	
Less: merger and acquisition expenses	7,653	
Gain on bargain purchase	—	
Changes in assets and liabilities:		
Accounts receivable	(21,868)	
Unbilled revenue	(1,012)	
Inventory	(1,048)	
Other assets	(276)	
Accounts payable	5,209	
Accrued expenses	(2,310)	
Income tax payable	(4,970)	
Other liabilities	(3,040)	
Total adjustments	12,262	
Net cash used by operating activities – forward	(14,861)	
Investing activities:		
Cash released from (paid into) restricted cash	1,762	
Cash paid into investment	(307)	
Cash paid in acquisitions, net	(115,412)	
Cash received in sale of business, net	—	
Increase in notes receivable	(844)	
Receipt of payment on loans receivable	2,216	
Merger and acquisition expenses	(7,653)	
Purchase of software	(1,900)	
Proceeds from sale of equipment and domain name	162	
Purchase of equipment	(8,006)	
Net cash used by investing activities – forward	$ (129,982)	$

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 en
	2011
Net cash used by operating activities – forwarded	$ (14,861)
Net cash used by investing activities – forwarded	(129,982)
Financing activities:	
Proceeds from public offering, net	31,984
Payments for warrant buybacks	—
Bank overdraft and other obligations	—
Proceeds from exercise of stock options	1,750
Proceeds from issuance of secured loans	—
Payments of secured loans	—
Proceeds from issuance of secured notes	15,000
Payments of secured notes	(1,777)
Payments of senior secured note	—
Proceeds from exercise of warrants	2,999
Repayments of notes payable	—
Payments on capital leases	(540)
Net cash provided by financing activities	49,416
Effect of exchange rate changes on cash and cash equivalents	(146)
Net increase (decrease) in cash and cash equivalents	(95,573)
Cash and cash equivalents - beginning of year	141,233
Cash and cash equivalents - end of year	$ 45,660
Supplemental disclosures of cash flow information:	
Cash paid during the years for:	
Income taxes	$ 2,757
Interest	$ 1,983
Common stock issued in connection with acquisitions	$ 83,968

The accompanying notes are an integral part of these consolidated financial statements.

(1) Basis 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 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 of software-as-a-service ("SaaS") license and usage fees, enterprise software license, maintenance and usage fees, and professional services fees.

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 September 1, 2011, we filed a certificate of amendment of our certificate of incorporation to increase the number of authorized shares of our common stock to 150,000,000 shares from 80,000,000 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 October 21, 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.

(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 10 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, 2011 and 2010 was $10,638 and $8,617, respectively. The amount of cash in excess of FDIC insured amounts as of December 31, 2011 and 2010 was $44,797 and $139,185, 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, 2011, no customer accounted for more than 10% of our trade accounts receivable. As of December 31, 2010, one customer accounted for approximately 11% 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.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. Our reporting units are consistent with our operating segments, which include Digital Media Solutions and Professional Services. We did not report financial information for these operating segments in 2009, 2010 and 2011 as the Professional Services segment represented less than 10% of our total assets and revenues in 2009 and less than 5% of our total assets and revenues in 2010 and 2011. In 2011, we continued to evaluate our goodwill for impairment using these two reporting units. The carrying value of goodwill of each business combination was assigned to one of these reporting units as of the acquisition date. We completed our annual evaluation of goodwill by reporting unit as of December 31, 2011. Our assessment of goodwill impairment indicated that the fair value of each of our reporting units exceeded its carrying value and therefore goodwill in each of the reporting units was not impaired. The fair value of these reporting units exceeded its carrying value by at least 38% as of December 31, 2011 as compared to at least 32% as of December 31, 2010.

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.

The determination of the fair value of the reporting units and the allocation of that value to individual assets and liabilities within those reporting units requires management to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to: the selection of appropriate peer group companies; control premiums appropriate for acquisitions in the industries in which we compete; the discount rate; terminal growth rates; and forecasts of net sales, operating income, depreciation and amortization and capital expenditures. Although we believe our estimates of fair value are reasonable, actual financial results could differ from those estimates due to the inherent uncertainty involved in making such estimates. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on the fair value of the reporting units. 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. However, future declines in the overall market value of our equity securities may indicate that the fair value of one or more reporting units has declined below their carrying value.

(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, the Company had $2,068 of cash equivalents in an account that pays interest at LIBOR plus 150 basis points. This account was guaranteed and backed by liquid collateral instruments, and could 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, 2011 and 2010 was $3,432 and $1,023, 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, 2011 and 2010, our reserves for excess and obsolete inventory were $146 and $145, 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.

(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, $6,096 and $557 on January 1, 2009, December 31, 2010 and December 31, 2011, respectively. See Note 10, “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. 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 hardware components, software and services and make up less than 20% of our revenue arrangements. For our 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 our control. 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 general timing of the delivery of components and performance of services within our multiple-element arrangements are completed within three to six months of commencement. Our arrangements generally do not include any provisions for cancellation, termination, or refunds that would impact recognized revenue.

We determine 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 our normal pricing practices. We have experience selling components, installation and integration services at a standard combined price and consider this to be BESP when contracting with customers. The determination of BESP is a formal process within our company that includes review and approval by our 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 when the contractually required services have been delivered and approved by the customer. When setup services are delivered that are directly related to a monthly streaming contract then the revenue for those services is deferred and recognized ratably over the term of the streaming contract.

Software – Software revenue is recognized separately if it has stand-alone value, works on customer available hardware and does not require any significant production, modification or customization. When the software does require significant production, modification or customization, the revenue is recognized when the software and modifications are delivered and accepted. Delivery constitutes the customer having access to the software and evidence of acceptance from the customer. If the software is available on-line or delivered electronically, evidence may also include the provision of authorization codes for use.

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. If software is delivered as an integral functional part of the hardware then the revenue for the hardware and software is recognized as a single unit of revenue. Recorded revenues are reduced by these allowances. We base our 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.

(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 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 was 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 our financial position or results of operations.

In May 2011, the Financial Accounting Standards Board (FASB) issued a new accounting standard update which amends the fair value measurement guidance and includes some enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements based on unobservable inputs. The standard is effective for fiscal years beginning after December 15, 2011. We will adopt this standard in the first quarter of 2012 and we do not expect the adoption will have a material impact on our financial statements and disclosures.

In June 2011, the FASB issued a new accounting standard which eliminates the current option to report other comprehensive income and its components in the statement of stockholders' equity. Instead, an entity will be required to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. The standard is effective for fiscal years beginning after December 15, 2011. The adoption of this standard will not have a material impact, as we were already presenting in this manner. Therefore, we have already adopted this standard.

In September 2011, the FASB issued a revised accounting standard, which is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. The guidance is effective January 1, 2012 with early adoption permitted. We intend to adopt this guidance effective January 1, 2012. The adoption of the guidance is not expected to have a material impact on our financial position or results of operations.

(Amounts in Thousands, Except Share and Per Share Data)

(3) Acquisitions

Multicast Acquisition

On March 16, 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 $17,668. 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, were 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 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 since March 16, 2010 have been included in the Consolidated Statements of Operations. Revenue and net income after acquisition are not provided as it is impracticable to distinguish due to the integration of sales, delivery and overhead into our overall regional and global operations.

(Amounts in Thousands, Except Share and Per Share Data)

(3) Acquisitions (Continued)

Benchmark 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 353,774 shares of our common stock and approximately $4,905 in cash (the "Cash Consideration") at the time of acquisition. We valued the 353,774 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. See Note 8, "Acquisition Liabilities", for further details as of December 31, 2011 and 2010, respectively. Pursuant to the agreement, we put $2,000 into escrow for potential future obligations, which was included in "Restricted Cash" in the Balance Sheet as of December 31, 2010. In August 2011, the $2,000 in escrow was released and delivered to us. 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 fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the 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 which include revenue of $16,009 and net income of $586.

Visual

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.

(Amounts in Thousands, Except Share and Per Share Data)

(3) Acquisitions (Continued)

Accela 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 $5,309. 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 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	$	1,217
Property and equipment		172
Intangible assets – software		190
Intangible assets – customer list		860
Intangible assets - trademark		10
Goodwill		4,531
Total assets acquired		6,980
Deferred tax liability		(203)
Current liabilities and assumed debt		(1,468)
Net assets acquired	$	5,309

The results of operations of Accela since September 8, 2010 have been included in the Consolidated Statements of Operations. Revenue and net income after acquisition are not provided as it is impracticable to distinguish due to the integration of sales, delivery and overhead into our overall regional and global operations.

(Amounts in Thousands, Except Share and Per Share Data)

(3) Acquisitions (Continued)

Megahertz 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 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	$	3,149
Property and equipment		165
Intangible assets – backlog		276
Intangible assets – customer list		399
Intangible assets – customer list		23
Goodwill		845
Total assets acquired		4,857
Current liabilities		(1,099)
Net assets acquired	$	3,758

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 which include revenue of $4,033 and net income of $49.

(Amounts in Thousands, Except Share and Per Share Data)

(3) Acquisitions (Continued)

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 is based on 10 percent of revenue and meeting earnings targets over a four-year period after closing. See Note 8, “Acquisition Liabilities,” for further details as of December 31, 2011 and 2010, respectively. 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 signed an amendment to the securities purchase agreement to issue 265,262 shares valued at $3,053 for the full settlement of the contingent acquisition liabilities of Brickbox. These shares were issued on May 23, 2011.

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

Current assets	$	4,241
Property and equipment		1,126
Intangible assets – customer list		2,900
Intangible assets – noncompete		100
Goodwill		8,940
Total assets acquired		17,307
Deferred tax liability		(654)
Current liabilities and assumed debt		(3,027)
Net assets acquired	$	13,626

The results of operations of Brickbox have been included in the Consolidated Statements of Operations since September 21, 2010. Revenue and net income after acquisition are not provided as it is impracticable to distinguish due to the integration of sales, delivery and overhead into our overall regional and global operations.

(Amounts in Thousands, Except Share and Per Share Data)

(3) Acquisitions (Continued)

KickApps Acquisition

On January 28, 2011, we acquired KickApps Corporation, a Delaware corporation (“KickApps”) and provider of solutions that enable the creation and management of next generation video-based Web experiences, in exchange for $4,027 in cash and 2,990,551 shares of our common stock valued at a price of $13.55 (with a discount of $12,503 due to the restriction on the sale of these shares), for a total of $28,019. 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 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	$	2,023
Property and equipment		1,326
Intangible assets –developed software		2,000
Intangible assets – customer list		3,000
Intangible assets – trademark		100
Goodwill		27,584
Total assets acquired		36,033
Deferred tax liability		(1,750)
Current liabilities		(2,237)
Net assets acquired	$	32,046

The results of operations of KickApps for the period from January 29, 2011 to December 31, 2011 have been included in the Consolidated Statements of Operations. Revenue and net income after acquisition are not provided as it is impracticable to distinguish due to the integration of sales, delivery and overhead into our overall regional and global operations.

Kyte Acquisition

On January 21, 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 $3,607 in cash and 189,348 shares of our common stock at a price of $13.91 (with a discount of $477 due to the restriction on the sale of these shares for 6 months), for a total of $2,158. We are holding 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 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	$	438
Property and equipment		71
Intangible assets – developed software		719
Intangible assets – customer list		149
Intangible assets – trademark		27

Goodwill	5,137
Total assets acquired	6,542
Deferred tax liability	(456)
Current liabilities	(320)
Net assets acquired	$ 5,765

The results of operations of Kyte for the period from January 21, 2011 to December 31, 2011 have been included in the Consolidated Statements of Operations. Revenue and net income after acquisition are not provided as it is impracticable to distinguish due to the integration of sales, delivery and overhead into our overall regional and global operations.

KIT DIGITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Share and Per Share Data)

(3) Acquisitions (Continued)

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 $4,689 due to the restriction on the sale of these shares for 1 year), for a total of $15,341. 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 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	$	10,064
Property and equipment		390
Intangible assets – developed software		682
Intangible assets – customer list		2,183
Intangible assets – non-compete		22
Goodwill		21,011
Total assets acquired		34,352
Deferred tax liability		(860)
Current liabilities		(6,186)
Net assets acquired	$	27,306

The results of operations of Kewego for the period from January 27, 2011 to December 31, 2011 have been included in the Consolidated Statements of Operations. Revenue and net income after acquisition are not provided as it is impracticable to distinguish due to the integration of sales, delivery and overhead into our overall regional and global 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 $13.97 (with a discount of $40 due to the restriction on the sale of these shares for 6 months and a discount of $26 for shares held in escrow), for a total of $263. Additionally, the cost includes a fair value for contingent consideration of $5,112, 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 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	$	162
Property and equipment		57
Intangible assets – trademark		74
Intangible assets – non-compete		10
Goodwill		7,102
Total assets acquired		7,405
Current liabilities		(130)

Net assets acquired	$ 7,275

The results of operations of WWB for the period from February 22, 2011 to December 31, 2011 have been included in the Consolidated Statements of Operations. Revenue and net income after acquisition are not provided as it is impracticable to distinguish due to the integration of sales, delivery and overhead into our overall regional and global operations.

(Amounts in Thousands, Except Share and Per Share Data)

(3) Acquisitions (Continued)

ioko Acquisition

On May 2, 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. ioko provides end-to-end managed cloud-based platform solutions for multi-screen video delivery over connected Internet Protocol ("IP") devices to tier-one telecommunications, cable, media and entertainment companies around the world. Total consideration was $74,478 in cash and 1,509,804 of our common stock valued at a price of $10.88 (with a discount of $3,905 due to the restriction on the sale of these shares) for a total value of $12,522. In addition, the cost includes a fair value of contingent consideration of $3,360 based on meeting revenue and earnings targets during the twelve month periods ending March 31, 2012 and March 31, 2013. We are holding $9,000 of the cash and 232,378 shares of the merger consideration in escrow for a period not to exceed 18 months following the merger. Included in this agreement is an employee incentive plan for a total potential payment of our common stock of $7,500 upon meeting specified performance targets during the twelve month periods ending March 31, 2012 and March 31, 2013 and the six month period ended September 30, 2013. We have allocated the aggregate cost of the acquisition to ioko'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 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	$	38,761
Property and equipment		2,320
Intangible assets – customer list		37,000
Intangible assets – trademark		180
Intangible assets – non-compete		700
Goodwill		31,202
Total assets acquired		110,163
Deferred tax liability		(6,574)
Current liabilities and assumed debt		(13,229)
Net assets acquired	$	90,360

The results of operations of ioko for the period from May 2, 2011 to December 31, 2011 have been included in the Consolidated Statements of Operations. Revenue and net income after acquisition are not provided as it is impracticable to distinguish due to the integration of sales, delivery and overhead into our overall regional and global operations.

(Amounts in Thousands, Except Share and Per Share Data)

(3) Acquisitions (Continued)

Polymedia Acquisition

On May 17, 2011 we acquired Polymedia S.P.A. ("Polymedia") a company incorporated in Italy with its principal office in Milan. Polymedia was the IP video platform-provisioning subsidiary of TXT e-solutions, a public company listed on the Italian Stock Exchange. Total consideration was $24,283 in cash and 1,178,381 shares of our common stock valued at a price of $11.89 (with a discount of $969 due to the restriction on the sale of the shares in escrow) for a total of $13,041. In addition, the cost includes a fair value of contingent consideration of $2,750 based on meeting specified revenue and gross margin targets during the 12-month periods ending May 31, 2012 and May 31, 2013. We are holding 354,286 shares of the merger consideration in escrow for a period of up to 12 months following the closing date. We have allocated the aggregate cost of the acquisition to Polymedia'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 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	$	11,417
Property and equipment		890
Intangible assets – developed software		1,413
Intangible assets – customer list		7,067
Intangible assets – trademark		57
Intangible assets – non-compete		254
Goodwill		26,074
Total assets acquired		47,172
Deferred tax liability		(1,825)
Current liabilities and assumed debt		(5,273)
Net assets acquired	$	40,074

The results of operations of Polymedia for the period from May 17, 2011 to December 31, 2011 have been included in the Consolidated Statement of Operations. Revenue and net income after acquisition are not provided as it is impracticable to distinguish due to the integration of sales, delivery and overhead into our overall regional and global operations.

Peerset Acquisition

On June 9, 2011, we acquired the assets of Peerset, Inc. ("Peerset"), a Canadian based company engaged in developing technology to provide content recommendation services, in exchange for 10,611 shares of our common stock valued at a price of $11.71 for a total of $124 and cash of $1,375. The Peerset acquisition was primarily a purchase of intellectual property and a dedicated research and development team related to content recommendation technology, and the company was generating virtually no reported revenue at the time of purchase. We have allocated the aggregate cost of the acquisition to Peerset'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 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	$	-
Intangible assets – developed software		400
Goodwill		1,099
Total assets acquired		1,499
Current liabilities		-

Net assets acquired	$	1,499

The results of operations of Peerset for the period from June 9, 2011 to December 31, 2011 have been included in the Consolidated Statement of Operations. Revenue and net income after acquisition are not provided as it is impracticable to distinguish due to the integration of sales, delivery and overhead into our overall regional and global operations,

(Amounts in Thousands, Except Share and Per Share Data)

(3) Acquisitions (Continued)

Digital Media Production Acquisition

On October 3, 2011, we acquired Digital Media Production a.s. ("DMP"), a Czech company with its principal office in Prague. A former competitor of Brickbox, DMP is engaged in multimedia video production with a focus on enterprise customers. We acquired DMP in exchange for $2,750 cash and 42,500 shares of our common stock valued at a price of $7.53 for a total of $320. The consideration also includes contingent consideration of $4,284 based upon meeting revenue and profit targets for the periods ending December 31, 2011, December 31, 2012 and December 31, 2013. We are holding 7,650 shares of the consideration in escrow pending the end of the first contingency period and will hold 15% of each contingency payment in escrow for 1 year following the end of that contingency period. We have allocated the aggregate cost of the acquisition to DMP'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	$	971
Property and equipment		1
Intangible assets - customer list		500
Goodwill		6,289
Total assets acquired		7,761
Current liabilities		(265)
Deferred tax liability		(95)
Deferred revenue - long term		(41)
Other long-term liabilities		(6)
Total liabilities		(407)
Net assets acquired	**$**	**7,354**

The results of operations of DMP for the period from October 3, 2011 to December 31, 2011 have been included in the Consolidated Statements of Operations. Revenue and net income after acquisition are not provided as it is impracticable to distinguish due to the integration of sales, delivery and overhead into our overall regional and global operations.

(Amounts in Thousands, Except Share and Per Share Data)

(3) Acquisitions (Continued)

Sezmi Acquisition

On December 30, 2011, we acquired substantially all the assets and assumed certain liabilities of Sezmi Corporation ("Sezmi") a Delaware corporation, pursuant to an Asset Purchase Agreement dated as of December 30, 2011. Headquartered in Belmont, CA, Sezmi is a leading global provider of broadband-broadcast hybrid TV solutions. Sezmi employs a cloud-based software-as-a-service model and its target customers are service operators, such as telecommunication companies and Internet service providers, as well as content providers who desire to provide licensed or owned video content to subscribers across mobile and Internet protocol (IP)-connected home entertainment devices. Total consideration was $7,850 in cash, the assumption of $16,526 in liabilities, $2,625 owed to the shareholders of Sezmi which will be issued in shares and held in escrow for a period of up to 12 months following the closing date and contingent consideration based upon revenue and other targets totaling $25,003. 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.

Total consideration was $7,850 in cash, the assumption of $16,526 in liabilities, $2,625 owed to the shareholders of Sezmi which will be issued in shares and held in escrow for a period of up to 12 months following the closing date and contingent consideration based upon revenue and other targets totaling $25,003.

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

Current assets	$	138
Property and equipment		400
Software		1,000
Goodwill		50,465
Total assets acquired		52,003
Current liabilities		-
Net assets acquired	**$**	**52,003**

There were no results of operations of Sezmi for the period from December 30, 2011 to December 31, 2011 and therefore have not been included in the Consolidated Statements of Operations.

Selected unaudited pro forma combined results of operations for the year ended December 31, 2010, assuming the Multicast, Benchmark, Brickbox, Accela, Megahertz, Kyte, Kewego, Kickapps, WWB, IOKO, Polymedia, Peeset, and DMP acquisitions occurred on January 1, 2010 using actual unaudited figures from each entity prior to acquisition, are presented as follows:

Total revenue	$	221,799
Net loss	$	(48,675)

Selected unaudited pro forma combined results of operations for the year ended December 31, 2011, assuming the Kyte, Kewego, Kickapps, WWB, IOKO, Polymedia, Peeset, and DMP acquisitions occurred on January 1, 2011 using actual unaudited figures from each entity prior to acquisition, are presented as follows:

Total revenue	$	251,851
Net loss	$	(22,663)

(Amounts in Thousands, Except Share and Per Share Data)

(4) Accounts Receivable

Net accounts receivable consisted of the following:

	December 31,			
		2011		**2010**
Trade accounts receivable	$	77,402	$	30,372
Allowance for doubtful accounts		(3,432)		(1,023)
Accounts receivable, net	$	73,970	$	29,349

Bad debt expense for the years ended December 31, 2011, 2010 and 2009 were $1,708, $875 and $461 respectively.

(5) Loan Receivable

		December 31, 2011	**Dece**
Dec 2010 Loan receivable on sale of subsidiary	$	8,632	$
Less current		(2,756)	
Loan receivable, net of current	$	5,876	$

In December 2010, we lent $10,847 in relation to the sale of a Czech subsidiary. It matures on January 28, 2015. Commencing on February 28, 2011, payments are due in forty-eight equal consecutive payments of $226. The loan is secured by accounts receivable, cash and other receivables.

(6) Notes Payable

On December 30, 2011, we signed a note payable in the amount of $2,525, for a portion of the liabilities assumed in the Sezmi acquisition. The note is to be paid in full on or before April 1, 2012 and includes no interest rate factor

(7) Secured Notes Payable

		December 31, 2011	**De**
April 2010 secured note payable for $5,000, net of debt discount of $84 and $142, respectively	$	3,388	$
June 2010 secured note payable for $1,000, net of debt discount of $13 and $22, respectively		740	
May 2011 secured note payable for $15,000, net of debt discount of $854		14,146	
		18,274	
Less current		(6,406)	
Secured notes payable, net of current		11,868	

In May 2011, we received $15,000 in gross proceeds from the issuance of a note to a third party investor, as called for in the negotiated structure of our acquisition of ioko, as a means of financing the additional accounts receivable acquired. Interest is payable monthly in advance at 13.6% per year and matures on July 1, 2014. We paid total interest only of $187 for May and June 2011 and agreed to pay interest only of $122 per month for the next seven months. Commencing on February 1, 2012, payments for principal and interest are due in thirty equal consecutive payments of $561. A final balloon payment of $1,149 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 $13.29 per share, 141,083 shares of our common stock with a seven year life through May 16, 2018. A debt discount of $1,081 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.

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.

As of December 31, 2011 we were in default of a debt covenant on all the secured notes payable which states that we must maintain at least 75% of the dollar value of worldwide cash with one or more banks located in the United States. We have received a waiver from the lender for the period through March 31, 2012. No adjustment was made for the default due to the waiver from the lender. Additionally, we are currently in discussions with the lender to ensure that we are in compliance with this debt covenant in the future.

(Amounts in Thousands, Except Share and Per Share Data)

(8) Acquisition Liabilities

The fair value of the acquisition-related contingent consideration for potential earn-out payments was estimated based on the various revenue and gross margin thresholds in each purchase agreement. The varying potential earn-out amounts were then probability weighted and discounted to present value at the average rate of the weighted average cost of capital for each acquired company and the after-tax cost of debt. The potential earn-out payments must be recognized at their fair value, as of the acquisition date, and included as part of the total consideration transferred. 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.

Acquisition Liabilities consisted of the following:

	December 31, 2011	December 31, 2010
Acquisition liabilities, current portion		
Benchmark	$ 3,960	$ 2,115
WWB	1,427	-
ioko	1,482	-
Polymedia	1,779	-
DMP	1,434	-
Sezmi	6,870	-
	$ 16,952	$ 2,115
Acquisition liabilities, net of current		
Benchmark	$ 1,671	$ 7,382
Brickbox	-	3,023
WWB	3,907	-
ioko	1,359	-
Polymedia	1,067	-
DMP	2,850	-
Sezmi	25,003	-
	$ 35,857	$ 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, 2011 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. As of June 30, 2011, the fair value of the acquisition-related contingent consideration for the first anniversary on May 15, 2011 for Benchmark increased by an additional $2,148 based on the actual earn-out provisions which has been agreed and finalized. As of June 30, 2011, the fair value of the acquisition-related contingent consideration for the second anniversary on May 15, 2012 for Benchmark increased by $3,208 based on changes in management's estimates and other factors that occurred during the three months ended June 30, 2011. The increase in the liabilities were 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. Also in the three months ended June 30, 2011, the working capital liability was agreed and paid for $357 with the difference of $762 recorded as an offset to the "Merger and acquisition and investor relations expenses" line item in the Consolidated Statements of Operations.

Pursuant to the Benchmark Stock Purchase Agreement on May 14, 2010, following the 12-month anniversary of the closing, we agreed to pay the seller in the form of shares of our common stock $0.60 for every $1.00 of recognized revenue generated by Benchmark during the 12-month period following the closing, less the purchase price paid at closing. The price per share of our common stock issuable following the first anniversary of the closing was calculated based on the weighted average price of our common stock for the 30 trading days immediately preceding the first anniversary. Pursuant to an amendment to the Stock Purchase Agreement dated August 2, 2011, the parties agreed to accelerate half of the payment which would otherwise be payable to the seller with respect to the 12 months ending May 15, 2012 (based on financial results ending May 15, 2011), and extended a portion of the balance of the 2012 payment until May 15, 2013. In accordance with the Benchmark Stock Purchase Agreement and the amendment, we issued 816,592 shares of our common stock to the seller for the first anniversary payment. On August 4, 2011, we issued 816,592 shares of our common stock valued at $7,905 in satisfaction of $9,378 of the earn-out provision. The difference of $1,473 was recorded as other income in the Consolidated Statements of Operations due to the change in value of the shares upon issuance. In satisfaction of $1,597 of the earn-out provision, we issued 72,648 shares of our common stock on October 11, 2011 valued at $615, another 27,686 shares of our common stock on November 11, 2011 valued at $342 and paid $640 in cash in the fourth quarter of 2011.

In July 2011, we paid the $1,375 in relation to the Peerset Acquisition liability.

On May 22, 2011, we signed an amendment to the securities purchase agreement to issue 265,262 shares valued at $3,053 for the full settlement of the Brickbox contingent acquisition liabilities estimate of $3,023, with the difference booked to expense in the three months ended June 30, 2011. These shares were issued on May 23, 2011.

(Amounts in Thousands, Except Share and Per Share Data)

(9) Other Current Liabilities

	December 31, 2011	December 31, 2010
Accrued salaries and benefits	$ 14,099	$ 1,805
Assumed liabilites from Sezmi purchse	9,746	-
Other	2,849	1,082
	$ 26,694	$ 2,887

(10) 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, 2010 and December 31, 2011 were 5,806,230, 679,400 and 251,021, 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, 2010 and December 31, 2011 were 2,886,038, 679,400 and 251,021, 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.

(Amounts in Thousands, Except Share and Per Share Data)

(10) 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, 2011	December 31, 2010	Re-measurement date January 1, 2009
Fair value of warrants with anti-dilution provisions	$ (557)	$ (6,096)	$ (15,736)
Significant assumptions (or ranges):			
Trading market values (1)	$ 8.45	$ 16.04	$ 5.25
Term (years) (3)	1.35	2.35	4.35 to 5.00
Volatility (1)	57.00%	57.73%	101.98%
Risk-free rate (2)	0.25%	0.61%	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 or income associated with changes in the fair values of our derivative financial instruments for the year ended December 31, 2011 was $3,679 of income and for the years ended December 31, 2010 and December 31, 2009 was $12,891 and $6,015 of expense, 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.

(Amounts in Thousands, Except Share and Per Share Data)

(11) 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, 2011, 2010 and 2009 were $500, $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 10, “Derivative Liabilities” for a description of warrant repurchases from KIT Media and Wellington.

See Note 17, “Commitments and Contingencies”, for a description of Management Agreement with KIT Capital.

See Note 18, “Stock Issuances”, for a description of warrant repurchase from Robin Smyth, Chief Financial Officer.

(12) Property and Equipment

Property and equipment consisted of the following:

	December 31, 2011	December 31, 2010	Estimated Useful Lives in Years
Office equipment capital lease	$ 699	$ 196	3 - 5
Motor vehicles capital lease	28	103	2.25 - 5
Computer software	3,493	1,150	1 - 4
Leasehold improvements	1,903	1,013	1 - 8.5
Furniture and fixtures	1,818	1,157	2 -10
Office and network equipment	16,045	9,338	1 -5
	23,986	12,957	
Accumulated depreciation and amortization	(11,916)	(6,970)	
	$ 12,070	$ 5,987	

Depreciation and amortization expense on property and equipment and capitalized internal-use software for the years ended December 31, 2011, 2010 and 2009 were $5,110, $4,059 and $1,847 respectively.

(Amounts in Thousands, Except Share and Per Share Data)

(13) Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill as of December 31, 2011 and 2010, respectively are as follows:

	Goodwill
Balance as of January 1, 2010	$ 36,492
Acquisitions	53,144
Loss on disposal	(632)
Balance as of December 31, 2010	$ 89,004
Acquisitions	174,270
Balance as of December 31, 2011	$ 263,274

Intangible assets include the following:

	December 31, 2011			
	Weighted Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with determinable lives:				
Software	4.0	$ 16,861	$ (6,168)	$ 10,693
Customer list	7.0	64,905	(11,654)	53,251
Trademarks	3.5	621	(537)	84
Other	2.5	1,362	(555)	807
Total		$ 83,749	$ (18,914)	$ 64,835

	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 years ended December 31, 2011, 2010 and 2009 were $9,802, $4,309 and $2,355 respectively.

KIT DIGITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Share and Per Share Data)

(13) Goodwill and Other Intangible Assets (continued)

Estimated future annual amortization expense as of December 31, 2011 is as follows:

	Software		Customer List		Trademarks		Other		Total	
2012	$	2,808	$	8,066	$	32	$	354	$	11,260
2013		2,607		7,947		17		344		10,915
2014		2,321		7,921		17		109		10,368
2015		2,051		7,773		17		-		9,841
2016		906		7,171		1		-		8,078
Thereafter		-		14,373		-		-		14,373
Totals	$	10,693	$	53,251	$	84	$	807	$	64,835

(14) 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.

(15) Fair Value Measurement

The following table provides the assets and liabilities carried at fair value measured on a recurring basis:

	Fair Value Measurements at December 31, 2011							
	Carrying Value		**Level 1**		**Level 2**		**Level 3**	
Assets:								
Investments	$	1,915	$	-	$	1,915	$	-
Liabilities:								
Acquisition liabilities (See Note 8)		52,809		-		-		52,809
Derivative liability (See Note 10)		557		-		-		557

	Fair Value Measurements at December 31, 2010							
	Carrying Value		**Level 1**		**Level 2**		**Level 3**	
Assets:								
Investments	$	1,050	$	-	$	1,050	$	-

Liabilities:				
Acquisition liabilities (See Note 8)	12,520	-	-	12,520
Derivative liability (See Note 10)	6,096	-	-	6,096

A reconciliation of the change in the carrying value of the level 3 acquisition liabilities is as follows:

	2011	2010
Balance at January 1	$ 12,520	$ 1,075
Payment of acquisition liabilities	(13,900)	-
Increase in earnout estimates and new acquisitions	54,189	11,445
Balance at December 31	$ 52,809	$ 12,520
The amount of total gains or losses for the year included in losses attributable to the change in unrealized gains or losses relating to liabilities still held at the end of the year		
Included in statement of operations in Merger and acquisition and investor relations expenses	(680)	-
Included in statement of operations in Interest expense	481	-
Included in statement of operations in Other (expense) income	1,443	-

A reconciliation of the change in the carrying value of the level 3 derivative liability is as follows:

	2011	2010
Balance at January 1	$ 6,096	$ 21,314
Reduction of outstanding warrants	(5,539)	(15,218)
Balance at December 31	$ 557	$ 6,096

The amount of total gains or losses for the year included in losses attributable to the change in unrealized gains or losses relating to liabilities still held at the end of the year

	2011	2010
Included in statement of operations in Derivative income (expense)	$ 3,679	$ (12,891)

(Amounts in Thousands, Except Share and Per Share Data)

(16) 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:

	2011	2010
United States Operations	$ (19,149)	$ (21
Foreign Operations	(7,158)	(13
Total	$ (26,307)	$ (34

The components of the income tax expense for the years ended December 31 are as follows:

	2011	2010
Current Taxes:		
Federal	$ 295	$
State	417	
Foreign	510	1
Total current tax expense	1,222	1
Deferred Taxes:		
Federal	845	
State	10	
Foreign	(1,261)	
Total deferred tax expense (benefit)	(406)	(1
Provision for income taxes	$ 816	$

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:

	2011	2010	2009
U.S. Statutory Rate	(34.00)%	(34.00)%	34.00%
State and Local Taxes, net of federal benefit	0.74%	(1.00)%	2.44%
Foreign Operations	(8.12)%	2.29%	(4.46)%
Permanent Differences	23.11%	17.24%	(15.68)%
Change in Valuation Allowance	21.06%	17.35%	(22.21)%
Other	0.31%	(0.39)%	-%

	3.10%	1.49%	(5.91)%

(Amounts in Thousands, Except Share and Per Share Data)

(16) 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:

	2011	2
Deferred Tax Assets:		
Stock-Based Compensation	$ 7,083	$ 2
Compensation	-	
Allowances for Doubtful Accounts	790	
Depreciation and Amortization	944	
Net Operating Losses	99,067	64
Accrued Expenses	163	
Deferred Revenue	1,206	
Restructuring Costs	-	
Other	902	
Total Deferred Tax Assets	110,155	68
Deferred Tax Liabilities:		
Intangible and Fixed Assets	(17,344)	(4
Valuation Allowance	(103,903)	(64
Net Deferred Tax Asset (Liability)	$ (11,092)	$

As of December 31, 2011, the Company had approximately, $173,160 of Federal, $165,224 of State, $143,303 of Local, and $31,651 of Foreign net operating losses (NOL's).

The Federal and State NOL's are available to offset future taxable income through 2031 and expire from 2020 through 2031. The majority of the foreign NOL's have no expiration.

The Company has not recognized a deferred asset for the NOL's at December 31, 2011 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 NOL's in accordance with section 382 of the Internal Revenue Service code, could be limited or expire 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 NOL's may also be limited.

During 2011, our valuation allowance increased by $39,506 from $64,397 in 2010 to $103,903 in 2011. 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.

The Company has not provided deferred tax assets on $20.8 million of undistributed earnings of non-U.S. subsidiaries at December 31, 2011, as it is the company's policy to indefinitely reinvest these earnings in non-U.S. operations.

Generally, all tax years are open for examination by the major taxing jurisdiction to which the Company is subject including federal, state and foreign jurisdictions. The company has not recorded any uncertain tax positions related to its open tax years.

(Amounts in Thousands, Except Share and Per Share Data)

(17) 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, 2011.

Periods January to December unless stated otherwise	Capital	Operating Property
2012	$ 129	$ 5,444
2013	88	3,574
2014	47	2,537
2015	12	2,003
2016	-	1,406
Thereafter	-	3,132
Total Minimum Lease Payments	276	$ 18,096
Less Amount Representing Interest	(14)	
Total Obligations Under Capital Leases	$ 262	

Rent expense amounted to $3,114 and $2,003 for the years ended December 31, 2011 and 2010, 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.

(17) Commitments and Contingencies (continued)

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. In July 2011, following the completion of discovery, defendants made a motion for summary judgment dismissing the remaining claim in the case. Briefing and oral argument on that motion were recently completed and a decision is expected in the spring of 2012. If defendants win this motion, the case is completed, except for the possibility of an appeal by plaintiffs. We believe that there is no merit to this suit, and we intend to continue to defend ourself 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. KIT HD and the Company answered the amended complaint, and the case is currently in 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 appealed to the intermediate appellate court and lost. Plaintiff pursued the appeal to the Court of Appeals and in early March 2012, lost that appeal. Consequently, all of plaintiff's claims against the Wurld shareholder defendants are, or will be, finally dismissed; and this case should move into the discovery phase, as the plaintiff is now likely to move ahead with claims against us and KIT HD. We believe that this lawsuit is without merit, and if necessary the Company intends to defend itself vigorously.

Our company and Mr. Isaza Tuzman have been required to produce documents to the SEC under two simultaneous February 24, 2012 subpoenas issued by the SEC. The investigation includes and we believe may focus on June 2010 transactions in company common stock and a related Form 4 filing by Mr. Isaza Tuzman that reported a purchase of 54,645 shares of company common stock, but we cannot be certain of its scope or outcome. We are cooperating fully with the SEC.

(18) 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.

(18) Stock Issuances (continued)

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.

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.

During the quarter ended June 30, 2011, we issued 3,462,165 shares of common stock. Of this amount, we issued 1,509,804 shares for the acquisition of ioko, 1,178,381 shares for the acquisition of Polymedia, 265,262 shares for the settlement of the contingent acquisition liabilities of Brickbox, 10,611 shares for Peerset acquisition, 25,423 shares for restricted stock, 425,945 shares for the exercise of warrants with proceeds of $2,982, and 63,603 shares for the exercise of options with proceeds of $447.

On September 20, 2011, we completed an underwritten public offering of 3,200,000 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 September 15, 2011. We simultaneously sold 480,000 additional shares of common stock pursuant to an underwriters' over-allotment option. We sold these shares at a price of $9.50 per share and received $34,960 in gross proceeds and approximately $32,105 in net proceeds, after deducting underwriting discounts, commissions, legal fees and other estimated offering expenses.

During the quarter ended September 30, 2011, we issued 4,752,620 shares of common stock. Of this amount, we issued 3,680,000 shares for the public offering, 816,592 shares for the payment of the Benchmark Acquisition liability, 186,929 shares for services, 2,434 shares for the exercise of warrants with proceeds of $17 and 66,665 shares for the exercise of options with proceeds of $529.

During the quarter ended December 31, 2011, we issued 186,647 shares of common stock. Of this amount, we issued 42,500 shares for the acquisition of DMP, 100,334 shares for the payment of the Benchmark Acquisition liability, 11,990 shares for services and 51,568 shares for the exercise of options with proceeds of $384 less 19,745 shares returned and canceled related to the KickApps acquisition.

As of December 31, 2011, the outstanding warrants (excluding the warrants included in the derivative liability of 251,021 and stock-based compensation of 34,286) were 1,020,460 with a weighted average exercise price of $22.32. 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.

(Amounts in Thousands, Except Share and Per Share Data)

(19) Stock-Based Compensation

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 its meetings on March 5, 2011 and August 5, 2011 to amend and increase the number of shares which may be issued under the 2008 Incentive Plan to a new total of 9,500,000 shares. The holders of a majority of our outstanding shares of common stock approved the amendment to the 2008 Incentive Plan at the stockholders meeting held on October 21, 2011. 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 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, 2011, 2010 and 2009, the Company recognized $18,330, $4,705 and $1,922, respectively, of non-cash stock-based compensation expense in the consolidated statements of operations. Included in the 2011 amount of $18,330, is $2,102 for restricted stock units in 2011, $317 for restricted stock and $7,311 for compensation accrued for which stock is to be issued in 2012. 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 with $12, $48 and $48 recognized in the years ended December 31, 2011, 2010 and 2009, respectively. As of December 31, 2011, all of these warrants were vested. The intrinsic value as of December 31, 2011 of these outstanding warrants and exercisable warrants are $130.

As of December 31, 2011, there was approximately $26,513 of total unrecognized compensation cost related to unvested share-based compensation grants, which is expected to be amortized over a weighted-average period of 2.8 years. 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.

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, 2011	Year Ended December 31, 2010
Expected life (in years)	4.00	3.87
Risk-free interest rate	1.26%	1.07%
Volatility	83.49%	65.34%
Dividend yield	0	0

In 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.

(Amounts in Thousands, Except Share and Per Share Data)

(19) Stock-Based Compensation (continued)

A summary of the status of stock option awards and changes during the years ended December 31, 2010 and December 31, 2011 are presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Intrinsic Value
Outstanding at January 1, 2010	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		
Granted	3,717,708	$ 11,17		
Exercised	(234,190)	$ 7.47		
Cancelled, expired, or forfeited	(971,273)	$ 9.79		
Outstanding at December 31, 2011	6,415,669	$ 9.90	3.89	$ -
Exercisable at December 31, 2011	2,261,754	$ 9.30	3.48	$ -

The weighted-average grant-date fair value of option awards granted during the years ended December 31, 2011 and 2010 was $6.71 and $6.22, respectively.

(20) 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

(Amounts in Thousands, Except Share and Per Share Data)

(21) 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 facility closing costs and contract settlement payments in 2013.

The following table summarizes the restructuring charges for the year ended December 31, 2010 and 2011, respectively, for the plan approved in the first quarter 2010:

	Employee Termination Costs	Contract Settlements	Facility Closing Costs	Total
Balance as of December 31, 2009	$ -	$ -	$ 829	$ 829
Additions	2,632	67	1,020	3,719
Reversal	(66)	-	(172)	(238)
Cash payments	(1,354)	(54)	(1,159)	(2,567)
Balance as of December 31, 2010	$ 1,212	$ 13	$ 518	$ 1,743
Additions	-	-	34	34
Reversal	(654)	-	-	(654)
Cash payments	(558)	(8)	(337)	(903)
Balance as of December 31, 2011	$ -	$ 5	$ 215	$ 220

The accrued restructuring of $220 is included in accrued expenses in the consolidated balance sheets as of December 31, 2011.

In the first quarter of 2011, management approved a companywide restructuring plan related to a workforce reduction. Payments against this plan have been completed in 2011.

The following table summarizes the restructuring charges for the year ended December 31, 2010 and 2011, respectively, for the plan approved in the first quarter 2011:

	Employee Termination Costs	Contract Settlements	Facility Closing Costs	Total
Balance as of December 31, 2009	$ -	$ -	$ -	$ -
Additions	-	-	-	-
Reversal	-	-	-	-
Cash payments	-	-	-	-
Balance as of December 31, 2010	$ -	$ -	$ -	$ -
Additions	3,973	-	-	3,973
Reversal	-	-	-	-
Cash payments	(3,973)	-	-	(3,973)
Balance as of December 31, 2011	$ -	$ -	$ -	$ -

The following table summarizes the restructuring charges:

	Year ended December 31, 2011	Year ended December 31, 2010	Year en December 3

Employee termination costs	$ 3,318	$ 2,566	$
Contract settlements	-	67	
Facility closing costs	34	848	
Total restructuring charges	$ 3,352	$ 3,481	$

(Amounts in Thousands, Except Share and Per Share Data)

(22) Integration Expenses

The Company has recorded integration charges related to the cost overlap due to the reorganization and integration of acquisitions of $21,022 year ended December 31, 2011. Integration expenses include one-time expenses for integrating acquired businesses together and eliminating duplication and inefficiencies. This includes rationalizing hosting and delivery infrastructure (data center consolidation, related hardware purchases, trunk T1 and T3 purchases and combinations, etc.) to merging software platforms and physical plant/office combination. These expenses include directly allocable staff time, travel and associated charges related to executing these integration initiatives. These expenses are almost without exception cash-based.

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.

(23) Segment Reporting

We have presented operating segments in the past for Digital Media Solutions and Professional Services but since Professional services represents less than 5% of total assets and total revenues and this segment continues to decrease, we are not presenting financial information for operating segments.

The following table provides revenue and assets by major geographical location.

	Years ended December 31, 2011	2010	2009
Revenue:			
EMEA	$ 137,359	$ 57,517	$ 33,106
AsiaPac	29,319	26,489	10,501
Americas	48,254	22,591	3,677
Total revenue	$ 214,932	$ 106,597	$ 47,284

	December 31, 2011	December 31, 2010
Assets:		
EMEA	$ 92,666	$ 41,374
AsiaPac	10,344	10,861
Americas	28,012	9,319
Corporate	370,715	237,106
Total assets	$ 501,737	$ 298,660

In the assets listed above, Corporate includes all the intangible assets and goodwill.

(24) Quarterly Financial Results (unaudited):

The following table sets forth certain unaudited quarterly results of operations of the Company for the years ended December 31, 2011 and 2010. In the opinion of management, this information has been prepared on the same basis as the audited consolidated financial statements and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts below for a fair statement of the quarterly information when read in conjunction with the audited consolidated financial statements and related notes.

	For the Three Months Ended			
	March 31, 2011	June 30, 2011	Sept. 30, 2011	Dec. 31, 2011
	(In thousands, except per share data)			
Revenues	$ 34,450	$ 48,188	$ 62,276	$ 70,018
Total variable and direct third party costs	$ 12,474	$ 15,333	$ 14,065	$ 14,506
Net income (loss)	$ (12,501)	$ (19,803)	$ 4,788	$ 393
Basic net income (loss) per share	$ (0.34)	$ (0.49)	$ 0.11	$ 0.01
Diluted net income (loss) per share	$ (0.34)	$ (0.49)	$ 0.11	$ 0.01
Basic weighted average common shares	36,573,031	40,063,874	42,553,768	46,282,273
Diluted weighted average common shares	36,573,031	40,063,874	43,434,416	46,753,360

	For the Three Months Ended			
	March 31, 2010	June 30, 2010	Sept. 30, 2010	Dec. 31, 2010
	(In thousands, except per share data)			
Revenues	$ 17,364	$ 23,055	$ 27,746	$ 38,432
Total variable and direct third party costs	$ 6,551	$ 8,561	$ 13,479	$ 17,552
Net income (loss)	$ (18,442)	$ (342)	$ (7,974)	$ (8,502)
Basic net income (loss) per share	$ (1.33)	$ (0.02)	$ (0.34)	$ (0.31)
Diluted net income (loss) per share	$ (1.33)	$ (0.02)	$ (0.34)	$ (0.31)
Basic weighted average common shares	13,878,913	21,404,907	23,355,298	27,537,967
Diluted weighted average common shares	13,878,913	21,404,907	23,355,298	27,537,967

(25) Subsequent Events

On March 23, 2012, we announced a number of significant management and board changes, as follows:

- Kaleil Isaza Tuzman, our current Chairman and Chief Executive Officer, will assume the role of non-executive Chairman of the Board effective March 31, 2012.

- Barak Bar-Cohen, our current Chief Administrative Officer, will assume the role of interim Chief Executive Officer on March 31, 2012, while we conduct a search, internally and externally, for a permanent Chief Executive Officer.

- Santo Politi, an independent member of our board of directors, resigned as a director of the company.

- Gavin Campion, our President, Robin Smyth, our Chief Financial Officer, and Christopher Williams, our Chief Technology Officer, resigned as directors of the company, but retain their positions as officers of the company.

KIT DIGITAL, INC.
TRANSITION AGREEMENT WITH KALEIL ISAZA TUZMAN
SUMMARY OF TERMS

March 23, 2012

General:

Kaleil Isaza Tuzman ("Isaza Tuzman") is currently the Chairman of the Board and Chief Executive Officer of KIT digital, Inc., a Delaware corporation (the "Company"). Isaza Tuzman and the Company (together, the "Principal Parties") have agreed that Isaza Tuzman will step down from his role as Chief Executive Officer, but will continue to serve as Chairman of the Board of Directors (the "Board") of the Company, pursuant to the terms and conditions set forth in this Summary of Terms ("Term Sheet"). The parties agree that promptly following acceptance of this Term Sheet they shall negotiate and enter into such definitive agreement(s) as may be necessary or appropriate in accordance with applicable laws and consistent with the terms hereof (the "Agreement").

Role and Responsibilities:

On March 31, 2012 or as soon as practicable thereafter (the "Transition Date"), Isaza Tuzman shall step down from his role as Chief Executive Officer of the Company ("Current Role") but shall remain as Chairman of the Board ("Continuing Role"). During the period of time between execution of this Term Sheet and the Transition Date (such period referred to herein as the "Transition Period"), Isaza Tuzman shall continue to exercise his day-to-day executive responsibilities of his Current Role. Following the Transition Period, in his Continuing Role as Chairman, or as a member, of the Board Isaza Tuzman shall, among other things:

- Participate as a member, and Chairman, of the Board
- Participate as a member of the committee (the "Search Committee") created by the Board to identify, interview, negotiate with and, ultimately, make a recommendation to the Board regarding hiring a future Chief Executive Officer.
- Provide assistance to the Board and the Strategic Transaction Committee in connection with any strategic alternatives planning process as may be undertaken from time to time by the Board or the Strategic Transaction Committee.
- At the request of management of the Company or the Board, provide assistance to the executive management of the Company, from time to time, in connection with operations, financing transactions, and other matters as the Board or executive management may request from time to time.
- Such other customary duties, rights and responsibilities of a chairman of a board of directors, and any other duties, rights or responsibilities as may be mutually agreed by the parties.

The Principal Parties acknowledge and agree that the Bylaws of the Company must be amended by the Board in order to give effect to the non-executive Chairman role contemplated hereby and the Principal Parties agree to use their reasonable efforts to cause such amendment to be approved and adopted.

Compensation:

The Principal Parties acknowledge and agree that they are parties to several agreements, plans and documents, including, without limitation, (a) that certain Offer of Employment entered into on October 23, 2011 by and between Isaza Tuzman and the Company (the "Employment Agreement"), (b) that certain Performance Share Agreement entered into by and between the Principal Parties dated August 31, 2011 (the "Performance Agreement"), and (c) that certain Executive Management Agreement by and between the Principal Parties dated December 18, 2007, as amended (the "Executive Management Agreement") (collectively the Employment Agreement, the Performance Agreement, the Executive Management Agreement and such other agreements, plans or documents to which the Principal Parties have entered into and remain bound by are referred to herein as the "Tuzman Agreements"). The Principal Parties agree that (i) promptly following the execution of this Term Sheet they shall work together in good faith to identify all of the currently operative Tuzman Agreements and determine whether such Tuzman Agreements will be amended, modified, terminated or unchanged by the Agreement, and (ii) notwithstanding any provision hereof to the contrary, no provision of this Term Sheet shall be interpreted or construed as to result in an outcome any worse than what Isaza Tuzman would have otherwise been entitled to had he not voluntarily agreed to step aside from his role as Chief Executive Officer, in each case consistent with the terms and intent hereof; *provided*, *however*, that to the extent this Term Sheet modifies or amends Isaza Tuzman's Employment Agreement with respect to his title, responsibilities or base compensation, the provisions of this Term Sheet shall remain in full force and effect and shall be enforceable by and against the Principal Parties in accordance with the terms hereof

In addition to the foregoing:

- At the end of the Transition Period, the Company shall issue a promissory note in the principal amount calculated in accordance with the last sentence in this clause, which shall accrue interest at a rate of 10% per annum, and shall be repaid by the Company in equal monthly installments over a six (6) month term (the "Isaza Tuzman Note"); *provided*, *however*, that the entire principal and interest due and owing under the Isaza Tuzman Note shall immediately mature and become due and payable upon (a) any substantial equity or debt financing transaction of the Company, or (b) a Change of Control as defined under the Company's most recent equity incentive plan. The Isaza Tuzman Note is being issued by the Company in respect to certain amounts that the Company was previously obligated to pay Isaza Tuzman pursuant to the Executive Management Agreement. The principal amount will be the sum of the nominal amount due under the Executive Management Agreement (without discount) as of the date hereof plus four months of Isaza Tuzman's nominal gross salary as of the date hereof less the tax benefit Isaza Tuzman will receive from such payment.

- The Company shall pay Isaza Tuzman, in the ordinary course of business, his management bonus for 2011 as per the Company's standard policies and procedures ("2011 Management Bonus"). The amount of this bonus shall be determined and paid by the Compensation Committee of the Board (or paid by the Company upon its authorization) in due haste, and shall take into account the period of time Isaza Tuzman worked prior to March 31, 2012.
- All stock options (the "Stock Options") granted and issued to Isaza Tuzman pursuant to the Company's incentive stock plans over time (together, the "Stock Option Plans") together with all restricted stock units (the "RSUs") and performance contingent restricted stock units (the "PCRSUs") awarded and issued to Isaza Tuzman pursuant to those certain Restricted Stock Unit Program (the "RSU Program") and Performance Contingent Restricted Stock Unit Program (the "PCRSU Program") shall continue to vest pursuant to the terms and conditions of the Stock Option Plans, the RSU Program and the PCRSU Program, as the case may be, irrespective of Isaza Tuzman's ongoing role in the Company or on the Board.
- At the end of the Transition Period, the Company shall pay Isaza Tuzman an amount, in cash, determined pursuant to Section 7.1 of the Employment Agreement, which amount shall be equal to the greater of (i) the total amount paid to Isaza Tuzman by KIT Capital, Ltd. ("KIT Capital") during the twelve (12) month period prior to the effective date of the Employment Agreement, pursuant to the terms of the Executive Management Agreement, and (ii) the amount of base compensation paid to Isaza Tuzman by the Company during March 2012 multiplied by twelve (12) (the product of the calculation described in (i) and (ii) above referred to herein as the "Cash Severance Payment").

- The Company shall reimburse Isaza Tuzman for his actual, out-of-pocket reimbursable business expenses incurred in connection with his Current Role including, but not limited to, the balance due on Isaza Tuzman's Company American Express Credit Card as of the end of the Transition Period to the extent so incurred (collectively, the "Expense Reimbursement"). Following the Transition Period, Isaza Tuzman shall be entitled to have his actual, out-of-pocket expenses that are incurred in connection with the Services, reimbursed in connection with the Company's then-current expense reimbursement.

The Principal Parties agree that, in the context of negotiating the Agreement, they shall negotiate in good faith a mutual release of any and all claims or losses that one Principal Party may have against the other.

Indemnification and Advancement: Isaza Tuzman shall be entitled to full and complete indemnification and advancement, as provided under the Delaware General Corporation Law, the Company's Certificate of Incorporation, the Company's Bylaws, and Section 10 of the Employment Agreement. Without limiting the generality of the foregoing, Isaza Tuzman shall be entitled to indemnification, reimbursement and advancement by the Company to the fullest extent permitted by Delaware law and expressly set forth in the Agreement, including, but not limited, for any and all costs, fees, expenses (including, but not limited to, attorneys' fees, costs and expenses), damages, claims, losses, fines, penalties, or otherwise, that may be incurred by him by reason of the fact of his service as an officer or director of the Company, including, without limitation, in any proceeding by or before any foreign or domestic governmental body, judicial body, regulatory agency, or other body.

Non-Disparagement: Subject to each Principal Party's disclosure obligations or duty of candor before any governmental body or in any judicial process, each Principal Party agrees that it shall not disparage the other. Subject to the Company's obligations and duty described in the foregoing sentence, the Company shall respond to any third party inquiry regarding Isaza Tuzman, that Isaza Tuzman and the Company mutually agreed that Isaza Tuzman would step down from his Chief Executive Officer role and that Isaza Tuzman will remain as Chairman of the Board, will remain a valuable member of the Company, and will continue to lead overall corporate strategy in his Continuing Role. The Company shall also ensure that its corporate and employee/consultant policies and procedures adequately disclose the Company's non-disparagement obligations set forth herein or in the Agreement. In addition to the foregoing, each Principal Party shall use its reasonable best efforts to cause, as applicable, its officers, directors, employees, agents, consultants and advisors to comply with this Non-Disparagement provision and, in the case of the Company, the Company statement regarding Isaza Tuzman. In addition to the liability of any officer, director, employee, agent, consultant or advisor for breach of the foregoing, each Principal Party shall be jointly and severally liable for the breach of the foregoing by any of its officers, directors, employees, agents, consultants or advisors who or that breaches the foregoing

Non-Competition:	At such time as Isaza Tuzman no longer serves on the Board, Isaza Tuzman shall be released from and no longer bound by any and all non-competition clauses previously executed on behalf of the Company; *provided*, *however*, that Isaza Tuzman shall not work for a "direct competitor" of the Company for a period of the later to occur of (a) three (3) months following the expiration of his term as a director of the Company and (b) six (6) months following the execution of the Agreement.
Press Release	The Principal Parties shall collaborate and must mutually agree upon the content, substance and language set forth in the Company's press release announcing the material terms and conditions of this Term Sheet, if required by either Principal Party.
Expenses:	The Company shall pay all of Isaza Tuzman's fees, costs and expenses (including attorneys' fees, costs and expenses) incurred in connection with the negotiation and documentation of this Term Sheet and the definitive Agreement, and all other documents and agreements contemplated in this Term Sheet.
Commercial Guarantees; Other Matters	As promptly as is practicable and in any event within 180 days after signing the Agreement, the Company will arrange for the release or satisfaction of any commercial obligations or guarantees in favor of third parties to which Isaza Tuzman became and is obligated on the Company's behalf in the ordinary course of business or at the Company's request. As long as Isaza Tuzman is the Chairman of the Board, he will have full use of an office and executive assistant as is made available by the Company.
Governing Law; Jurisdiction and Venue:	This Term Sheet and the Agreement shall be governed by the laws of the State of Delaware, without regard to the principles of conflict of laws thereof. The parties agree to submit to the personal jurisdiction of the state and Federal courts sitting in the State of Delaware, City of Wilmington. Any dispute under this Term Sheet or the Agreement shall be resolved in the state or Federal courts of the State of Delaware and each party agrees not to dispute or contest the jurisdiction of the courts of such jurisdiction concerning any such dispute.

THE PARTIES SHALL PROMPTLY NEGOTIATE IN GOOD FAITH CONCERNING THE DEFINITIVE AGREEMENT(S) (THE "AGREEMENT") NECESSARY TO FORMALIZE THE TERMS AND CONDITIONS SET FORTH HEREIN. NOTWITHSTANDING THE FOREGOING, THE PARTIES INTEND TO BE LEGALLY BOUND BY THE TERMS AND PROVISIONS SET FORTH IN THIS SUMMARY OF TERMS AND IF THE PARTIES ARE UNABLE TO AGREE UPON THE FORM OF SUCH DEFINITIVE AGREEMENT(S) THIS SUMMARY OF TERMS SHALL CONTROL ISAZA TUZMAN'S TRANSITION FROM HIS CURRENT ROLE TO HIS CONTINUING ROLE AND ALL MATTERS RELATED THERETO.

*** * ***

IN WITNESS WHEREOF, the parties have entered into this Summary of Terms this 23rd day of March, 2012.

KIT DIGITAL, INC.

By: /s/Robin Smyth
Name: Robin Smyth
Title: CFO

/s/Kaleil Isaza Tuzman
Kaleil Isaza Tuzman

EXHIBIT 10.10

LOAN AND SECURITY AGREEMENT

Dated as of May 16, 2011

between

KIT DIGITAL, INC.,
a Delaware corporation,

as "Borrower",

and

VENTURE LENDING & LEASING VI, INC.,
a Maryland corporation,

as "Lender"

LOAN AND SECURITY AGREEMENT

The Borrower and Lender have entered or anticipate entering into one or more transactions pursuant to which Lender agrees to make available to Borrower a loan facility governed by the terms and conditions set forth in this document and one or more Supplements executed by Borrower and Lender which incorporate this document by reference. Each Supplement constitutes a supplement to and forms part of this document, and will be read and construed as one with this document, so that this document and the Supplement constitute a single agreement between the parties (collectively referred to as this "Agreement").

Accordingly, the parties agree as follows:

ARTICLE 1 - INTERPRETATION

1.1 Definitions. The terms defined in Article 10 and in the Supplement will have the meanings therein specified for purposes of this Agreement.

1.2 Inconsistency. In the event of any inconsistency between the provisions of any Supplement and this document, the provisions of the Supplement will be controlling for the purpose of all relevant transactions.

ARTICLE 2 - THE COMMITMENT AND LOANS

2.1 The Commitment. Subject to the terms and conditions of this Agreement, Lender agrees to make term loans to Borrower from time to time from the Closing Date and to, but not including, the Termination Date in an aggregate principal amount not exceeding the Commitment. The Commitment is not a revolving credit commitment, and Borrower does not have the right to repay and reborrow hereunder. Each Loan requested by Borrower to be made on a single Business Day shall be for a minimum principal amount set forth in the Supplement, except to the extent the remaining Commitment is a lesser amount.

2.2 Notes Evidencing Loans; Repayment; Currency of Repayments.

(a) Each Loan shall be evidenced by a separate Note executed by Borrower payable to the order of Lender, in the total principal amount of the Loan. Principal and interest of each Loan shall be payable at the times set forth in the Note and regularly scheduled payments thereof and each Final Payment shall be effected by automatic debit of the appropriate funds from the Borrowers' Primary Operating Account as specified in the Supplement hereto. Repayment of the Loans and payment of all other amounts owed to Lender will be paid by Borrower in the currency in which the same has been provided ("Contractual Currency"). Borrower shall incur the cost in the event of and in respect of any conversion of a currency to the Contractual Currency.

(b) In the event Borrower is required to deduct or withhold any Taxes (hereinafter defined) from any amount payable to Lender hereunder, Borrower agrees to pay such additional amount as may be necessary to ensure that Lender receives a net amount, free and clear of, and without deduction or withholding for, or on account of, all Taxes, equal to the full amount which it would have received had no such withholding been made, provided that if Lender assigns all or any portion of the Obligations pursuant to Section 9.2, in no event shall Borrower be liable for any Taxes in an amount that exceeds the amount of Taxes for which the Borrower would have been liable had no assignment occurred. "Taxes" includes any present or future tax, levy import, duty, charge, fee, deduction or withholding of any nature and whatever called, by any governmental or other fiscal authority of any country, including any province thereof or subdivision thereof, or the equivalent, on whomever and whatever imposed, levied, collected, withheld or assessed, in any event from or with respect of any amount payable to Lender. Upon request, Borrower shall promptly deliver to Lender receipts, certificates or other proof evidencing the amounts (if any) paid or payable in respect of any such withholding.

2.3 Procedures for Borrowing.

(a) At least five (5) Business Days' prior to a proposed Borrowing Date, Lender shall have received from the Borrower a written request for a borrowing hereunder (a "Borrowing Request"). Each Borrowing Request shall be in substantially the form of Exhibit "B" to the Supplement, shall be executed by a responsible executive or financial officer of Borrower, and shall state how much is requested, and shall be accompanied by such other information and documentation as Lender may reasonably request, including the original executed Note(s) for the Loan(s) covered by the Borrowing Request.

(b) No later than 1:00 p.m. Pacific Standard Time on the Borrowing Date, if Borrower has satisfied the conditions precedent in Article 4, Lender shall make the Loan available to Borrower in immediately available funds.

2.4 Interest. Except as otherwise specified in the applicable Note and/or Supplement, Basic Interest on the outstanding principal balance of each Loan shall accrue daily at the Designated Rate from the Borrowing Date. If the outstanding principal balance of such Loan is not paid at maturity, interest shall accrue at the Default Rate until paid in full, as further set forth herein.

2.5 Final Payment. Borrower shall pay the Final Payment, if any, with respect to each Loan on the date set forth in the Note evidencing such Loan.

2.6 Interest Rate Calculation. Basic Interest, along with charges and fees under this Agreement and any Loan Document, shall be calculated for actual days elapsed on the basis of a 360-day year, which results in higher interest, charge or fee payments than if a 365-day year were used. In no event shall Borrower be obligated to pay Lender interest, charges or fees at a rate in excess of the highest rate permitted by applicable law from time to time in effect.

2.7 Default Interest. Any unpaid payments of principal or interest or the Final Payment with respect to any Loan shall bear interest from their respective maturities, whether scheduled or accelerated, at the Default Rate. Borrower shall pay such interest on demand.

2.8 Late Charges. If Borrower is late in making any payment of principal or interest or Final Payment under this Agreement by more than five (5) days, Borrower agrees to pay a late charge of three percent (3%) of the installment due, but not less than fifty dollars ($50.00) for any one such delinquent payment. This late charge may be charged by Lender for the purpose of defraying the expenses incidental to the handling of such delinquent amounts. Borrower acknowledges that such late charge represents a reasonable sum considering all of the circumstances existing on the date of this Agreement and represents a fair and reasonable estimate of the costs that will be sustained by Lender due to the failure of Borrower to make timely payments. Borrower further agrees that proof of actual damages would be costly and inconvenient. Such late charge shall be paid without prejudice to the right of Lender to collect any other amounts provided to be paid or to declare a default under this Agreement or any of the other Loan Documents or from exercising any other rights and remedies of Lender.

2.9 Lender's Records. Principal, Basic Interest, Final Payments and all other sums owed under any Loan Document shall be evidenced by entries in records maintained by Lender for such purpose. Each payment on and any other credits with respect to principal, Basic Interest, Final Payments and all other sums outstanding under any Loan Document shall be evidenced by entries in such records. Absent manifest error, Lender's records shall be conclusive evidence thereof.

2.10 Grant of Security Interests; Filing of Financing Statements.

(a) To secure the timely payment and performance of all of Borrower's Obligations, Borrower hereby grants to Lender continuing security interests in all of the Collateral. In connection with the foregoing, Borrower authorizes Lender to prepare and file any financing statements describing the Collateral without otherwise obtaining the Borrower's signature or consent with respect to the filing of such financing statements.

(b) In furtherance of the Borrower's grant of the security interests in the Collateral pursuant to Section 2.10(a) above, Borrower hereby pledges and grants to the Lender a security interest in all the Shares, together with all proceeds and substitutions thereof, all cash, stock and other moneys and property paid thereon, all rights to subscribe for securities declared or granted in connection therewith, and all other cash and noncash proceeds of the foregoing, as security for the performance of the Obligations. On the Closing Date or at any time thereafter following Lender's request, the certificate or certificates for the Shares will be delivered to Lender, accompanied by an instrument of assignment duly executed in blank by Borrower, unless such Shares have not been certificated. To the extent required by the terms and conditions governing the Shares, Borrower shall cause the books of each entity whose Shares are part of the Collateral and any transfer agent to reflect the pledge of the Shares. Upon the occurrence and during the continuance of an Event of Default hereunder, Lender may effect the transfer of any securities included in the Collateral (including but not limited to the Shares) into the name of Lender and cause new certificates representing such securities to be issued in the name of Lender or its transferee(s). Borrower will execute and deliver such documents, and take or cause to be taken such actions, as Lender may reasonably request to perfect or continue the perfection of Lender's security interest in the Shares. Unless an Event of Default shall have occurred and be continuing, Borrower shall be entitled to exercise any voting rights with respect to the Shares and to give consents, waivers and ratifications in respect thereof, provided that no vote shall be cast or consent, waiver or ratification given or action taken which would be inconsistent with any of the terms of this Agreement or which would constitute or create any violation of any of such terms. All such rights to vote and give consents, waivers and ratifications shall terminate upon the occurrence and continuance of an Event of Default.

(c) Borrower is and shall remain absolutely and unconditionally liable for the performance of its obligations under the Loan Documents, including, without limitation, any deficiency by reason of the failure of the Collateral to satisfy all amounts due Lender under any of the Loan Documents.

(d) All Collateral pledged by Borrower under this Agreement and any Supplement shall secure the timely payment and performance of all Obligations under this Agreement, the Notes and the other Loan Documents. Except as expressly provided in this Agreement, no Collateral pledged under this Agreement or any Supplement shall be released until such time as all Obligations under this Agreement and the other Loan Documents have been satisfied and paid in full.

ARTICLE 3 - REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants that, except as set forth in the Supplement or the Schedule of Exceptions hereto, if any, as of the Closing Date and each Borrowing Date:

3.1 Due Organization. Borrower is a corporation duly organized and validly existing in good standing under the laws of the jurisdiction of its incorporation, and is duly qualified to conduct business and is in good standing in each other jurisdiction in which its business is conducted or its properties are located, except where the failure to be so qualified would not reasonably be expected to have a Material Adverse Effect.

3.2 Authorization, Validity and Enforceability. The execution, delivery and performance of all Loan Documents executed by Borrower are within Borrower's powers, have been duly authorized, and are not in conflict with Borrower's articles or certificate of incorporation or by-laws, or the terms of any charter or other organizational document of Borrower, as amended from time to time; and all such Loan Documents constitute valid and binding obligations of Borrower, enforceable in accordance with their terms (except as may be limited by bankruptcy, insolvency and similar laws affecting the enforcement of creditors' rights in general, and subject to general principles of equity).

3.3 Compliance with Applicable Laws. Borrower has complied with all licensing, permit and fictitious name requirements necessary to lawfully conduct the business in which it is engaged, and to any sales, leases or the furnishing of services by Borrower, including without limitation those requiring consumer or other disclosures, the noncompliance with which would have a Material Adverse Effect.

3.4 No Conflict. The execution, delivery, and performance by Borrower of all Loan Documents are not in conflict with any law, rule, regulation, order or directive, or any indenture, agreement, or undertaking to which Borrower is a party or by which Borrower may be bound or affected. Without limiting the generality of the foregoing, the issuance of the Warrant to Lender (or its designee) and the grant of registration rights in connection therewith do not violate any agreement or instrument by which Borrower is bound or require the consent of any holders of Borrower's securities other than consents which have been obtained prior to the Closing Date.

3.5 No Litigation, Claims or Proceedings. Except as shown on Schedule 3.5, there is no litigation, tax claim, proceeding or dispute pending, or, to the knowledge of Borrower, threatened against or affecting Borrower, its property or the conduct of its business.

3.6 Correctness of Financial Statements. Borrower's financial statements which have been delivered to Lender fairly and accurately reflect Borrower's financial condition in accordance with GAAP as of the latest date of such financial statements; and, since that date there has been no Material Adverse Change.

3.7 No Subsidiaries. Except as shown on Schedule 3.7, Borrower is not a majority owner of or in a control relationship with any other business entity.

3.8 Environmental Matters. To its knowledge after reasonable inquiry, Borrower has concluded that Borrower is in compliance with Environmental Laws, except to the extent a failure to be in such compliance could not reasonably be expected to have a Material Adverse Effect.

3.9 No Event of Default. No Default or Event of Default has occurred and is continuing.

3.10 Full Disclosure. None of the representations or warranties made by Borrower in the Loan Documents as of the date such representations and warranties are made or deemed made, and none of the statements made by Borrower contained in any exhibit, report, statement or certificate furnished by or on behalf of Borrower in connection with the Loan Documents (including disclosure materials delivered by or on behalf of Borrower to Lender prior to the Closing Date or pursuant to Section 5.2 hereof), when taken as a whole, contains any untrue statement of a material fact or omits any material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they are made, not misleading as of the time when made or delivered.

3.11 Specific Representations Regarding Collateral.

(a) Title. Except for the security interests created by this Agreement and Permitted Liens, (i) Borrower is and will be the unconditional legal and beneficial owner of the Collateral, and (ii) the Collateral is genuine and subject to no Liens, rights or defenses of others. Except for the security interests created by this Agreement and Permitted Liens, there exist no prior assignments or encumbrances of record with the U.S. Patent and Trademark Office or U.S. Copyright Office affecting any Collateral in favor of any third party.

(b) Rights to Payment. The names of the obligors, amount owing to Borrower, due dates and all other information with respect to the Rights to Payment are and will be correctly stated in all material respects in all Records relating to the Rights to Payment. Borrower further represents and warrants, to its knowledge, that each Person appearing to be obligated on a Right to Payment has authority and capacity to contract and is bound as it appears to be.

(c) Location of Collateral. Borrower's chief executive office, Inventory, Records, Equipment, and any other offices or places of business are located at the address(es) shown on the Supplement.

(d) Business Names. Other than its full corporate name, Borrower has not conducted business using any trade names or fictitious business names except as shown on the Supplement.

3.12 Copyrights, Patents, Trademarks and Licenses.

(a) Borrower owns or is licensed or otherwise has the right to use all of the patents, trademarks, service marks, trade names, copyrights, contractual franchises, authorizations and other similar rights that are reasonably necessary for the operation of its business, without conflict with the rights of any other Person.

(b) To Borrower's knowledge, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by Borrower infringes upon any rights held by any other Person.

(c) No claim or litigation regarding any of the foregoing is pending or, to Borrower's knowledge, threatened, and no patent, invention, device, application, principle or any statute, law, rule, regulation, standard or code is pending or proposed which, in either case, could reasonably be expected to have a Material Adverse Effect.

3.13 Regulatory Compliance. Borrower has met the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. No event has occurred resulting from Borrower's failure to comply with ERISA that is reasonably likely to result in Borrower's incurring any liability that could have a Material Adverse Effect. Borrower is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940. Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations T and U of the Board of Governors of the Federal Reserve System). Borrower has complied with all the provisions of the Federal Fair Labor Standards Act.

3.14 Shares. Borrower has full power and authority to create a first priority Lien on the Shares and no disability or contractual obligation exists that would prohibit Borrower from pledging the Shares pursuant to this Agreement. To Borrower’s knowledge, there are no subscriptions, warrants, rights of first refusal or other restrictions on transfer relative to, or options exercisable with respect to the Shares. The Shares have been and will be duly authorized and validly issued, and are fully paid and non-assessable. To Borrower’s knowledge, the Shares are not the subject of any present or threatened suit, action, arbitration, administrative or other proceeding, and Borrower knows of no reasonable grounds for the institution of any such proceedings.

3.15 Survival. The representations and warranties of Borrower as set forth in this Agreement survive the execution and delivery of this Agreement.

ARTICLE 4 - CONDITIONS PRECEDENT

4.1 Conditions to First Loan. The obligation of Lender to make its first Loan hereunder is, in addition to the conditions precedent specified in Section 4.2 and in any Supplement, subject to the fulfillment of the following conditions and to the receipt by Lender of the documents described below, duly executed and in form and substance satisfactory to Lender and its counsel:

(a) Resolutions. A certified copy of the resolutions of the Board of Directors of Borrower authorizing the execution, delivery and performance by Borrower of the Loan Documents.

(b) Incumbency and Signatures. A certificate of the secretary of Borrower certifying the names of the officer or officers of Borrower authorized to sign the Loan Documents, together with a sample of the true signature of each such officer.

(c) Legal Opinion. The opinion of legal counsel for Borrower as to such matters as Lender may reasonably request, substantially in the form attached as Exhibit “F” to the Supplement.

(d) Articles/Certificate and Bylaws. Certified copies of the Articles or Certificate of Incorporation and Bylaws of Borrower, as amended through the Closing Date.

(e) This Agreement. Original counterparts of this Agreement and the initial Supplement, with all schedules completed and attached thereto, and disclosing such information as is acceptable to Lender.

(f) Financing Statements. Filing copies (or other evidence of filing satisfactory to Lender and its counsel) of such UCC financing statements, collateral assignments, account control agreements, and termination statements, with respect to the Collateral as Lender shall request.

(g) Intellectual Property Security Agreement. An Intellectual Property Security Agreement executed by Borrower substantially in the form attached as Exhibit “G” to the Supplement.

(h) Lien Searches. UCC lien, judgment, bankruptcy and tax lien searches of Borrower from such jurisdictions or offices as Lender may reasonably request, all as of a date reasonably satisfactory to Lender and its counsel.

(i) Good Standing Certificate. A certificate of status or good standing of Borrower as of a date acceptable to Lender from the jurisdiction of Borrower’s organization and any foreign jurisdictions where Borrower is qualified to do business.

(j) Warrant(s). An original warrant issued by Borrower to Lender (or its designee) exercisable for such number, type and class of shares of Borrower’s capital stock, and for an initial exercise price as is specified in the Supplement.

(k) Insurance Certificates. Insurance certificates showing Lender as loss payee or additional insured.

(l) Escrow Agreement. A fully-executed Escrow Agreement substantially in the form attached as Exhibit “H” to the Supplement (“Escrow Agreement”).

(m) Other Documents. Such other documents and instruments as Lender may reasonably request to effectuate the intents and purposes of this Agreement.

4.2 Conditions to All Loans. The obligation of Lender to make its initial Loan and each subsequent Loan is subject to the following further conditions precedent that:

(a) No Default. No Default or Event of Default has occurred and is continuing or will result from the making of any such Loan, and the representations and warranties of Borrower contained in Article 3 of this Agreement and Part 3 of the Supplement are true and correct as of the Borrowing Date of such Loan.

(b) **No Material Adverse Change**. No event has occurred that has had or could reasonably be expected to have a Material Adverse Change.

(c) Borrowing Request. Borrower shall have delivered to Lender a Borrowing Request for such Loan.

(d) Note. Borrower shall have delivered an original executed Note evidencing such Loan, substantially in the form attached to the Supplement as an exhibit.

(e) Supplemental Lien Filings. Borrower shall have executed and delivered such amendments or supplements to this Agreement and additional Security Documents, financing statements and third party waivers as Lender may reasonably request in connection with the proposed Loan, in order to create, protect or perfect or to maintain the perfection of Lender's Liens on the Collateral.

(f) Financial Projections. Borrower shall have delivered to Lender Borrower's business plan and/or financial projections or forecasts as most recently approved by Borrower's Board of Directors.

ARTICLE 5 - AFFIRMATIVE COVENANTS

During the term of this Agreement and until its performance of all Obligations, Borrower will:

5.1 Notice to Lender. Promptly give written notice to Lender of:

(a) Any litigation or administrative or regulatory proceeding affecting Borrower where the amount claimed against Borrower is at the Threshold Amount or more, or where the granting of the relief requested could reasonably be expected to have a Material Adverse Effect; or of the acquisition by Borrower of any commercial tort claim, including brief details of such claim and such other information as Lender may reasonably request to enable Lender to better perfect its Lien in such commercial tort claim as Collateral.

(b) Any substantial dispute which may exist between Borrower and any governmental or regulatory authority.

(c) The occurrence of any Default or any Event of Default.

(d) Any change in the location of any of Borrower's places of business at least thirty (30) days in advance of such change, or of the establishment of any new, or the discontinuance of any existing, place of business.

(e) Any dispute or default by Borrower or any other party under any joint venture, partnering, distribution, cross-licensing, strategic alliance, collaborative research or manufacturing, license or similar agreement which could reasonably be expected to have a Material Adverse Effect.

(f) Any other matter which has resulted or might reasonably result in a Material Adverse Change.

5.2 Financial Statements. Except to the extent the information is publicly available, deliver to Lender or cause to be delivered to Lender, in form and detail satisfactory to Lender the following financial and other information, which Borrower warrants shall be accurate and complete in all material respects:

(a) Financial Statements and Internal Annual Budget Forecasts. (i) Promptly following approval by Borrower's board of directors, annual internal budget forecasts, and (ii) upon filing at the SEC, the quarterly Borrower's balance sheet as of the end of such period, and Borrower's income statement for such period and for that portion of Borrower's financial reporting year ending with such period, prepared in accordance with GAAP and attested by a responsible financial officer of Borrower as being complete and correct and fairly presenting Borrower's financial condition and the results of Borrower's operations.

(b) Year-End Financial Statements. As soon as available but no later than the date of delivery to Borrower's Board of Directors, as of the end of each financial reporting year, a complete copy of Borrower's audit report, which shall include balance sheet, income statement, statement of changes in equity and statement of cash flows for such year, prepared in accordance with GAAP and certified by an independent certified public accountant selected by Borrower and reasonably satisfactory to Lender (it being agreed that Grant Thornton LLP is satisfactory) (the "Accountant"). The Accountant's certification shall not be qualified or limited due to a restricted or limited examination by the Accountant of any material portion of Borrower's records or otherwise.

(c) **Compliance Certificates**. Simultaneously with the delivery of each set of financial statements referred to in paragraphs (a) and (b) above as well as the bank account balance statements in Section 5.11, a certificate of the chief financial officer of Borrower (or other executive officer) substantially in the form of Exhibit "C" to the Supplement stating whether any Default or Event of Default exists on the date of such certificate, and if so, setting forth the details thereof and the action which Borrower is taking or proposes to take with respect thereto.

(d) Government Required Reports; Press Releases. Promptly after sending, issuing, making available, or filing, copies of all statements released to any news media for publication, all reports, proxy statements, and financial statements that Borrower sends or makes available to its stockholders, and, not later than five (5) days after actual filing or the date such filing was first due, all registration statements and reports that Borrower files or is required to file with the Securities and Exchange Commission (including all reports on Form 10-K, 10-Q and 8-K, or any other governmental or regulatory authority.

5.3 [Reserved.]

5.4 Existence. Maintain and preserve Borrower's existence, present form of business, and all rights and privileges necessary or desirable in the normal course of its business; and keep all Borrower's property in good working order and condition, ordinary wear and tear excepted.

5.5 Insurance. Obtain and keep in force insurance in such amounts and types as is usual in the type of business conducted by Borrower, with insurance carriers having a policyholder rating of not less than "A" and financial category rating of Class VII in "Best's Insurance Guide," unless otherwise approved by Lender. Such insurance policies shall list Lender as an additional insured or loss payee, as applicable, on endorsement(s) in form reasonably acceptable to Lender. Borrower shall furnish to Lender such endorsements, and upon Lender's request, copies of any or all such policies.

5.6 Accounting Records. Maintain adequate books, accounts and records, and prepare all financial statements in accordance with GAAP, and in compliance with the regulations of any governmental or regulatory authority having jurisdiction over Borrower or Borrower's business; and permit employees or agents of Lender upon reasonable prior notice at reasonable times during normal business hours, at Borrower's expense, to inspect Borrower's properties, and to examine, and make copies and memoranda of Borrower's books, accounts and records.

5.7 Compliance With Laws. Comply with all laws (including Environmental Laws), rules, regulations applicable to, and all orders and directives of any governmental or regulatory authority having jurisdiction over, Borrower or Borrower's business, and with all material agreements to which Borrower is a party, except where the failure to so comply would not have a Material Adverse Effect.

5.8 Taxes and Other Liabilities. Pay all Borrower's Indebtedness in excess of the Threshold Amount when due; pay all taxes and other governmental or regulatory assessments before delinquency or before any penalty attaches thereto, except as may be contested in good faith by the appropriate procedures and for which Borrower shall maintain appropriate reserves; and timely file all required tax returns.

5.9 Special Collateral Covenants.

(a) Maintenance of Collateral; Inspection. Do all things reasonably necessary to maintain, preserve, protect and keep all Collateral used or useful in Borrower's business in good working order and salable condition, ordinary wear and tear excepted, deal with the Collateral in all ways as are considered good practice by owners of like property, and use the Collateral lawfully and, to the extent applicable, only as permitted by Borrower's insurance policies. Maintain, or cause to be maintained, complete and accurate Records relating to the Collateral. Upon reasonable prior notice at reasonable times during normal business hours, Borrower hereby authorizes Lender's officers, employees, representatives and agents to inspect the Collateral and to discuss the Collateral and the Records relating thereto with Borrower's officers and employees, and, in the case of any Right to Payment, if an Event of Default has occurred and is continuing, with any Person which is or may be obligated thereon.

(b) Documents of Title. Not sign or authorize the signing of any financing statement or other document naming Borrower as debtor or obligor, or acquiesce or cooperate in the issuance of any bill of lading, warehouse receipt or other document or instrument of title with respect to any Collateral in excess of the Threshold Amount, except those negotiated to Lender, or those naming Lender as secured party, or if solely to create, perfect or maintain a Permitted Lien.

(c) Change in Location or Name. Without at least 30 days' prior written notice to Lender: (a) not relocate its chief executive office, or establish a place of business at a location other than as specified in the Supplement; and (b) not change its name or jurisdiction of incorporation.

(d) Agreement With Persons in Possession of Collateral. Use commercially reasonable efforts to obtain and maintain such acknowledgments, consents, waivers and agreements (each a "Waiver") from the owner, operator, lienholder, mortgagee, landlord or any Person in possession of tangible Collateral located in the U.S. in excess of the Threshold Amount per location as Lender may require, all in form and substance satisfactory to Lender.

(e) Certain Agreements on Rights to Payment. Other than in the ordinary course of business, not make any material discount, credit, rebate or other reduction in the original amount owing on a Right to Payment or accept in satisfaction of a Right to Payment less than the original amount thereof.

5.10 Authorization for Automated Clearinghouse Funds Transfer**.** (i) Authorize Lender to initiate debit entries to Borrower's Primary Operating Account, specified in the Supplement hereto, through Automated Clearinghouse ("ACH") transfers, in order to satisfy the regularly scheduled payments of principal, interest and Final Payments (if any); (ii) provide Lender at least thirty (30) days notice of any change in Borrower's Primary Operating Account; and (iii) grant Lender any additional authorizations necessary to begin ACH debits from a new account which becomes the Primary Operating Account.

5.11 Location of Bank Accounts. Maintain at all times its primary depository and operating accounts, which shall in no event constitute less than seventy-five percent (75%) of the dollar value of all of Borrower's worldwide cash (excluding any cash subject to Liens securing, or securing security for, obligations of Borrower or any Subsidiary to the extent permitted by Section 6.2), with one or more banks located in the United States. Borrower agrees to deliver a listing of Borrower's bank account balances for accounts representing 90% of Borrower's cash to Lender no later than forty five (45) days after the end of each quarter so that Lender may monitor Borrower's compliance with this Section 5.11.

ARTICLE 6 - NEGATIVE COVENANTS

During the term of this Agreement and until the performance of all Obligations, Borrower will not:

6.1 Indebtedness. Be indebted for borrowed money, the deferred purchase price of property, or leases which would be capitalized in accordance with GAAP; or become liable as a surety, guarantor, accommodation party or otherwise for or upon the obligation of any other Person, except:

(a) Indebtedness incurred for the acquisition of supplies or inventory on normal trade credit;

(b) [Reserved];

(c) Indebtedness of Borrower under this Agreement;

(d) Subordinated Debt;

(e) Any Indebtedness owed to any Subsidiary;

(f) Capital leases of equipment or other assets used in Borrower's business and secured Indebtedness incurred to purchase or finance equipment or other assets used in Borrower's business;

(g) [Reserved];

(h) Any Indebtedness approved by Lender prior to the Closing Date as shown on Schedule 6.1;

(i) Indebtedness to Raiffeisenbank/Unicredit (or another lender or group of lenders under a replacement facility), secured only by Borrower's accounts receivable, in an aggregate outstanding principal amount not to exceed Four Million Five Hundred Thousand Dollars ($4,500,000) at any one time;

(j) Reimbursement obligations in respect of letters of credit, bonds or other performance undertakings issued in support of performance obligations by Borrower or its Subsidiaries in the ordinary course of business;

(k) Other Indebtedness in an aggregate amount not exceeding at any time Three Million Dollars ($3,000,000) in the aggregate; and

(l) Indebtedness outstanding under the VLL5 Loan Agreement.

6.2 Liens. Create, incur, assume or permit to exist any Lien, or grant any other Person a negative pledge, on any of Borrower's property, except Permitted Liens. Borrower and Lender agree that this covenant is not intended to constitute a lien, deed of trust, equitable mortgage, or security interest of any kind on any of Borrower's real property, and this Agreement shall not be recorded or recordable. Notwithstanding the foregoing, however, violation of this covenant by Borrower shall constitute an Event of Default.

6.3 Dividends. Pay any dividends or purchase, redeem or otherwise acquire or make any other distribution with respect to any of Borrower's capital stock, except (a) dividends or other distributions solely of capital stock of Borrower, and (b) so long as no Event of Default has occurred and is continuing, repurchases of stock from employees upon termination of employment under reverse vesting or similar repurchase plans not to exceed $100,000 in any calendar year. For the avoidance of doubt, nothing in this Section restricts repurchases of warrants.

6.4 Liquidation/Dissolution. Liquidate or dissolve.

6.5 Sales of Assets. Sell, transfer, lease, license or otherwise dispose of (a "Transfer") any of Borrower's assets except (i) licenses or other Transfers of Intellectual Property in the ordinary course of business consistent with industry practice; (ii) Transfers of worn-out, obsolete or surplus property (each as determined by the Borrower in its reasonable judgment); (iii) Transfers of Inventory in the ordinary course of business; (iv) Transfers constituting Permitted Liens; (v) Transfers permitted in Section 6.6 hereunder; and (vi) Transfers of Collateral (other than Intellectual Property) for fair consideration and in the ordinary course of its business.

6.6 Loans/Investments. Make or suffer to exist any loans, guaranties, advances, or investments, except:

(a) accounts receivable in the ordinary course of Borrower's business;

(b) investments in domestic certificates of deposit issued by, and other domestic investments with, financial institutions organized under the laws of the United States or a state thereof, having at least One Hundred Million Dollars ($100,000,000) in capital and a rating of at least "investment grade" or "A" by Moody's or any successor rating agency;

(c) investments in marketable obligations of the United States of America and in open market commercial paper given the highest credit rating by a national credit agency and maturing not more than one year from the creation thereof;

(d) temporary advances to cover incidental expenses to be incurred in the ordinary course of business;

(e) investments in joint ventures, strategic alliances, licensing and similar arrangements customary in Borrower's industry and which do not require Borrower to assume or otherwise become liable for the obligations of any third party not directly related to or arising out of such arrangement or, without the prior written consent of Lender, require Borrower to transfer ownership of non-cash assets to such joint venture or other entity; and

(f) investments in wholly-owned subsidiaries of the Borrower or acquisitions of other Persons in the Borrower's industry;

(g) advances on purchases and credit lines and vendor finance lines to customers in the ordinary course of business;

(h) investments existing on the Closing Date which would include anything currently on the balance sheet which is reclassified as an investment after the closing date; and

(i) Other investments in an aggregate amount outstanding at any time (valued at the time made) not to exceed Three Million Dollars ($3,000,000) at any time.

6.7 Transactions With Related Persons. Directly or indirectly enter into any transaction with or for the benefit of a Related Person on terms more favorable to the Related Person than would have been obtainable in an "arms' length" dealing.

6.8 Other Business. Engage in any material line of business other than the business Borrower conducts as of the Closing Date or other lines of business reasonably related or incidental thereto or outgrowths thereof.

6.9 Financing Statements and Other Actions. Fail to execute and deliver to Lender all financing statements, notices and other documents (including, without limitation, any filings with the United States Patent and Trademark Office and the United States Copyright Office and equivalents in other jurisdictions) from time to time reasonably requested by Lender to maintain a perfected first priority security interest in the Collateral in favor of Lender, subject to Permitted Liens; perform such other acts, and execute and deliver to Lender such additional conveyances, assignments, agreements and instruments, as Lender may at any time request in connection with the administration and enforcement of this Agreement or Lender's rights, powers and remedies hereunder.

6.10 Compliance. Become an “investment company” or controlled by an “investment company,” within the meaning of the Investment Company Act of 1940, or become principally engaged in, or undertake as one of its important activities, the business of extending credit for the purpose of purchasing or carrying margin stock, or use the proceeds of any Loan for such purpose. Fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur, fail to comply with the Federal Fair Labor Standards Act or violate any law or regulation, which violation could reasonably be expected to have a Material Adverse Effect or a material adverse effect on the Collateral or the priority of Lender’s Lien on the Collateral, or permit any of its subsidiaries to do any of the foregoing.

6.11 Other Deposit and Securities Accounts. Maintain any deposit accounts or accounts holding securities owned by Borrower except (i) Deposit Accounts and investment/securities accounts as set forth in the Supplement, and (ii) other Deposit Accounts and securities/investment accounts, in each case, with respect to which Borrower and Lender shall have taken such action as Lender reasonably deems necessary to obtain a perfected first priority security interest therein. The provisions of the previous sentence shall not apply to Deposit Accounts exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of Borrower’s employees.

6.12 [Reserved.]

6.13 Repayment of Subordinated Debt. Repay, prepay, redeem or otherwise satisfy in any manner any Subordinated Debt, except in accordance with the terms of any subordination agreement among Borrower, Lender and the holder(s) of such Subordinated Debt. Notwithstanding the foregoing, Lender agrees that the conversion or exchange into Borrower’s equity securities of any Subordinated Debt and the payment of cash in lieu of fractional shares shall not be prohibited by this Section 6.13.

6.14 Subsidiaries.

(a) Sell, transfer, encumber or otherwise dispose of Borrower’s ownership interest in any Subsidiary other than Permitted Liens, provided that nothing in this Agreement shall limit the dissolution or merger of a Subsidiary into Borrower or another Subsidiary.

(b) Cause or permit a Subsidiary to do any of the following: (a) grant Liens on such Subsidiary’s assets, except for (i) Liens that would constitute Permitted Liens if incurred by Borrower and, (ii) Liens securing Indebtedness to Raiffeisenbank/Unicredit (or another lender or group of lenders under a replacement facility) in an aggregate outstanding principal amount not to exceed Four Million Two Hundred Fifty Thousand Dollars ($4,250,000) at any one time if required to further secure the facilities, and (iii) Liens on any property held or acquired by such Subsidiary in the ordinary course of its business securing Indebtedness incurred or assumed for the purpose of financing all or any part of the cost of acquiring such property; provided, that such Lien attaches solely to the property acquired with such Indebtedness and that the principal amount of such Indebtedness does not exceed one hundred percent (100%) of the cost of such property; and (b) issue any additional Shares. to any Person other than the Borrower or its Subsidiaries.

ARTICLE 7 - EVENTS OF DEFAULT

7.1 Events of Default; Acceleration. Upon the occurrence and during the continuation of any Default, the obligation of Lender to make any additional Loan shall be suspended. The occurrence of any of the following (each, an “Event of Default”) shall terminate any obligation of Lender to make any additional Loan; and shall, at the option of Lender (1) make all sums of accrued Basic Interest and principal, all Final Payments, and any Obligations and other amounts owing under any Loan Documents immediately due and payable without notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor or any other notices or demands, and (2) give Lender the right to exercise any other right or remedy provided by contract or applicable law:

(a) Borrower shall fail to pay any principal, interest or Final Payment under this Agreement or any Note, or fail to pay any fees or other charges when due under any Loan Document, and such failure continues for three (3) Business Days or more after the same first becomes due; or an Event of Default as defined in any other Loan Document shall have occurred.

(b) Any representation or warranty made, or financial statement, certificate or other document provided, by Borrower under any Loan Document shall prove to have been false or misleading in any material respect when made or deemed made herein.

(c) (i) Borrower shall fail to pay its debts generally as they become due; or (ii) shall commence any Insolvency Proceeding with respect to itself; or an involuntary Insolvency Proceeding shall be filed against Borrower, or a custodian, receiver, trustee, assignee for the benefit of creditors, or other similar official, shall be appointed to take possession, custody or control of the properties of Borrower, and such involuntary Insolvency Proceeding, petition or appointment is acquiesced to by Borrower or is not dismissed within forty five (45) days; or the dissolution, winding up, or termination of the business or cessation of operations of Borrower; or Borrower shall take any corporate action for the purpose of effecting, approving, or consenting to any of the foregoing.

(d) Borrower shall be in default beyond any applicable period of grace or cure under any other agreement involving the borrowing of money, the purchase of property, the advance of credit or any other monetary liability of any kind to Lender or to any Person which results in the acceleration of payment of such obligation in an amount in excess of the Threshold Amount.

(e) Any governmental or regulatory authority shall take any judicial or administrative action, or any defined benefit pension plan maintained by Borrower shall have any unfunded liabilities, any of which, in the reasonable judgment of Lender, could reasonably be expected to have a Material Adverse Effect.

(f) Any sale, transfer or other disposition of all or a substantial or material part of the assets of Borrower, including without limitation to any trust or similar entity, shall occur.

(g) Any judgment(s) singly or in the aggregate in excess of the Threshold Amount shall be entered against Borrower which remain unsatisfied, unvacated or unstayed pending appeal for twenty (20) days or more after entry thereof.

(h) Intentionally omitted.

(i) Borrower shall fail to perform or observe any covenant contained in Article 6 of this Agreement.

(j) Borrower shall fail to perform or observe any covenant contained in Article 5 or elsewhere in this Agreement or any other Loan Document (other than a covenant which is dealt with specifically elsewhere in this Article 7) and, if capable of being cured, the breach of such covenant is not cured within 30 days after the sooner to occur of Borrower’s receipt of notice of such breach from Lender or the date on which such breach first becomes known to any officer of Borrower; provided, however that if such breach is not capable of being cured within such 30-day period and Borrower timely notifies Lender of such fact and Borrower diligently pursues such cure, then the cure period shall be extended to the date requested in Borrower’s notice but in no event more than 90 days from the initial breach; provided, further, that such additional 60-day opportunity to cure shall not apply in the case of any failure to perform or observe any covenant which has been the subject of a prior failure within the preceding 180 days or which is a willful and knowing breach by Borrower.

7.2 Remedies Upon Default. Upon the occurrence and during the continuance of an Event of Default, Lender shall be entitled to, at its option, exercise any or all of the rights and remedies available to a secured party under the UCC or any other applicable law, and exercise any or all of its rights and remedies provided for in this Agreement and in any other Loan Document. The obligations of Borrower under this Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any Obligations is rescinded or must otherwise be returned by Lender upon, on account of, or in connection with, the insolvency, bankruptcy or reorganization of Borrower or otherwise, all as though such payment had not been made.

7.3 Sale of Collateral. Upon the occurrence and during the continuance of an Event of Default, Lender may sell all or any part of the Collateral, at public or private sales, to itself, a wholesaler, retailer or investor, for cash, upon credit or for future delivery, and at such price or prices as Lender may deem commercially reasonable. To the extent permitted by law, Borrower hereby specifically waives all rights of redemption and any rights of stay or appraisal which it has or may have under any applicable law in effect from time to time. Any such public or private sales shall be held at such times and at such place(s) as Lender may determine. In case of the sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by Lender until the selling price is paid by the purchaser, but Lender shall not incur any liability in case of the failure of such purchaser to pay for the Collateral and, in case of any such failure, such Collateral may be resold. Lender may, instead of exercising its power of sale, proceed to enforce its security interest in the Collateral by seeking a judgment or decree of a court of competent jurisdiction. Without limiting the generality of the foregoing, if an Event of Default is in effect,

(1) Subject to the rights of any third parties, Lender may license, or sublicense, whether general, special or otherwise, and whether on an exclusive or non-exclusive basis, any Copyrights, Patents or Trademarks included in the Collateral throughout the world for such term or terms, on such conditions and in such manner as Lender shall in its sole discretion determine;

(2) Lender may (without assuming any obligations or liability thereunder), at any time and from time to time, enforce (and shall have the exclusive right to enforce) against any licensee or sublicensee all rights and remedies of Borrower in, to and under any Copyright Licenses, Patent Licenses or Trademark Licenses and take or refrain from taking any action under any thereof, and Borrower hereby releases Lender from, and agrees to hold Lender free and harmless from and against any claims arising out of, any lawful action so taken or omitted to be taken with respect thereto other than claims arising out of Lender's gross negligence or willful misconduct; and

(3) Upon request by Lender, Borrower will execute and deliver to Lender a power of attorney, in form and substance reasonably satisfactory to Lender for the implementation of any lease, assignment, license, sublicense, grant of option, sale or other disposition of a Copyright, Patent or Trademark. In the event of any such disposition pursuant to this clause 3, Borrower shall supply its know-how and expertise relating to the products or services made or rendered in connection with Patents, the manufacture and sale of the products bearing Trademarks, and its customer lists and other records relating to such Copyrights, Patents or Trademarks and to the distribution of said products, to Lender.

(4) If, at any time when Lender shall determine to exercise its right to sell the whole or any part of the Shares hereunder, such Shares or the part thereof to be sold shall not, for any reason whatsoever, be effectively registered under the Securities Act (or any similar statute), then Lender may, in its discretion (subject only to applicable requirements of law), sell such Shares or part thereof by private sale in such manner and under such circumstances as Lender may deem necessary or advisable, but subject to the other requirements of this Article 7, and shall not be required to effect such registration or to cause the same to be effected. Without limiting the generality of the foregoing, in any such event, Lender in its discretion may (i) in accordance with applicable securities laws proceed to make such private sale notwithstanding that a registration statement for the purpose of registering such Shares or part thereof could be or shall have been filed under the Securities Act (or similar statute), (ii) approach and negotiate with a single possible purchaser to effect such sale, and (iii) restrict such sale to a purchaser who is an accredited investor under the Securities Act and who will represent and agree that such purchaser is purchasing for its own account, for investment and not with a view to the distribution or sale of such Shares or any part thereof. In addition to a private sale as provided above in this Article 7, if any of the Shares shall not be freely distributable to the public without registration under the Securities Act (or similar statute) at the time of any proposed sale pursuant to this Article 7, then Lender shall not be required to effect such registration or cause the same to be effected but, in its discretion (subject only to applicable requirements of law), may require that any sale hereunder (including a sale at auction) be conducted subject to restrictions:

(A) as to the financial sophistication and ability of any Person permitted to bid or purchase at any such sale;

(B) as to the content of legends to be placed upon any certificates representing the Shares sold in such sale, including restrictions on future transfer thereof;

(C) as to the representations required to be made by each Person bidding or purchasing at such sale relating to such Person's access to financial information about Borrower or any of its Subsidiaries and such Person's intentions as to the holding of the Shares so sold for investment for its own account and not with a view to the distribution thereof; and

(D) as to such other matters as Lender may, in its discretion, deem necessary or appropriate in order that such sale (notwithstanding any failure so to register) may be effected in compliance with the Bankruptcy Code and other laws affecting the enforcement of creditors' rights and the Securities Act and all applicable state securities laws.

(5) Borrower recognizes that Lender may be unable to effect a public sale of any or all the Shares and may be compelled to resort to one or more private sales thereof in accordance with clause (4) above. Borrower also acknowledges that any such private sale may result in prices and other terms less favorable to the seller than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall not be deemed to have been made in a commercially unreasonable manner solely by virtue of such sale being private. Lender shall be under no obligation to delay a sale of any of the Shares for the period of time necessary to permit the applicable Subsidiary to register such securities for public sale under the Securities Act, or under applicable state securities laws, even if Borrower and/or the Subsidiary would agree to do so.

7.4 Borrower's Obligations Upon Default. Upon the request of Lender after the occurrence and during the continuance of an Event of Default, Borrower will:

(a) Assemble and make available to Lender the Collateral at such place(s) as Lender shall reasonably designate, segregating all Collateral so that each item is capable of identification; and

(b) Subject to the rights of any lessor, permit Lender, by Lender's officers, employees, agents and representatives, to enter any premises where any Collateral is located, to take possession of the Collateral, to complete the processing, manufacture or repair of any Collateral, and to remove the Collateral, or to conduct any public or private sale of the Collateral, all without any liability of Lender for rent or other compensation for the use of Borrower's premises.

ARTICLE 8 - SPECIAL COLLATERAL PROVISIONS

8.1 Compromise and Collection. Borrower and Lender recognize that setoffs, counterclaims, defenses and other claims may be asserted by obligors with respect to certain of the Rights to Payment; that certain of the Rights to Payment may be or become uncollectible in whole or in part; and that the expense and probability of success of litigating a disputed Right to Payment may exceed the amount that reasonably may be expected to be recovered with respect to such Right to Payment. Borrower hereby authorizes Lender, after and during the continuance of an Event of Default and acceleration of the Loan,, to compromise with the obligor, accept in full payment of any Right to Payment such amount as Lender shall negotiate with the obligor, or abandon any Right to Payment. Any such action by Lender shall be considered commercially reasonable so long as Lender acts in good faith based on information known to it at the time it takes any such action.

8.2 Performance of Borrower's Obligations. Without having any obligation to do so, upon reasonable prior notice to Borrower, Lender may perform or pay any obligation which Borrower has agreed to perform or pay under this Agreement, including, without limitation, the payment or discharge of taxes or Liens levied or placed on or threatened against the Collateral. In so performing or paying, Lender shall determine the action to be taken and the amount necessary to discharge such obligations. Borrower shall reimburse Lender on demand for any amounts paid by Lender pursuant to this Section, which amounts shall constitute Obligations secured by the Collateral and shall bear interest from the date of demand at the Default Rate.

8.3 Power of Attorney. For the purpose of protecting and preserving the Collateral and Lender's rights under this Agreement, Borrower hereby irrevocably appoints Lender, with full power of substitution, as its attorney-in-fact with full power and authority, after the occurrence and during the continuance of an Event of Default, to do any act which Borrower is obligated to do hereunder; to exercise such rights with respect to the Collateral as Borrower might exercise; to use such Inventory, Equipment, Fixtures or other property as Borrower might use; to enter Borrower's premises; to give notice of Lender's security interest in, and to collect the Collateral; and before or after Default, to execute and file in Borrower's name any financing statements, amendments and continuation statements, account control agreements or other Security Documents necessary or desirable to create, maintain, perfect or continue the perfection of Lender's security interests in the Collateral. Borrower hereby ratifies all that Lender shall lawfully do or cause to be done by virtue of this appointment.

8.4 Authorization for Lender to Take Certain Action. The power of attorney created in Section 8.3 is a power coupled with an interest and shall be irrevocable. The powers conferred on Lender hereunder are solely to protect its interests in the Collateral and shall not impose any duty upon Lender to exercise such powers. Lender shall be accountable only for amounts that it actually receives as a result of the exercise of such powers and in no event shall Lender or any of its directors, officers, employees, agents or representatives be responsible to Borrower for any act or failure to act, except for gross negligence or willful misconduct. After the occurrence and during the continuance of an Event of Default, Lender may exercise this power of attorney without notice to or assent of Borrower, in the name of Borrower, or in Lender's own name, from time to time in Lender's sole discretion and at Borrower's expense. To further carry out the terms of this Agreement, after the occurrence and during the continuance of an Event of Default, Lender may:

(a) Execute any statements or documents or take possession of, and endorse and collect and receive delivery or payment of, any checks, drafts, notes, acceptances or other instruments and documents constituting Collateral, or constituting the payment of amounts due and to become due or any performance to be rendered with respect to the Collateral.

(b) Sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts; drafts, certificates and statements under any commercial or standby letter of credit relating to Collateral; assignments, verifications and notices in connection with Accounts; or any other documents relating to the Collateral, including without limitation the Records.

(c) Use or operate Collateral or any other property of Borrower for the purpose of preserving or liquidating Collateral.

(d) File any claim or take any other action or proceeding in any court of law or equity or as otherwise deemed appropriate by Lender for the purpose of collecting any and all monies due or securing any performance to be rendered with respect to the Collateral.

(e) Commence, prosecute or defend any suits, actions or proceedings or as otherwise deemed appropriate by Lender for the purpose of protecting or collecting the Collateral. In furtherance of this right, upon the occurrence and during the continuance of an Event of Default, Lender may apply for the appointment of a receiver or similar official to operate Borrower's business.

(f) Prepare, adjust, execute, deliver and receive payment under insurance claims, and collect and receive payment of and endorse any instrument in payment of loss or returned premiums or any other insurance refund or return, and apply such amounts at Lender's sole discretion, toward repayment of the Obligations or replacement of the Collateral.

8.5 Application of Proceeds. Any Proceeds and other monies or property received by Lender pursuant to the terms of this Agreement or any Loan Document may be applied by Lender first to the payment of expenses of collection, including without limitation reasonable attorneys' fees, and then to the payment of the Obligations in such order of application as Lender may elect.

8.6 Deficiency. If the Proceeds of any disposition of the Collateral are insufficient to cover all costs and expenses of such sale and the payment in full of all the Obligations, plus all other sums required to be expended or distributed by Lender, then Borrower shall be liable for any such deficiency.

8.7 Lender Transfer. Upon the transfer of all or any part of the Obligations, Lender may transfer all or part of the Collateral and shall be fully discharged thereafter from all liability and responsibility with respect to such Collateral so transferred, and the transferee shall be vested with all the rights and powers of Lender hereunder with respect to such Collateral so transferred, but with respect to any Collateral not so transferred, Lender shall retain all rights and powers hereby given.

8.8 Lender's Duties.

(a) Lender shall use reasonable care in the custody and preservation of any Collateral in its possession. Without limitation on other conduct which may be considered the exercise of reasonable care, Lender shall be deemed to have exercised reasonable care in the custody and preservation of such Collateral if such Collateral is accorded treatment substantially equal to that which Lender accords its own property, it being understood that Lender shall not have any responsibility for ascertaining or taking action with respect to calls, conversions, exchanges, maturities, declining value, tenders or other matters relative to any Collateral, regardless of whether Lender has or is deemed to have knowledge of such matters; or taking any necessary steps to preserve any rights against any Person with respect to any Collateral. Under no circumstances shall Lender be responsible for any injury or loss to the Collateral, or any part thereof, arising from any cause beyond the reasonable control of Lender.

(b) Lender may at any time deliver the Collateral or any part thereof to Borrower and the receipt of Borrower shall be a complete and full acquittance for the Collateral so delivered, and Lender shall thereafter be discharged from any liability or responsibility therefor.

(c) Neither Lender, nor any of its directors, officers, employees, agents, attorneys or any other person affiliated with or representing Lender shall be liable for any claims, demands, losses or damages, of any kind whatsoever, made, claimed, incurred or suffered by Borrower or any other party through the ordinary negligence of Lender, or any of its directors, officers, employees, agents, attorneys or any other person affiliated with or representing Lender.

8.9 Termination of Security Interests. Upon the payment in full of the Obligations and satisfaction of all Borrower's obligations under this Agreement and the other Loan Documents (except any unasserted indemnification obligations), and if Lender has no further obligations under its Commitment, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to Borrower. Upon any such termination, the Lender shall, at Borrower's expense, execute and deliver to Borrower such documents as Borrower shall reasonably request to evidence such termination.

ARTICLE 9 - GENERAL PROVISIONS

9.1 Notices. Any notice given by any party under any Loan Document shall be in writing and personally delivered, sent by overnight courier, or United States mail, postage prepaid, or sent by facsimile, or other authenticated message, charges prepaid, to the other party's or parties' addresses shown on the Supplement. Each party may change the address or facsimile number to which notices, requests and other communications are to be sent by giving written notice of such change to each other party. Notice given by hand delivery shall be deemed received on the date delivered; if sent by overnight courier, on the next Business Day after delivery to the courier service; if by first class mail, on the third Business Day after deposit in the U.S. Mail; and if by facsimile or electronic mail, on the date of transmission.

9.2 Binding Effect. The Loan Documents shall be binding upon and inure to the benefit of Borrower and Lender and their respective successors and assigns; provided, however, that Borrower may not assign or transfer Borrower's rights or obligations under any Loan Document. Lender reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Lender's rights and obligations under the Loan Documents to any person other than a technology company or other competitor of Borrower. In connection with any of the foregoing, Lender may disclose all documents and information which Lender now or hereafter may have relating to the Loans, Borrower, or its business to any potential assignee that has entered into a confidentiality agreement substantially similar to any confidentiality agreement between Lender and Borrower.

9.3 No Waiver. Any waiver, consent or approval by Lender of any Event of Default or breach of any provision, condition, or covenant of any Loan Document must be in writing and shall be effective only to the extent set forth in writing. No waiver of any breach or default shall be deemed a waiver of any later breach or default of the same or any other provision of any Loan Document. No failure or delay on the part of Lender in exercising any power, right, or privilege under any Loan Document shall operate as a waiver thereof, and no single or partial exercise of any such power, right, or privilege shall preclude any further exercise thereof or the exercise of any other power, right or privilege. Lender has the right at its sole option to continue to accept interest and/or principal payments due under the Loan Documents after default, and such acceptance shall not constitute a waiver of said default or an extension of the maturity of any Loan unless Lender agrees otherwise in writing.

9.4 Rights Cumulative. All rights and remedies existing under the Loan Documents are cumulative to, and not exclusive of, any other rights or remedies available under contract or applicable law.

9.5 Unenforceable Provisions. Any provision of any Loan Document executed by Borrower which is prohibited or unenforceable in any jurisdiction, shall be so only as to such jurisdiction and only to the extent of such prohibition or unenforceability, but all the remaining provisions of any such Loan Document shall remain valid and enforceable.

9.6 Accounting Terms. Except as otherwise provided in this Agreement, accounting terms and financial covenants and information shall be determined and prepared in accordance with GAAP.

9.7 Indemnification; Exculpation. Borrower shall pay and protect, defend and indemnify Lender and Lender's employees, officers, directors, shareholders, affiliates, correspondents, agents and representatives (other than Lender, collectively "Agents") against, and hold Lender and each such Agent harmless from, all claims, actions, proceedings, liabilities, damages, losses, expenses (including, without limitation, attorneys' fees and costs) and other amounts incurred by Lender and each such Agent, arising from (i) the matters contemplated by this Agreement or any other Loan Documents, (ii) any dispute between Borrower and a third party, or (iii) any contention that Borrower has failed to comply with any law, rule, regulation, order or directive applicable to Borrower's business; **provided, however**, that this indemnification shall not apply to any of the foregoing incurred solely as the result of Lender's or any Agent's gross negligence or willful misconduct. This indemnification shall survive the payment and satisfaction of all of Borrower's Obligations to Lender.

9.8 Currency Loss Indemnity. If any sum due from Borrower to Lender under this Agreement or under any other Loan Document or under any order or judgment relating to this Agreement or any Loan Document has to be converted from the Contractual Currency into another currency (the "Payment Currency") for purpose of: (i) making or lodging any claim or proof against Borrower, whether in its liquidation, any arrangement involving it or otherwise; (ii) obtaining an order or judgment from any court or other tribunal with respect to any Loan Document; or (iii) enforcing any such order or judgment with respect to any Loan Document; Borrower shall indemnify Lender against any loss arising, if any, when the amount of the payment actually received by Lender is converted at the available rate of exchange into the Contractual Currency. In this context, the "available rate of exchange" means the rate at which Lender is able at the opening of business (San Francisco time) on the Business Day after it receives the sum concerned to purchase the Contractual Currency with the Payment Currency. This Section 9.8 creates a separate liability of Borrower which is distinct from their other liabilities hereunder and under any Loan Document and shall not be merged in any judgment or order relating to such other liabilities.

9.9 Reimbursement. Borrower shall reimburse Lender for all costs and expenses, including without limitation reasonable attorneys' fees and disbursements expended or incurred by Lender in any arbitration, mediation, judicial reference, legal action or otherwise in connection with (a) the preparation and negotiation of the Loan Documents, (b) the amendment and enforcement of the Loan Documents, including without limitation during any workout, attempted workout, and/or in connection with the rendering of legal advice as to Lender's rights, remedies and obligations under the Loan Documents, (c) collecting any sum which becomes due Lender under any Loan Document, (d) any proceeding for declaratory relief, any counterclaim to any proceeding, or any appeal, or (e) the protection, preservation or enforcement of any rights of Lender. For the purposes of this section, attorneys' fees shall include, without limitation, fees incurred in connection with the following: (1) contempt proceedings; (2) discovery; (3) any motion, proceeding or other activity of any kind in connection with an Insolvency Proceeding; (4) garnishment, levy, and debtor and third party examinations; and (5) postjudgment motions and proceedings of any kind, including without limitation any activity taken to collect or enforce any judgment. All of the foregoing costs and expenses shall be payable upon demand by Lender, and if not paid within forty-five (45) days of presentation of invoices shall bear interest at the Default Rate.

9.10 Execution in Counterparts. This Agreement may be executed in any number of counterparts which, when taken together, shall constitute but one agreement.

9.11 Entire Agreement. The Loan Documents are intended by the parties as the final expression of their agreement and therefore contain the entire agreement between the parties and supersede all prior understandings or agreements concerning the subject matter hereof. This Agreement may be amended only in a writing signed by Borrower and Lender.

9.12 Governing Law and Jurisdiction.

(a) THIS AGREEMENT AND THE LOAN DOCUMENTS SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF CALIFORNIA. NOTWITHSTANDING THE FOREGOING, THE LAWS OF THE CZECH REPUBLIC SHALL APPLY, AS APPLICABLE, TO THE CREATION, PERFECTION, PRIORITY AND ENFORCEMENT OF LIENS AGAINST COLLATERAL LOCATED IN, OR SUBJECT TO THE LAWS OF THE CZECH REPUBLIC.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF CALIFORNIA OR OF THE UNITED STATES FOR THE NORTHERN DISTRICT OF CALIFORNIA, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF BORROWER AND LENDER CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. EACH OF BORROWER AND LENDER IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF THIS AGREEMENT OR ANY DOCUMENT RELATED HERETO. BORROWER AND LENDER EACH WAIVE PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY CALIFORNIA LAW.

9.13 Waiver of Jury Trial. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW, BORROWER AND LENDER EACH WAIVES ITS RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY OF THE PARTIES AGAINST ANY OTHER PARTY OR ANY PARTICIPANT OR ASSIGNEE, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. BORROWER AND LENDER EACH AGREES THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEMS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

ARTICLE 10 - DEFINITIONS

The definitions appearing in this Agreement or any Supplement shall be applicable to both the singular and plural forms of the defined terms:

"Account" means any "account," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest and, in any event, shall include, without limitation, all accounts receivable, book debts and other forms of obligations (other than forms of obligations evidenced by Chattel Paper, Documents or Instruments) now owned or hereafter received or acquired by or belonging or owing to Borrower (including, without limitation, under any trade name, style or division thereof) whether arising out of goods sold or services rendered by Borrower or from any other transaction, whether or not the same involves the sale of goods or services by Borrower (including, without limitation, any such obligation that may be characterized as an account or contract right under the UCC) and all of Borrower's rights in, to and under all purchase orders or receipts now owned or hereafter acquired by it for goods or services, and all of Borrower's rights to any goods represented by any of the foregoing (including, without limitation, unpaid seller's rights of rescission, replevin, reclamation and stoppage in transit and rights to returned, reclaimed or repossessed goods), and all monies due or to become due to Borrower under all purchase orders and contracts for the sale of goods or the performance of services or both by Borrower or in connection with any other transaction (whether or not yet earned by performance on the part of Borrower), now in existence or hereafter occurring, including, without limitation, the right to receive the proceeds of said purchase orders and contracts, and all collateral security and guarantees of any kind given by any Person with respect to any of the foregoing.

"Affiliate" means any Person which directly or indirectly controls, is controlled by, or is under common control with Borrower. "Control," "controlled by" and "under common control with" mean direct or indirect possession of the power to direct or cause the direction of management or policies (whether through ownership of voting securities, by contract or otherwise); provided, that control shall be conclusively presumed when any Person or affiliated group directly or indirectly owns ten percent (10%) or more of the securities having ordinary voting power for the election of directors of a corporation.

"Agreement" means this Loan and Security Agreement and each Supplement thereto, as each may be amended or supplemented from time to time.

"Bankruptcy Code" means the Federal Bankruptcy Reform Act of 1978 (11 U.S.C. §101, et seq.), as amended.

"Basic Interest" means the fixed rate of interest payable on the outstanding balance of each Loan at the applicable Designated Rate.

"Borrowing Date" means the Business Day on which the proceeds of a Loan are disbursed by Lender.

"Borrowing Request" means a written request from Borrower in substantially the form of Exhibit "B" to the Supplement, requesting the funding of one or more Loans on a particular Borrowing Date.

"**Business Day**" means any day other than a Saturday, Sunday or other day on which commercial banks in New York City or San Francisco are authorized or required by law to close.

"**Chattel Paper**" means any "chattel paper," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

"**Closing Date**" means the date of this Agreement.

"**Collateral**" means all of Borrower's right, title and interest in and to the following property, whether now owned or hereafter acquired and wherever located (except property that to the extent the grant of a security interest herein would violate the terms of the contracts governing such property): (a) all Receivables; (b) all Equipment; (c) all Fixtures; (d) all General Intangibles; (e) all Inventory; (f) all Investment Property; (g) all Deposit Accounts; (h) all Shares; (i) all other Goods and personal property of Borrower, whether tangible or intangible and whether now or hereafter owned or existing, leased, consigned by or to, or acquired by, Borrower and wherever located; (j) all Records; and (k) all Proceeds of each of the foregoing and all accessions to, substitutions and replacements for, and rents, profits and products of each of the foregoing.

"**Commitment**" means the obligation of Lender to make Loans to Borrower up to the aggregate principal amount set forth in the Supplement.

"**Copyright License**" means any written agreement granting any right to use any Copyright or Copyright registration now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

"**Copyrights**" means all of the following now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest: (i) all copyrights, whether registered or unregistered, held pursuant to the laws of the United States, any State thereof or of any other country; (ii) all registrations, applications and recordings in the United States Copyright Office or in any similar office or agency of the United States, any State thereof or any other country; (iii) all continuations, renewals or extensions thereof; and (iv) any registrations to be issued under any pending applications.

"**Default**" means an event which with the giving of notice, passage of time, or both would constitute an Event of Default.

"**Default Rate**" means fifteen percent (15%) per annum.

"**Deposit Accounts**" means any "deposit accounts," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

"**Designated Rate**" means the rate of interest per annum described in the Supplement as being applicable to an outstanding Loan from time to time.

"**Documents**" means any "documents," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

"**Environmental Laws**" means all federal, state or local laws, statutes, common law duties, rules, regulations, ordinances and codes, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any governmental authorities, in each case relating to environmental, health, or safety matters.

"**Equipment**" means any "equipment," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest and any and all additions, substitutions and replacements of any of the foregoing, wherever located, together with all attachments, components, parts, equipment and accessories installed thereon or affixed thereto.

"**Event of Default**" means any event described in Section 7.1.

"**Final Payment**" means, with respect to a Loan, an amount equal to that percentage of the original principal amount of such Loan and payable at the time specified in the Supplement or the Note evidencing such Loan.

“Fixtures” means any “fixtures,” as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

“GAAP” means generally accepted accounting principles and practices consistent with those principles and practices promulgated or adopted by the Financial Accounting Standards Board and the Board of the American Institute of Certified Public Accountants, their respective predecessors and successors. Each accounting term used but not otherwise expressly defined herein shall have the meaning given it by GAAP.

“General Intangibles” means any “general intangibles,” as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest and, in any event, shall include, without limitation, all right, title and interest that Borrower may now or hereafter have in or under any contract, all customer lists, Copyrights, Trademarks, Patents, websites, domain names, and all applications therefor and reissues, extensions, or renewals thereof, other rights to Intellectual Property, interests in partnerships, joint ventures and other business associations, Licenses, permits, trade secrets, proprietary or confidential information, inventions (whether or not patented or patentable), technical information, procedures, designs, knowledge, know-how, software, data bases, data, skill, expertise, recipes, experience, processes, models, drawings, materials and records, goodwill (including, without limitation, the goodwill associated with any Trademark, Trademark registration or Trademark licensed under any Trademark License), claims in or under insurance policies, including unearned premiums, uncertificated securities, money, cash or cash equivalents, deposit, checking and other bank accounts, rights to sue for past, present and future infringement of Copyrights, Trademarks and Patents, rights to receive tax refunds and other payments and rights of indemnification.

“Goods” means any “goods,” as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

“Indebtedness” of any Person means at any date, without duplication and without regard to whether matured or unmatured, absolute or contingent: (i) all obligations of such Person for borrowed money; (ii) all obligations of such Person evidenced by bonds, debentures, notes, or other similar instruments; (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business; (iv) all obligations of such Person as lessee under capital leases; (v) all obligations of such Person to reimburse or prepay any bank or other Person in respect of amounts paid under a letter of credit, banker’s acceptance, or similar instrument, whether drawn or undrawn; (vi) all obligations of such Person to purchase securities which arise out of or in connection with the sale of the same or substantially similar securities; (vii) all obligations of such Person to purchase, redeem, exchange, convert or otherwise acquire for value any capital stock of such Person or any warrants, rights or options to acquire such capital stock, now or hereafter outstanding, except to the extent that such obligations remain performable solely at the option of such Person; (viii) all obligations to repurchase assets previously sold (including any obligation to repurchase any accounts or chattel paper under any factoring, receivables purchase, or similar arrangement); (ix) obligations of such Person under interest rate swap, cap, collar or similar hedging arrangements; and (x) all obligations of others of any type described in clause (i) through clause (ix) above guaranteed by such Person.

“Insolvency Proceeding” means with respect to a Person (a) any case, action or proceeding before any court or other governmental authority relating to bankruptcy, reorganization, insolvency, liquidation, receivership, dissolution, winding-up or relief of debtors with respect to such Person, or (b) any general assignment for the benefit of creditors, composition, marshalling of assets for creditors, or other, similar arrangement in respect of such Person’s creditors generally or any substantial portion of its creditors, undertaken under U.S. Federal, state or foreign law, including the Bankruptcy Code, but in each case, excluding any avoidance or similar action against such Person commenced by an assignee for the benefit of creditors, bankruptcy trustee, debtor in possession, or other representative of another Person or such other Person’s estate.

“Instruments” means any “instrument,” as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

“Intellectual Property” means all Copyrights, Trademarks, Patents, Licenses, trade secrets, source codes, customer lists, proprietary or confidential information, inventions (whether or not patented or patentable), technical information, procedures, designs, knowledge, know-how, software, data bases, skill, expertise, experience, processes, models, drawings, materials, records and goodwill associated with the foregoing.

“Intellectual Property Security Agreement” means any Intellectual Property Security Agreement executed and delivered by Borrower in favor of Lender, as the same may be amended, supplemented, or restated from time to time.

"Inventory" means any "inventory," as such term is defined in the UCC, wherever located, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest, and, in any event, shall include, without limitation, all inventory, goods and other personal property that are held by or on behalf of Borrower for sale or lease or are furnished or are to be furnished under a contract of service or that constitute raw materials, work in process or materials used or consumed or to be used or consumed in Borrower's business, or the processing, packaging, promotion, delivery or shipping of the same, and all finished goods, whether or not the same is in transit or in the constructive, actual or exclusive possession of Borrower or is held by others for Borrower's account, including, without limitation, all goods covered by purchase orders and contracts with suppliers and all goods billed and held by suppliers and all such property that may be in the possession or custody of any carriers, forwarding agents, truckers, warehousemen, vendors, selling agents or other Persons.

"Investment Property" means any "investment property," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest but in no case shall include any shares directly or indirectly held by the Borrower in any Subsidiary.

"Letter of Credit Rights" means any "letter of credit rights," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest, including any right to payment under any letter of credit.

"License" means any Copyright License, Patent License, Trademark License or other license of rights or interests now held or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest and any renewals or extensions thereof.

"Lien" means any mortgage, deed of trust, pledge, hypothecation, assignment for security, security interest, encumbrance, levy, lien or charge of any kind, whether voluntarily incurred or arising by operation of law or otherwise, against any property, any conditional sale or other title retention agreement, any lease in the nature of a security interest, and the filing of any financing statement (other than a precautionary financing statement with respect to a lease that is not in the nature of a security interest) under the UCC or comparable law of any jurisdiction.

"Loan" means an extension of credit by Lender under this Agreement.

"Loan Documents" means, individually and collectively, this Loan and Security Agreement, each Supplement, each Note, the Intellectual Property Security Agreement, and any other security or pledge agreement(s), any Warrants issued by Borrower to Lender (or its designee) in connection with this Agreement, and all other contracts, instruments, addenda and documents executed in connection with this Agreement or the extensions of credit which are the subject of this Agreement.

"Material Adverse Effect" or "**Material Adverse Change**" means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, or condition (financial or otherwise) of Borrower; (b) a material impairment of the ability of Borrower to perform under any Loan Document; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against Borrower of any Loan Document.

"Note" means a promissory note substantially in the form attached to the Supplement as Exhibit "A", executed by Borrower evidencing each Loan.

"Obligations" means all debts, obligations and liabilities of Borrower to Lender currently existing or now or hereafter made, incurred or created under, pursuant to or in connection with this Agreement or any other Loan Document (excluding the Warrants), whether voluntary or involuntary and however arising or evidenced, whether direct or acquired by Lender by assignment or succession, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, and whether Borrower may be liable individually or jointly, or whether recovery upon such debt may be or become barred by any statute of limitations or otherwise unenforceable; and all renewals, extensions and modifications thereof; and all attorneys' fees and costs incurred by Lender in connection with the collection and enforcement thereof as provided for in any Loan Document.

"Patent License" means any written agreement granting any right with respect to any invention on which a Patent is in existence now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

"Patents" means all of the following property now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest: (a) all letters patent of, or rights corresponding thereto in, the United States or any other country, all registrations and recordings thereof, and all applications for letters patent of, or rights corresponding thereto in, the United States or any other country, including, without limitation, registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country; (b) all reissues, continuations, continuations-in-part or extensions thereof; (c) all petty patents, divisionals, and patents of addition; and (d) all patents to be issued under any such applications.

"**Permitted Lien**" means:

(a) involuntary Liens which, in the aggregate, would not have a Material Adverse Effect and which in any event would not exceed, in the aggregate, the Threshold Amount;

(b) Liens for current taxes or other governmental or regulatory assessments which are not delinquent, or which are contested in good faith by the appropriate procedures and for which appropriate reserves are maintained;

(c) security interests on any property held or acquired by Borrower in the ordinary course of business securing Indebtedness incurred or assumed for the purpose of financing all or any part of the cost of acquiring such property; provided, that such Lien attaches solely to the property acquired with such Indebtedness and that the principal amount of such Indebtedness does not exceed one hundred percent (100%) of the cost of such property;

(d) Liens in favor of Lender;

(e) bankers' liens, rights of setoff and similar Liens incurred on deposits made in the ordinary course of business;

(f) materialmen's, mechanics', repairmen's, employees' or other like Liens arising in the ordinary course of business and which are not delinquent for more than 45 days or are being contested in good faith by appropriate proceedings;

(g) any judgment, attachment or similar Lien, unless the judgment it secures has not been discharged or execution thereof effectively stayed and bonded against pending appeal within 30 days of the entry thereof;

(h) licenses or sublicenses of Intellectual Property in accordance with the terms of Section 6.5 hereof;

(i) Liens securing Subordinated Debt;

(j) Liens which have been approved by Lender in writing prior to the Closing Date, as shown on the Schedule of Exceptions hereto;

(k) A Lien in favor of Raiffeisenbank/Unicredit or any replacement lender(s), to secure the Indebtedness permitted under Section 6.1(i) of the Agreement;

(l) Liens securing Borrower's or any Subsidiary's performance obligations in the ordinary course of business, or securing a letter of credit, bond or other undertaking issued by a third party to secure such obligations; provided, however, that the foregoing shall not include Liens granted to a Subsidiary by the Borrower on the Collateral; and

(m) Liens securing Indebtedness outstanding under the VLL5 Loan Agreement.

"**Person**" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, institution, public benefit corporation, other entity or government (whether federal, state, county, city, municipal, local, foreign, or otherwise, including any instrumentality, division, agency, body or department thereof).

"**Proceeds**" means "proceeds," as such term is defined in the UCC and, in any event, shall include, without limitation, (a) any and all Accounts, Chattel Paper, Instruments, cash or other forms of money or currency or other proceeds payable to Borrower from time to time in respect of the Collateral, (b) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to Borrower from time to time with respect to any of the Collateral, (c) any and all payments (in any form whatsoever) made or due and payable to Borrower from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any governmental authority (or any Person acting under color of governmental authority), (d) any claim of Borrower against third parties (i) for past, present or future infringement of any Copyright, Patent or Patent License or (ii) for past, present or future infringement or dilution of any Trademark or Trademark License or for injury to the goodwill associated with any Trademark, Trademark registration or Trademark licensed under any Trademark License and (e) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

"Receivables" means all of Borrower's Accounts, Instruments, Documents, Chattel Paper, Supporting Obligations, and letters of credit and Letter of Credit Rights.

"Records" means all Borrower's computer programs, software, hardware, source codes and data processing information, all written documents, books, invoices, ledger sheets, financial information and statements, and all other writings concerning Borrower's business.

"Related Person" means any Affiliate of Borrower, or any officer, employee, director or equity security holder of Borrower or any Affiliate.

"Rights to Payment" means all Borrower's accounts, instruments, contract rights, documents, chattel paper and all other rights to payment, including, without limitation, the Accounts, all negotiable certificates of deposit and all rights to payment under any Patent License, any Trademark License, or any commercial or standby letter of credit.

"Security Documents" means this Loan and Security Agreement, the Supplement hereto, the Intellectual Property Security Agreement, and any and all account control agreements, collateral assignments, chattel mortgages, financing statements, amendments to any of the foregoing and other documents from time to time executed or filed to create, perfect or maintain the perfection of Lender's Liens on the Collateral.

"Shares" means: (a) one hundred percent (100%) of the issued and outstanding capital stock, membership units or other securities owned or held of record by Borrower in any domestic Subsidiary, and (b) 65% of the issued and outstanding capital stock, membership units or other securities entitled to vote owned or held of record by Borrower in any Subsidiary that is a controlled foreign corporation (as defined in the Internal Revenue Code).

"**Subordinated Debt**" means Indebtedness either: (i) where the holder's right to payment of such Indebtedness, the priority of any Lien securing the same, and the rights of the holder thereof to enforce remedies against Borrower following default have been made subordinate to the Liens of Lender securing the Obligations and to the prior payment to Lender of the Obligations, pursuant to a written intercreditor agreement approved by Lender in its sole but reasonable discretion; or (ii) where the payment of principal of such Indebtedness is contractually subordinate to the prior payment to Lender of the Obligations and any Liens securing such Indebtedness are by operation of law or contractually subordinate to the Liens in favor of the Lender securing the Obligations.

"Subsidiary" means any Person a majority of the equity ownership or voting stock of which is at the time owned by Borrower.

"Supplement" means that certain supplement to the Loan and Security Agreement, as the same may be amended or restated from time to time, and any other supplements entered into between Borrower and Lender, as the same may be amended or restated from time to time.

"Supporting Obligations" means any "supporting obligations," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

"Termination Date" has the meaning specified in the Supplement.

"Threshold Amount" has the meaning specified in the Supplement.

"Trademark License" means any written agreement granting any right to use any Trademark or Trademark registration now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

"Trademarks" means all of the following property now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest: (a) all trademarks, tradenames, corporate names, business names, trade styles, service marks, logos, other source or business identifiers, prints and labels on which any of the foregoing have appeared or appear, designs and general intangibles of like nature, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and any applications in connection therewith, including, without limitation, registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof and (b) reissues, extensions or renewals thereof.

"UCC" means the Uniform Commercial Code as the same may, from time to time, be in effect in the State of California; provided, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of, or remedies with respect to, Lender's Lien on any Collateral is governed by the Uniform Commercial Code as enacted and in effect in a jurisdiction other than the State of California, the term "UCC" shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority or remedies and for purposes of definitions related to such provisions. Unless otherwise defined herein, terms that are defined in the UCC and used herein shall have the meanings given to them in the UCC.

"VLL5" means Venture Lending & Leasing V, Inc., a Maryland corporation, together with its successors and assigns.

"VLL5 Loan Agreement" means that certain Loan and Security Agreement and Supplement thereto, both dated as of April 15, 2010, between Borrower and VLL5, together with all of the "Loan Documents" (as such term is defined therein), as the same have been and may be amended, supplemented, restated or modified from time to time and any refinancings thereof.

[Signature page follows]

[Signature page to Loan and Security Agreement]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

BORROWER:

KIT DIGITAL, INC.

By: /s/Kaleil Isaza Tuzman
Name: Kaleil Isaza Tuzman
Title: CEO

LENDER:

VENTURE LENDING & LEASING VI, INC.

By: /s/Maurice Werdegar
Name: Maurice Werdegar
Title: President and CEO

[Schedules to Loan and Security Agreement follow]

Exhibit 21.1

SUBSIDIARIES OF KIT DIGITAL, INC.

Name of Subsidiary	State/Country of Incorporation
Reality Group Pty. Ltd	Australia
KIT digital Sweden AB	Sweden
KIT digital FZ LLC	Dubai, UAE
KIT HD, Inc.	New York
KIT digital Pty. Ltd.	Australia
KIT digital Limited	United Kingdom
Sputnik Agency Pty. Ltd.	Australia
Digital Media Productions AS	Czech Republic
KIT digital GMBH	Germany
Polymedia S.p.A.	Milan
KIT digital Prague a.s.	Czech Republic
KIT digital Canada Inc.	Canada
KIT digital Americas	Georgia
KIT digital Asia PTE Ltd	Singapore
KIT digital India Pvt. Ltd.	Chennai
Benchmark Microsystems Pvt. Ltd.	Chennai

Benchmark Technologies Co. Ltd.	China
KIT digital Egypt	Egypt
Megahertz Broadcast Systems, Ltd.	United Kingdom
KIT digital Content Solutions s.r.o.	Czech Republic
Brickbox Digital Media Magyorzsag, Kft.	Hungary
Brickbox Digital Media, s.r.l.	Romania
BRICKBOX RESEARCH AND DEVELOPMENT s.r.o.	Czech Republic
Brickbox Limited	United Kingdom
International Digital Management LLC	California
International Digital Management OOD	Bulgaria
ioko365 Limited	United Kingdom
decentral tv Corp.	San Francisco
KIT digital France S.A.	France
Kewego Deutschland GmbH	Germany
Kewego Espana sru	Spain
Kyte UK Limited	United Kingdom
Kyte GmbH	Switzerland
KIT digital Italy Sarl	Italy

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 30, 2012, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of KIT digital, Inc. on Form 10-K for the year ended December 31, 2011. We hereby consent to the incorporation by reference of said reports in the Registration Statements of KIT digital, Inc. on Form S-3 (File No. 333-174457, effective August 8, 2011. File No. 333-164655, effective February 12, 2010, File No. 333-162325, effective October 13, 2009 and File No. 333-169918, effective October 22, 2010) and on Form S-8 (File No. 333-177998, effective November 15, 2011 and File No. 333-171420, effective December 23, 2010).

/s/ GRANT THORNTON LLP

New York, New York
March 30, 2012

Exhibit 31.1

CERTIFICATION OF C.E.O. PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, in the capacity and date indicated below, hereby certifies that:

1. I have reviewed this annual report on Form 10-K of KIT digital, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(d)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Kaleil Isaza Tuzman

March 30, 2012

Kaleil Isaza Tuzman
Chairman and Chief Executiv

Exhibit 31.2

CERTIFICATION OF C.F.O. PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, in the capacity and date indicated below, hereby certifies that:

1. I have reviewed this annual report on Form 10-K of KIT digital, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(d)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Robin Smyth

March 30, 2012

Robin Smyth
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF C.E.O. PURSUANT TO 18 U.S.C. SECTION 1350, SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of KIT digital, Inc. (the "Company") on Form 10-K for the year ended December 31, 2011 as filed with the Securities and Exchange Commission (the "Report"), I, Kaleil Isaza Tuzman, Chairman and Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 30, 2012

Exhibit 32.2

CERTIFICATION OF C.F.O. PURSUANT TO 18 U.S.C. SECTION 1350, SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of KIT digital, Inc. (the "Company") on Form 10-K for the year ended December 31, 2011 as filed with the Securities and Exchange Commission (the "Report"), I, Robin Smyth, Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 30, 2012