UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

JOSHUA HUGHES, Individually and on Behalf of All Others Similarly Situated, Plaintiff, v. KIT DIGITAL, INC., KALEIL ISAZA TUZMAN, ROBIN SMYTH, BARAK BAR-COHEN, FABRICE HAMAIDE, and JONATHAN HIRST, Defendants.	No.__________________ CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS **JURY TRIAL DEMANDED**

INTRODUCTION

Plaintiff Joshua Hughes ("Plaintiff"), individually and on behalf of all other persons similarly situated, by his undersigned attorneys, for his complaint against Defendants, alleges upon personal knowledge, and upon information and belief as to all other matters, based on, *inter alia*, the investigation conducted by and through his attorneys, which included, among other things, a review of the Defendants' public documents, conference calls, and announcements made by Defendants, United States Securities and Exchange Commission ("SEC") filings, wire and press releases published by and regarding KIT digital, Inc. ("KIT digital" or the "Company") securities analysts' reports and advisories about the Company, and other readily obtainable information, as follows:

NATURE OF ACTION

1. This is a federal securities class action on behalf of all persons who purchased or otherwise acquired the common stock of KIT digital between May 19, 2009 and November 21,

2012 (the "Class Period"), against KIT digital and certain of its officers and/or directors for violations of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 promulgated thereunder.

2. KIT digital is a global provider of on-demand Internet Protocol (IP)-based video asset management systems. The Company's software enables its clients to acquire, manage and distribute video assets across personal computers, mobile devices and IP-enabled television sets. KIT digital's software is used for commercial video distribution as well as for internal corporate deployments. The Company's products are delivered on a subscription basis based upon both software-as-a-service and on-demand models. KIT digital also provides video management, installation, and systems integration services to some of its clients.

3. On November 21, 2012, after the stock market closed, KIT digital shocked investors when it announced that it would restate the Company's financial statements for the fiscal years 2009, 2010, and 2011and the first two quarters of 2012 because of accounting errors and irregularities relating to the recognition of revenue for software license agreements. Specifically, the Company stated that it had concluded ***"that, because of errors and irregularities identified by the Company in its historical financial statements, the financial statements for (1) the years ended December 31, 2009, 2010 and 2011 and (2) each of the three quarters in 2009, 2010 and 2011 will be restated*"** and "[*a*]***s a result of the restatement of these prior periods, the Company will also restate the quarters ended March 31, 2012 and June 30, 2012.***" The Company went on to tell investors that they "should no longer rely upon the Company's previously issued financial statements for these periods, any earnings releases or other communications relating to these periods, or projections or estimates for any future periods." The Company stated that "[*t*]***he accounting errors and irregularities giving rise to the***

restatement relate primarily to recognition of revenue related to certain perpetual software license agreements entered into by the prior management team in 2010 and 2011." (Emphasis added). The Company said it "requires additional time to complete an analysis of the accounting treatment for the software licenses and to determine the extent of the corrections that may be required to its historical financial statements. Other effects on previous financial statements are also possible. Accordingly, the Company cannot currently quantify the potential impact of the restatement."

4. Although the Company has announced that its financial review is not yet complete, its November 21, 2012 Form 8-K announced that it anticipates that "***significant cash expenditures***" may be required to rectify its previously issued, materially misleading financial statements and that, among other things, the restatement will trigger an "***Event of Default***" clause in the Company's secured loan facility, making the entire balance of approximately $11 million due immediately unless the terms can be renegotiated. (Emphasis added). As of November 21, 2012 the Company stated that it had only $10.6 million in cash and cash equivalents, of which approximately $4 million is restricted cash.

5. On this news, shares of KIT digital declined $1.33 per share, or over 64%, to close on November 23, 2012 at $0.74 on extremely heavy trading volume. In the days following the announcement the price plummeted further, closing at $0.62 per share on November 26, 2012, the first full trading day following the disclosure of the Company's need to restate.

6. Throughout the Class Period, Defendants made false and/or misleading statements regarding the Company's business, financial results and prospects. As a result of Defendants' material misrepresentations KIT digital's stock traded at artificially inflated prices during the Class Period. Specifically, the Company maintained that it had an adequate system of internal

controls over its financial reporting. However, as was revealed later in the Class Period, its internal controls were deficient and incapable of producing adequate financial reporting. Defendants made further false and/or misleading statements and/or failed to disclose: (1) that there were irregularities with the Company's accounting relating, in part, to revenue recognition for certain license agreements; (2) that the Company's financial statements were not prepared in accordance with Generally Accepted Accounting Principles ("GAAP"); (3) that the Company's internal controls were deficient and incapable of producing adequate financial reporting, as was revealed later in the class period; and (4) as a result of the above, the Company's financial statements were materially false and misleading at all relevant times.

7. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other Class members have suffered significant losses and damages.

8. The claims on behalf of the purchasers of KIT digital's shares on the open market arise under Sections 10(b) and 20(a) of the Exchange Act.

JURISDICTION AND VENUE

9. The claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

10. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and Section 27 of the Exchange Act (15 U.S.C. § 78aa).

11. Venue is proper in this Judicial District pursuant to 28 U.S.C. § 1391(b) and Section 27 of the Exchange Act (15 U.S.C. § 78aa).

12. In connection with the acts alleged in this complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the United States mails, interstate telephone communications and the facilities of the national securities markets.

PARTIES

13. Plaintiff purchased KIT digital's common stock at artificially inflated prices during the Class Period, as set forth in the accompanying certification, which is incorporated by reference herein, and has been damaged thereby.

14. Defendant KIT digital is a Delaware corporation with its principal place of business at 26 West 17th Street, 2nd Floor, New York, New York 10011. The Company's common stock trades on the NASDAQ under the ticker symbol "KITD."

15. Defendant Kaleil Isaza Tuzman ("Tuzman") served as the Company's Chief Executive Officer and Chairman of its board of directors (the "Board") from January 2008 until April 2012.

16. Defendant Robin Smyth ("Smyth") served as a director on the Board and as the Company's Chief Financial Officer from December 2003 until July 2012, with the exception of a five month leave from April to September 2009.

17. Defendant Barak Bar-Cohen served as the Company's Interim Chief Executive Officer from March 31, 2012 to August 28, 2012 and as a director on the Board from May 4, 2012 to September 24, 2012.

18. Defendant Fabrice Hamaide has served as the Company's Chief Financial Officer since July 14, 2012 and has served as a senior financial advisor to the Company since May 2012.

19. Defendant Jonathan Hirst served as the Company's Chief Financial Officer from April 2009 through September 2009.

20. Defendants Tuzman, Smyth, Bar-Cohen, Hamaide, and Hirst are collectively referred to herein as the "Individual Defendants."

CLASS ACTION ALLEGATIONS

21. Plaintiff brings this allegation as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased KIT digital's securities during the Class Period and who were damaged thereby. Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

22. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, KIT digital's securities were actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are thousands of members in the proposed Class. During the Class Period, millions of Kit Digital's shares were traded publicly on the NASDAQ and as of November 30, 2012, the Company had more than 57 million shares of common stock outstanding. Record owners and members of the Class may be identified from records maintained by KIT digital or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

23. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

24. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

25. Common questions of law and fact exist as to all members of the Class. Among the questions of law and fact common to the Class are:

a. Whether the Defendant's conduct violated the Exchange Act as alleged herein;

b. Whether statements made by Defendants to the investing public during the Class Period omitted and/or misrepresented material facts about the business, operations, and prospects of KIT digital; and

c. To what extent the members of the Class have sustained damages and the proper measure of damages.

26. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation makes it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

SUBSTANTIVE ALLEGATIONS

Background

27. KIT digital, Inc. is a leading global provider of on-demand Internet Protocol (IP)-based video asset management systems. The Company's VX software enables its clients to acquire, manage and distribute video assets across personal computers, mobile devices and

IPTV-enabled television sets. KIT digital's VX software is used for commercial video distribution as well as for internal corporate deployments. The Company delivers its VX software as a subscription service using a software-as-a-service (SaaS) or on-demand model, and occasionally installs software onsite for clients as part of an enterprise license. The VX software serves corporate customers across a wide variety of industries, including media & entertainment, telecommunications, retail, consumer/packaged goods, shipping/logistics, automotive and financial services. The Company estimates over 80% of its current revenues are generated by VX platform-related fees, with the remainder directly related to professional services.

Materially False and Misleading
Statements Issued During the Class Period

28. During the Class Period, Defendants made false and misleading statements and/or failed to disclose that: (1) that there were irregularities with the Company's accounting relating, in part, to revenue recognition for certain license agreements; (2) that the Company's financial statements were not prepared in accordance with GAAP; (3) that the Company's internal controls were deficient and incapable of producing adequate financial reporting, as was revealed later in the class period; and (4) as a result of the above, the Company's financial statements were materially false and misleading at all relevant times.

29. The Class Period begins on May 19, 2009, when Kit Digital issued a press release titled "KIT digital Reports Record First Quarter 2009 Results." The Company stated in part:

> ***Q1 Revenue Up 174% Year-Over-Year to $9.6 Million; Company Achieves Second Consecutive Quarter of Positive Operating EBITDA***
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> **DUBAI, United Arab Emirates, May 19, 2009** - KIT digital, Inc. (OTC BB: KDGL), a leading global provider of Internet Protocol-based video enablement technologies, reported financial results for the first quarter ended March 31, 2009. (These results are quoted in U.S. dollars, although a material portion of the company's revenue is earned in other currencies. See "Management of International Currency," below).

Financial Results for Q1 2009

Revenue in the first quarter of 2009 totaled a record $9.6 million, an increase of 7% from $9.0 million in the previous quarter and a 174% increase from $3.5 million in the same quarter a year ago. The company's revenues are primarily comprised of software license and maintenance fees, software set-up fees, and technical and creative service charges. The year-over-year revenue improvement is principally due to the increase in the number of customers, increased spending by existing customers, and the inclusion of revenue from acquisitions made in 2008.

After recognizing the impact of the application of the new accounting standard EITF 07-05, net income for the first quarter of 2009 was $168,000 or $0.04 per weighted average share outstanding, compared to a loss in the previous quarter of $2.5 million or ($0.75) per weighted average share outstanding and a loss in the first quarter of 2008 of $10.6 million or ($9.57) per weighted average share outstanding. The net income for the first quarter of 2009 includes derivative income of $1.9 million due to EITF 07-05, $963,000 in non-cash charges (including $280,000 in stock-based compensation), $363,000 in restructuring and non-recurring charges related to employee termination and acquisition-related facility closing costs, and $378,000 in acquisitions-related payments and expenses.

EITF 07-05 requires the company to calculate the fair value of warrants containing reset provisions and classify them as derivative liabilities. This liability was recorded at March 31, 2009 at ($3.7) million. A reduction of this liability was recorded in the first quarter of 2009, and this reduction was classified as derivative income.

In the first quarter of 2009, Operating EBITDA, a non-GAAP term, was $198,000 or $0.05 per weighted average share outstanding, as compared to the previous quarter's Operating EBITDA of $32,000 or $0.01 per weighted average share outstanding and negative Operating EBITDA in the first quarter of 2008 of $3.5 million or ($3.11) per weighted average share outstanding. The company defines Operating EBITDA as earnings before: derivative income/(loss); non-cash stock based compensation; acquisition-related restructuring costs and other non-recurring charges; impairment of property and equipment; merger and acquisition expenses; and depreciation and amortization (see important discussion of Operating EBITDA in "About the Presentation of Operating EBITDA," below).

The basic and diluted weighted average common shares for the first quarter totaled 4.3 million, as compared to 4.2 million at the end of the previous quarter and 1.1 million at the end of the first quarter of 2008 (all figures reflect the company's 1-for-35 reverse stock split completed on March 6, 2009).

As of March 31, 2009, the company had cash and cash equivalents of $2.5 million, as compared to $5.9 million at December 31, 2008. The $3.4 million decrease in cash from the previous quarter was largely related to $1,892,000 in investment activities (including $1,512,000 in property and equipment purchases), and $800,000 in deferred consideration and loan re-payments related to the acquisition of Visual Connection, a.s. in October 2008.

In the quarter ended March 31, 2009, there were 463,583 shares issued as a result of deferred equity-based consideration and earn-out payments related to the 2008 acquisitions of Visual Connection and Kamera Content AB. As of May 15, 2008, the company had 4,805,489 shares outstanding.

As of May 18, 2009, there are no additional required cash payments or cash earn-outs related to any acquisitions that the company has made in the past.

Q1 2009 Operational Highlights

- Signed 18 new client contracts across major geographies;
- Completed the first "instance" deployment of the company's "VX" digital asset management suite, an upfront multi-year enterprise license with video search engine blinkx plc (LSE AIM: BLNX);
- Purchased the remaining 49% interest the company did not already own of its creative services unit, Reality Group Pty Ltd, bringing the company's ownership to 100%;
- Continued post-acquisition integration of technical operations across Prague, Toronto and Stockholm offices;
- An estimated 95% of KIT digital revenue in the first quarter was generated in the Asia/Pacific and EMEA (Europe, Mid-East, and Africa) regions, and approximately 5% was generated in the Americas.

Management Commentary

"Our first quarter was strong across the board and represents a solid start towards achieving our 2009 objectives," said Kaleil Isaza Tuzman, chairman and chief executive officer of KIT digital. "In fact, for the first time in many years Q1 exceeded the previous Q4 despite the typical seasonality of our business—where Q1 revenues are typically down around 15% on average relative to Q4, as the result of stronger relative corporate spending and customer usage levels in November and December. Instead, our revenues increased 7% sequentially quarter-over-quarter, reflecting ongoing strength in the IP video segment."

Gavin Campion, president of KIT digital, added, "We spent last year putting together the building blocks to be the leading '3-screen' IPTV platform provider—online, mobile and set-top box-enabled TV. These building blocks included bringing in new management, cleaning up our capital structure, acquiring Kamera and Visual Connection, and integrating certain disparate elements of our VX enterprise suite. In the first quarter of 2009, we began to reap

> the rewards from this foundational work, as we continue to solidify our position as the largest independent company in the IP video software platform space."
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> Subsequent to the end of the first quarter of 2009, the company acquired certain assets of online TV provider Narrowstep, Inc. and submitted an application for a Nasdaq Capital Markets exchange listing, for which it expects to obtain approval shortly.

30. On May 20, 2009, KIT digital filed its Quarterly Report with the SEC on Form 10-Q for the 2009 fiscal first quarter. The Company's 10-Q was signed by Defendants Tuzman and Hirst who certified 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." In addition it also included certifications by Defendants Tuzman and Hirst, which stated:

> 1. I have reviewed this annual report on Form 10-Q of KIT digital, Inc.
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> 2. Based on my knowledge, this quarterly 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;
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> 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 quarterly report;
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> 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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;

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;

5. The registrant's other certifying officer and I have disclosed, based on my most recent evaluation, 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 controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

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

31. On August 19, 2009, KIT digital issued a press release titled "KIT digital Reports Second Quarter 2009 Results." The Company stated in part:

NEW YORK and DUBAI, United Arab Emirates – August 19, 2009 – KIT digital, Inc. (NASDAQ: KITD), a leading global provider of on-demand software solutions for managing and monetizing Internet Protocol (IP)-based video assets, reported record financial results for the second quarter ended June 30, 2009.

(Financial results are quoted in U.S. dollars, although a material portion of the company's revenue is earned in other currencies.)

Revenue in the second quarter of 2009 totaled a record $10.5 million, an increase of 9% from $9.6 million in the previous quarter and a 91% increase from $5.5 million in the same quarter a year ago. The company's revenues are primarily comprised of software license and maintenance fees, software set-up fees, and technical integration and creative service charges.

Net loss for the second quarter of 2009 was $490,000 or $(0.11) per basic and diluted share, compared to a net income in the previous quarter of $168,000 or $0.04 per basic and diluted share and a net loss in the second quarter of 2008 of $3.3 million or $(1.40) per basic and diluted share.

In the second quarter of 2009, operating EBITDA, a non-GAAP term, totaled a record $671,000 or $0.16 per basic and diluted share, an increase of 239% from $198,000 or $0.05 per basic and diluted share in the previous quarter and an improvement from an operating EBITDA loss of $2.2 million or ($0.95) per basic and diluted share in the second quarter of 2008. The company defines operating EBITDA as earnings before non-cash derivative income/(loss); non-cash stock based compensation; acquisition-related restructuring costs and other non-recurring charges; impairment of property and equipment; merger and acquisition expenses; and depreciation and amortization (see important discussion of operating EBITDA in "About the Presentation of Operating EBITDA," below).

Q2 2009 Operational Highlights

- Formed strategic alliance with Akamai Technologies (NASDAQ: AKAM) to mutually package and resell each companies' products and solutions across multiple mediums, including online, mobile networks and IPTV-enabled set-top boxes;
- Expanded client reach throughout the company's three major operating regions, adding 11 new enterprise-level client contracts across a variety of industry verticals, including PMT and MSN Europe (EMEA), Tabcorp and Sanitarium (Asia-Pacific) and The New York Post (Americas);
- Acquired certain assets of broadband TV provider Narrowstep, adding several additional key clients and team members, and enhancing the company's Microsoft Silverlight capabilities;
- Continued the centralization of global software development capabilities and operational management into the company's European headquarters in Prague, Czech Republic—thereby lowering client delivery costs and enhancing operating margins.

Subsequent Events

- Effective August 13, 2009, KIT digital's common shares moved from trading on the OTC Bulletin Board to the NASDAQ Global Market stock exchange, and the company's ticker changed from KDGL to KITD;
- On August 18, 2009, the company completed a public offering of common stock at $7 per share that resulted in net cash proceeds of approximately $18.2 million after financing costs and the conversion of $3.7 million in interim promissory notes into common shares. The funds will be used primarily to finance acquisitions of competitive businesses and, to a lesser extent, the repayment of debt and general corporate purposes. Upon completion of the offering (but before the exercise of up to 0.6 million shares in underwriters' over-allotment purchase options), the company had approximately 8.3 million common shares outstanding.

Management Commentary

"KIT digital is at an exciting point in its development," said Kaleil Isaza Tuzman, the company's chairman and chief executive officer. "Since January 2008—which marked a change in management and go-to-market strategy —we have posted six consecutive quarters of strong organic client growth and operating margin expansion. Our KIT VX Video Management Platform is now the clear leader in its category. Over the next several quarters, we expect to continue to expand market share and geographical reach, while building on our positive cash flow both organically and through acquisition."

Gavin Campion, president of KIT digital, added, "Our performance during the quarter reflects our ongoing commitment to growth coupled with margin expansion and disciplined management decisions. In addition to accelerating financial performance, the second quarter was dedicated to ongoing improvement of our KIT VX platform, including the integration of functionality introduced through our October 2008 acquisition of Visual Connection. The formation of technology and marketing partnerships, like that with Akamai announced at the end of June, demonstrate the unique value of our unified KIT VX platform and should augment our direct sales efforts."

32. On August 19, 2009, KIT digital filed its Quarterly Report with the SEC on Form 10-Q for the 2009 fiscal second quarter. The Company's 10-Q was signed by Defendants Tuzman and Hirst. The Company's 10-K also contained Sarbanes-Oxley required certifications, signed by Defendants Tuzman and Hirst substantially similar to the certifications contained in ¶ 30, *supra*.

33. On November 19, 2009, KIT digital issued a press release titled "KIT digital Reports Record Operating Results and New Client Contracts in Third Quarter 2009." The Company stated in part:

> **Revenue Up 104% Year-Over-Year to $11 Million, Operating EBITDA of $927,000, or $0.14 per Share**
>
> **NEW YORK, NY and PRAGUE, CZECH REPUBLIC, Nov 19, 2009 (MARKETWIRE via COMTEX)** -- KIT digital, Inc. (NASDAQ: KITD), a leading global provider of on-demand software solutions for managing and monetizing Internet Protocol (IP)-based video assets, reported record financial results and new client contracts for the third quarter ended September 30, 2009. (Financial results are quoted in U.S. dollars, although a material portion of the company's revenue is earned in other currencies.)
>
> Revenue in the third quarter of 2009 increased 5% to a record $11.0 million from $10.5 million in the previous quarter, and increased 104% from $5.4 million in the same quarter a year ago. The company's revenues are primarily comprised of software license and maintenance fees, software set-up fees, and technical integration and creative service charges.
>
> After recognizing the non-cash accounting impact of accounting standard ASC 815-40, net loss for the third quarter of 2009 was $11.1 million or $(1.65) per basic and diluted share, compared to an adjusted net loss in the previous quarter of $1.6 million or $(0.37) per basic and diluted share, and a net loss in the third quarter of 2008 of $2.6 million or $(0.78) per basic and diluted share (please see the important discussion about the new accounting standard in the section, "About New Accounting Standard," below). Net loss for the third quarter 2009 included a non-cash derivative expense of $8.4 million resulting from the application of the new accounting standard, $1.5 million in non-cash charges (including $536,000 in stock-based compensation); $981,000 in restructuring and non-recurring charges primarily related to employee termination, acquisition-related facility closing costs, and other costs related to the reorganization and integration of acquired companies; and $522,000 in merger and acquisitions and investor relation related expenses. It is important to note that the application of the new accounting standard resulted in adjusted non-cash derivative income of $10.2 million in the first quarter of 2009, which will be recognized in the company's full-year 2009 reporting.
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> Operating EBITDA, a non-GAAP term, increased 38% in the third quarter of 2009 to a record $927,000 or $0.14 per basic and diluted share from $671,000 or $0.16 per basic and diluted share in the previous quarter, and improved from an operating EBITDA loss of $1.6 million or ($0.48) per basic and

diluted share in the third quarter of 2008. The company defines operating EBITDA as earnings before non-cash derivative income/loss; non-cash stock based compensation; acquisition-related restructuring costs and other non-recurring charges; impairment of property and equipment; merger and acquisition expenses; and depreciation and amortization (see important discussion of operating EBITDA in "About the Presentation of Operating EBITDA," below).

Cash and cash equivalents at September 30, 2009 totaled $13.5 million, as compared to $5.9 million at December 31, 2008. As of November 16, 2009, the company had an estimated net outflow of $5.7 million in purchase consideration and subsequent restructuring charges related the acquisitions of Nunet A.G. and The FeedRoom, Inc. In October 2009, KIT digital acquired Nunet and The FeedRoom, which added more than 100 global enterprise clients and are expected to add $17.5 million of current, annualized revenues from core IP video-based services, and more than $4.5 million in annualized EBITDA.

Simultaneous with the acquisitions of Nunet and The FeedRoom, KIT digital reached an agreement to extinguish past and future contingent earn-out obligations related to the May 2008 acquisitions of Kamera Content AB comprising a total cash payment of $1.7 million and the issuance of 110,805 restricted shares to the former shareholders of Kamera. An additional cash payment of $0.3 million and issuance of 52,632 shares were made to the former shareholders of Visual Connection, a.s., in fulfillment of earn-outs related to the October 2008 acquisition of Visual. Neither the Nunet nor The FeedRoom acquisitions involved any earn-out or contingent liabilities.

As of November 16, 2009 and after giving full effect for all equity issuances related to the acquisitions of Nunet and The FeedRoom, earn-out payments and settlements as described above, and the exercise of certain warrants by investors, the company had approximately 10.7 million common shares outstanding.

All the warrants applied to the new accounting standard, as described above, are cash-exercise in nature. The company is considering repurchasing or otherwise eliminating these warrants in order to ameliorate or eliminate the effect of future applications of the standard.

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Management Commentary

"These record results marked our fourth quarter of sequential revenue and operating EBITDA growth," said Kaleil Isaza Tuzman, KIT digital's chairman and CEO. "It is also a particularly good indication that Q3 2009 exceeded the prior quarter despite the historical seasonality of our business, where Q3 revenues have decreased relative to Q2 for the last two years consecutively as the result of lower end-customer usage levels and lower new business during the Northern Hemisphere's summer months.

"The regional and industry segment diversity of our incoming clients -- the financial impact of which we expect to see in Q4 2009 and Q1 2010 -- underscores our global leadership in providing enterprise-class IP video management solutions," continued Isaza Tuzman. "The nature of these new KIT VX deployments reveals the difference between the front-end video player provisioning segment of the industry and the deeper IP video asset management solutions provided by KIT digital.

"Our accelerating operating margins and current free cash flow profitability also demonstrates the leverage in our business model. We continue to see strong new contract and cash flow growth in Q4, and have begun to take advantage of cross-selling opportunities within the Nunet and FeedRoom client base. Since over 75% of our revenues are long-term contract-based and we have been experiencing virtually no client attrition, we enjoy fairly high visibility into our future financial performance."

Gavin Campion, president of KIT digital, added: "Our strong financial performance this quarter is a result of our continued focus on revenue growth coupled with operating margin expansion. Our new client wins reflect our device and network agnostic approach, as well as the breadth of functionality available through our enterprise-class KIT VX IP video management platform. Our business has clearly hit its stride, and we're in the right place at the right time to deliver 'video ERP' solutions to major enterprises that are looking to take advantage of IP video across the '3 screens' of the computer browser, mobile handset, and the IPTV-enabled television set. We see significant growth potential in the BRIC countries, particularly in China, which will be a strategic focus for us in 2010."

34. On November 20, 2009, KIT digital filed its Quarterly Report with the SEC on Form 10-Q for the 2009 fiscal third quarter. The Company's 10-Q was signed by Defendants Tuzman and Smyth. The Company's 10-K also contained Sarbanes-Oxley required certifications, signed by Defendants Tuzman and Smyth substantially similar to the certifications contained in ¶ 30, *supra*.

35. On January 8, 2010, KIT digital issued a press release titled "KIT digital Reports Preliminary Q4 and Fiscal 2009 Results; Sets 2010 Financial Guidance." The Company stated in part:

> Preliminary Q4 and Fiscal 2009 Results Based on preliminary unaudited information, KIT digital management expects revenue for the fourth quarter ended December 31, 2009 to increase 78% over the same year-ago quarter to approximately $16 million. Operating EBITDA margin is expected to exceed 15% for the fourth quarter, versus 0.3% in the same quarter a year ago.
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> For fiscal 2009, the company expects to report revenue of approximately $47 million, increasing approximately 99% over the previous year. Management expects the year's operating EBITDA to substantially exceed $4 million. The company will provide further results in its complete fourth quarter and full-year earnings press release and conference call which will be announced at a later date. Management calculates that on an organic basis (prior to any financial contribution by acquisitions), the company exceeded its original 2009 guidance of more than $40 million in revenues, with an operating cash-flow margin of at least 10% for the year.
>
> Fiscal 2010 Financial Guidance KIT digital management expects fiscal 2010 revenue to increase at least 60% to more than $75 million, with an annual operating EBITDA margin exceeding 17.5%. Management expects the company's operating margin will increase over time, as the company's fixed expenses are leveraged across a larger base of clients, certain client operations and support functions are centralized, and cost synergies from previous acquisitions are fully realized.
>
> "2009 was a milestone year for KIT digital," said the company's president, Gavin Campion. "From an operational perspective, we achieved what we set out to accomplish: strong top-line growth, margin expansion, cash-flow positive inflection point, expansion of our 'VX' platform software capabilities across mobile handsets and IPTV-enabled television sets, and the integration of The FeedRoom and Nunet acquisitions.
>
> "Immediately following The FeedRoom and Nunet acquisitions, we embarked on a substantial realignment of our global operations, in line with our previously stated plan of consolidating core operations in our Prague headquarters and focusing on the next generation of our VX software platform. This realignment encompasses all aspects of the business, and will continue through the current quarter. We believe the resultant efficiencies will establish a strong base for rapid growth in 2010.

"During 2010, we will continue to focus on expanding our existing client base while taking advantage of cross-selling opportunities within The FeedRoom and Nunet client bases, and begin to harness the significant growth potential for IP video in the BRIC countries. We believe the next-generation version of VX -- which we will begin to roll out in Q2 of this year--will underscore that we are the only truly '3-screen' IP video platform provider in the marketplace, supporting the computer browser, mobile handset, and IPTV-enabled television set."

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"We believe the participation of this investment community may improve overall liquidity for KIT digital stock and, ultimately, shareholder value."

36. On March 30, 2010, KIT digital issued a press release titled "KIT Digital Reports Record Q4 and Fiscal 2009 Results." The Company stated in part:

Annual Revenue up 102% to $47.3 Million, Driving Operating EBITDA of $4.9 Million or $0.74 per Share

PRAGUE, CZECH REPUBLIC, Mar 30, 2010 --KIT digital, Inc. (NASDAQ: KITD), a leading global provider of on-demand software solutions for managing and monetizing Internet Protocol (IP)-based video assets, reported record financial results for the fourth quarter and year ended December 31, 2009.

Revenue in the fourth quarter of 2009 increased 46% to $16.1 million from $11.0 million in the previous quarter, and increased 79% from $9.0 million in the same quarter a year ago. For the full year 2009, revenue increased 102% to $47.3 million from $23.4 million in 2008. The company's revenues are primarily comprised of software license and maintenance fees, software set-up fees, and technical integration and creative service charges.

For the fourth quarter of 2009, after recognizing the non-cash accounting impact of accounting standard ASC 815-40, net loss was $15.6 million or $(1.50) per basic and diluted share, compared to a net loss in the previous quarter of $11.1 million or $(1.65) per basic and diluted share, and a net loss in the fourth quarter of 2008 of $2.5 million or $(0.75) per basic and diluted share (please see the important discussion about the new accounting standard in the section, "About ASC 815-40 Accounting Standard," below).

Net loss for the fourth quarter 2009 included a non-cash derivative expense of $8.2 million resulting from the application of the accounting standard; $3.0 million in non-cash charges, including $834,000 in stock-based compensation; $4.7 million in restructuring and integration expenses primarily related to employee termination, acquisition-related facility closing costs and other costs directly related to the reorganization and integration of acquired companies; $1.3 million in merger and acquisitions expenses, including legal and auditing fees, investment banking advisory and intermediary fees and $443,000 of seller's fees from the acquisition of Nunet in October 2009.

For the full year 2009, after recognizing the non-cash accounting impact of accounting standard ASC 815-40, net loss was $19.9 million or $(3.03) per basic and diluted share, compared to a net loss of $19.0 million or $(7.55) per basic and diluted share in 2008. Net loss for 2009 included $12.6 million of non-cash charges, $2.5 million in merger and acquisitions expenses, and $7.0 million in expenses related to the reorganization and integration of acquired companies.

Operating EBITDA, a non-GAAP metric which management uses as a proxy for operating cash-flow, increased 240% in the fourth quarter of 2009 to a record $3.2 million or $0.31 per basic and diluted share from $927,000 or $0.14 per basic and diluted share in the previous quarter, and increased from $32,000 or $0.01 per basic and diluted share in the fourth quarter of 2008.

For the full year 2009, operating EBITDA was a record $4.9 million or $0.74 per basic and diluted share, an improvement from an operating EBITDA loss of $7.2 million or $(2.88) per basic and diluted share in 2008. The company defines operating EBITDA as earnings before non-cash derivative income/loss; non-cash stock based compensation; acquisition-related restructuring costs and integration expenses; impairment of property and equipment; merger and acquisition expenses; and depreciation and amortization (see important discussion of operating EBITDA in "About the Presentation of Operating EBITDA," below).

Cash and cash equivalents at December 31, 2009 totaled $6.8 million, as compared to $5.9 million at December 31, 2008. Pro forma of the issuance of common shares and cash outlay related to the recently announced acquisition of Multicast Media, the repurchase of outstanding in-the-money warrants, and the incurrence of all restructuring costs related to the previous acquisitions of The FeedRoom, Nunet and Multicast, KIT digital management estimated it will have between approximately 17.5 and 18.0 million as-diluted shares outstanding, and approximately $15 million in net cash and equivalents on its balance sheet.

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Management Commentary "2009 was a milestone year for KIT digital," said the company's chairman and CEO, Kaleil Isaza Tuzman. "Q4 2009 marked our fifth quarter of sequential revenue and operating EBITDA growth on a U.S. dollar basis and our eleventh quarter of sequential revenue and operating EBITDA growth on a billed-currency basis. Our accelerating operating and free cash-flow margins demonstrate the significant operating leverage in our business model.

"From an operational perspective, we achieved what we set out to accomplish in 2009: strong top-line growth, margin expansion, free cash flow-positive inflection point, expansion of our VX platform software capabilities across mobile handsets

> and IPTV-enabled television sets, and the successful kick-off of the integration of The FeedRoom and Nunet acquisitions."
>
> Gavin Campion, president of KIT digital, commented: "We see tremendous potential for '3-screen' IP video platform deployments with mobile operators as well as MSOs globally, and see particularly strong growth in the BRIC countries. Expansion into these markets and the launch of our new VX-one platform are areas of major strategic focus in 2010. We are also focused on expanding our existing client base, while taking advantage of cross-selling opportunities within Multicast, The FeedRoom and Nunet client bases."
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> Added Isaza Tuzman: "We believe VX-one will sustain our position as the only truly '3-screen' IP video platform provider in the global marketplace. In 2010, as in 2009, we expect to realize greater market share, continued revenue growth, cash flow margin expansion, and a strong ROI for our shareholders."

37. On April 5, 2010, KIT digital filed its annual report for fiscal year 2009 on Form 10-K with the SEC. The Company's 10-K was signed by Defendants Tuzman and Smyth and largely repeated the same revenue numbers set forth in the Company's January 8 and March 30, 2010 press releases. The Company's 10-K also contained Sarbanes-Oxley required certifications, signed by Defendants Tuzman and Smyth substantially similar to the certifications contained in ¶ 30, *supra*.

38. On May 17, 2010, Kit Digital issued a press release titled "KIT digital Reports First Quarter 2010 Results." The Company stated in part:

> **Revenue up 80% to Record $17.4 Million, Driving Operating EBITDA of $3.0 Million or $0.21 per Share**
>
> PRAGUE, CZECH REPUBLIC, May 17, 2010 --KIT digital, Inc. (NASDAQ: KITD), the leading global provider of on-demand software solutions for managing and monetizing Internet Protocol (IP)-based video assets, reported financial results for the first quarter ended March 31, 2010.
>
> Revenue in the first quarter of 2010 increased 8% to a record $17.4 million from $16.1 million in the previous quarter, and increased 80% from $9.6 million in the same quarter a year ago. The company's revenues are primarily comprised of software license and maintenance fees, software set-up fees, and technical integration and creative service charges.

For the first quarter of 2010, after recognizing the impact of GAAP accounting standard ASC 815-40, net loss was $18.4 million or $(1.33) per basic and diluted share, compared to a net loss in the previous quarter of $15.6 million or $(1.50) per basic and diluted share, and a net income in the first quarter of 2009 of $8.4 million or $1.96 per basic share and $1.88 per diluted share (please see the discussion about important accounting standard in the section, "About ASC 815-40 Accounting Standard," below).

Under the terms of the ASC 815-40 standard (which was introduced in 2009), increases in the trading price of the company's common stock during a given financial quarter result in the recognition of a non-cash derivative expense due to an increase in the booked value of the company's outstanding warrants. The company recently entered into agreements to repurchase and cancel the large majority of its outstanding warrants, which is expected to eliminate most of this accounting effect going forward, starting with the current second quarter.

Net loss for the first quarter 2010 included a derivative expense of $11.4 million resulting from the application of the ASC 815-40 accounting standard; $2.2 million in non-cash charges, including $552,000 in stock-based compensation; $6.6 million in restructuring and integration expenses primarily related to employee termination, acquisition-related facility closing costs, debt cancellation fees, and other costs directly related to the reorganization and integration of acquired companies and $1.2 million in merger and acquisitions expenses, including legal and auditing fees, and fees to investment banking advisory and intermediaries.

Operating EBITDA, a non-GAAP metric which management uses as a proxy for operating cash-flow, was $3.0 million or $0.21 per basic share in the first quarter of 2010, which decreased from $3.2 million or $0.31 per basic share in the previous quarter and increased from $198,000 or $0.05 per basic share in the first quarter of 2009. The company defines operating EBITDA as earnings before derivative income/loss; non-cash stock based compensation; acquisition-related restructuring costs and integration expenses; impairment of property and equipment; direct merger and acquisition expenses; and depreciation and amortization (see important discussion of operating EBITDA in "About the Presentation of Operating EBITDA," below).

Cash and cash equivalents at March 31, 2010 totaled $37.8 million, as compared to $6.8 million at December 31, 2009. The increase was primarily due to the issuance of common stock during the first quarter, offset by payments related to the acquisition of Multicast Media Technologies, including the extinguishment of Multicast's notes payable.

KIT digital currently has approximately 23.1 million common shares outstanding, with approximately $67 million in cash on the balance sheet. These figures are pro forma of our April equity offering, the repurchase of outstanding warrants, a "restructuring reserve" for previous acquisitions, and the cash and shares paid as consideration for the recently announced acquisition of Benchmark Broadcast Systems.

Management employs a natural hedge by matching as much as possible currencies of client revenues with currencies of associated client delivery costs and as such does not believe there is material currency-related risk in the business.

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Management Commentary
"Q1 marked our sixth quarter of sequential revenue growth on a U.S. dollar basis, and our twelfth straight quarter of sequential revenue growth on a nominal currency basis," said the company's chairman and CEO, Kaleil Isaza Tuzman. "These results continue to demonstrate the significant operating leverage in our business model. Our financial and operational accomplishments during the first quarter represented a better than anticipated start toward achieving our 2010 operating plan objectives."

"Through the recent elimination of warrants and by front-loading over $4 million in the form of a 'restructuring reserve' related to prior acquisitions, we can move away from reporting operating cash-flow and move towards a more traditional cash EPS metric later this year. We are particularly pleased to put the non-cash derivative accounting issue -- which has unnecessarily and negatively distorted our financial results -- behind us for future quarters."

"It's also important to note that our strong Q1 financial performance bucked the usual Q1 negative seasonality caused by reduced digital media consumption industry-wide relative to the holiday season and the last quarter of each year. Our operating cash-flow margin dipped slightly on a sequential quarter basis, but substantially less than would be normally expected in Q1 given the higher-than-normal proportion of high-margin usage fees in Q4. This superlative performance was a result of our continued aggressive focus on revenue growth, coupled with cost control discipline."

"As we stand nearly halfway through the year," continued Isaza Tuzman, "we appear well on track to exceed our financial targets for fiscal 2010, on both a revenue and operating margin basis. We are also making important strides in rationalizing our operations and consolidating our technology platform, VX-one." Gavin Campion, president of KIT digital, commented: "We realized strong new contract growth in Q1, including many upsells and are continuing to see this in our current quarter -- particularly with large mobile and fixed-line network operators. We are also taking advantage of cross-selling opportunities to the client bases of previously acquired companies -- as we will continue to do with Singapore-based Benchmark, the acquisition of which we announced earlier this morning. In answer to a couple of investors' questions, we have not seen any slow-down in IP video-related expenditures in Europe as a result of the Greek fiscal crisis."

"We are encouraged to see contract wins in every vertical we attack and in all of the regions of the world," added Campion. "Our recent new client wins reflect our '3-screen' device and network-agnostic approach, as well the expanded breadth of functionality available through our VX-one platform. We remain committed to extending our industry leadership position by going from our current estimated 15-20% global market share to 50%+ over the next couple of years, by complementing strong organic growth with highly selective, accretive acquisitions."

39. On May 18, 2010, KIT digital filed its Quarterly Report with the SEC on Form 10-Q for the 2010 fiscal first quarter. The Company's 10-Q was signed by Defendants Tuzman and Smyth. The Company's 10-Q also contained Sarbanes-Oxley required certifications, signed by Defendants Tuzman and Smyth substantially similar to the certifications contained in ¶ 30, *supra*.

40. On July 22, 2010, KIT digital issued a press release titled "KIT digital Reports Preliminary Q2 2010 Revenue of at Least $22.7 Million, Up Over 110%, Driving Operating EBITDA of at Least $4 Million." The Company stated in part:

PRAGUE, Czech Republic – July 22, 2010 – KIT digital, Inc. (NASDAQ: KITD), a leading global provider of video asset management solutions (VAMs) for multi-screen IP-based delivery, reported preliminary second quarter results for the period ended June 30, 2010. All figures are listed in U.S. dollars.

Based on preliminary unaudited information, KIT digital management expects to report record revenue for the second quarter of 2010 of at least $22.7 million, up over 110% from $10.5 million in the same year-ago quarter and an increase of over 30% from $17.4 million in the first quarter of 2010.

Management expects operating EBITDA, a non-GAAP metric that management uses as a proxy for operating cash-flow, to total at least $4.0 million, up over 490% from $671,000 in the second quarter of 2009 and an increase of at least 35% from $3.0 million in the first quarter of 2010. "These preliminary Q2 results continue to demonstrate the strong demand globally for our end-to-end IP-based video asset management technology and the significant leverage in our business model, despite macroeconomic instability in certain regions of the world," said the company's chairman and CEO, Kaleil Isaza Tuzman. "Our record second quarter results superseded the devaluation of European currencies, which we estimate had about a 4% negative impact on our top-line during the period, as reported in U.S. dollars. We estimate that this currency devaluation actually had a small (less than 1%) positive impact on overall cash-flow, since we have slightly higher proportion of costs than revenues in European currencies. During the quarter, we also experienced a significant reduction in our days sales outstanding (DSOs), decreasing to approximately 90 days from 128 at the end of the first quarter. We are well on track to exceed our original organic financial targets for fiscal 2010, even before accounting for the positive impact of the acquisitions of Multicast and Benchmark made during the first half of the year. We estimate our organic growth in the second quarter exceeded 50% on a year-on-year basis."

Gavin Campion, president of KIT digital, commented: "The centralization and consolidation of major corporate functions into our Prague headquarters has resulted in overall cost savings and a more effective central sales organization. This is evident in the pace of new contract growth we realized this quarter and throughout all our operating regions' cost structures. Our second quarter performance also reflects our ability to capitalize on upselling and cross-selling opportunities to the client bases of previously acquired companies—particularly in the North American and BRIC markets."

Expansion into the BRIC markets will continue to be an area of strategic focus for KIT digital. This was demonstrated by its Q2 acquisition of Singapore-based Benchmark Broadcast Systems, a leading video asset management provider and broadcast video systems integrator serving clients in more than 12 countries through six regional offices in Asia, including India and China. With the addition of Benchmark, the number of KIT digital's end customers now totals more than 1,000 across more than 40 countries.

According to Isaza Tuzman: "As the global leader in enterprise IP video asset management, we believe KIT digital is twice the size of our closest, direct competitor on a global basis. We are committed to extending our industry leadership position from our current estimated 15%-20% global market share to more than 50% over the next couple of years—a threshold at which we believe economies of scale in client delivery and R&D will be particularly powerful. We plan to achieve this by complementing vanguard organic growth with highly selective, accretive acquisitions."

The proliferation of Internet-connected devices, coupled with the accelerating worldwide adoption of broadband connections and video-capable mobile networks (3G and 4G), appears to be fueling a strong, overall long-term growth trend in IP-based video asset management systems. "KIT digital is in the 'sweet spot' to benefit from this rising VAMs tide," said Isaza Tuzman. "With the extinguishment of most of our warrants and the incurrence of previous M&A restructuring charges now largely behind us, we are looking forward to providing greater visibility into our strong financial performance and industry positioning, starting with the reporting of our complete Q2 financial results, to be released in mid-August.

41. On August 16, 2010, KIT digital issued a press release titled "KIT digital Reports Record Second Quarter 2010 Results." The Company stated in part:

Revenue Up 120% to $23.1 Million, Driving Operating EBITDA of $4.2 Million or $0.20 per Share

PRAGUE, CZECH REPUBLIC, Aug 16, 2010 -- KIT digital, Inc. (NASDAQ: KITD), the leading global provider of video asset management solutions (VAMs) for multi-screen IP-based delivery, reported financial results for the second quarter ended June 30, 2010. All figures are reported in U.S. dollars.

Revenue in the second quarter of 2010 increased 33% to a record $23.1 million from $17.4 million in the previous quarter, and increased 120% from $10.5 million in the same quarter a year-ago. The company's revenues are primarily comprised of software license and maintenance fees, software set-up fees, and technical integration and creative service charges.

For the second quarter of 2010, net loss was $342,000 or $(0.02) per basic and diluted share, compared to a net loss in the previous quarter of $18.4 million or $(1.33) per basic and diluted share, and a net loss in the second quarter of 2009 of $1.6 million or $(0.37) per basic and diluted share.

Net loss for the second quarter 2010 included $3.1 million in non-cash charges, including $1.1 million in stock-based compensation and $2.0 million of depreciation and amortization; a non-cash derivative gain of $2.4 million; $3.3 million in integration expenses related to the reorganization and integration of recently acquired companies; and $886,000 in merger and acquisitions expenses, including investment banking advisory and legal fees.

Operating EBITDA, a non-GAAP metric, which management uses as a proxy for operating cash-flow, increased 42% to a record $4.2 million or $0.20 per basic share in the second quarter of 2010 from $3.0 million or $0.21 per basic share in the previous quarter and increased 526% from $671,000 or $0.16 per basic share in the same year-ago quarter. The company defines operating EBITDA as earnings before derivative income/loss; non-cash stock based compensation; acquisition-related restructuring costs and integration expenses; impairment of property and equipment; direct merger and acquisition expenses; and depreciation and amortization (see important discussion of operating EBITDA in "About the Presentation of Operating EBITDA," below).

Cash and cash equivalents at June 30, 2010 totaled $67.1 million, as compared to $37.8 million at March 31, 2010. The increase was primarily due to the issuance of common stock during the second quarter, offset by payments related to the repurchase of warrants and acquisition of Benchmark Broadcast Systems.

Management employs a natural hedge by matching, as much as possible, currencies of client revenues with currencies of associated client delivery costs and as such does not believe there is material currency-related risk in the business. Management estimates that the impact of foreign exchange rate movements in the second quarter resulted in an approximate 4% decline in U.S. dollar-reported revenues and less than a 1% increase in U.S. dollar-reported operating EBITDA.

Management estimates that approximately 75% of revenue during the second quarter was derived from fees for the company's "VX" IP video platform solutions, while approximately 25% was attributable to professional services. Revenues from the company's Europe, Middle East & Africa (EMEA) division constituted approximately 41% of the total during the quarter, with approximately 36% being derived from the Americas and 23% from Asia-Pacific.

KIT digital added 23 net new client contracts during the quarter, with an estimated average monthly revenue per client in excess of $25,000.

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Management Commentary

"These record second quarter results continue to demonstrate the strong global demand for our end-to-end IP-based video asset management technology and the significant leverage in our business model, despite macroeconomic instability in certain regions of the world," said the company's chairman and CEO, Kaleil Isaza Tuzman. "As we move through the midpoint of Q3, we remain on track to exceed our original organic financial targets for fiscal 2010, even before accounting for the positive impact of the acquisitions of Multicast and Benchmark made in the first half of the year. We estimate our organic growth in the second quarter exceeded 50% on a year-on-year basis."

"Our expansion into the BRIC market will continue to be a primary area of strategic focus for KIT digital. This was demonstrated by our second quarter acquisition of Singapore-based Benchmark Broadcast Systems, a leading video asset management provider and broadcast video systems integrator. Benchmark services clients in more than 12 countries through six regional offices in Asia, including India and China. With the addition of Benchmark, the number of KIT digital's end customers now totals nearly 1,100 across more than 40 countries."

Gavin Campion, president of KIT digital, commented: "The ongoing centralization and consolidation of major corporate functions into our Prague headquarters has resulted in cost savings and a more effective central sales organization. Our second quarter performance also reflected our ability to capitalize on upselling and cross-selling opportunities to the client bases of previously acquired companies -- particularly in the North American and BRIC markets."

> "We continue to differentiate ourselves from the limited functionality of the online video platform (OVP) players in our market," continued Campion. "Our Q2 new client wins once again reflect our '3-screen' device and network-agnostic approach, and the expanded breadth of functionality available through our VX video asset management solutions. We remain committed to expanding our industry leadership position by going from our current estimated 15%-20% global market share to more than 50% over the next couple of years, by complementing strong organic growth with highly selective, accretive acquisitions."
>
> Isaza Tuzman added: "We should also note that KIT digital is the only company in the industry with sophisticated digital marketing services and IP-based broadcast systems integration capabilities, allowing us to engage in more complex deployments for Global 2000 companies. We believe our comprehensive, global approach to IP video systems deployment and our focus on advanced, multi-point, multi-device publishing capabilities better meets the needs of a maturing IP video marketplace than browser-focused OVPs."
>
> "As a result of our VAMs approach, we have more integrated relationships with major CDNs -- like Akamai, Limelight and Level 3 -- than traditional OVPs, which primarily resell bandwidth and storage," said Isaza Tuzman. "All of our CDN partners serve as sales channels of our VX platform, in addition to being back-end delivery providers."
>
> Campion added: "We estimate 25%+ of the use of our client solutions are already in a mobile network context and we see mobile as the highest area for video usage growth in the global arena. Smartphone applications with effective mobile video delivery are becoming a key to capturing the VAMs market globally. We are already working with several major network operators in introducing next-generation IP video services based on 4G and LTE systems technology, and we are seeing VAMs-related request-for-proposals from major mobile and fixed-line network operators globally, including those in the U.S."

42. On August 16, 2010, the Company filed its Quarterly Report with the SEC on Form 10-Q for the 2010 fiscal second quarter. The Company's 10-Q was signed by Defendants Tuzman and Smyth and reaffirmed KIT digital's financial results announced on July 22, 2010. The Company's 10-Q also contained Sarbanes-Oxley required certifications, signed by Defendants Tuzman and Smyth substantially similar to the certifications contained in ¶ 30, *supra*.

43. On November 8, 2010, KIT digital issued a press release titled "Kit Digital Reports Preliminary Third Quarter 2010 Results." The Company stated in part:

> ***Q3 2010 Revenue Expected to Increase 147% Y/Y to $27+ Million, Driving Record Op. EBITDA of Approximately $4.4 Million***
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> **NEW YORK, NY and PRAGUE, Czech Republic – November 8, 2010 –** KIT digital, Inc. (NASDAQ: KITD), the leading global provider of video asset management solutions (VAMs) for multi-screen IP-based delivery, reported record preliminary third quarter results for the period ended September 30, 2010. All figures are listed in U.S. dollars.
>
> Based on preliminary unaudited information, KIT digital management expects to report record revenue for the third quarter of 2010 in excess of $27 million, up more than 18% from $23.1 million in the previous quarter, and up more than 147% from $11.0 million in the third quarter of 2009.
>
> Operating EBITDA (a non-GAAP metric management uses as a proxy for operating cash-flow) is expected to total approximately $4.4 million, up 5% from $4.2 million in the previous quarter, and up 376% from $927,000 in the third quarter of 2009.
>
> The company expects to book a net loss for the third quarter 2010, after factoring in non-cash charges related to depreciation and amortization, stock-based compensation and derivative loss, as well as acquisition-related integration expenses.
>
> Cash and cash equivalents at November 5, 2010 totaled approximately $45 million, as compared to $67.1 million at June 30, 2010. The decrease is due to acquisitions closed since June 30, 2010.
>
> The remaining restructuring and integration charges from acquisitions completed earlier in 2010, as well as some integration charges from the acquisitions of Megahertz and Accela were all booked in Q3 2010, for a total of $4.5 million. The company anticipates reporting the Brickbox-related integration expenses in Q4 2010, as well as any remaining charges from previous acquisitions. "This will allow us to begin fiscal 2011 with very little residual restructuring or integration charges, and report standard EBITDA on our way to more EPS-focused reporting," noted Kaleil Isaza Tuzman, chairman and CEO of KIT digital.
>
> Beginning in 2011, the company plans to include the reporting of a new non-GAAP metric, adjusted EPS, which management defines as cash EPS after adding back direct M&A and financing costs. The company will not subtract restructuring and integration expenses from this adjusted EPS metric. "These preliminary record Q3 results reflect the strong state of our business and the IP

video market in general," commented Isaza Tuzman. "While we believe we could deliver higher operating margins in the short-term if we chose to, our focus is on long-term dominance in our industry segment, and we see a unique window of opportunity to extend our leadership at this time. To this end, we have been consciously investing in additional above-the-line resources in direct sales, channel sales, deployment and product development—and will continue to do so through the end of 2010 and during the first half of 2011.

"In addition to the successful integration of a couple of small acquisitions during Q3, we officially launched our mid-range, easily deployable 'VX Vision' product offering. Vision's roll out is progressing well, with substantial initial client uptake.

"We added more than 45 net new clients during the quarter, including several large new client wins among telco and network operators—which we will cover in more detail in our upcoming earnings release and presentation on November 22. We also signed a global partnership with a major global telco to roll out our VX Vision SaaS offering to hundreds of broadcasters globally. Monthly ARPU for net new clients in the quarter exceeded $23,000, reflecting our ongoing focus on the high-end of the market."

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Financial and Strategic Outlook
For fiscal 2010, the company expects to report revenue exceeding $100 million, increasing more than 109% over 2009. Management expects operating EBITDA for the year of approximately $18 million, up 267% over the previous year.

While Q3 2010 day sales outstanding ("DSOs") were skewed by the acquisitions at the end of the quarter, KIT's management estimates that DSOs in Q4 2010 will be in line with or below the company's historical average of 85-90 days.

For fiscal 2011, KIT digital management expects organic revenue (prior to any acquisition activity) to be in excess of $152.5 million, with an EBITDA margin for the year of at least 21.5%.

"We are currently considering the possibility of spinning out a material portion of our professional services and non-SaaS activities that may be more beneficial to work with on an arms' length basis, and allow us to focus even more on our core SaaS business," said Isaza Tuzman. "If we can achieve the price and terms we would like for this transaction and we complete the sale during the current fourth quarter, we expect that our adjusted 2011 revenue target (prior to any acquisition activity) would be in excess of $137.5 million, with an EBITDA margin of at least 24%.

"We aim to extend our industry leadership position from our current estimated 20%+ global market share to more than 50% within the next 12 to 18 months—a threshold at which we believe economies of scale in client delivery and R&D will be particularly powerful and will maximize strategic value for the company—and we plan to achieve this by complementing vanguard organic growth with highly selective, accretive acquisitions.

"Consistent with our previously stated strategic mandate, we continue to look at relatively small acquisitions that add geographical and sales vertical reach, which we intend to fund out of our treasury, cash from operations or limited assumption of debt. At the same time, we are considering more 'transformative' opportunities, where we might be able to acquire a top competitor and significantly extend our market share. For this type of opportunity, we would potentially raise outside private or public equity capital. That said, we would not raise equity capital if we did not believe we could deploy it in an accretive manner and within a reasonable timeframe. We continue to be a very dilution-sensitive management team, having invested significant personal capital alongside outside investors.

"The BRIC markets continue to be a strong growth driver for KIT digital. Further expansion into Brazil, Greater China and other parts of East Asia are strategic objectives for 2011, as is expansion into areas of Europe where we are not as strong as we would like to be—despite our overall number one position in the Eurozone. We also see greater opportunity for growth in specialized client verticals in which our software is deployed—in particular telco operators, sports associations and governmental entities—as well as in innovative social media tools to add to our platform."

44. On November 22, 2010, KIT digital issued a press release titled "KIT digital Reports Record Third Quarter 2010 Results." The Company stated in part:

Revenue Up 151% to $27.7 Million, Driving Operating EBITDA of $4.4 Million or $0.19 per Share

PRAGUE, Czech Republic – November 22, 2010 – KIT digital, Inc. (NASDAQ: KITD), the leading global provider of video asset management solutions (VAMS) for multi-screen IP-based delivery, reported financial results for the third quarter ended September 30, 2010. All figures below are reported in U.S. dollars.

Revenue in the third quarter of 2010 increased 20% to a record $27.7 million from $23.1 million in the previous quarter, and increased 151% from $11.0 million in the same quarter a year ago.

For the third quarter of 2010, GAAP net loss was $8.0 million or $(0.34) per basic and diluted share, compared to a net loss in the previous quarter of $342,000 or $(0.02) per basic and diluted share, and a net loss in the third quarter of 2009 of $11.1 million or $(1.65) per basic and diluted share.

GAAP net loss for the third quarter 2010 included $5.1 million in non-cash charges, including $1.3 million in stock-based compensation, $2.4 million of depreciation and amortization, and a non-cash derivative loss of $1.4 million; $4.5 million in integration expenses related to the reorganization and integration of recently acquired companies; and $1.3 million in merger and acquisitions expenses, including investment banking advisory and legal fees.

Operating EBITDA, a non-GAAP metric, which management uses as a proxy for operating cash-flow, increased 5% to a record $4.4 million or $0.19 per basic share in the third quarter of 2010 from $4.2 million or $0.20 per basic share in the previous quarter, and increased 376% from $927,000 or $0.14 per basic share in the same year-ago quarter. The company defines operating EBITDA as earnings before derivative income/loss; non-cash stock based compensation; acquisition-related restructuring costs and integration expenses; impairment of property and equipment; direct merger and acquisition expenses; and depreciation and amortization (see important discussion of operating EBITDA in "About the Presentation of Operating EBITDA," below).

Cash and cash equivalents at September 30, 2010 totaled $50.1 million, as compared to $67.1 million at June 30, 2010. The decrease is due to consideration and related costs for acquisitions closed since June 30, 2010.

Day sales outstanding ("DSOs") at September 30, 2010 were 116 days, a level which was affected by the inclusion of accounts receivable related to the acquisitions of Accela Communications, Megahertz Broadcast Systems and Brickbox Digital Media completed near the end of the third quarter 2010. Management estimates that normalized DSOs at September 30, 2010 were 94 days, and DSOs as of November 2010 are 78 days.

Revenues from the company's Europe, Middle East & Africa (EMEA) region constituted approximately 44% of the total during the quarter, with approximately 36% from Asia-Pacific and 20% from the Americas.

KIT digital added a record 45+ net new client contracts during the quarter, with estimated average monthly revenue per client in excess of $23,000. The company's clients now total over 1,300 customers across more than 40 countries.

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Management Q3 2010 Commentary

"This last quarter we achieved our best pace of new client growth ever in our company's history," said Kaleil Isaza Tuzman, the chairman and CEO of KIT digital. "These record quarterly results reflect our ongoing focus on expanding our existing client base and taking advantage of cross-selling opportunities, while harnessing the tremendous potential growth of IP video across all major global markets."

"It is also a particularly good indication that Q3 grew at such a healthy pace over the prior quarter—about 15%+ organically—despite the historical seasonality of Q3 due to lower end-customer usage levels and lower business levels across the digital media industry in general during the Northern Hemisphere's summer months."

Gavin Campion, president of KIT digital, commented: "Our strong third quarter performance also demonstrated our ability to continue to capitalize on several strong underlying trends in our sector, including the proliferation of Smartphones, the advancement of rich media-capable fixed line and mobile networks, demographic and consumer behavioral shifts favoring IP video consumption, and technology and network-based 'leapfrogging' in emerging markets.

"The three small acquisitions completed near the end of the quarter added clients and market share, which were additive in terms of both geographic coverage and particular industry or sales verticals, like pharmaceutical and video-based corporate marketing and merchandising. They also advanced our position as the only company in the industry with sophisticated broadcast systems integration capabilities that complement a core video asset management platform.

"Sales synergies are key to our thinking in acquisitions, not just cost-cutting. We focus on accelerating the pace of growth of acquired companies, both through increased international reach and a deeper product set of offerings—like mobile and connected TV capabilities. Given our past experience and established processes in acquisition assimilation, the most recent three acquisitions have already been integrated into the KIT digital family and cross-selling and up-selling to their respective client bases has already begun.

"We have also continued to consolidate our core global operations into our Prague headquarters, taking advantage of the Czech Republic's highly talented and relatively low-cost technical workforce and growing global reputation as a center of excellence in audio-visual engineering. During the current fourth quarter, as part of our ongoing process of centralization and rationalization of resources globally, we have eliminated approximately 70 full-time positions in regional offices during the fourth quarter, which will help to achieve our fiscal 2011 EBITDA targets, and demonstrates our disciplined approach to post-acquisition integration.

"On the other hand, for the first time in the three years since we came on board as new management, we made the decision recently to hire ahead in certain areas, like sales and client deployment, in order to meet future demand—including building out our strategic account management, channel sales and reseller teams, as well as the launch of a client deployment and support center in Bangalore, India that provides a second line of shift support to our Prague HQ team. An unprecedented sales pipeline and forward-looking sales visibility supports this investment, although the large number of new client implementations and sales-related hiring also resulted in some compression of our EBITDA margin in Q3."

Isaza Tuzman continued: "During Q3, we officially launched our mid-range, easily deployable VX Vision product offering. VX Vision plays a bridging role between our corporate-oriented VX Media Suite offering and our telco- and network operator-oriented VX Enterprise offering. VX Vision provides deep multi-screen content management and play-out tools for content owners, while requiring less integration and a lower price tag than our full-service VX Enterprise product. VX Vision is experiencing substantial initial client uptake, including 15 new VX Vision clients in Q3 alone.

"Our most exciting client pitches today are about hybrid solutions for network operators, traditional broadcasters and content syndicators to leverage their aging infrastructure while increasing their reach through IP-based play-out. We are also helping corporate and not-for-profit customers discover that they can become heavy users of video with relative ease and at much lower price-points than they ever thought possible.

"Our continued strong reception across the global marketplace supports our conviction that KIT digital is the only company that offers a truly broadcast quality-capable, '3-screen' IP video platform, supporting the computer browser, mobile and tablet devices, and connected TVs."

Strategic M&A Outlook

"We aim to extend our industry leadership position from our current estimated 20%-plus global market share to more than 50% within the next 12 to 24 months, which is a threshold where we believe economies of scale in client delivery and R&D will be particularly powerful, and will maximize strategic value for the company," said Isaza Tuzman. "We plan to achieve this through a vanguard of organic growth complemented by highly selective, accretive acquisitions."

"Consistent with our previously stated approach to the marketplace, we continue to look at small acquisitions that add geographical and sales vertical reach in areas where we could be relatively stronger. However, we have also recently been considering more transformative acquisition opportunities, where we might be able to acquire a top competitor and significantly extend our market share in one action. It is for this purpose we announced last week that we priced an equity capital raise of $96 million.

"When this recent funding closes as anticipated this week, we intend to fund our acquisition strategy going forward out of our treasury capital, from cash from operations, or with assumption of debt if/when appropriate. We believe this last equity capital raise provides us with the necessary capital to achieve our near and mid-term objectives, and we have no plans to pursue any additional equity raise processes in the foreseeable future.

"It's also important to note once again that as a management team, we have invested significant personal capital in the business—well north of $20 million in total—and as such are especially dilution-sensitive. Management as a whole holds more than four million shares of stock. We sit squarely on the side of all KIT digital shareholders and are only interested in acquisitions that are accretive on 'day one', on both a revenue and a cash-flow basis.

"Having raised funds to support our larger acquisition strategy, we are currently working on a key M&A mandate, and expect to announce a material acquisition by Q1 2011."

As contemplated in its Q3 2010 preliminary release, the company decided to divest a certain portion of its professional services and non-SaaS (Software-as-a-Service) activities, allowing management to focus more on its core SaaS offerings. This spin-out included some encoding services and broadcast systems equipment set-up, particularly as delivered out of the company's Prague headquarters.

"These are services that are important to a number of our European broadcaster clients, but they have commodity dynamics to them," commented Isaza Tuzman, "We believe this can be equally or better served to them by a third-party contractor, while enhancing our focus on higher-margin, recurring revenue business."

KIT digital granted the spin-off a reseller license to its VX software platform, and the companies will continue to collaborate in the field. The sale is expected to close on November 30, 2010, and KIT digital expects to receive more than $12 million over time from the asset disposition.

Growth Outlook

For fiscal 2010, the company expects to report revenue exceeding $100 million, increasing more than 109% over 2009. Management expects operating EBITDA for the year of approximately $18 million, up 267% over the previous year.

The remaining restructuring and integration charges from acquisitions completed earlier in 2010, as well as some integration charges from the acquisitions of Megahertz and Accela, were all booked in Q3 2010, for a total of $4.5 million. The company anticipates reporting the Brickbox-related integration expenses in

Q4 2010, as well as any remaining charges from previous acquisitions. "This approach will allow us to begin fiscal 2011 with very little residual restructuring or integration charges," noted Robin Smyth, chief financial officer of KIT digital.

Beginning in early 2011, the company plans to include the reporting of a new non-GAAP metric, "adjusted EPS," which management defines as cash EPS after adding back M&A and financing costs.

Following the spin-off of the aforementioned component of the company's professional service business, the company's adjusted revenue target for fiscal 2011 (prior to any additional acquisition activity) is in excess of $137.5 million, with an EBITDA margin of at least 24%. While reducing potential 2011 top-line revenue (from the original $152.5 million revenue target), the spin-off is expected to have effectively no negative impact on the company's previous 2011 EBITDA target, since EBITDA margins are expected to expand in 2011 as a result of the spin-off.

Added Campion: "As we prepare for 2011, we see the BRIC markets continuing to be a strong growth driver for KIT digital. We are already very strong in areas like India, Southeast Asia, Russia and Eastern Europe. So further expansion into Brazil, Greater China and other parts of East Asia are our primary strategic objectives for 2011, as is expansion into certain areas of Europe where we are relatively weak.

"In addition to geographic expansion, we see great opportunities for growth in specialized client verticals undergoing major transitions to IP video--in particular MSOs and telco operators, sports associations and governmental entities--as well as in adding more innovative social media tools to our platform."

45. On November 22, 2010, the Company filed its Quarterly Report with the SEC on Form 10-Q for the 2010 fiscal third quarter. The Company's 10-Q was signed by Defendants Tuzman and Smyth and reaffirmed the Company's previously announced financial results. The Company's 10-Q also contained Sarbanes-Oxley required certifications, signed by Defendants Tuzman and Smyth substantially similar to the certifications contained in ¶ 30, *supra*.

46. On March 16, 2011 KIT digital issued a press release titled "KIT digital Reports Record Fourth Quarter and Fiscal 2010 Results." The Company stated in part:

> ***Annual Revenue Up 125% to Record $106.6 Million, Driving Record Operating EBITDA of $18.3 Million or $0.85 per Share***
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> **PRAGUE, Czech Republic and NEW YORK, New York – March 16, 2011 –** KIT digital, Inc. (NASDAQ: KITD), a premium provider of video asset management software and related services (VAMS) for multi-screen and socially-enabled Internet Protocol (IP) video delivery, reported financial results for the fourth quarter and year ended December 31, 2010. All figures below are reported in U.S. dollars.
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> Revenue in the fourth quarter of 2010 increased 39% to a record $38.4 million from $27.7 million in the previous quarter, and increased 138% from $16.1 million in the same quarter a year ago. For the full year 2010, revenue increased 125% to a record $106.6 million from $47.3 million in 2009. The company's revenues were comprised of software-as-a-service (SaaS) license and usage fees, software maintenance fees, software set-up fees, and professional services charges.
>
> KIT digital added a record 58 net new client contracts during the fourth quarter, with estimated average monthly revenue per client (ARPU) in excess of $30,000, reflecting the company's ongoing focus on higher-end opportunities in the market and large, multi-year contracts in emerging sectors and geographies. The company's client base totals more than 2,000 customers across more than 40 countries.
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> For the fourth quarter of 2010, GAAP net loss was $8.5 million or $(0.31) per basic and diluted share, compared to a net loss in the previous quarter of $8.0 million or $(0.34) per basic and diluted share, and a net loss in the fourth quarter of 2009 of $15.6 million or $(1.50) per basic and diluted share.
>
> GAAP net loss for the fourth quarter 2010 included $6.4 million in non-cash charges comprised of $1.8 million in stock-based compensation; $2.2 million of depreciation and amortization, and a non-cash derivative loss of $2.4 million. Q4 GAAP net loss also included $5.7 million in integration expenses related to the reorganization and integration of recently acquired companies, and $2.0 million in merger and acquisitions expenses, including investment banking advisory and legal fees.
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> For the full year 2010, GAAP net loss was $35.3 million or $(1.63) per basic and diluted share, compared to a net loss of $19.9 million or $(3.03) per basic and diluted share in 2009.

GAAP net loss for the full year 2010 included $26.0 million in non-cash charges, including $4.7 million in stock-based compensation; $8.4 million of depreciation and amortization; and a non-cash derivative loss of $12.9 million. GAAP net loss for the year also included $19.9 million in restructuring and integration expenses related to the reorganization and integration of acquired companies -- including employee termination, facilities closures, contract terminations and transition agreements -- and $5.4 million in merger and acquisitions expenses, including investment banking advisory and legal fees.

For the fourth quarter 2010, operating EBITDA, a non-GAAP metric which management uses as a proxy for operating cash-flow, increased 53% to a record $6.7 million or $0.25 per basic and diluted share from $4.4 million or $0.19 per basic share in the previous quarter, and increased 114% from $3.2 million or $0.30 per basic and diluted share in the same year-ago quarter.

The company defines operating EBITDA as earnings before derivative income/loss; non-cash stock based compensation; acquisition-related restructuring costs and integration expenses; impairment of property and equipment; direct merger and acquisition expenses; and depreciation and amortization (see important discussion of operating EBITDA in "About the Presentation of Operating EBITDA," below).

For the full year 2010, operating EBITDA was a record $18.3 million or $0.85 per basic and diluted share, an increase of 270% from $4.9 million or $0.75 per basic and diluted share in 2009.

Cash and cash equivalents at December 31, 2010 totaled $141.2 million, as compared to $50.1 million at September 30, 2010. As of March 15, 2011, the company has approximately $115 million of cash and cash equivalents and approximately 37.9 million shares outstanding.

Day sales outstanding ("DSOs") at December 31, 2010 were 79 days, which is consistent with the company's historical and projected DSO levels of between 75-90 days, and which the company believes is consistent with other SaaS companies with large enterprise customers.

Revenue from the company's Europe, Middle East & Africa (EMEA) region constituted approximately 45% of the total during the fourth quarter, with approximately 35% from Asia-Pacific and 20% from the Americas. For the full year 2010, approximately 54% of revenues came from Europe, Middle East & Africa (EMEA), with approximately 25% from Asia-Pacific and 21% from the Americas.

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Management Commentary

"Our record fourth quarter and full year 2010 results reflect our continued focus on new sales, while taking advantage of upselling and cross-selling opportunities in our existing client base, as we continue to harness the high growth in IP video across all major global markets," said Kaleil Isaza Tuzman, KIT digital's chairman and CEO.

"In 2010, we achieved the operational and financial targets we set out for ourselves now for the third consecutive year since new management joined the company. We are now the largest player in the IP VAMS industry in terms of revenue, operating cash flow, geographical reach, and corporate clients, and we have the broadest and deepest overall product and technology suite that exists in the marketplace. Our full suite of platform solutions with wrap-around professional services uniquely positions us to deliver truly complete video solutions, from the lens of the camera to the eye of the audience, or 'lens to lens.'"

Gavin Campion, KIT digital's president, commented: "As of January 1, 2011, we have aligned our business into three client vertical segments: media distributors, network operators and non-media enterprises. We believe this will provide an organizational framework to synchronize commercial and operational functions and will support the ongoing development of solutions that address the specific workflow needs of particular industries."

"We see extensive cross-selling opportunities in our newly expanded client base from recent acquisitions," continued Campion, "and have begun to mine the potential of the new social media tools, mobile publishing features, and the behind-the-firewall and digital signage capabilities they have contributed."

"The fourth is always our strongest quarter, and there is typically some seasonality going into Q1 as is found throughout the digital media industry. However, we are seeing less of this seasonality in the current quarter than we have historically as a result of new client wins, up-selling and cross-selling with newly acquired client bases and solutions, and other factors.

"We are excited about 2011 and as we advance through this year we will continue to judiciously invest in additional above-the-line resources in direct sales, channel sales, deployment and product development to support our long-term growth, while rationalizing costs wherever possible."

Growth Outlook

The company issues financial guidance once per year on an organic basis, which for 2011 was provided in November 2010. In November, management stated it expected revenue in excess of $137.5 million for fiscal 2011, with an EBITDA margin of approximately 24%. This guidance was issued prior to any additional acquisition activity, including KickApps, Kewego, and Kyte completed in

January, and also Polymedia, which is being announced today and is expected to close in late April 2011.

Isaza Tuzman commented: "If you overlay our organic, pre-acquisition revenue target of $137.5 million with the estimated annualized run-rate of recently acquired companies--totaling around $44 million—and adjust for the approximate date of closing and any seasonality for each—it provides for an expectation of revenues in 2011 in excess of $170 million, or up more than 60% percent over 2010.

"While we expect Polymedia to enhance our overall EBITDA margin over time, there will be upfront operational adjustments to be made. So, adjusting for the Polymedia acquisition, we see an overall EBITDA margin of approximately 23% in 2011. This will represent a 500 basis point improvement in EBITDA margin over 2010, while growing revenues materially and without sacrificing our continued investment in sales and marketing."

The company sees the BRIC markets continuing to be a strong growth driver and a major strategic focus for KIT digital in 2011. "We are already very strong in areas like India, Southeast Asia and Eastern Europe, and have recently made significant headway into China," said Isaza Tuzman. "So, further expansion into Brazil and Greater China is an objective for 2011, as is increased presence in Northeast Asia and Russia."

In addition to geographic expansion, the company sees great opportunities for growth in specialized client verticals undergoing major transitions to IP-based video workflow, which includes MSOs and telco operators and sports associations.

"We see great opportunity in the sports vertical," noted Campion, "which is one of the top content verticals globally. We plan to increase our activity in this vertical in 2011 and 2012."

Strategic M&A Outlook

Through both organic growth and selective acquisitions, the company aims to extend its industry leadership position from a current estimated 30%-plus global market share to a market share level approaching 50% over the next 12-18 months.

The company purposefully sequenced the KickApps, Kewego, Kyte, and Polymedia transactions, and the majority of the proceeds from the December 2010 public equity offering continue to be dedicated to support a prospective larger acquisition in the very near future. KIT digital plans to release news regarding this larger transaction by the end of Q1 or in early April.

"We had an extremely productive quarter with respect to corporate development, with the addition of well over $20 million in recurring SaaS revenue across our three regions, best of breed technology, and global 1000 customers across our key verticals. Additionally, we believe the new management and foundational technology that was obtained by our acquisition activity over the first several months of this year was best put in place first—as a support to the client migration and staff integration processes involved with a larger target.

"With the acquisition of Polymedia today and our other planned acquisition activity in the pipeline, we should reach a level at or close to the overall market share target we have set out for ourselves. Thus, we intend to complete the 'consolidation phase' of our strategic plan during the course of 2011, moving us into a phase of corporate development in 2012 and beyond which is centered solely on organic growth. By the end of the current year, we anticipate having cycled through all the necessary restructuring and integration costs from acquisitions, allowing us to harmonize EBITDA and GAAP net income reporting much more closely and take advantage of material prospective free cash-flow generation. It is our belief that we can deliver on this plan without raising any additional equity capital in the public markets."

47. On March 17, 2011, the Company filed its Annual Report with the SEC on Form 10-K for the year ended December 31, 2010. The Company's 10-K was signed by Defendants Tuzman and Smyth and reaffirmed the Company's financial results announced in the press release issued the same day. The Company's 10-K also contained Sarbanes-Oxley required certifications, signed by Tuzman and Smyth substantially similar to the certifications contained in ¶ 30, *supra.*

48. On May 9, 2011, KIT digital issued a press release titled "KIT digital Reports First Quarter 2011 Results." The Company stated in part:

Q1 2011 Revenue Up 98% Overall and Up 38% Organically Year-Over-Year to $34.5M, Driving 139% Increase in EBITDA to Record $7.1M

NEW YORK, New York and PRAGUE, Czech Republic – May 9, 2011 – KIT digital, Inc. (NASDAQ: KITD), a premium cloud-based software solutions and technology services provider for multi-screen video delivery, reported financial and operational results for the first quarter ended March 31, 2011 (all figures in U.S. dollars). The company also outlined a shift in its growth strategy.

Summary Q1 2011 Financial Results

Revenue in the first quarter of 2011 increased 5% sequentially to $34.5 million from the adjusted level of $32.8 million in the previous quarter (after subtracting $5.6 million of reported professional services revenues which were sold at the end of 2010 from the reported revenue figure of $38.4 million for the fourth quarter of 2010). As compared to the same year-ago quarter, first quarter 2011 revenue increased 98%. Management estimates that organic growth year-over-year was approximately 38%.

Operating EBITDA, a non-GAAP metric which management uses as a proxy for operating cash-flow, totaled a record $7.1 million in first quarter of 2011, increasing 5% sequentially and 139% over the same year-ago quarter.

Operating EBITDA margin increased from 17.4% in the fourth quarter of 2010 to 20.5% in the first quarter of 2011, largely due to the reduced portion of professional services-related revenues and the increase in software fee-related revenues.

"We were very pleased with our first quarter 2011 results," commented Kaleil Isaza Tuzman, chairman and chief executive officer of KIT digital, "particularly when you consider the lower digital media usage levels and consequent negative seasonality of Q1 over Q4 throughout the industry. With the acquisitions of Kewego, KickApps, Kyte, Polymedia and ioko, we are also excited to have successfully completed the three-plus year aggressive consolidation phase of our corporate development plan. Going forward, we expect the pace of our M&A activity to slow dramatically, as we optimize what we have acquired and focus on organic growth.

"We are also glad to report we have completed the bulk of the restructuring work related to our acquisitions to date, and expect below-the-line restructuring and integration charges to approach zero by the beginning of the third quarter—two to three months earlier than we originally anticipated. This should allow us to report a 'clean' back-half of 2011, without adjustments to cash EBITDA, allowing for a harmonization of EBITDA and more traditional GAAP and cash-flow metrics."

Given the closing dates of the previously announced ioko and Polymedia acquisitions, management estimates that the company will report approximately $48 million of revenues in the current second quarter, and reiterates its estimates of approximately $210 million of revenues and 23% EBITDA margin for fiscal 2011.

KIT digital Enters Growth Phase Focused on Customer-Centric Organic Growth

- During Q2 2011, KIT digital achieved an important milestone in its multi-year mergers and acquisitions-led industry consolidation effort, reaching our target 45-50% market share in the Internet Protocol ("IP") video platform software sector, with a balanced client portfolio across its three major geographies and customer vertical segments;

- Through the flexible, services-oriented architecture of its KIT Platform video management system, the company has developed the most comprehensive solution set in the industry for managing complete, multi-screen IP video solutions—from the lens of the camera to the eye of the audience, or "lens to lens." The company will now turn its focus to ongoing internal product development and expects to spend approximately 7-8% of revenue going forward on R&D;

- KIT now possesses the deepest and broadest client deployment credentials in the industry, with reference clients from various client verticals, including media and entertainment companies like ABC News, Associated Press, BBC, CNN, ESPN Star, News Corporation and Universal, network operators such as AT&T, BskyB, Foxtel, Telecom Argentina, Telefonica, Singtel, Verizon and Vodafone, and non-media enterprises like Airbus, Best Buy, Bristol Myers-Squibb, GM, NASDAQ, NATO, SAP and Volkswagen;

- Management intends to complete substantially all internal restructuring and integration initiatives and financial charges by the end of Q2 2011, eliminating below-the-line charges in the latter half of 2011 and beyond;

- The company recently reorganized its operations under three regional headquarters—in New York (Americas), London (EMEA) and Beijing (Asia-Pacific)—which more closely aligns operational capabilities with customer needs and positions the company to more effectively drive scalable, long-term growth;

- KIT digital closed the ioko acquisition on May 3, 2011 and expects to receive necessary regulatory and other approvals to close the Polymedia acquisition within the next two weeks;

- As previously estimated, restructuring and integration charges from all acquisitions announced to date in the first half of 2011 are expected not to exceed 10%-12% of the aggregate consideration for these acquisitions, or approximately $19-22 million in total. These charges were taken as much as possible in the first quarter, totaling $12 million in the period. Management estimates the remaining restructuring and integration charges in the second quarter 2011 will not exceed $8 million, which would allow for the third quarter of 2011 to be effectively free of those charges;

- As a result of the restructuring completed to date and through the actions still to be taken in the second quarter of 2011, management estimates that it is eliminating approximately $35 million of total costs on an annualized basis.

"The completion of the 'consolidation phase' of our development represents the culmination of a process dedicated to achieving global scope and market share in the IP video platform software sector, from a geographical and client vertical perspective, and to securing best-in-class product and management depth," said Isaza Tuzman. "With the acquisitions of ioko and Polymedia, we have reached an important milestone in the 'alpine climb' of our development, having attained the number one market share position in each major region and customer vertical in which we operate.

"Though we realize our active path of M&A has resulted in restructuring and integration charges that have made it more difficult to analyze and understand the growth of our business from an external perspective, we believe it has been essential to put in place the building blocks of long-term strategic value in the video asset management ('VAMS') sector. Given the 'stickiness' of VAMS deployments and the very low client attrition rates in the business, it has been key to scale up rapidly in this early evolutionary stage of the industry. As we have said previously, given the 'green-field' nature of the industry, $1 spent on acquisitions at this stage may well prove to be worth $10-20 spent later trying to dislodge entrenched competitors.

"With these recent major acquisitions under our wing, we anticipate M&A activity going forward to be relatively minor and follow a more 'normal', opportunistic corporate pace. Therefore, we expect our reported results during the second half of the year to provide greater visibility into the growth of our core business and related cash-flows."

Gavin Campion, KIT digital's president, commented: "We are now focused on the consolidation and optimization of our business. We plan to spend the balance of 2011 and 2012 advancing internal product development, channel sales, and on-the-ground development of our activities in the BRIC markets. As Kaleil indicated, we expect to eliminate the distraction of major integration activities—both in terms of internal corporate actions and financial reporting—as we foresee completing our major internal restructuring and integration initiatives by the end of Q2."

"Near the beginning of this year," continued Campion, "we realigned our business into three client vertical markets to complement our geographical sales divisions: 1) media and entertainment companies, 2) network operators and 3) non-media enterprises. We now have a relatively balanced portfolio across our three vertical markets and three regions, and no material client revenue concentration. This matrix organization supports the ongoing development of our KIT Platform to address the workflow needs of particular industries and allows us to confidently move toward larger, more advanced platform deployments—supported by the approach taken by the ioko and Polymedia sales teams.

"This 'broadband head-end' approach, in conjunction with our 600-person professional services organization, positions KIT to capitalize on the multi-year transition from hardware-based, traditional digital video systems to software-oriented, cloud-based video management workflow."

Inclusive of the ioko and Polymedia acquisitions, the company estimates approximately 65%-70% of its revenues are related to KIT Platform software fees and the remainder generated by systems integration, broadcast engineering and marketing services fees.

In April of this year, KIT digital formally transitioned to a more regionalized management and client delivery structure, with centralized corporate functions supporting its regional operations. The transition included decentralizing authority to regional managing directors who assumed broader leadership roles encompassing commercial, client, and business operations.

New York now serves as the Americas headquarters and global executive office, London as the EMEA headquarters and Beijing as the Asia-Pacific headquarters. Prague will continue to be the company's global hub for product management, quality assurance, network management and monitoring, marketing and communications, sales engineering, strategic account management, channel sales partnerships, finance and corporate development.

Campion added: "We believe this regionalized approach will more tightly align commercial and delivery capabilities with customer needs. It has also allowed us to streamline the operations of the businesses acquired during the course of this year. We estimate that as a result of the restructuring completed to date and through the actions still to be taken in Q2, we are eliminating approximately $35 million of total costs on an annualized basis."

Detailed Q1 2011 Financial Results

On an unadjusted basis, revenue in the first quarter of 2011 decreased 10.2% to $34.5 million from $38.4 million in the previous quarter, and increased 98% from $17.4 million in the same quarter a year ago. On an adjusted basis, revenue in the first quarter of 2011 increased by 5% sequentially to $34.5 million from the $32.8 million in the previous quarter. The adjustment was related to a divestiture of certain service-related business activities on December 23, 2010.

The company's revenues in both periods were comprised of software-as-a-service (SaaS) license and usage fees, software maintenance fees, software set-up fees, and professional services charges.

Revenue from the company's Europe, Middle East & Africa (EMEA) region constituted 50.1% of the total during the first quarter of 2011, 25.2% from Asia-Pacific and 24.7% from the Americas.

KIT digital added 28 net new client contracts during the first quarter of 2011, with estimated average monthly revenue per client in excess of $30,000, reflecting the company's ongoing focus on higher-end opportunities in the market and large, multi-year contracts in emerging sectors and geographies. The company's client base totaled more than 2,200 customers at March 31, 2011.

For the first quarter of 2011, GAAP net loss was $12.5 million or $(0.34) per basic and diluted share, compared to a net loss in the previous quarter of $8.5 million or $(0.31) per basic and diluted share, and a net loss in the first quarter of 2010 of $18.4 million or $(1.33) per basic and diluted share.

GAAP net loss for the first quarter of 2011 included $7.3 million in non-cash charges, comprised of $2.0 million in stock-based compensation, $2.4 million of depreciation and amortization and a change of $2.9 million in fair value of contingent consideration related to a previous acquisition (included in merger and acquisitions expenses). GAAP net loss for the first quarter of 2011 also included $12 million in restructuring and integration expenses related to the reorganization and integration of recently acquired companies and $5.3 million in merger and acquisitions expenses (including investment banking advisory and legal fees, as well as the fair value adjustment mentioned above).

For the first quarter of 2011, operating EBITDA, a non-GAAP metric which management uses as a proxy for operating cash-flow, increased 5% to a record $7.1 million or $0.19 per basic and diluted share from $6.7 million or $0.25 per basic share in the previous quarter, and increased 139% from $3.0 million or $0.21 per basic and diluted share in the same year-ago quarter. Operating EBITDA margin increased sequentially to 20.5% in the first quarter of 2011, from 17.5% in the previous quarter.

The company defines operating EBITDA as earnings before derivative income/loss; non-cash stock based compensation; acquisition-related restructuring costs and integration expenses; impairment of property and equipment; direct merger and acquisition expenses; and depreciation and amortization (see important discussion of operating EBITDA in "About the Presentation of Operating EBITDA," below).

Robin Smyth, chief financial officer of KIT digital, commented: "By the beginning of the third quarter of 2011, we anticipate we will have cycled through the necessary restructuring and integration charges from our recent acquisitions. This will allow us to adopt a traditional EBITDA metric and demonstrate strong free cash-flow generation."

Cash and cash equivalents at March 31, 2011 totaled $109.7 million, as compared to $141.2 million at December 31, 2010. The decrease is due to consideration and related costs for acquisitions closed since December 31, 2010. Following the payment of consideration related to the acquisitions of ioko and Polymedia, as well as all related restructuring and integration charges and advisory fees, KIT digital expects to have approximately $38 million in cash and equivalents.

Adjusted for the full quarter of acquisition revenue, DSOs were approximately 83 days at March 31, 2011. On a non-adjusted basis, day sales outstanding ("DSOs") at March 31, 2011 were approximately 89 days. These levels are in line with the company's historical and projected DSOs of between 75-90 days. The company believes its DSOs are consistent with other SaaS companies with large enterprise customers.

Pro forma of the completed acquisitions of ioko and Polymedia and the recent exercise of 0.4 million warrants held by an unaffiliated institutional shareholder, KIT digital expects to have approximately 41.3 million common shares outstanding. It should be noted that as a closing condition to the Polymedia acquisition, the stock portion of the consideration paid for Polymedia must be registered under a discrete SEC S-3 registration statement upon closing. The company intends to file this S-3 and register the shares being issued to Polymedia shareholders (which are already included in the pro forma shares outstanding figure above) as soon as practicable during the month of May, and may also elect to register certain shares held by unaffiliated selling shareholders related to certain acquisitions from 2009 and 2010.

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Growth Outlook

Based on preliminary unaudited information, KIT digital management expects to report revenue for the second quarter of 2011 of approximately $48 million.

The company issues overall fiscal year financial guidance once per year on an organic basis, which for 2011 was provided in November 2010. In November, management stated it expected organically generated revenues of approximately $137.5 million for fiscal 2011, with an Operating EBITDA margin of approximately 24%. This guidance was issued prior to subsequent acquisition activity, including KickApps, Kewego, Kyte, Polymedia and ioko.

Isaza Tuzman commented: "If you overlay our original organic 2011 revenue target of $137.5 million with the estimated annualized run-rate and prospective growth rates of the business units we have chosen to retain with respect to the acquisitions we have completed and announced—and adjust for the approximate date of closing and seasonality for each—it provides for an expectation of revenues in 2011 of approximately $210 million, or up more than 98% over 2010.

"We continue to project an overall operating EBITDA margin of approximately 23% in 2011, which represents an approximately 500 basis point improvement in EBITDA margin over 2010, while growing revenues materially and without sacrificing continued investment in product development and sales and marketing. Further, we continue to expect EBITDA margin expansion in 2012 and beyond, with the medium-term goal of approaching a 30% EBITDA margin over the next couple of years."

49. On May 10, 2011, the Company filed its Quarterly Report with the SEC on Form 10-Q for the 2011 fiscal first quarter. The Company's 10-Q was signed by Defendants Tuzman and Smyth and reaffirmed the financial results announced on May 9, 2011. The Company's 10-Q also contained Sarbanes-Oxley required certifications, signed by Defendants Tuzman and Smyth substantially similar to the certifications contained in ¶ 30, *supra*.

50. On July 19, 2011, KIT digital issued a press release titled "KIT digital Expects Q2 2011 Revenue Up 39% to Record $48 Million; Op. EBITDA Up 34% to Record $9.5 Million." The Company stated in part:

PRAGUE, Czech Republic and NEW YORK, New York – July 19, 2011 – KIT digital, Inc. (NASDAQ: KITD), a premium software solutions and services provider for multi-screen and multi-platform video management and delivery, reported preliminary second quarter results for the period ended June 30, 2011. All figures are listed in U.S. dollars.

Based on preliminary unaudited information, KIT digital management expects to report record revenue for the second quarter of 2011 of approximately $48 million, representing an increase of 39% sequentially from $34.5 million in the first quarter, and up 108% from $23.1 million in the second quarter of 2010. The increase in revenue is attributed to both organic growth and the contribution of newly acquired companies.

Operating EBITDA, a non-GAAP metric which management uses as a proxy for operating cash-flow, is expected to total approximately $9.5 million, up 34% from $7.1 million in the previous quarter and up 125% from $4.2 million in the second quarter of 2010 (see important discussion of operating EBITDA in "About the Presentation of Operating EBITDA," below.)

The company expects to book a net loss for the second quarter on a GAAP basis, after factoring in non-cash charges related to depreciation and amortization, stock-based compensation and derivative loss, as well as acquisition-related restructuring and integration expenses. The company expects to book approximately $10 million of these restructuring and integration charges in Q2 2011, representing the vast majority of such charges expected to be taken over time and allowing for a Q3 and Q4 that are largely, if not completely, absent of such charges.

Cash and cash equivalents at June 30, 2011 totaled approximately $38 million, as compared to $109.7 million at March 31, 2011. The decrease during the quarter was due to the consideration paid for acquisitions completed during the quarter, as well as restructuring and integration expenses and advisory fees related to the acquisitions.

Common shares outstanding at June 30, 2011 were approximately 41.4 million.

Q2 2011 Operational Highlights

The company added more than 35 net new clients during the quarter, with an average revenue per month per customer (ARPU) of more than $30,000, which is consistent with the company's ongoing focus on higher-end opportunities in the market and large, multi-year contracts in emerging sectors and geographies. The company's client base totaled more than 2,300 customers at June 30, 2011.

A complete list of major client wins during the quarter will be provided in the company's full second quarter 2011 press release, which will be issued prior to management's online video broadcast to discuss quarterly results on August 9, 2011 (see details below).

"Our pace of internal growth strengthened during the second quarter," said Kaleil Isaza Tuzman, chairman and CEO of KIT digital. "We feel we are approaching a tipping point in our industry. The proliferation of connected devices is driving service providers around the world to reevaluate their approach to traditional broadcast and IPTV. KIT digital has continued to operate in this 'sweet spot,' leading the global transformation of traditional broadcast television to multi-screen, OTT and multi-platform solutions."

The company's second quarter results also reflect the company's ongoing ability to execute on cross-selling opportunities in its newly expanded client base from recent acquisitions. The company has made substantial progress in transitioning clients currently on legacy platforms to its more advanced KIT Platform. "We are on schedule," noted Isaza Tuzman, "with the large majority of clients having already been upgraded to our integrated suite of video technology and services, and the remainder scheduled to be completed before year end."

The recent optimization of the company's business under the leadership of three new regional managing directors (representing the Americas, EMEA and Asia-Pacific regions) has better aligned the company's sales and client services, increasing proximity to customers while reducing SG&A expenses through a more efficient organizational structure.

Gavin Campion, KIT digital's president, commented: "Our regionalized approach has allowed us to deploy a lean and highly skilled leadership team across the globe that operates as close as possible to our clients. This approach is shaping a 'future-proof' KIT digital, capable of meeting aggressive but achievable regional quotas, and encouraging customer-centric innovation in areas like connected device delivery and social TV."

"This regionalization also reflects the completion of 'Project Delta'—our major internal restructuring process that was the last phase of our integration activities related to the acquisitions we've completed over the course of the last six months," added Campion.

The company estimates it eliminated approximately $35 million of total costs on an annualized basis through this optimization process, including a net 18% reduction in personnel (after factoring in staffing levels from recently acquired companies) on a global basis, real estate and global vendor agreement consolidation, and the regionalization of its organizational structure. Additionally, the company implemented stricter global policies via NetSuite, its internal enterprise resource planning platform, to drive increased budgetary and expenditure accountability across each of the three regions, as well as its central administrative operations.

KIT has created a dedicated integration team focused on ensuring greater efficiency and better utilizing the company's talent and expertise throughout the company. This global team is headed by the company's managing director of business integration, Scott Sahadi, who was formerly CEO of the Americas for ioko.

"Beyond the normal 'blocking and tackling' integration tasks we are normally focused on, our team has identified a number of 'game changing' best practices from acquisitions that we are integrating into KIT," commented Sahadi. "This includes the way we run and scale our infrastructure, the way we engage and deliver with our largest customers, and the strengthening of the link between customer requirements and product development. We are making significant strides in these three areas, amongst others."

The KIT Platform's open architecture employs modular, extensible subcomponents and exposes functionality via standards-based APIs (application programming interfaces). This core methodology provides a flexible deployment model that includes traditional cloud, private cloud, and hybrid cloud hosting options, while allowing the platform functionality to be easily extended through the addition of new components, as well as integration with third-party solutions.

The company plans to make its next generation of the KIT Platform available in two editions, each addressing KIT's three major customer verticals of (i) media & entertainment companies, (ii) network operators, and (iii) non-media enterprises. One edition will address the needs of more complex, customized, multi-screen/multiplatform broadband TV implementations, while the other will provide a turnkey but highly advanced social video solution to address the broader video management market at a lower initial 'cost hurdle.'

Research and development (R&D) expenses during Q2 2011 are expected to total approximately 8% of revenue. As a practice, the company does not capitalize R&D expenses. While the company will continue to expense rather than capitalize R&D as an accounting policy, it plans to formally break out R&D expenses in the reporting of overall general and administrative expenses starting in Q4 2011.

Financial Outlook

Management reiterates its guidance of approximately $210 million in reported revenues for the full year of 2011, which would represent an increase over 2010 of more than 95% overall and between 30% and 35% organically.

With the company expecting to book in Q2 2011 the vast majority of the remaining restructuring and integration charges from acquisitions it completed in the first half of 2011, management does not expect to have any significant adjustments to EBITDA during the second half of the year.

The company reiterates its expectation of a 23% EBITDA margin for the full year of 2011, with a medium-term goal of approaching a 30% EBITDA margin over the next two years. The company also reiterates it expects to be generating approximately $2.5 million in monthly free cash-flow by the end of Q4 2011.

By the end of 2011, the company plans to include the reporting of a new non-GAAP metric, adjusted earnings per share (EPS), which management defines as cash EPS after adding back direct acquisition and financing costs. The company will not subtract acquisition-related restructuring and integration expenses from this adjusted EPS metric. The company believes the adjusted EPS metric will be more appropriate to its current stage of organically-focused development, and will provide a more transparent measure of its performance entering 2012 and beyond.

Isaza Tuzman commented: "We are seeing growth in our business accelerating going into the back half of 2011, despite the necessary distractions of M&A integration during the past quarter and our business being a 'larger ship' than before. We are confident we will achieve the financial targets and product release schedule that we have set out for ourselves this year, and we are poised for a strong 2012."

51. On August 3, 2011, the Company filed an Amendment to its previously filed Form 10-K for the fiscal year ended December 31, 2010 on Form 10-K/A. The Company's 10-K/A was filed in response to comments the Company received from the "Securities and Exchange Commission in connection with the SEC's review of the Company's Form S-3 registration statement filed on May 24, 2011." As a result of the SEC's comments the Company included additional disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as in the "Financial Statements and Supplementary Data" including the following:

> **Revenue Recognition.** We recognize revenue in accordance with the accounting standard, which requires that four basic criteria be met before revenue can be recognized: (i) persuasive evidence that an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) product delivery has occurred or services have been rendered. We recognize revenue, net of sales taxes assessed by any governmental authority. The Company's material revenue streams are related to the delivery of IP video software solutions, including software-as-a-service ("SaaS") fees, software usage fees, enterprise license fees, set-up/support services, storage, hardware components, content delivery and content syndication. Our solutions also include technical integration services, interface design, branding, strategic planning, creative production, online marketing, media planning and analytics. The Company enters into revenue arrangements that may consist of multiple deliverables of components and services due to the needs of its customers. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services has been rendered, the sales price is fixed or determinable, and collectability of the sale price is reasonably assured. In addition to these general revenue recognition criteria, the following specific revenue recognition policies are followed:
>
> Multiple-Element Arrangements — Arrangements with customers may include multiple deliverables, including any combination of components and services and make up less than 20% of our revenue arrangements. For the Company's multiple-element arrangements, deliverables are separated into more than one unit of accounting when (i) the delivered element(s) have value to the customer on a stand-alone basis, and (ii) delivery of the undelivered element(s) is probable and substantially in the control of the Company. Based on the new accounting

guidance adopted July 1, 2010 and applied retrospectively to January 1, 2010, revenue is then allocated to each unit of accounting based on the estimated selling price determined using a hierarchy of evidence based first on Vendor-Specific Objective Evidence ("VSOE") if it exists, based next on Third-Party Evidence ("TPE") if VSOE does not exist, and finally, if both VSOE and TPE do not exist, based on best estimate of selling price ("BESP"). The 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. The Company's arrangements generally do not include any provisions for cancellation, termination, or refunds that would impact recognized revenue.

The Company determines BESP for a deliverable in a multiple element arrangement by collecting all reasonably available data points including sales, cost and margin analysis of the product, and other inputs based on the Company's normal pricing practices. The Company has experience selling components, installation and integration services at a standard combined price and considers this to be BESP when contracting with customers. The determination of BESP is a formal process within the Company that includes review and approval by the Company's management.

After determination of the estimated selling price of each deliverable in a multiple-element arrangement, the arrangement consideration is then allocated using the relative selling price method. Under the relative selling price method, the estimated selling price for each deliverable is compared to the sum of the estimated selling price for all deliverables. The percentage that is calculated for each deliverable is then multiplied by the total contractual value of the multiple-element arrangement to determine the revenue allocated to each deliverable.

The revenue allocated to each deliverable will then be recorded in accordance with existing revenue recognition guidance for stand-alone component sales and services.

Services — Revenue for services is generally recognized at completion of the contractually required services.

Hardware Components — For hardware component sales (one deliverable only), revenue recognition generally occurs when products or equipment have been shipped, risk of loss has transferred to the customer, objective evidence exists that customer acceptance provisions have been met, no significant obligations remain and an allowance for discounts, returns and customer incentives can be reliably estimated. Recorded revenues are reduced by these allowances. The Company bases its estimates of these allowances on historical experience taking into consideration the type of products sold, the type of customer, and the specific type of transaction in each arrangement.

52. The August 3, 2011 10-K/A was signed by Defendants Tuzman and Smyth . The Company's 10-K/A also contained Sarbanes-Oxley required certifications, signed by Defendants Tuzman and Smyth substantially similar to the certifications contained in ¶ 30, *supra.*

53. On August 9, 2011 KIT digital issued a press release titled "KIT digital Reports Record Q2 2011 Results." The Company stated in part:

> ***Revenue of $48.2 Million and Op. EBITDA of $9.6 Million Each up Over 100% Year-on-Year and up Over 35% Sequentially***
>
> NEW YORK, NY and PRAGUE, CZECH REPUBLIC, Aug 09, 2011 (MARKETWIRE via COMTEX) –
>
> KIT digital, Inc. (NASDAQ: KITD), a premium cloud-based software solutions and services provider for multi-screen video management and delivery, reported second quarter results for the period ended June 30, 2011. All figures are listed in U.S. dollars.
>
> **Q2 2011 & Outlook Highlights**
>
> - Revenue up 40% sequentially to record $48.2 million and up 109% over same year-ago quarter;
> - Operating EBITDA up 35% sequentially to record $9.6 million and up 128% over same year-ago quarter;
> - Added more than 35 net new clients during the second quarter, including, Channel 4, China United Television, a new major business unit of The Walt Disney Company, and RAI;
> - Final phase implementation of 'Project Delta,' the major internal reorganization and cost-reduction initiative related to the integration of the acquisitions completed during the first half of 2011. Upon completion, Project Delta eliminates approximately $35 million of total costs from the business on an annualized basis;
> - Large majority of remaining M&A-related restructuring and integration charges booked in Q2, with only $2 million expected to be booked in Q3 2011 and none in Q4 2011;
> - Company is moving to a cash EPS reporting metric in the second half of 2011 and expects to be free cash-flow positive going forward reaching $2.5 million per month in cash-flow generation by the end of Q4;
> - Reaffirmation of $210 million revenue guidance for 2011 and 23% operating EBITDA margin for full-year; Q3 2011 guidance of at least $61 million in revenues, representing a 40% annualized organic growth rate over Q2 2011;

- Revenue guidance of at least $300 million in 2012;
- Next generation KIT Video Platform to be unveiled at the International Broadcasting Convention (IBC) September 9-11 in Amsterdam.

Q2 2011 Financial Results Revenue in the second quarter of 2011 increased to $48.2 million from $34.5 million in the first quarter of 2011, and from $23.1 million in the same quarter a year ago. The increase is attributed to both organic growth and the contribution of newly acquired companies.

The company's revenues are comprised of software-as-a-service (SaaS) license and usage fees, software set-up and maintenance fees, and professional services charges.

Revenue from the company's Europe, Middle East & Africa (EMEA) region constituted more than 50% of the total during the second quarter, with the remainder approximately split between the Americas and Asia-Pacific regions.

For the second quarter of 2011, GAAP net loss was $19.8 million or $(0.49) per basic and diluted share, compared to a net loss in the previous quarter of $12.5 million or $(0.34) per basic and diluted share, and a net loss in the second quarter of 2010 of $342,000 or $(0.02) per basic and diluted share.

GAAP net loss for the second quarter of 2011 included over $12 million in net non-cash charges, comprised of $4.4 million in stock-based compensation, $3.1 million of depreciation and amortization, $4.9 million in net adjustments to past acquisition earn-out accruals, and a non-cash derivative gain of $432,000.

GAAP net loss for the second quarter of 2011 also included $9.7 million in restructuring and integration expenses related to the reorganization and integration of recently acquired companies and $6.0 million in other merger and acquisitions expenses (including investment banking advisory fees, legal fees and taxes related to the ioko and Polymedia acquisitions completed during Q2).

"Although we have not yet formally introduced our cash-based, or 'adjusted' net income non-GAAP reporting metric -- which we will do in the last half of the year -- we expect we would have generated positive EPS on a cash basis in Q2 2011," noted Robin Smyth, KIT digital's chief financial officer.

Management expects to book approximately $2 million of remaining restructuring and integration charges related to the completion of 'Project Delta' in Q3 2011. "This will allow us to be completely clear of such charges in Q4 and report cash earnings in the back half of this year," continued Smyth.

For the second quarter of 2011, operating EBITDA, a non-GAAP metric which management has historically used as a proxy for operating cash-flow, increased to $9.6 million or $0.24 per basic and diluted share from $7.1 million or $0.19 per basic and diluted share in the previous quarter, and from $4.2 million in the second quarter of 2010 (see important discussion of operating EBITDA in "About the Presentation of Operating EBITDA," below).

Management estimates that research and development (R&D) expenses for the second quarter of 2011 were approximately 8% of total revenue. While the company will continue to expense rather than capitalize R&D as an accounting policy, it plans to formally break out R&D expenses in the reporting of overall general and administrative expenses starting in Q4 2011.

Cash and cash equivalents at June 30, 2011 totaled $37.8 million, as compared to $109.7 million at March 31, 2011. The decrease was due to the consideration paid for acquisitions completed during the quarter, as well as restructuring and integration expenses and advisory fees related to the acquisitions. Approximately $2.5 million of cash payments were made shortly after the quarter-end related to completion of certain M&A consideration components and payments to financial and legal advisors.

Day sales outstanding (DSOs) at June 30, 2011, adjusted for the acquisitions completed during the quarter, were in the mid-90s. As of today, August 9, 2011, the company's DSOs are in the mid-80s, which is in line with both the company's usual DSO level of 75-90 days and with other SaaS companies providing software and services to large enterprises. The temporary increase in DSOs was an anticipated result of the transition in invoicing entities and associated bank accounts related to the ioko and Polymedia acquisitions completed during the quarter. The company expects DSOs to decline further from its current levels.

The company added more than 35 net new clients during the quarter, with an average revenue per month per customer (ARPU) of more than $30,000, which reflects the company's ongoing focus on higher-end opportunities in the market and large, multi-year contracts in emerging sectors and geographies. The company's client base totaled more than 2,300 customers at June 30, 2011.

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Management Commentary

"Our record second quarter results reflect our ability to sustain and grow our existing client base through software and services usage growth, divisional cross-selling and upselling," said Kaleil Isaza Tuzman, chairman and CEO of KIT digital. "And we continue to win new clients by harnessing the increasing demand for IP video solutions across all major global markets and client verticals."

"Our pace of internal growth strengthened during the quarter, driving annualized organic revenue growth within our 30-35% target range," continued Isaza Tuzman.

“KIT digital continues to operate in the ‘sweet spot’ of the global transformation of traditional broadcast television and one-way video communications to multi-screen, OTT and social video solutions.”

Growth Outlook

KIT digital expects revenues in Q3 2011 to exceed $61 million. This expected revenue growth for the third quarter, which is typically a seasonally slow period, would imply an organic growth rate of approximately 40% annually relative to Q2 2011, after back-dating acquisitions completed in Q2 to the beginning of the quarter.

The company also expects to report a new non-GAAP metric of adjusted net income in the second half of 2011. Management defines adjusted EPS as GAAP EPS after adding back non-cash charges and direct costs related to completing acquisitions or capital markets activities (such as investment banker success fees), but will not subtract acquisition-related restructuring and integration expenses. The company believes this adjusted EPS metric is appropriate to its current stage of organically-focused development and will provide a more transparent measure of its performance entering 2012 and beyond.

For the full year of 2011, management reaffirms its revenue guidance of approximately $210 million, which would represent an increase over 2010 of more than 95% overall and more than 30% organically. Consistent with the company’s previously stated goal of over 30% organic revenue growth per year and back-dating acquisitions completed during the first half of 2011 to the beginning of the year, management expects to generate at least $300 million of revenues in 2012.

Management also continues to expect an operating EBITDA margin target of 23% for the full year of 2011, with the goal of achieving in the vicinity of a 30% EBITDA margin on a monthly basis by the end of 2012. The company also remains on track to generate approximately $2.5 million in monthly free cash-flow by the end of Q4 2011.

“Our software-as-a-service, or as we are increasingly calling it, platform-as-a-service, business model -- because certain clients associate the word ‘SaaS’ with light-weight solutions -- involves 70%+ recurring revenue under long-term client contracts with extremely low client attrition,” explained Isaza Tuzman. “This offers us with very good medium and long-term visibility. In fact, increased usage from our existing client base generates around 20% overall corporate growth per annum, even before any new clients are added to the base.”

Isaza Tuzman, continued: “We are experiencing an accelerated pace of new client sales going into the back half of 2011, despite the general macroeconomic turbulence and anxiety in the financial markets. We are confident in achieving the financial targets and product release schedule that we have set out for this year and believe we are poised for a strong 2012."

54. On August 9, 2011, the Company filed its Quarterly Report with the SEC on Form 10-Q for the 2011 fiscal second quarter. The Company's 10-Q was signed by Defendants Tuzman and Smyth. The Company's 10-Q also contained Sarbanes-Oxley required certifications, signed by Defendants Tuzman and Smyth substantially similar to the certifications contained in ¶ 30, *supra.*

55. On November 9, 2011 Kit Digital issued a press release titled "Kit Digital Reports Record Q3 2011 Results." The Company stated in part:

> ***Revenue Up 124% Y-o-Y and 29% Sequentially to $62.3 Million and Op. EBITDA Up 223% Y-o-Y and 49% Sequentially to $14.3 Million, Delivering***
>
> ***Net Income of $4.8 Million or $0.11 per Share***
> PRAGUE, CZECH REPUBLIC and NEW YORK, NY--(Marketwire -11/09/11)- KIT digital, Inc. (NASDAQ: KITD - News), a premium software solutions and technology services provider for multi-screen, multi-platform video management and delivery, reported third quarter results for the period ended September 30, 2011. All figures are listed in U.S. dollars.
>
> **Q3 2011 & Outlook Highlights**
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> - Revenue up 29% sequentially to record $62.3 million and up 124% over Q3 2010;
> - On an organic basis, revenue was up 11% sequentially (off of pro forma Q2 revenues of approximately $56 million), implying an annualized organic growth pace of over 40%;
> - GAAP net income totaled $4.8 million or $0.11 per basic and diluted share, compared to net losses in all comparable periods;
> - Operating EBITDA up 49% sequentially to record $14.3 million and up 223% over Q3 2010;
> - Integration expenses from previous acquisitions totaled $2.6 million during Q3, with no such expenses expected for Q4;
> - Added more than 30 net new clients during the quarter, with over $35,000 per month in average revenue;
> - Q4 2011 guidance of at least $67 million in revenue and $17.5 million in EBITDA;
> - Reaffirmation of revenue guidance of at least $300 million in 2012, with a "positive bias;" projected to reach EBITDA margin in the vicinity of 30% by the end of 2012;

- Non-GAAP adjusted EPS guidance of at least $0.33 per basic share in Q4 2011 and at least $1.45 per basic share in FY 2012.

Q3 2011 Financial Results

Revenue in the third quarter of 2011 increased 29% sequentially to a record $62.3 million from $48.2 million in the previous quarter, and increased 124% from $27.7 million in the same quarter a year ago. Excluding the effect of acquired companies during the comparable periods, the company estimates organic growth in Q3 was 11% sequentially and over 35% versus the same year-ago quarter.

The company estimates approximately 71% of the revenues in Q3 were related to video platform fees, and approximately 29% were derived from fees related to broadcast systems integration, solutions and interface design, content transformation and other professional services.

GAAP net income was $4.8 million or $0.11 per basic and diluted share in the quarter, an improvement from a net loss of $19.8 million or $(0.49) per basic and diluted share in the previous quarter, and an improvement from a net loss of $8.0 million or $(0.34) per basic and diluted share in the third quarter of 2010.

Operating EBITDA, a non-GAAP metric that management has historically used as a proxy for operating cash flow, increased 49% to a record $14.3 million or $0.34 per basic and diluted share from $9.6 million or $0.24 per basic and diluted share in the previous quarter, and increased 223% from $4.4 million or $0.19 per basic and diluted share in the third quarter of 2010 (see important discussion of operating EBITDA in "About the Presentation of Operating EBITDA," below).

Research and development (R&D) expenses for the third quarter of 2011 were estimated at approximately 7% of total revenue. While the company will continue to expense rather than capitalize R&D as an accounting policy, it plans to formally break out R&D expenses in the reporting of overall general and administrative expenses starting in 2012.

Cash and cash equivalents at September 30, 2011 totaled $60.0 million, as compared to $37.8 million at June 30, 2011. The increase in Q3 was primarily due to the public offering completed on September 20, 2011, which was offset by cash outlays in Q3 related to integration of prior acquisitions and residual payments of consideration for acquisitions closed in Q2.

Common shares outstanding at September 30, 2011 were 46.2 million. The company estimates that approximately 3.5 million shares may be issued related to acquisition-related non-cash employee incentive compensation and existing earn-out provisions from previous acquisitions over the next several years, contingent upon superlative financial and operational performance.

The company's client base totaled approximately 2,400 customers at September 30, 2011.

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Management Commentary

"These record results, particularly in what has historically been a seasonally weak quarter, reflect our ability to drive strong organic revenue growth while increasing the operating leverage and margin profile of our business," said KIT digital's chairman and CEO, Kaleil Isaza Tuzman. "The third quarter marked an important milestone for the company, as we crossed over to GAAP net profitability and recognized the last remaining restructuring and integration charges related to the acquisitions we completed in the first half of the year. This will allow us to take advantage of strong free cash flow generation going forward, which we expect to be at least $2.5 million per month by the end of Q4.

"We are supported by the growth of our sector, driven by the ongoing proliferation of connected devices, enhanced broadband connectivity, and global 4G and LTE introduction. Our KIT Video Platform is rapidly becoming a 'core vendor' solution set for large MSOs, telcos and major broadcasters taking advantage of these trends."

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Growth Outlook

KIT digital expects revenues in Q4 2011 of at least $67 million, representing a prospective 8% sequential and organic increase over Q3, and up 74% from $38.4 million in the same year-ago period. This Q4 guidance implies a revenue expectation for the full year of 2011 of approximately $212 million, representing an increase over 2010 of approximately 100% overall and more than 35% organically.

KIT digital expects record operating EBITDA in Q4 2011 of approximately $17.5 million, representing an increase of over 20% sequentially, and up over 150% from $6.7 million in the same period a year ago.

In Q4 2011, the company plans to include the reporting of a new non-GAAP metric, "adjusted EPS," which is defined as cash EPS after adding back direct acquisition fees. The company will not add back acquisition-related restructuring and integration expenses in calculating this adjusted EPS metric. Management believes adjusted EPS will provide a more transparent measure of its financial performance than the historical operating EBITDA metric, and is more appropriate to the company's current net income-positive and cash-generative phase of development.

Management expects to report adjusted EPS in Q4 2011 of at least $0.33 per share, and adjusted EPS of at least $1.45 per share for the full year of 2012.

Although KIT digital management expresses an upward revision bias to its previously stated 2012 revenue guidance, for now it reaffirms the expectation of at least $300 million of revenues next year, with an organic growth rate for 2012 of approximately 25-30% (given expected pro forma revenues of approximately $238 million for 2011 when back-dating acquisitions completed during the year to January 1, 2011).

56. On November 9, 2011, the Company filed its Quarterly Report with the SEC on Form 10-Q for the 2011 fiscal third quarter. The Company's 10-Q was signed by Defendants Tuzman and Smyth. The Company's 10-Q also contained Sarbanes-Oxley required certifications, signed by Defendants Tuzman and Smyth substantially similar to the certifications contained in ¶ 30, *supra*.

57. On January 6, 2012, KIT digital issued a press release titled "KIT digital Delivers Positive End-of-Year 2011 Update, Strengthens Outlook for 2012." The Company stated in part:

Achieves Free Cash Flow Target in December, Acquires Assets of Sezmi Corp in an Accretive Transaction and Announces Plans for LSE Listing

PRAGUE, Czech Republic and BELMONT, California – January 6, 2012 – KIT digital, Inc. (NASDAQ: KITD), a premium cloud-based software solutions and technology services provider for multiscreen video management and delivery, provided an update on its 2011 performance, closed the asset purchase of Sezmi Corporation, raised its 2012 guidance, and implemented plans to move its secondary listing from the Prague Stock Exchange to the London Stock Exchange (in addition to its current NASDAQ Global Select listing).

Q4 2011 Results on Track with Strong Positive Free Cash Flow Generation
KIT digital closed 2011 with strong operating and financial momentum. Based on preliminary unaudited information, KIT digital management expects to deliver on its previously provided fourth quarter 2011 guidance, including positive free cash flow in December of at least $2.5 million. KIT digital plans to report preliminary Q4 2011 financial results in February.

"2011 was a milestone year for KIT digital," said the company's chairman and CEO, Kaleil Isaza Tuzman. "We generated organic top-line growth of more than 30% year-over-year, and achieved our free cash flow and GAAP net profitability targets before year-end. As we begin 2012, we are focused on building upon our leadership position in the IP video market in a manner that generates growing and measurable per-share cash returns."

During Q4 2011, KIT digital signed over 35 net new and extended customer contracts, including AOL, eTV (South Africa), Grupo Clarin (Argentina), Liberty Global, NBC Universal, OSN (UAE), Prisa (Spain), SA TV (Bangladesh), Starhub (Singapore), Telecom Argentina, The Walt Disney Company, and the U.S. Olympic Committee. IBM was also added as a key new technology, marketing and deployment partner. KIT digital's client base totaled more than 2,450 customers at December 31, 2011.

Accretive Acquisition of Sezmi Provides Impactful Technology, Customers & Personnel

On December 30, 2011, KIT digital acquired certain assets and liabilities of Sezmi Corporation, a leading global provider of broadband-broadcast hybrid TV solutions based in Belmont, California. KIT digital paid consideration of approximately $27 million in a mixture of stock and cash, plus earn-outs. The transaction is expected to be immediately accretive on a revenue, cash flow, and cash earnings basis. The closure of the acquisition at year-end allowed for certain tax and accounting consolidation advantages without impacting Q4 2011 operating results.

Sezmi employs a cloud-based software-as-a-service model and its target customers are service operators, such as telcos and ISPs, 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. Sezmi has approximately 80 full-time employees and contractors in the U.S., with another 55 in India. Examples of key customers historically include a leading Mexican mobile operator, Iusacell, and a major Southeast Asian MSO, YTL Communications.

Sezmi was an early innovator developing platform software for IP video management. As part of the transaction, KIT digital acquired 18 patents from Sezmi related to over-the-top (OTT) platform provision in the mobile, online and digital terrestrial television (DTT) environments that it believes enhances its leadership position in the IP video platform industry.

"Sezmi has been an early mover and one of the few direct competitors providing integrated, multi-device platforms for OTT premium content offerings—with unique capabilities in hybrid 4G/LTE and DTT deployments," commented Gavin Campion, president of KIT digital. "Our companies share a commitment to serving the most complex client needs in our industry, and we are excited to kick off 2012 with the addition of their major clients, valuable technology and patents, and world class personnel."

"Sezmi also adds key clients in markets that we have previously highlighted as our highest priorities, specifically Asia-Pacific and Latin America, where we see significant green-field growth opportunities," continued Campion. "The future of our industry lies in the combination of LTE and broadband, and Sezmi adds leading edge publishing capabilities in these areas that are essential to integrated OTT offerings everywhere in the world. This will allow KIT digital to drive growth in developing markets with low terrestrial broadband penetration."

After adjustments for net negative working capital prescribed by the asset purchase agreement, KIT digital paid approximately $16 million in upfront cash-based consideration (including the assumption of liabilities, some of which may be paid over time) and approximately $11 million in KIT digital common stock (or approximately 1.2 million shares). The initial consideration is exclusive of future earn-outs.

Provided that superlative revenue and cash flow targets are achieved from existing Sezmi customers and pre-identified target customers, KIT management estimates aggregate earn-out payments will total $20-$25 million over a period of three years, with absolute and relative accretion improving along with the earn-outs. At KIT digital's sole discretion, earn-outs may be paid either in cash or in stock at future valuation levels.

Following the completion of the acquisition, KIT digital expects to have approximately 47.5 million common shares outstanding.

KIT management estimates that contracted and visible pipeline business from Sezmi will generate revenues of at least $20 million in 2012, with a cash earnings contribution of approximately $4 million—representing approximately $0.08 of incremental pro forma cash earnings per share (EPS) in 2012.

"Sezmi spent nearly six years and substantial capital building a team and technology suite that were ultimately a perfect fit for our business model," noted Isaza Tuzman. "Importantly, we were able to acquire Sezmi in a way that improves our cash earnings per share and allows us to pay a significant portion of the acquisition consideration out of future operating cash flow."

"The timing of this transaction is ideal," said Phil Wiser, co-founder and CTO of Sezmi Corporation. "The large customers we've been working with are excited to work with a larger-scale organization like KIT digital, and they appreciate the re-doubled commitment to the strategic solutions we're building for them. We believe the industry's evolution favors global scale, R&D and deployment experience, and our customers, employees, technology partners and other stakeholders will all benefit from being part of and served by the industry leader."

In reference to KIT digital's overall acquisition strategy, Isaza Tuzman added: "As we stated on our Q3 2011 earnings call in November, our normal course of business will continue to emphasize organic growth, while we will be opportunistic and highly discerning in evaluating accretive, complementary acquisitions. We are pleased to have been in a position to complete this acquisition in such a way that improves both our technology and cash-generation profile, while creating long-term value for shareholders."

Stifel Nicolaus Weisel was the exclusive financial advisor to Sezmi in the transaction.

Management Increases 2012 Financial Guidance

Given the close of the Sezmi transaction, KIT digital management adjusted its 2012 financial guidance. The company now expects revenues of at least $320 million (as compared to $300 million previously) and adjusted, or cash EPS of at least $1.53 (versus $1.45 previously). The increase in adjusted EPS guidance reflects the accretive Sezmi acquisition, and is inclusive of anticipated restructuring and integration costs.

KIT digital continues to project an organic growth rate for 2012 of at least 25%, driven by growth in existing client revenues and the addition of new customers. The company has not experienced a slowdown in its business related to Eurozone macroeconomic turbulence and reiterates a "positive bias" towards its current and revised 2012 guidance.

"Our results reflect the strong market for IP-delivered video and OTT premium content on multiple devices," said Isaza Tuzman. "We are becoming the leading enabler of 'TV Everywhere' services for telcos, cable operators and major media companies globally."

KIT digital intends to provide more detailed 2012 guidance in conjunction with preliminary Q4 2011 results, in February.

58. On February 27, 2012, KIT digital issued a press release titled "KIT digital Announces Record Preliminary Q4 and Full Year 2011 Results, Updates Guidance for 2012." The Company stated in part:

NEW YORK, NY and PRAGUE, CZECH REPUBLIC--(Marketwire -02/27/12)- KIT digital, Inc. (NASDAQ: KITD - News), a leading premium cloud-based software solutions and technology services provider for multiscreen video management and delivery, reported preliminary results for the fourth quarter and year ended December 31, 2011. The company also provided guidance for the first quarter of 2012 and updated its guidance for the full year of 2012.

Based on preliminary unaudited information, KIT digital management expects to report record revenue for the fourth quarter of 2011 of approximately $70 million.

This would exceed the company's guidance by approximately \$3 million, and represent a 12% increase from the previous quarter and 82% versus the fourth quarter of 2010. Non-GAAP operating income (previously called operating EBITDA in the company's guidance) in the fourth quarter is expected to be approximately \$16.4 million versus guidance of \$17.5 million, representing an increase of 15% sequentially and 145% over the fourth quarter of 2010. Cash-based adjusted EPS (a non-GAAP metric) for the fourth quarter of 2011 is expected to be approximately in line with the company's guidance of \$0.33. KIT digital management also expects to meet its guidance for positive free cash flow in December 2011 of at least \$2.5 million.

"The organic growth in our business is reflected in these preliminary record results," said KIT digital's chairman and CEO, Kaleil Isaza Tuzman. "The quarter's non-GAAP operating income is expected to come in marginally lower than originally targeted, due to increased internal staffing and third-party resources for additional tier 1 deployments in the quarter. However, we were pleased with the bottom-line results, and the investments we are making now add to our conviction that we have set the stage for a strong 2012 and beyond. We grew organically at an annualized rate of over 50% in the fourth quarter and won tier 1 network-operator and media client deals in all three of our regions -- some of which we have yet to announce."

KIT digital's preliminary Q4 and full year 2011 results are summarized as follows:

- Revenue of \$70 million for the fourth quarter of 2011 represents a sequential increase of 12% from the previous quarter and an increase of 82% from the fourth quarter of 2010. Revenue for the full year of 2011 is expected to be approximately \$215 million, up 102% from 2010.

- Non-GAAP operating income of \$16.4 million for the fourth quarter of 2011 represents a sequential increase of 15% from the previous quarter and an increase of 145% from the fourth quarter of 2010. Non-GAAP operating income for the full year of 2011 is expected to be approximately \$47.3 million, up 158% from 2010.

KIT digital's 2011 revenue growth was primarily driven by the continued expansion of the company's premium, multi-source to multi-screen content management platform deployments, including new customer wins in Q4 and additional utilization from AT&T, BSkyB, Liberty Global, The Walt Disney Company, and others. The company has been deploying resources to support these and other customer engagements. While the increased deployment demands in the fourth quarter put incremental pressure on operating margins, management believes these commitments will lead to higher margin revenues over time, as client deployments become more fully implemented and greater leverage is realized from ongoing software platform fees.

KIT digital plans to report complete Q4 and full year 2011 financial results on March 15, with an accompanying online video broadcast and conference call at 10:30 a.m. Eastern time the same day.

About Cash-Based Adjusted EPS, Free Cash Flow and Non-GAAP Operating Income

As noted in previous quarterly press releases and conference calls, beginning with Q4 2011 results, KIT digital will report cash-based adjusted EPS, a non-GAAP metric defined as GAAP EPS after adding back non-cash items, including derivative income/loss, stock-based compensation, impairment of property and equipment, depreciation and amortization, as well as legal, accounting and financial advisory fees directly related to mergers and acquisitions. Management believes this metric provides an effective view of normalized free cash flow generated from operations (i.e., excluding unusual items and changes in working capital), once adjusted for capital expenditures. The company estimates its capital expenditures to be 3.5% to 4.5% of revenues, mostly related to maintenance-level capex since the company does not capitalize research and development costs. In calculating cash-based adjusted EPS, the company does not add back acquisition-related restructuring and integration expenses. Company references to free cash flow generated during completed periods (including its reference to $2.5 million of free cash flow generated in December 2011) refer to actual cash flow from operations less capital expenditures.

Non-GAAP operating income, which the company previously referred to as operating EBITDA, is defined as earnings before non-cash derivative income/loss, non-cash stock-based compensation, impairment of property and equipment, merger and acquisition expenses, restructuring and integration expenses, and depreciation and amortization. It is important to note the company expects to report zero or immaterial restructuring and integration expenses in Q4 2011.

The company will provide reconciliation tables from GAAP to non-GAAP metrics in its complete fourth quarter and full year earnings release (see "About Presentation of Non-GAAP Metrics" below).

First Quarter and Full Year 2012 Outlook

"The pace of new tier 1 business has bolstered our confidence in our 2012 revenue outlook," said Isaza Tuzman. "We are seeing a growing stream of formal RFPs and OTT deployment opportunities globally, fueled by an 'arms race' between and amongst MSOs/service providers, content owners, and consumer electronics manufacturers who act as 'virtual network operators.' Our organization has implemented more tier 1 OTT platforms than any of our competitors on a global basis, and demand in the marketplace for our approach is increasing. Our commitment of resources in Q4 and our targeted internal investment plans for 2012 should reinforce this leadership position and our ability to execute on the opportunity in front of us."

For the first quarter of 2012, KIT digital expects revenues of at least $72 million. This guidance reflects strong demand, given the historically flat-to-downward industry seasonality in Q1 over Q4 and the fact that revenue contributions from the company's acquisition of Sezmi Corporation on December 30, 2011 are not expected to ramp up meaningfully until the latter half of 2012. Cash-based adjusted EPS is expected to be between $0.25 and $0.30 in Q1 2012, depending on the timing of certain investments as described below.

KIT digital management also updated its 2012 guidance, and currently expects revenue of $320 million to $330 million, as compared to $320 million previously. This guidance represents an organic annual growth rate of more than 25% when assuming full year 2011 contributions for the acquisitions of KickApps, Kyte, Kewego, WWB, ioko, Polymedia and Sezmi.

For 2012, management expects the company's non-GAAP operating income margin to be within a range of 23.5% to 25.5%. This full year margin is inclusive of the following expected investments and charges during the course of 2012: (a) approximately $5.0 million of additional investment in sales and marketing, including solution design and channel sales programs; (b) approximately $3.0 million of additional investment in R&D; (c) approximately $4.5 million for performance management initiatives, including the replacement of poor performers, as well as the recruitment of additional direct sales, partnerships, and engineering personnel in the company's AsiaPac and LatAm regional operations, areas of strong growth opportunities in 2012 and 2013; and (d) approximately $3.5 million for office consolidation and relocation of certain client service centers to lower cost jurisdictions.

"The sales and R&D investments are aimed at seizing the opportunity presented by the launch schedule of premium content OTT offerings by service providers globally, as well as rapid growth in emerging markets such as Latin America, the Middle East, and Southeast Asia," said KIT digital's president, Gavin Campion. "We expect increased investments in sales and marketing, R&D, and client services capabilities to lead to enhanced growth rates in 2013 and beyond, and the rationalization of certain offices and client service centers to lead to savings of up to $10 million in 2013." The majority of these investments and expenditures are expected to occur during the first half of 2012. As such, KIT digital expects to finish the year with a run-rate non-GAAP operating income margin in the range of 27% to 29%.

Given these investments and charges, management has updated its cash-based adjusted EPS guidance to range $1.35 to $1.45 per share for the full year of 2012, as compared to at least $1.53 previously.

59. On March 15, 2012 the Company issued a press release titled "Kit Digital Reports Record Q4 and Full Year 2011 Results." The Company stated in part:

> **PRAGUE, Czech Republic and NEW YORK, New York – March 15, 2011 –** KIT digital, Inc. (NASDAQ: KITD), a leading premium cloud-based software solutions and technology services provider for multiscreen video management and delivery, reported fourth quarter and full year 2011 results for the period ended December 31, 2011. All figures are listed in U.S. dollars.
>
> **Q4 2011 Highlights**
>
> - Revenue up 12% sequentially to record $70.0 million and up 82% over Q4 2010
> - Non-GAAP operating income (formerly referred to as operating EBITDA) was up 15% sequentially to $16.5 million and up 144% over Q4 2010
> - Cash-based adjusted EPS totaled $0.37 in Q4 2011, from $0.02 in 2010
> - Achieved positive free cash flow in the month of December 2011 of $2.5 million
>
> **Full Year 2011 Highlights**
>
> - Revenue up 102% to record $214.9 million from $106.6 million in 2010
> - Non-GAAP operating income increased 159% to $47.4 million from $18.3 million in 2010
> - Cash-based adjusted EPS totaled $0.56 in 2011, an improvement from $(0.15) in 2010
> - GAAP net loss was $25.4 million or $(0.61) per basic and diluted share in 2011, an improvement from a net loss of $35.3 million or $(1.63) per basic and diluted share in 2010
>
> **Other Q4 2011 Financial Results**
>
> The company estimates approximately 69% of the revenues in Q4 2011 were related to video platform fees, and approximately 31% were derived from fees related to broadcast systems integration, solutions and interface design, content transformation and other professional services.
>
> GAAP net income was $2.2 million or $0.05 per basic share in Q4 2011, compared to $4.8 million or $0.11 per basic share in the previous quarter, and an improvement from a net loss of $8.5 million or $(0.31) per basic and diluted share in Q4 2010.

Non-GAAP operating income increased 15% to $16.5 million from $14.3 million in the previous quarter, and increased 144% from $6.7 million in Q4 2010 (see important discussion of non-GAAP operating income in "About Presentation of Non-GAAP Metrics," below).

Cash-based adjusted EPS in Q4 2011 totaled $0.37, an improvement from $0.31 in Q3 2011 and $0.02 in Q4 2010 (see important discussion of cash-based adjusted EPS in "About Presentation of Non-GAAP Metrics," below).

Research and development (R&D) expenses in Q4 2011 were estimated at approximately 6-7% of total revenue. While the company will continue to expense rather than capitalize R&D as an accounting policy, it plans to report R&D expenses in its public filings starting in 2012.

Cash and cash equivalents at December 31, 2011 totaled $47.8 million, as compared to $60.0 million at September 30, 2011. It is important to note that the cash level at the end of the year was after approximately $10.5 million in acquisition consideration paid out in cash in Q4.

Common shares outstanding at December 31, 2011 were 46.3 million

Q4 2011 Commercial Wins

KIT digital added more than 25 net new client contracts during Q4 2011, with estimated average monthly revenue per client in excess of $35,000. This increased the company's client base to approximately 2,450 customers at December 31, 2011.

The company experienced significant additional utilization and, in some cases, contract extensions with AT&T, BSkyB, The Walt Disney Company and other tier 1 customers.

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Management Commentary

"Our strong organic growth is reflected in these quarterly and annual record results," said KIT digital's chairman and CEO, Kaleil Isaza Tuzman. "We grew organically at an annualized rate of more than 50% in Q4, as we won tier 1 network-operator and media client deals in all three of our regions. When adjusting for the effect of acquired companies in the comparable periods, we grew organically by 33% in 2011 over 2010.

"In addition to growing our customer base, we increased the amount of high-margin recurring revenue generated from each customer. Our monthly recurring revenue per customer more than doubled during the course of the year. We see this as evidence of the growth within our recurring, high-margin license and utilization fees segments (together, 'platform fees'), particularly among large customers.

"The investments we are making now support our conviction that we have set the stage for a strong 2012 and beyond. We are seeing a growing stream of formal RFPs and OTT deployment opportunities globally, fueled by an 'arms race' between and amongst MSOs/service providers, content owners, and consumer electronics manufacturers who act as 'virtual network operators.'"

Gavin Campion, KIT digital's president, added: "Our organization has implemented more tier 1 OTT platforms than any of our competitors on a global basis, and demand in the marketplace is increasing. We foresee rapid growth in coming quarters and years across the world, with particular acceleration in emerging markets like Latin America, the Middle East and Southeast Asia.

"Our additional commitment of resources in Q4 and our incremental investment and rationalization plan of approximately $16 million in the first half of 2012 should reinforce our leadership position. This increased investment will go towards sales and marketing, R&D, and client services capabilities to support future growth, and we expect the rationalization of certain offices and client service centers to lead to savings of up to $10 million in 2013."

Growth Outlook

KIT digital reaffirmed its full year 2012 guidance:

- Revenue to range between $320 million and $330 million, representing an increase over 2011 of approximately 30% organically (using pro forma 2011 revenues of $246 million)

- Non-GAAP operating income margin between 23.5% and 25.5%

- Finish the year with a run-rate non-GAAP operating income margin in the range of 27% to 29%

Cash-based adjusted EPS expected to range between $1.35 to $1.45 per share.

Management adds to this outlook for 2012 an expectation of free cash flow to range between $25 million and $35 million (after taking into account previously mentioned additional investments in 1H 2012, as well as changes in working capital).

The company also reaffirmed its previous Q1 2012 guidance:

- Revenue of at least $72 million, representing a 3% sequential and organic increase over Q4 2011, and up 109% from $34.5 million in Q1 2011

- Cash-based adjusted EPS expected to range between $0.25 and $0.30 per share

Management does not expect to generate positive free cash flow in the first quarter due to the additional investments and rationalization in the business that are expected to come largely in Q1 and Q2. There are also specific temporary outlays of cash in Q1 required to support certain larger client implementations—for example, to fund letters of credit and performance bonds—which are expected to be returned to the company over a short period of time. The timing of these uses is such that the company expects to see a significant 'step function' into positive cash flow in the second quarter, with growth in free cash flow from that point forward during the year.

The company has completed a four-year aggressive consolidation phase and is now focused on a "normalized" M&A activity appropriate to a software company at its growth rate and current stage of development. Key elements of the company's M&A strategy include targeting small acquisitions that:

- Support the company's R&D organization by adding discrete technology and intellectual property that pass the "Buy versus Build" test;

- Bolster resources in key growth regions (e.g., South East Asia, Latin America, Middle East) to support local implementations and client services;

- Expand commercial footprint in specific growth regions or client verticals

The company maintains a bias towards using operating free cash flow and debt where possible, with equity an option particularly for small services-led acquisitions. This could include, for example, small acquisitions in the Asia-Pacific and Latin American regions the company is currently considering to bolster delivery and client service resources in those regions.

The company intends to file for a short-term extension for the submission of its 2011 Form 10-K, to allow for verification of intangibles valuation and completion of other items related to accounting for acquisitions completed in 2011.

60. On March 30, 2012, the Company filed its Annual Report with the SEC on Form 10-K for the year ended December 31, 2011. The Company's 10-K was signed by Defendants Tuzman and Smyth. The Company's 10-K also contained Sarbanes-Oxley required

certifications, signed by Defendants Tuzman and Smyth substantially similar to the certifications contained in ¶ 30, *supra*.

61. On May 3, 2012, KIT digital issued a press release titled "KIT digital Announces Preliminary Q1 2012 Results." The Company stated in part:

> NEW YORK, NY, May 3, 2012 — KIT digital, Inc. (NASDAQ: KITD), a leading video technology and services company, today reported preliminary results for the first quarter ended March 31, 2012.
>
> Based on preliminary unaudited information, KIT digital management expects to report revenue for the first quarter of 2012 of approximately $59 million, and a non-GAAP operating loss in the first quarter of 2012 of approximately $8 million.
>
> Contributing to the lower than expected financial results, the company cited longer than anticipated sales cycles for a number of larger opportunities, increased personnel costs associated with deployments in future quarters, payments of assumed liabilities arising from the acquisition of Sezmi, and higher than expected legal and advisory fees, among other factors.
>
> "Over the last several weeks, the management team and I have performed a detailed review of our lines of business and their cash flow contributions, and have determined that previous guidance was too high," said Barak Bar-Cohen, KIT digital's CEO. "During our quarterly earnings call, we will present a revised operating plan and financial outlook for a growing, cash-generative software business."
>
> On May 15, 2012, the company intends to issue its full quarterly earnings announcement and discuss its cash and debt position and outlook for the balance of the year. The announcement will be followed by an investor conference call and the filing of the company's 10-Q.

62. On May 15, 2012, KIT digital issued a press release titled "KIT digital Reports Q1 2012 Results In Line With Preliminary Q1 2012 Announcement." The Company stated in part:

> NEW YORK, NY, May 15, 2012 (MARKETWIRE via COMTEX) —KIT digital, Inc. (NASDAQ: KITD), a leading video management software and services company, today reported first quarter results for the period ended March 31, 2012 that were in line with preliminary figures announced on May 3, 2012. The company also reported a number of strategic and operational initiatives in support

of targeted growth, improved financial controls and a strengthened balance sheet, including the completion of a $29.2 million common equity placement.

"During my first 45 days as CEO we have conducted a thorough strategic and operational review of our business," said Barak Bar-Cohen, CEO. "Based on this assessment, we have thus far taken definitive steps to support our operating plan and improve financial controls. This includes raising capital to support our updated operational plan and global commercial strategy. Going forward, we intend to sharpen our focus on tier one video management software and services, which we believe will result in significantly higher cash flow levels by the end of 2012."

Q1 2012 Results First quarter 2012 revenues were $59.0 million, compared to $70.0 million in the preceding quarter and $34.5 million for the first quarter of 2011. Non-GAAP operating loss was $8.0 million, compared to non-GAAP operating income of $16.5 million in the preceding quarter and $7.1 million of non-GAAP operating loss for the first quarter of 2011.

First quarter GAAP net loss was $24.9 million or $0.53 per share, compared to GAAP net income of $0.4 million or $0.01 per share in the preceding quarter and GAAP net loss of $12.5 million or $0.34 per share in the first quarter of 2011. Free cash flow from operations was a negative $12.9 million, compared to a positive $1.3 million in the previous quarter, and a negative $10.2 million in the first quarter of 2011.

Cash and cash equivalents at March 31, 2012 totaled $26.1 million, compared to $45.7 million on December 31, 2011. The decrease in Q1 was primarily attributable to one-time residual payments of consideration for acquisitions closed in Q4; higher than usual legal, accounting and audit costs associated with corporate development activity; post-consolidation integration costs; and other cash requirements of the business during the quarter, which were in line with previous quarters.

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Improving Financial Controls and Reporting
The company has taken the following steps in light of the recently identified material weakness in financial controls and reporting:

- The company has hired a new Corporate Controller based in New York;
- The company has hired a new Head of Internal Audit based in New York;
- The company has retained one of the Big Four accounting firms to advise on the implementation of best-practice governance and monthly close policies, as well as to provide advice on the ongoing

implementation of Netsuite to manage financial controls and processes; and

- The company has appointed HSBC as global financial services partner to implement cash management and pooling functions.

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FY 2012 Updated Outlook
For 2012, the company is setting a baseline revenue expectation at $250 million with non-GAAP operating income margins trending toward previous levels in the second half of the year. The company expects to begin generating positive free cash flow from operations no later than the fourth quarter of this year. This outlook is dependent on the company's ongoing strategic review of its business lines and contractual relationships with its customers, and the company intends to provide a more complete outlook in due course upon completion of its comprehensive analysis.

"Over the last several months, we have observed an increase in RFPs issued by major broadcasters and network operators around the world. In each of these opportunities, it is clear that our unique combination of broadcast-grade video management software, world-class professional services, and years of deployment experience is our major point of differentiation," Bar-Cohen said. "With the capital raise and key initiatives announced today, we can now execute on these opportunities and build a growing and cash-generating business."

63. On May 15, 2012, the Company filed its Quarterly Report with the SEC on Form 10-Q for the 2012 fiscal first quarter. The Company's 10-Q was signed by Defendants Bar-Cohen and Smyth. The Company's 10-Q contained Sarbanes-Oxley required certifications, signed by Defendants Bar-Cohen and Smyth substantially similar to the certifications contained in ¶ 30, *supra*.

64. On August 14, 2012, KIT digital issued a press release titled "KIT digital Reports Q2 Results, Improved Revenue Mix, and Strategic, Operational Progress." The Company stated in part:

NEW YORK, NY, August 14, 2012 -- KIT digital, Inc. (NASDAQ: KITD), a leading video management software and services company, today reported results for the second quarter ended June 30, 2012.

Total revenue from continuing operations for the period was $51.1 million, compared to $56.1 million in the preceding quarter and $45.0 million for the second quarter of 2011. Cash, equivalents, and restricted cash were approximately $35.9 million, up from $25.3 million at the end of the first quarter. The company also reported an impairment to goodwill of $55.7 million.

The company's operating results for the second quarter and for comparable periods exclude the Content Solutions business and the assets of Sezmi Corporation, both of which were divested at the end of the quarter. These businesses are being treated as discontinued operations.

The decrease in revenue was due primarily to lower revenue from Broadcast Systems Integration (or BSI), which was down approximately $3.6 million sequentially. In addition, the delayed acquisition of Hyro represented nearly $2.0 million in foregone revenues. Revenue from large scale broadband media deployments rose from approximately 46% of overall revenue in the first quarter to approximately 55% of overall revenue in the second quarter.

"Despite reporting lower sequential revenue, the quality of our revenue mix continues to improve quarter over quarter," said Barak Bar-Cohen, Chief Executive Officer of KIT digital. "Revenue from large scale broadband media deployments, including Cosmos software license fees and professional and managed services, increased during the second quarter on both an absolute and percentage basis, and we anticipate that trend will continue."

The company's non-GAAP operating loss for the quarter was $18.2 million, compared to a non-GAAP operating loss of $4.8 million in the preceding quarter and positive non-GAAP operating income of $8.7 million in the second quarter of 2011. The non-GAAP operating loss includes $6.5 million in bad-debt expense and approximately $3.8 million from legal and other professional fees necessitated by Board and corporate requirements. (See table "MATERIAL ITEMS IN NON-GAAP OPERATING INCOME (LOSS)")

The GAAP net loss from continuing operations for the quarter was $102.6 million or $1.99 per share, compared to losses of $21.5 million or $0.46 per share in the preceding quarter and $19.8 million or $0.47 per share in the second quarter of 2011. The GAAP net loss included $55.7 million of impairment to goodwill, along with restructuring charges, a reversal in M&A expenses, other expenses, and the other elements that comprised the non-GAAP operating loss discussed above. (See table "MATERIAL ITEMS IN GAAP NET INCOME (LOSS)").

Operational Progress

The results come as KIT digital, with revitalized management and a reconstituted board of directors, has taken the following significant steps with respect to operations, strategy, governance, and capitalization:

- Completed the divestiture of our non-core Content Solutions business;
- Reduced low-margin hardware business in the broadcast space;
- Completed the acquisition of Hyro, providing essential strength to the AsiaPac team;
- Raised over $29 million in equity capital;
- Moved the corporate headquarters to New York City;
- Hired a new CFO with strong turnaround and financial operating experience;
- Appointed a new CTO with strong platform and broadband media deployment expertise;
- Implemented a new system for cash management and budgeting;
- Signed several major new clients around the world; and
- Added four new Board members including a new Non-Executive Chairman, a new Audit Committee Chairman, and representatives of two major shareholders.

"We accomplished a great deal in the past quarter by taking actions that reinforced our organization's key principles of a commitment to cutting edge technology, a customer-focused service mentality, and a belief in the power of video," Mr. Bar-Cohen continued. "This quarter illustrates the continuing transformation of our business and sharper focus on our core value proposition of delivering IP-video software and services to leading broadband media companies around the world."

Q2 Commentary

During the quarter, KIT digital raised $29.2 million in gross proceeds ($27.2 million net). Prior to a price adjustment, the company issued a total of 7.0 million shares. The impact of that price adjustment, which occurred after the close of the quarter, is not reflected in the cash and share calculations for the second quarter but has been accounted for on the company's balance sheet.

As of June 30, 2012, KIT digital had $15.4 million outstanding under its debt facility with WTI, down from $18.3 million at the end of the first quarter. The company is paying both interest and principal on these notes. The company is in compliance with all covenants governing the WTI debt.

The total free cash flow from continuing operations and from discontinued operations was negative $14.7 million for the quarter. Free cash flow from continuing operations for the quarter was negative $10.0 million, which included $1.7 million in one-time compensation payments and $3.8 million in professional and legal fees. In addition, free cash flow from discontinued operations was negative $4.7. (See table "CHANGES IN CASH POSITION")

As of the end of the second quarter, KIT digital has a backlog of approximately \$74.6 million, which represents the amount of revenue for the second half of the year that is related to signed contracts and/or ongoing projects.

"In the short time since I joined KIT digital," said Fabrice Hamaide, Chief Financial Officer of KIT digital, "we have worked together and made great strides toward implementing best practices across the finance and accounting operation, including significantly improved financial controls, and a more robust budgeting and forecasting process."

Mr. Hamaide continued: "We disclosed data related to our backlog for the first time, and we also made some necessary cost reductions and significant non-cash adjustments. Our actions this past quarter reflect significantly improved controls and processes within our organization, and our ongoing transformation to a streamlined and cash-flow-oriented business."

Divestitures

On June 26, KIT digital sold its Content Solutions business, receiving \$1 million in cash and effectively entering into a debt-to-equity swap of intercompany loans against up to \$18.8 million in earnout payments, with a fair value of \$8 million. The loss associated with the transaction was \$15.5 million. For the reporting and comparable periods described herein, Content Solutions is being treated as discontinued operations.

On June 30, the company sold Sezmi Corporation assets for \$2.9 million. The loss associated with the transaction was \$28.6 million, primarily from a write-down of goodwill. For the reporting and comparable periods described herein, Sezmi is being treated as discontinued operations.

65. On August 14, 2012, the Company filed its Quarterly Report with the SEC on Form 10-Q for the 2012 fiscal second quarter. The Company's 10-Q was signed by Defendants Bar-Cohen and Hamaide. The Company's 10-Q contained Sarbanes-Oxley required certifications, signed by Defendants Bar-Cohen and Hamaide substantially similar to the certifications contained in ¶ 30, *supra*.

66. Each of the statements contained in ¶¶ 29 to 65 were materially false and/or misleading when made because defendants failed to disclose or indicate the following: (1) that there were irregularities with the Company's accounting relating, in part, to revenue recognition for certain license agreements; (2) that the Company's financial statements were not prepared in

accordance with GAAP; (3) that the Company's internal controls were deficient and incapable of producing adequate financial reporting, as was revealed later in the class period; and (4) as a result of the above, the Company's financial statements were materially false and misleading at all relevant times.

67. On November 21, 2012, after the market closed, KIT digital issued a report on SEC form 8-K announcing that because of irregularities identified by the Company in its historical financial statements, certain of the Company's previously issued financial statements should no longer be relied on and that the Company would have to restate its previously issued financial statements beginning in 2009. Specifically the Company stated:

> On November 15, 2012, the Audit Committee of the Board of Directors of KIT digital, Inc. (the "Company") concluded that, ***because of errors and irregularities identified by the Company in its historical financial statements, the financial statements for (1) the years ended December 31, 2009, 2010 and 2011 and (2) each of the three quarters in 2009, 2010 and 2011 will be restated.*** As a result of the restatement of these prior periods, the Company will also restate the quarters ended March 31, 2012 and June 30, 2012. Accordingly, investors should no longer rely upon the Company's previously issued financial statements for these periods, any earnings releases or other communications relating to these periods, or projections or estimates for any future periods.
>
> This decision was reached after discussions with the Company's senior management and outside advisors. The Audit Committee discussed the matters described in this report with Grant Thornton LLP, the Company's independent registered public accounting firm.
>
> ***The accounting errors and irregularities relate primarily to recognition of revenue related to certain perpetual software license agreements entered into by the prior management team in 2010 and 2011. These errors and irregularities were discovered in connection with the Audit Committee's previously disclosed investigation of certain transactions that resulted in impairment charges.*** The Audit Committee has also determined that certain transactions entered into by the Company under the prior management team during fiscal years ended December 31, 2008 through 2011 were related party transactions and that additional disclosure with respect to those transactions should have been included in the footnotes to the relevant financial statements. Because of the timing of the completion of the Audit Committee

investigation and the Company's ongoing review and investigation of certain transactions, the Company requires additional time to complete an analysis of the accounting treatment for the software licenses and to determine the extent of the corrections that may be required to its historical financial statements. Other effects on previous financial statements are also possible. Accordingly, the Company cannot currently quantify the potential impact of the restatement.

Item 8.01. Other Events
Additional Information
As of today, the Company has approximately $10.6 million of cash and cash equivalents, of which approximately $4.0 million is restricted cash. The Company also has approximately $11.0 million outstanding under a secured loan facility and $2.5 million under an unsecured related party note. The Company is currently up to date with the principal and interest payments due under those loans, however, ***as a result of the restatement discussed above, there is an Event of Default under the secured loan facility and the Company is in discussions with the lenders.*** As previously disclosed, the Company has also experienced substantial losses this year, including costs related to previously disclosed litigations and restructuring expenses and will also incur additional costs related to the restatement discussed above. As a result of these circumstances, and based on the Company's forecast, the Company expects to continue to incur significant cash expenditures.

As a result of these challenges, the Company is considering a broad set of strategic alternatives including financing transactions as well as other strategic transactions including a sale of the Company or its assets. The Company continues to examine the reduction of working capital requirements to further conserve cash and may need to take additional actions in the near-term, which may include additional personnel reductions and suspension of certain development activities.

The above actions may or may not prove to be consistent with the Company's long-term strategic objectives, which have shifted in the current year, as the Company discontinued certain non-core assets, among other things. No assurance can be given that the Company will be able to enter in to an agreement for a sale of the Company or its assets or obtain financing on favorable terms, if at all, or to successfully further reduce costs in such a way that would continue to allow the Company to operate its business.

(Emphasis added).

68. Following KIT digital's announcement of the need for a restatement the Company's stock closed down $1.33 per share from its close at $2.07 on November 21, 2012 to close on November 23, 2012 at $0.74 per share, a loss of over 64%.

Undisclosed Adverse Facts

69. The market for KIT digital's securities was open, well-developed and efficient at all relevant times. As a result of these materially false and/or misleading statements, and/or failures to disclose, KIT digital's securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired KIT digital's securities relying upon the integrity of the market price of the Company's securities and market information relating to KIT digital and have been damaged thereby.

70. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of KIT digital's securities, by publicly issuing false and/or misleading statements and/or omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and/or misleading. Said statements and omissions were materially false and/or misleading in that they failed to disclose material adverse information and/or misrepresented the truth about KIT digital's business, operations, and prospects as alleged herein.

71. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or misleading statements about KIT digital's financial well-being and prospects. These material misstatements and/or omissions had the cause and effect of creating in the market an

unrealistically positive assessment of the Company and its financial well-being and prospects, thus causing the Company's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and/or misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at artificially inflated prices, thus causing the damages complained of herein.

LOSS CAUSATION

72. During the Class Period, as detailed herein, Defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated the Company's common stock price, and operated as a fraud or deceit on acquirors of the Company's common stock. As detailed above, when the truth about KIT digital's financial situation and internal controls came out, the Company's common stock declined as the prior artificial inflation came out of its common stock price. That decline in KIT digital's common stock price was a direct result of the nature and extent of Defendant's fraud finally being revealed to investors and to the market. The timing and magnitude of the common stock price decline negates any inference that the loss suffered by Plaintiff and other members of the Class was caused by changed market conditions, macroeconomic or industry factors or Company-specific facts unrelated to the Defendants' fraudulent conduct. The economic loss, *i.e.*, damages, suffered by the Plaintiff and other Class members was a direct result of Defendants' fraudulent scheme to artificially inflate the Company's common stock price and the subsequent significant decline in the value of the Company's common stock when Defendants' prior misrepresentations and other fraudulent conduct was revealed.

73. At all relevant times, Defendants' materially false and misleading statements or omissions alleged herein directly or proximately caused the damages suffered by the Plaintiff

and other Class members. Those statements were materially false and misleading because they failed to disclose a true and accurate picture of KIT digital's business, operations and financial condition, as alleged herein. Throughout the Class Period, Defendants publicly issued materially false and misleading statements and omitted material facts necessary to make Defendants' statements not false or misleading, causing KIT digital's common stock price to be artificially inflated. Plaintiff and other Class members purchased KIT digital's common stock at those artificially inflated prices, causing them to suffer the damages complained of herein.

SCIENTER ALLEGATIONS

74. As alleged herein, Defendants acted with scienter in that Defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and/or misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, Defendants, by virtue of their receipt of information reflecting the true facts regarding KIT digital, his control over, and/or receipt and/or modification of KIT digital's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning KIT digital, participated in the fraudulent scheme alleged herein.

APPLICABILITY OF PRESUMPTION OF RELIANCE (FRAUD ON THE MARKET DOCTRINE)

75. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud on the market doctrine in that:

a. Defendants failed to disclose material facts during the Class Period;

b. KIT digital's stock met the requirements for listing, and was listed and actively traded on the NASDAQ, a highly efficient and automated market;

c. KIT digital made available periodic public reports about its financial results and condition;

d. KIT digital regularly and periodically communicated with public investors via established market communication mechanisms, including through regular dissemination of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services;

e. The misleading statements and omissions alleged would induce a reasonable investor to misjudge the value of the Company's securities; and

f. Plaintiff and members of the Class purchased their Kit Digital stock between the time Defendants failed to disclose material facts and the time the true facts were disclosed, without knowledge of the omitted facts.

76. Based upon the foregoing, Plaintiff and members of the Class are entitled to a presumption of reliance upon the integrity of the market price for the Company's common stock.

77. As a result of the foregoing, the market for KIT digital's common stock promptly digested current information regarding KIT digital from all publicly-available sources and reflected such information in the price of KIT digital's common stock. Under those circumstances, all purchasers of KIT digital's common stock during the Class Period suffered similar injury through their purchase of KIT digital's common stock at artificially inflated prices, and a presumption of reliance applies.

NO SAFE HARBOR

78. The statutory safe harbor under the Private Securities Litigation Reform Act of 1995, which applies to forward-looking statements under certain circumstances, does not apply to any of the allegedly false and misleading statements pled in this complaint. The statements alleged to be false and misleading herein all relate to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false may be characterized as forward-looking, they were not adequately identified as "forward-looking statements" when made, and there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor is intended to apply to any forward-looking statements pled herein, Defendants are liable for those false forward-looking statements because, at the time each of those forward-looking statements was made, the particular speaker had actual knowledge that the particular forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized and/or approved by an executive officer of KIT digital who knew that those statements were false, misleading or omitted necessary information when they were made.

COUNT I

(Against All Defendants)
Violations of Section 10(b) of the Exchange Act
and Rule 10b-5 Promulgated Thereunder

79. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

80. During the Class Period, Defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing

public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase KIT digital's securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, Defendants, and each of them, took the actions set forth herein.

81. Defendants (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for KIT digital's securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

82. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about Kit Digital's financial well-being and prospects, as specified herein.

83. These Defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of KIT digital's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and/or omitting to state material facts necessary in order to make the statements made about KIT digital and its business operations and future prospects in light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a

course of business which operated as a fraud and deceit upon the purchasers of the Company's securities during the Class Period.

84. Each of the Individual Defendants' primary liability, and controlling person liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of their responsibilities and activities as a senior officer and/or director of the Company, was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other Defendants and was advised of, and had access to, other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew and/or recklessly disregarded was materially false and misleading.

85. The Defendants had actual knowledge of the misrepresentations and/or omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such Defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing KIT digital's financial well-being and prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by Defendants' overstatements and/or misstatements of the Company's business, operations, financial well-being, and prospects throughout the Class Period, Defendants, if they did not have actual knowledge of the misrepresentations and/or omissions alleged, were reckless

in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

86. As a result of the dissemination of the materially false and/or misleading information and/or failure to disclose material facts, as set forth above, the market price of KIT digital's securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of the Company's securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by Defendants, or upon the integrity of the market in which the securities trades, and/or in the absence of material adverse information that was known to or recklessly disregarded by Defendants, but not disclosed in public statements by Defendants during the Class Period, Plaintiff and the other members of the Class acquired KIT digital's securities during the Class Period at artificially high prices and were damaged thereby.

87. At the time of said misrepresentations and/or omissions, Plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiff and the other members of the Class and the marketplace known the truth, which was not disclosed by Defendants, Plaintiff and other members of the Class would not have purchased or otherwise acquired their KIT digital securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

88. By virtue of the foregoing, Defendants have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

89. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

COUNT II

(Against The Individual Defendants)
Violations of Section 20(a) of the Exchange Act

90. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

91. The Individual Defendants acted as controlling persons of KIT digital within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contends are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

92. In particular, each of these Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

93. As set forth above, KIT digital and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and/or omissions as alleged herein. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of

the Exchange Act. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff, on his own behalf and on behalf of the Class, prays for judgment as follows:

a. Determining this action to be a proper class action and certifying Plaintiff as class representative under Rule 23 of the Federal Rules of Civil Procedure;

b. Awarding compensatory damages in favor of Plaintiff and the other members of the Class against all Defendants, jointly and severally, for the damages sustained as a result of the wrongdoings of Defendants, together with interest thereon;

c. Awarding Plaintiff the fees and expenses incurred in this action including reasonable allowance of fees for Plaintiff's attorneys and experts;

d. Granting extraordinary equitable and/or injunctive relief as permitted by law, equity and federal and state statutory provisions sued on hereunder; and

e. Granting such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

DATED: December 18, 2012

Respectfully Submitted,

NEWMAN FERRARA LLP

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