KIT digital, Inc. (KITD)

10-Q

Quarterly report pursuant to sections 13 or 15(d)
Filed on 08/09/2011
Filed Period 06/30/2011

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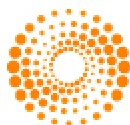

THOMSON REUTERS

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from __________ to __________

Commission file number 001-34437

KIT digital, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**11-3447894** (I.R.S. Employer Identification No.)
26 West 17th Street, 2nd Floor, New York, New York (Address of Principal Executive Offices)	**10011** (Zip Code)

+1 (212) 661-4111
(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated Filer ☐	Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

As of August 3, 2011, there were 42,469,080 shares of the issuer's common stock outstanding.

KIT digital, Inc.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

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

	June 30, 2011 (Unaudited)	December 31, 2010 (A)
Assets:		
Current assets:		
Cash and cash equivalents	$ 37,810	$ 141,233
Restricted cash	4,266	2,000
Investment	1,756	1,050
Accounts receivable, net	59,923	29,349
Unbilled revenue	9,226	537
Inventory, net	501	301
Loan receivable, current portion	2,993	2,486
Other current assets	14,597	5,104
Total current assets	131,072	182,060
Property and equipment, net	12,425	5,987
Loan receivable, net of current	7,006	8,361
Intangible assets, net	33,403	13,248
Goodwill	233,602	89,004
Total assets	$ 417,508	$ 298,660
Liabilities and Stockholders' Equity:		
Current liabilities:		
Capital lease and other obligations, current portion	$ 457	$ 608
Secured notes payable, net of debt discount, current portion	3,708	1,709
Accounts payable	17,185	12,740
Accrued expenses	16,191	6,411
Deferred revenue	5,505	4,223
Income tax payable	5,070	858
Deferred tax liability	5,125	682
Acquisition liabilities, current portion	15,253	2,115
Derivative liability	1,206	6,096
Other current liabilities	12,707	2,887
Total current liabilities	82,407	38,329
Capital lease and other obligations, net of current	184	175
Secured notes payable, net of current	15,385	4,127
Acquisition liabilities, net of current	16,436	10,405
Total liabilities	114,412	53,036
Stockholders' Equity:		
Common stock, $0.0001 par value: authorized 80,000,000 shares; issued and outstanding 41,403,584 and 33,196,952, respectively	4	3
Additional paid-in capital	465,373	375,578
Accumulated deficit	(161,507)	(129,203)
Accumulated other comprehensive loss	(774)	(754)
Total stockholders' equity	303,096	245,624
Total liabilities and stockholders' equity	$ 417,508	$ 298,660

(A) - Reference is made to the Company’s Annual Report on Form 10-K/A for the year ended December 31, 2010, filed with the U.S. Securities and Exchange Commission on August 3, 2011.

The Accompanying Notes are an Integral Part of these Consolidated Financial Statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Revenue	$ 48,188	$ 23,055	$ 82,638	$ 40,419
Variable and direct third party costs:				
Cost of goods and services (exclusive of depreciation shown separately below)	12,343	6,366	23,090	10,718
Hosting, delivery and reporting	2,511	1,290	3,597	2,364
Content costs	162	249	438	484
Direct third party creative production costs	317	656	682	1,546
Total variable and direct third party costs	15,333	8,561	27,807	15,112
Gross profit	32,855	14,494	54,831	25,307
General and administrative expenses:				
Compensation, travel and associated costs (including non-cash stock- based compensation of $4,384, $1,084, $6,411 and $1,636, respectively)	22,151	8,536	34,458	14,186
Legal, accounting, audit and other professional service fees	878	530	1,515	1,220
Office, marketing and other corporate costs	4,635	2,313	8,626	4,377
Merger and acquisition and investor relations expenses	10,916	886	16,166	2,105
Depreciation and amortization	3,175	2,049	5,609	3,703
Restructuring charges	34	(119)	3,352	3,574
Integration expenses	9,710	3,378	18,398	6,299
Total general and administrative expenses	51,499	17,573	88,124	35,464
Loss from operations	(18,644)	(3,079)	(33,293)	(10,157)
Interest income	69	27	141	28
Interest expense	(390)	(248)	(660)	(340)
Amortization of deferred financing costs and debt discount	(75)	(14)	(94)	(14)
Derivative income (expense)	432	2,368	3,042	(9,075)
Other (expense) income	(420)	604	(526)	788
Net loss before income taxes	(19,028)	(342)	(31,390)	(18,770)
Income tax expense	(775)	-	(914)	(14)
Net loss available to common shareholders	$ (19,803)	$ (342)	$ (32,304)	$ (18,784)
Basic and diluted net loss per common share	$ (0.49)	$ (0.02)	$ (0.84)	$ (1.06)
Basic and diluted weighted average common shares outstanding	40,063,874	21,404,907	38,316,369	17,662,700
Comprehensive loss:				
Net loss	$ (19,803)	$ (342)	$ (32,304)	$ (18,784)
Foreign currency translation	(934)	(1,619)	(76)	(2,052)
Change in unrealized gain on investments, net	7	(53)	56	16
Comprehensive loss:	$ (20,730)	$ (2,014)	$ (32,324)	$ (20,820)

The Accompanying Notes are an Integral Part of these Consolidated Financial Statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in Thousands, Except Share Data)
(Unaudited)

	Common Stock	Common Stock Par Value	Additional Paid-in Capital
Balance – December 31, 2010	33,196,952	$ 3	$ 375,578
Issue of stock for exercise of stock options	115,957	•	837
Issue of stock for exercise of warrants	483,196	•	4,831
Issue of stock for acquisitions	7,582,056	1	76,216
Debt discount on notes	•	•	1,081
Issue of warrants for services	•	•	1,559
Stock-based compensation	25,423	•	5,271
Foreign currency translation adjustment	•	•	•
Fair market value adjustment for available for sale securities	•	•	•
Net loss	•	•	•
Balance – June 30, 2011	41,403,584	$ 4	$ 465,373

	Accumulated (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance – December 31, 2010	$ (129,203)	$ (754)	$ 245,624
Issue of stock for exercise of stock options	•	•	837
Issue of stock for exercise of warrants	•	•	4,831
Issue of stock for acquisitions	•	•	76,217
Debt discount on notes	•	•	1,081
Issue of warrants for services	•	•	1,559
Stock-based compensation	•	•	5,271
Foreign currency translation adjustment		(76)	(76)
Fair market value adjustment for available for sale securities	•	56	56
Net loss	(32,304)	•	(32,304)
Balance – June 30, 2011	$ (161,507)	$ (774)	$ 303,096

The Accompanying Notes are an Integral Part of these Consolidated Financial Statements.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)
(Unaudited)

	Six months ended June 30,	
	2011	**2010**
Operating Activities:		
Net loss	$ (32,304)	$(18,784)
Adjustments to reconcile net loss to net cash used by operating activities:		
Provision for doubtful accounts	131	221
Depreciation	2,445	2,184
Amortization of intangible assets	3,046	1,519
Less: merger and acquisition expenses	6,517	822
Amortization of deferred financing costs and debt discount	94	14
Derivative (income) expense	(3,042)	9,075
Loss on disposal of property and equipment	-	87
Non-cash stock based compensation	6,411	1,636
Non-cash warrants for services	1,559	588
Non-cash stock for services	-	317
Changes in assets and liabilities:		
Accounts receivable	(3,288)	(5,568)
Unbilled revenue	654	186
Inventory	(198)	127
Other assets	(2,360)	(2,955)
Accounts payable	(18)	352
Accrued expenses	4,146	892
Income tax payable	(462)	(24)
Other liabilities	5,410	(1,113)
Total adjustments	21,045	8,360
Net cash used by operating activities – forward	(11,259)	(10,424)
Investing Activities:		
Cash paid into restricted cash	(143)	(2,035)
Cash paid into investment	(307)	(700)
Cash paid in acquisitions	(120,591)	(12,551)
Cash received in acquisitions	16,860	2,941
Receipt of payment on notes receivable	877	-
Proceeds from sale of equipment	162	-
Merger and acquisition expenses	(6,517)	(822)
Purchase of equipment	(2,452)	(752)
Net cash used by investing activities - forward	$(112,111)	$(13,919)

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Amounts in Thousands)
(Unaudited)

	Six months ended June 30,	
	2011	**2010**
Net cash used by operating activities – forwarded	$ (11,259)	$ (10,424)
Net cash used by investing activities – forwarded	(112,111)	(13,919)
Financing Activities:		
Proceeds from public offering, net	-	106,960
Proceeds from exercise of stock options	837	67
Proceeds from exercise of warrants	2,982	3,030
Payments for warrant buybacks	-	(23,925)
Bank overdraft and other obligations	-	148
Proceeds from issuance of secured notes	15,000	5,762
Payments of secured notes	(751)	(1,020)
Repayments of notes payable	-	(4,500)
Payments on capital leases	(164)	(639)
Net cash (used) provided by financing activities	17,904	85,613
Effect of exchange rate changes on cash	2,043	(951)
Net (decrease) increase in cash and cash equivalents	(103,423)	60,319
Cash and cash equivalents - beginning of period	141,233	6,791
Cash and cash equivalents - end of period	$ 37,810	$ 67,110
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 439	$ -
Interest	$ 660	$ 340
Non-cash investing and financing activities:		
Common stock issued in connection with acquisitions	$ 76,218	$ 19,145

The Accompanying Notes are an Integral Part of these Consolidated Financial Statements.

(1) Nature of Business and Nature of Presentation

KIT digital, Inc. ("we," "us," "our," the "Company" or "KIT digital"), through our operating subsidiaries, provide enterprise clients an end-to-end technology platform for managing Internet Protocol ("IP")-based video assets across online browser environments, mobile and tablet devices and connected television sets. We also offer creative interface design, marketing services, content transformation services, systems integration and broadcast engineering services to complement our KIT Platform software. Our revenues are comprised primarily by software-as-a-service ("SaaS") fees, enterprise software license fees, software usage fees, software set-up/support services fees, hardware component integration and set-up/support services fees, content transformation services fees and content storage and delivery fees.

The accompanying interim consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim financial information. These financial statements include the accounts of KIT digital and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in the accompanying financial statements.

Certain information and footnote disclosures normally included in the Company's annual audited consolidated financial statements and accompanying notes have been condensed or omitted in these interim financial statements. Accordingly, the unaudited consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and accompanying notes included in KIT digital's annual report on Form 10-K for the year ended December 31, 2010, filed with the U.S. Securities and Exchange Commission.

The results of operations presented in this quarterly report on Form 10-Q are not necessarily indicative of the results of operations that may be expected for any future periods. In the opinion of management, these unaudited consolidated financial statements include all adjustments and accruals, consisting only of normal recurring adjustments, that are necessary for a fair statement of the results of all interim periods reported herein.

(2) Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update on Certain Revenue Arrangements That Include Software Elements, which changes the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing both software and non-software components that function together to deliver the product's essential functionality will no longer be within the scope of Software Revenue Recognition. This update is effective for fiscal years beginning on or after June 15, 2010 and early adoption is permitted. The adoption of this update did not have a material impact on our operating results.

In October 2009, the FASB issued Accounting Standards Update on Multiple-Deliverable Revenue Arrangements, which addresses the accounting for multiple-deliverable arrangements and requires that the overall arrangement consideration be allocated to each deliverable in a revenue arrangement based on an estimated selling price when vendor specific objective evidence or third-party evidence of fair value is not available. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated to all deliverables using the relative selling price method. The new guidance changes the criteria required to (1) separate deliverables into separate units of accounting when deliverables are sold in a bundled arrangement and (2) to allocate the arrangement's consideration to each unit in the arrangement (such as, equipment, installation or commissioning services). Entities are now required to determine an estimated selling price for each separate deliverable following a hierarchy of evidence • Vendor-Specific Objective Evidence ("VSOE"), Third-Party Evidence ("TPE") and, if VSOE and TPE do not exist, best estimate of selling price ("BESP"). The Company adopted this new standard during the quarter ended September 30, 2010 and it has been applied retrospectively to January 1, 2010. The adoption of this standard did not have a material impact on prior results, but will impact how these arrangements will be recognized prospectively.

In December 2010, the FASB issued an accounting standard update for business combinations specifically related to the disclosures of supplementary pro forma information for business combinations. This guidance specifies that pro forma disclosures should be reported as if the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period and the pro forma disclosures must include a description of material, nonrecurring pro forma adjustments. This standard will be effective for business combinations with an acquisition date of January 1, 2011 or later. The adoption of the guidance did not have a material impact on the Company's financial position or results of operations.

In June 2011, the FASB issued an update (ASU 2011-05, Presentation of Comprehensive Income), which revises the manner in which entities present comprehensive income in their financial statements. This update eliminates the option to present components of other comprehensive income (OCI) as part of the statement of changes in stockholders' equity. The amendments to the existing standard require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under either method, adjustments must be displayed for items that are reclassified from OCI to net income, in both net income and OCI. The amendments to the existing standard do not change the current option for presenting components of OCI gross or net of the effect of income taxes, provided that such tax effects are presented in the statement in which OCI is presented or disclosed in the notes to the financial statements. Additionally, the standard does not affect the calculation or reporting of earnings per share. This guidance is effective for interim and annual financial periods beginning after December 15, 2011 and is to be applied retrospectively, with early adoption permitted. The Company is reviewing the impact of the adoption of this update.

(3) Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of ninety days or less when purchased to be cash and cash equivalents. As of June 30, 2011 and December 31, 2010, the Company had $2,086 and $2,068, respectively, of cash equivalents in an account that pays interest at LIBOR plus 150 basis points. This account is guaranteed and backed by liquid collateral instruments, and can be redeemed with 14 days prior written notice.

(4) Fair Value of Financial Instruments

Fair value is the amount that would be received upon sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy which prioritizes the types of inputs to valuation techniques that companies may use to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1). The next highest priority is given to inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2). The lowest priority is given to unobservable inputs in which there is little or no market data available and which require the reporting entity to develop its own assumptions (Level 3).

The assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy are Investments and Derivative Liabilities. Investments are measured using net asset value as a practical expedient (Level 2). See Note 12 for fair value hierarchy on the Derivative Liabilities.

(5) Accounts Receivable

Trade accounts receivable are stated net of allowances for doubtful accounts. Specific customer provisions are made when a review of significant outstanding amounts, customer creditworthiness and current economic trends, indicates that collection is doubtful. In addition, provisions are made at differing amounts, based upon the balance and age of the receivable and the Company’s historical collection experience. Trade accounts are charged off against the allowance for doubtful accounts or expense when it is probable the accounts will not be recovered. The allowance for doubtful accounts as of June 30, 2011 and December 31, 2010 was $2,513 and $1,023, respectively. Although this allowance has increased it represents a similar percentage of gross revenue.

(6) Concentration of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. We place our cash and cash equivalents with high credit quality institutions to limit credit exposure, and from time to time, obtain collateral for our accounts where we deem prudent and is feasible. As of June 30, 2011, we held cash and cash equivalents of $15,706 in financial institutions outside of the United States. We believe no significant concentration of credit risk exists with respect to these investments. The amount held in foreign currencies as of June 30, 2011 and December 30, 2010 was $7,675 and $8,617, respectively. The amount of cash in excess of FDIC insured amounts as of June 30, 2011 and December 31, 2010, was $36,598 and $139,185, respectively.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the nature of our customers who are dispersed across many industries and geographic regions. As of June 30, 2011, no customer accounted for 10% of our trade accounts receivable. As of December 31, 2010, one customer accounted for 11% of our trade accounts receivable. As of June 30, 2011 and 2010, no customer accounted for 10% or more of the year to date revenue. As of June 30, 2011, we held accounts receivable of $51,650 outside of the United States. We routinely assess the financial strength of customers and, based upon factors concerning credit risk, we establish an allowance for doubtful accounts. Management believes that accounts receivable credit risk exposure beyond such allowance is limited.

(7) Inventory

Inventory is valued at the lower of cost (first-in, first-out method) or market and are comprised of finished goods. On a quarterly basis, we review inventory quantities on hand and analyze the provision for excess and obsolete inventory based primarily on product age in inventory and our estimated sales forecast, which is based on sales history and anticipated future demand. As of June 30, 2011 and December 31, 2010, our reserves for excess and obsolete inventory were $142 and $145, respectively.

(8) Goodwill and Intangible Assets

The change in the carrying amount of goodwill is as follows:

	Goodwill
Balance as of December 31, 2010	$ 89,004
Acquisitions	144,598
Balance as of June 30, 2011	$ 233,602

Intangible assets include the following:

	June 30, 2011			
	Weighted Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with determinable lives:				
Software	4.0	$ 10,247	$ (4,928)	$ 5,319
Customer list	5.5	34,806	(6,970)	27,836
Trademarks	4.75	133	(56)	77
Other	1.25	376	(205)	171
Total		$ 45,562	$ (12,159)	$ 33,403

	December 31, 2010			
	Weighted Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with determinable lives:				
Software	3.25	$ 6,747	$ (4,057)	$ 2,690
Customer list	5.5	15,106	(4,944)	10,162
Trademarks	4.5	133	(35)	98
Other	1.5	376	(78)	298
Total		$ 22,362	$ (9,114)	$ 13,248

Amortization expense on intangible assets for the three months ended June 30, 2011 and 2010 were $1,598 and $792 respectively. Amortization expense on intangible assets for the six months ended June 30, 2011 and 2010 were $3,046 and $1,519 respectively.

Estimated future annual amortization expense as of June 30, 2011 is as follows:

	Software	Customer List	Trademarks	Other	Total
2011	$ 744	$ 2,620	$ 7	$ 114	$ 3,485
2012	1,485	5,105	17	33	6,640
2013	1,284	4,986	17	24	6,311
2014	998	4,960	17	-	5,975
2015	750	4,819	17	-	5,586
Thereafter	58	5,346	2	-	5,406
Totals	$ 5,319	$ 27,836	$ 77	$ 171	$ 33,403

(9) Acquisitions

KickApps Acquisition

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

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

Current assets	$	1,661
Property and equipment		1,326
Intangible assets – internally developed software		500
Intangible assets – customer list		2,500
Goodwill		29,608
Total assets acquired		35,595
Current liabilities		(2,760)
Net assets acquired	$	32,835

The results of operations of KickApps for the period from January 29, 2011 to June 30, 2011 have been included in the Consolidated Statements of Operations. Revenue and net income after acquisition are not provided as it is impracticable to distinguish due to the integration of sales, delivery and overhead into our overall regional and global operations.

Kyte Acquisition

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

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

Current assets	$	131
Property and equipment		71
Intangible assets – developed software		1,000
Intangible assets – customer list		400
Goodwill		4,804
Total assets acquired		7,072
Current liabilities		(98)
Net assets acquired	$	6,974

The results of operations of Kyte for the period from January 26, 2011 to June 30, 2011 have been included in the Consolidated Statements of Operations. Revenue and net income after acquisition are not provided as it is impracticable to distinguish due to the integration of sales, delivery and overhead into our overall regional and global operations.

Kewego Acquisition

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

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

Current assets	$	10,063
Property and equipment		388
Intangible assets – developed software		500
Intangible assets – customer list		2,001
Goodwill		21,175
Total assets acquired		34,127
Current liabilities		(6,210)
Net assets acquired	$	27,917

The results of operations of Kewego for the period from January 27, 2011 to June 30, 2011 have been included in the Consolidated Statements of Operations. Revenue and net income after acquisition are not provided as it is impracticable to distinguish due to the integration of sales, delivery and overhead into our overall regional and global operations.

WWB Acquisition

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

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

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

The results of operations of WWB for the period from February 22, 2011 to June 30, 2011 have been included in the Consolidated Statements of Operations. Revenue and net income after acquisition are not provided as it is impracticable to distinguish due to the integration of sales, delivery and overhead into our overall regional and global operations.

Brickbox Acquisition

On September 21, 2010, we acquired Brickbox Digital Media s.r.o., a Czech company engaged in providing digital video asset management solutions, and its international subsidiaries (“Brickbox”), in exchange for 339,476 shares of our common stock valued at a share price of $11.00 with a discount of $731 due to the restriction on the sale of these shares for 1 year for a total value of $3,003 and approximately $7,600 in cash at the time of acquisition. Additionally, the cost includes a fair value for contingent consideration of $3,023 which will be based on 10 percent of revenue and meeting earnings targets over a four-year period after closing, which is included in the Balance Sheet in “Acquisition liability, net of current”. We have allocated the aggregate cost of the acquisition to Brickbox’s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill. On May 22, 2011, we signed an amendment to the securities purchase agreement to issue 265,262 shares valued at $3,053 for the full settlement of the contingent acquisition liabilities of Brickbox.

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

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

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

ioko Acquisition

On May 2, 2011, we acquired ioko365 Ltd. ("ioko") a private company incorporated in England and Wales with principal offices in San Diego, California and London, England and York, England. ioko provides end-to-end managed cloud-based platform solutions for multi-screen video delivery over connected Internet Protocol ("IP") devices to tier-one telecommunications, cable, media and entertainment companies around the world. Total consideration was $74,000 in cash and 1,509,804 of our common stock valued at a price of $10.88 (with a discount of $3,750 due to the restriction on the sale of these shares) for a total value of $12,676. In addition, the cost includes a fair value of contingent consideration of $3,362 based on meeting revenue and earnings targets during the twelve month periods ending March 31, 2012 and March 31, 2013. We are holding $9,000 of the cash and 232,378 shares of the merger consideration in escrow for a period not to exceed 18 months following the merger. Included in this agreement is an employee incentive plan for a total potential payment of our common stock of $7,500 upon meeting specified performance targets during the twelve month periods ending March 31, 2012 and March 31, 2013 and the six month period ended September 30, 2013. We have allocated the aggregate cost of the acquisition to ioko’s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

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

Current assets	$	39,703
Property and equipment		1,983
Intangible assets – customer list		10,000
Goodwill		52,640
Total assets acquired		104,326
Current liabilities and assumed debt		(14,288)
Net assets acquired	$	90,038

The results of operations of ioko for the period from May 2, 2011 to June 30, 2011 have been included in the Consolidated Statements of Operations. Revenue and net income after acquisition are not provided as it is impracticable to distinguish due to the integration of sales, delivery and overhead into our overall regional and global operations.

Polymedia Acquisition

On May 17, 2011 we acquired Polymedia S.P.A. ("Polymedia") a company incorporated in Italy with its principal office in Milan. Polymedia was the IP video platform-provisioning subsidiary of TXT e-solutions, a public company listed on the Italian Stock Exchange. Total consideration was $23,142 in cash and 1,178,381 of our common stock valued at a price of $11.89 (with a discount of $864 due to the restriction on the sale of the shares in escrow) for a total of $13,146. In addition, the cost includes a fair value of contingent consideration of $4,240 based on meeting specified revenue and gross margin targets during the 12-month periods ending May 31, 2012 and May 31, 2013.We are holding 354,286 shares of the merger consideration in escrow for a period of up to 12 months following the closing date. We have allocated the aggregate cost of the acquisition to Polymedia's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

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

Current assets	$	11,649
Property and equipment		1,068
Intangible assets – customer list		6,000
Goodwill		28,498
Total assets acquired		47,215
Current liabilities and assumed debt		(6,687)
Net assets acquired	$	40,528

The results of operations of Polymedia for the period from May 17, 2011 to June 30, 2011 have been included in the Consolidated Statement of Operations. Revenue and net income after acquisition are not provided as it is impracticable to distinguish due to the integration of sales, delivery and overhead into our overall regional and global operations.

Peerset Acquisition

On June 9, 2011, we acquired the assets of Peerset, Inc. ("Peerset"), a Canadian based company engaged in developing technology to provide content recommendation services, in exchange for 10,611 shares of our common stock valued at a price of $11.71 for a total of $124 and cash of $1,375 which is accrued as of June 30, 2011 and is included in the Balance Sheet in "Acquisition liability, net of current". The Peerset acquisition was primarily a purchase of intellectual property and a dedicated research and development team related to content recommendation technology, and the company was generating virtually no reported revenue at the time of purchase. We have allocated the aggregate cost of the acquisition to Peerset's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

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

Current assets	$	-
Intangible assets – customer list		400
Goodwill		1,099
Total assets acquired		1,499
Current liabilities		-
Net assets acquired	$	1,499

Selected unaudited pro forma combined results of operations for the six months ended June 30, 2010, assuming the Multicast, Benchmark, Brickbox, Accela, Megahertz, Kyte, Kewego, Kickapps, WWB, ioko, and Polymedia acquisitions occurred on January 1, 2010 using actual unaudited figures from each entity prior to acquisition, are presented as follows:

Total revenue	$	104,913
Net loss	$	(24,418)

Selected unaudited pro forma combined results of operations for the six months ended June 30, 2011, assuming the Kyte, Kewego, Kickapps, WWB, ioko, and Polymedia acquisitions occurred on January 1, 2011 using actual unaudited figures from each entity prior to acquisition, are presented as follows:

Total revenue	$	117,921
Net loss	$	(29,620)

(10) Notes Payable

In May 2011, we received $15,000 in gross proceeds from the issuance of a note to a third party investor, as called for in the negotiated structure of our acquisition of ioko, as a means of financing the additional accounts receivable acquired. Interest is payable monthly in advance at 13.6% per year and matures on July 1, 2014. We paid total interest only of $187 for May and June 2011 and agreed to pay interest only of $122 per month for the next seven months. Commencing on February 1, 2012, payments for principal and interest are due in thirty equal consecutive payments of $561. A final balloon payment of $1,149 will be due and payable upon maturity. The note is secured by the Company's property, including accounts receivable and inventory. In conjunction with the borrowing, we issued to the lender a warrant entitling it to purchase, for $13.29 per share, 141,083 shares of our common stock with a seven year life through May 15, 2018. A debt discount of $1,081 was recorded related to these warrants and is being amortized over the term of the loan.

In June 2010, we received $1,000 in gross proceeds from the issuance of a note to a third party investor. Interest is payable monthly in advance at 12.7% per year and matures on September 1, 2013. We paid interest only of $5 for June 2010 and agreed to pay interest only of $8 for the next nine months. Commencing on April 1, 2011 payments for principal and interest are due in thirty equal consecutive payments of $38. A final balloon payment of $108 will be due and payable upon maturity. The note is secured by the Company's property, including accounts receivable and inventory. In conjunction with the borrowing, we issued to the lender a warrant entitling it to purchase, for $13.76 per share, 8,480 shares of our common stock with a five year life through June 14, 2015. A debt discount of $27 was recorded related to these warrants and is being amortized over the term of the loan.

In April 2010, we received $5,000 in gross proceeds from the issuance of a note to a third party investor. Interest is payable monthly in advance at 12.7% per year and matures on July 1, 2013. We paid interest only of $22 for April 2010 and agreed to pay interest only of $42 for the next nine months. Commencing on February 1, 2011, payments for principal and interest are due in thirty equal consecutive payments of $188. A final balloon payment of $538 will be due and payable upon maturity. The note is secured by the Company's property, including accounts receivable and inventory. In conjunction with the borrowing, we issued to the lender a warrant entitling it to purchase, for $14.24 per share, 40,976 shares of our common stock with a five year life through April 15, 2015. A debt discount of $183 was recorded related to these warrants and is being amortized over the term of the loan.

(11) Acquisition Liabilities

	June 30, 2011	December 31, 2010
Acquisition liabilities, current portion		
Benchmark	$ 6,527	$ 2,115
Kyte	1,000	-
WWB	1,126	-
ioko	2,398	-
Polymedia	2,827	-
Peerset	1,375	-
	$ 15,253	$ 2,115
Acquisition liabilities, net of current		
Benchmark	$ 10,080	$ 7,382
Brickbox	-	3,023
WWB	3,379	-
ioko	1,563	-
Polymedia	1,414	-
	$ 16,436	$ 10,405

The fair value of the acquisition-related contingent consideration for Benchmark included above was $8,378 on the acquisition date of May 14, 2010. As of March 31, 2011, the fair value of the acquisition-related contingent consideration for the first anniversary on May 15, 2011 for Benchmark increased by $2,873 based on changes in management's estimates and other factors that occurred during the three months ended March 31, 2011. As of June 30, 2011, the fair value of the acquisition-related contingent consideration for the first anniversary on May 15, 2011 for Benchmark increased by an additional $2,148 based on the actual earn-out provisions which has been agreed and finalized. As of June 30, 2011, the fair value of the acquisition-related contingent consideration for the second anniversary on May 15, 2012 for Benchmark increased by $3,208 based on changes in management's estimates and other factors that occurred during the three months ended June 30, 2011. The increase in the liabilities were recorded as a charge to earnings and is included in the "Merger and acquisition and investor relations expenses" line item in the Consolidated Statements of Operations. Also in the three months ended June 30, 2011, the working capital liability was agreed and paid for $357 with the difference of $762 recorded as an offset to the "Merger and acquisition and investor relations expenses" line item in the Consolidated Statements of Operations.

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

(12) Derivative Liabilities

In June 2008, the Financial Accounting Standards Board issued a new accounting standard. Under this standard, instruments which contain full ratchet anti-dilution provisions will no longer be considered indexed to a company's own stock for purposes of determining whether it meets the first part of the scope exception. The adoption required us to (1) evaluate our instrument's contingent exercise provisions and (2) evaluate the instrument's settlement provisions. Based upon applying this approach to instruments within the scope of the consensus, we have determined that certain of our warrants which were classified in stockholders' equity on December 31, 2008, no longer meet the definition of Indexed to a Company's Own Stock provided in the Consensus. Accordingly, effective on January 1, 2009, we were required to reclassify those warrants, at their fair value, into liabilities. The accounting standard requires that the fair value of these liabilities be re-measured at the end of every reporting period with the change in value over the period reported in the statement of operations. The difference between the amount the warrants were originally recorded in the financial statements and the fair value of the instruments on January 1, 2009 was considered a cumulative effect of a change in accounting principle and required an adjustment to the opening balance of retained earnings and a reduction in additional paid-in capital in the amount of $8,498 and $24,235, respectively. The derivative liability as of January 1, 2009 was $15,737. The common shares indexed to the derivative financial instruments used in the calculation of the fair value and recorded as liabilities at January 1, 2009, December 31, 2009, December 31, 2010 and June 30, 2011 were 5,806,230, 4,794,400, 679,400 and 253,455, respectively. The number of shares for the determination of liability have been computed based on the effective exercise price used in the valuation. The actual number of common shares indexed to the warrants at January 1, 2009, December 31, 2009, December 31, 2010 and June 30, 2011 were 2,886,038, 4,794,400, 679,400 and 253,455, respectively.

We estimate fair values of derivative financial instruments using various techniques (and combinations thereof) that are considered to be consistent with the objective measuring fair values. In selecting the appropriate technique, we consider, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For less complex derivative instruments, such as free-standing warrants, we generally use the Black-Scholes model, adjusted for the effect of dilution, because it embodies all of the requisite assumptions (including trading volatility, estimated terms, dilution and risk free rates) necessary to fair value these instruments.

Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques (such as Black-Scholes model) are highly volatile and sensitive to changes in the trading market price of our common stock. Since derivative financial instruments are initially and subsequently carried at fair values, our income (expense) going forward will reflect the volatility in these estimate and assumption changes. Under the terms of the new accounting standard, increases in the trading price of the company's common stock and increases in fair value during a given financial quarter result in the application of non-cash derivative expense. Conversely, decreases in the trading price of the company's common stock and decreases in trading fair value during a given financial quarter result in the application of non-cash derivative income.

The following table summarizes the components of derivative liabilities as of June 30, 2011, December 31, 2011 and the re-measurement date, January 1, 2009:

	June 30, 2011	December 31, 2010	Re-measurement date January 1, 2009
Fair value of warrants with anti-dilution provisions	$ (1,206)	$ (6,096)	$ (15,736)
Significant assumptions (or ranges):			
Trading market values (1)	$ 11.94	$ 16.04	5.25
Term (years)	1.86	2.35	$ 4.35 to 5.00
Volatility (1)	51.28%	57.73%	101.98%
Risk-free rate (2)	0.45%	0.61%	1.55%
Effective Exercise price (3)	$ 7.00	$ 7.00	$ 5.92

Fair value hierarchy:

(1) Level 1 inputs are quoted prices in active markets for identical assets and liabilities, or derived there from. Our trading market values and the volatilities that are calculated thereupon are level 1 inputs.
(2) Level 2 inputs are inputs other than quoted prices that are observable. We use the current published yields for zero-coupon US Treasury Securities, with terms nearest the remaining term of the warrants for our risk free rate.
(3) Level 3 inputs are unobservable inputs. Inputs for which any parts are level 3 inputs are classified as level 3 in their entirety. The remaining term used equals the remaining contractual term as our best estimate of the expected term and the effective exercise price which is based on the stated exercise price adjusted for anti-dilution provisions.

The effects on our income (expense) associated with changes in the fair values of our derivative financial instruments for the six months ended June 30, 2011 and 2010 was $3,042 and $(9,075), respectively. Included in the $(9,075) expense for the six months ended June 30, 2010 is a loss on settlement of $3,016 related to the repurchase of warrants.

On March 7, 2010, our board of directors approved the repurchase of certain outstanding warrants with exercise prices below the then-current market price from certain warrant holders (who had acquired the warrants in May 2008 private placement financings), including KIT Media, an entity controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer and Wellington Management Company ("Wellington"), an entity with greater than a 10% holding in KIT digital's outstanding common stock at the time of the transaction. KIT Media and Wellington were at the time considered related parties of the Company. The terms of the warrant repurchase were identical for KIT Media and Wellington, and the negotiation of such terms was led by Wellington. The Company offered to purchase and cancel these warrants at 133% of the intrinsic value of the warrants (but because intrinsic value was based on a 20-day trailing volume weighted average price of the underlying common stock at the time, the ultimate purchase price of the warrants ended up being below the actual intrinsic value at the date of purchase.). These warrants with anti-ratchet dilution provisions totaling 3,030,747 were cancelled effective on March 31, 2010. Total payments for the settlement of these warrants was $22,232 and a loss of $1,665 was recorded in the derivative expense in the statement of operations. These warrants were included in the warrant buyback liability as at March 31, 2010 and were paid after such date. We also repurchased and cancelled another 403,577 warrants with anti-ratchet dilution provisions during the year ended December 31, 2010, at varying prices, from parties other than KIT Media and Wellington, for $1,342.

(13) Stock-Based Compensation

On March 17, 2008, the board of directors adopted an incentive compensation plan (the "2008 Incentive Stock Plan"). The 2008 Incentive Stock Plan currently has reserved 857,143 shares of common stock for issuance. The 2004 Stock Option Plan has reserved 342,858 shares of common stock for issuance. In November 2009, our board of directors voted unanimously to increase the number of shares which may be issued under the 2008 Incentive Plan by 2,642,857 to an aggregate of 3,500,000 shares of common stock subject to ratification by our stockholders at our next Annual Meeting of Stockholders. At our annual meeting of stockholders held on September 30, 2010, our stockholders approved an amendment to our 2008 Incentive Stock Plan increasing the number of shares of common stock reserved for issuance thereunder by 2,642,857 shares to 3,500,000 shares from 857,143 shares. In December 2010, our board of directors voted unanimously to increase the number of shares which may be issued under the 2008 Incentive Plan by 1,500,000 to an aggregate of 5,000,000 shares of common stock subject to ratification by our stockholders. Subsequently, as a result of acquisition activity, our board of directors authorized at the board meetings on March 5, 2011 and May 5, 2011 to increase the number of shares which may be issued under the 2008 Incentive Plan by 1,000,000 each to a total of 7,000,000 shares, subject to the approval of our shareholders.

The Company's outstanding unvested stock options have maximum contractual terms of up to five years, principally vest on a quarterly basis ratably over four years and were granted at exercise prices equal to the market price of the Company's common stock on the date of grant. The Company's outstanding stock options are exercisable into shares of the Company's common stock. The Company measures the cost of employee services received in exchange for an award of equity instruments, including grants of employee stock options, warrants and restricted stock awards, based on the fair value of the award at the date of grant in accordance with the modified prospective method. The Company uses the Black-Scholes model for purposes of determining the fair value of stock options and warrants granted and recognizes compensation costs ratably over the requisite service period, net of estimated forfeitures. For restricted stock awards, the grant-date fair value is the quoted market price of the stock.

For the three months ended June 30, 2011 and 2010, we recognized $4,384 and $1,084, respectively, of non-cash stock-based compensation expense in the consolidated statements of operations. For the six months ended June 30, 2011 and 2010, we recognized $6,411 and $1,636, respectively, of non-cash stock-based compensation expense in the consolidated statements of operations. Included in the six months ended June 30, 2011 amount of $6,411 is $1,140 accrued for compensation to be issued in stock, $787 for restricted stock units and restricted stock vested in 2011. Included in the six months ended June 30, 2010 amount of $1,636 is $190 for restricted stock vested in 2010. Also included in non-cash stock-based compensation are warrants to purchase 34,286 shares of common stock with an exercise price of $4.655 issued on March 30, 2008, that vest over three years from the issue date with $12 and $24 recognized in the six months ended June 30, 2011 and 2010, respectively. As of June 30, 2011, all of these warrants were vested. The intrinsic value as of June 30, 2011 of these outstanding warrants and exercisable warrants are $250.

As of June 30, 2011, there was approximately $27,405 of total unrecognized compensation cost related to unvested share-based compensation grants, which is expected to be amortized over a weighted-average period of 3.3 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes model with the following weighted-average assumptions:

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Expected life (in years)	4.00	4.01
Risk-free interest rate	1.52%	1.76%
Volatility	79.40%	37.78%
Dividend yield	0	0

In 2010 and 2011, we estimated the expected term of stock options using historical exercise experience and used a forfeiture rate of 25% for employees and 0% for officers and directors

A summary of the status of stock option awards and changes during the six months ended June 30, 2011 are presented below:

	Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (Years)**	**Intrinsic Value**
Outstanding at December 31, 2010	3,903,424	10.54		
Granted	3,339,759	12.15		
Exercised	(115,957)	9.50		
Cancelled, expired, or forfeited	(788,069)	12.58		
Outstanding at June 30, 2011	6,339,157	11.17	4.23	$ 4,873
Exercisable at June 30, 2011	1,684,130	10.38	3.74	$ 2,621

The weighted-average grant-date fair value of option awards granted during the six months ended June 30, 2011 was $7.11.

(14) Stock Issuances

During the quarter ended March 31, 2011, we issued 4,744,467 shares of common stock. Of this amount, we issued 189,348 shares for the acquisition of Kyte, 1,411,704 shares for the acquisition of Kewego, 3,010,296 shares for the acquisition of KickApps, 23,514 shares for the acquisition of WWB, 57,251 shares for the exercise of warrants, 52,354 shares for the exercise of options with proceeds of $390.

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

As of June 30, 2011, the outstanding warrants (excluding the warrants included in the derivative liability of 253,455 and stock-based compensation of 34,286) were 1,135,257 with a weighted average exercise price of $31.21. As of December 31, 2010, the outstanding warrants (excluding the warrants included in the derivative liability of 679,400 and stock-based compensation of 34,286) were 781,737 with a weighted average exercise price of $39.28.

(15) Restructuring Charges

In the first quarter of 2010, management approved restructuring plans for entities acquired in the fourth quarter of 2009 which included a workforce reduction, reduction in costs related to excess and vacated facilities under non-cancelable leases and settlement of contracts. Management expects to make the remaining employee termination costs payments in 2011 and the facility closing costs and contract settlement payments into 2012.

The following table summarizes the restructuring charges for the three and six months ended June 30, 2011, respectively, for the plan approved in the first quarter 2010:

	Employee Termination Costs	Contract Settlements	Facility Closing Costs	Total
Balance as of December 31, 2010	$ 1,212	$ 13	$ 518	$ 1,743
Reversal	(654)	-	-	(654)
Cash payments	(558)	(2)	(96)	(656)
Balance as of March 31 , 2011	$ -	$ 11	$ 422	$ 433
Additions	-	-	34	34
Cash payments	-	(2)	(133)	(135)
Balance as of June 30, 2011	$ -	$ 9	$ 323	$ 332

The accrued restructuring of $332 is included in accrued expenses in the consolidated balance sheets as of June 30, 2011.

In the first quarter of 2011, management approved a companywide restructuring plan which includes a workforce reduction, reduction in costs related to excess and vacated facilities under non-cancelable leases and settlement of contracts. Management expects to make payments during the remaining portion of 2011 and continuing into 2012.

The following table summarizes the restructuring charges for the three and six months ended June 30, 2011, respectively, for the plan approved in the first quarter 2011:

	Employee Termination Costs	Contract Settlements	Facility Closing Costs	Total
Balance as of December 31, 2010	$ -	$ -	$ -	$ -
Additions	3,973	-	-	3,973
Reversal	-	-	-	-
Cash payments	-	-	-	-
Balance as of March 31 , 2011	$ 3,973	$ -	$ -	$ 3,973
Additions	-	-	-	-
Reversal	-	-	-	-
Cash payments	(1,736)	-	-	(1,736)
Balance as of June 30, 2011	$ 2,237	$ -	$ -	$ 2,237

The accrued restructuring of $2,237 is included in accrued expenses in the consolidated balance sheets as of June 30, 2011.

The following table summarizes the restructuring charges:

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Employee termination costs	$ -	$ -	$ 3,318	$ 2,632
Contract settlements	-	26	-	67
Facility closing costs	34	(145)	34	875
Total restructuring charges	$ 34	$ (119)	$ 3,352	$ 3,574

(16) Integration Expenses

The Company has recorded integration charges related to the cost overlap due to the reorganization and integration of acquisitions of $9,710 and $18,398 for the three and six months ended June 30, 2011, respectively. Integration expenses include one-time expenses for integrating acquired businesses together and eliminating duplication and inefficiencies. This includes rationalizing hosting and delivery infrastructure (data center consolidation, related hardware purchases, trunk T1 and T3 purchases and combinations, etc.) to merging software platforms and physical plant/office combination. These expenses include directly allocable staff time, travel and associated charges related to executing these integration initiatives. These expenses are almost without exception cash-based.

The Company has recorded integration charges related to the redundancy in staff and consultants for the transition of technology infrastructure during reorganization due to the centralizing of resources in Prague of $3,378 and $6,299 for the three and six months ended June 30, 2010.

(17) Segment Reporting

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

	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Revenue:				
EMEA	$ 30,554	$ 9,494	$ 47,826	$ 21,537
AsiaPac	8,435	5,379	17,113	$ 8,196
Americas	9,199	8,182	17,699	$ 10,686
Total revenue	$ 48,188	$ 23,055	$ 82,638	$ 40,419

	June 30, 2010	December 31, 2010
Assets:		
EMEA	$ 96,904	$ 41,574
AsiaPac	13,286	10,861
Americas	14,567	9,119
Corporate	292,751	237,106
Total assets	$ 417,508	$ 298,660

(18) Related Party Transactions

In December 2007, we entered into an agreement with KIT Capital, Ltd. ("KIT Capital"), a company wholly owned by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, which includes the managerial services of Mr. Isaza Tuzman and two other junior employees. The total amount paid to KIT Capital and included in our results of operations in the six months ended June 30, 2011 and 2010 were $194 and $220, respectively.

See Note 12, "Derivative Liabilities" for a description of warrant repurchases from KIT Media and Wellington.

(19) Subsequent Events

Pursuant to the Benchmark Stock Purchase Agreement on May 14, 2010, following the 12-month anniversary of the closing, we agreed to pay the seller in the form of shares of our common stock $0.60 for every $1.00 of recognized revenue generated by Benchmark during the 12-month period following the closing, less the purchase price paid at closing. The price per share of our common stock issuable following the first anniversary of the closing was calculated based on the weighted average price of our common stock for the 30 trading days immediately preceding the first anniversary. Pursuant to an amendment to the Stock Purchase Agreement dated August 2, 2011, the parties agreed to accelerate half of the payment which would otherwise be payable to the seller with respect to the 12 months ending May 15, 2012 (based on financial results ending May 15, 2011), and extended a portion of the balance of the 2012 payment until May 15, 2013. In accordance the Benchmark Stock Purchase Agreement and the amendment, we issued 816,592 shares of our common stock to the seller for the first anniversary payment.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Amounts in Thousands, Except Share and Per Share Data)

Overview

Through our operating subsidiaries, we are in the business of providing software solutions that enable our customers to manage and distribute video content through Internet websites, mobile and tablet devices and both closed network Internet Protocol television ("IPTV") and over-the-top ("OTT") connected television environments. Our core video asset management software suite, marketed under the "KIT Platform" brand, includes online and mobile video players, ingestion and trans-coding for Internet and mobile connected devices, live and video-on-demand OTT and IPTV video serving, editing and content transformation, content meta-tagging, content localization and syndication, digital rights management, hosting, storage, content delivery and content syndication. We currently provide IP video solutions internationally through over 25 offices globally, including principal locations in Atlanta, Beijing, Boston, Buenos Aires, Cairo, Chennai, Cologne, Delhi, Dubai, Ely (UK), Grenoble (France), London, Madrid, Melbourne (Australia), Mumbai, New York, Paris, Prague, San Francisco, Singapore, Sydney, and Stockholm. In support of our KIT Platform deployments, we provide systems integration, broadcast engineering services, content transformation servces and integrated marketing services.

Set forth below is a discussion of the financial condition and results of operations of KIT digital, Inc. and its consolidated subsidiaries (collectively, "we," "us" or "our"), for the three and six months ended June 30, 2011 and 2010. The following discussion should be read in conjunction with the information set forth in the consolidated financial statements and the related notes thereto appearing elsewhere in this report.

Results of Operations - Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

Revenue. Consolidated revenue increased by $25,133 from $23,055 for the three months ended June 30, 2010 to $48,188 for the three months ended June 30, 2011, an increase of 109%. This increase is primarily due to an increase in customers, increased spending by existing customers, and revenue from the acquired companies not included in prior period results. In 2011, our average monthly revenue per client increased, reflecting the company's focus on higher-end opportunities in the market and large, multi-year contracts in emerging geographies. The company's client base has increased from 1,000 customers in the beginning of 2010 to over 2,000 customers at present.

Variable and Direct Third Party Costs

Cost of Goods and Services (Exclusive of Depreciation shown separately below). These costs increased by $5,977 from $6,366 for the three months ended June 30, 2010 to $12,343 for the three months ended June 30, 2011, an increase of 94%. These costs represent the costs of equipment and services for the supply of digital media and IPTV solutions, services and components. The increase is primarily due to the acquisitions of Benchmark in May 2010, Megahertz in September 2010, Brickbox in September 2010 which provided digital video asset management solutions and broadcast video systems integration and the acquisition of ioko in May 2011. There was also an increase in these costs due to the increase in revenue over 2010, not including the acquisitions. These costs will continue to increase in 2011 due to the increase in the sale of services for the supply of digital media solutions, services and components, but overall our total gross margin is expected to increase due to our overall revenue mix.

Hosting, Delivery and Reporting. These costs increased by $1,221 from $1,290 for the three months ended June 30, 2010 to $2,511 for the three months ended June 30, 2011, an increase of 95%. These costs increased primarily due to the increase in revenue over 2010 and the acquisition of ioko in May 2011. We expect these costs to decrease as an overall percentage of revenue through the continued consolidation of our data centers and price negotiations with our content delivery providers due to our increased size and bargaining power.

Content Costs. Content costs decreased by $87 from $249 for the three months ended June 30, 2010 to $162 for the three months ended June 30, 2011. The decrease is primarily due to the reduction of the use of content in integrated sales activity and therefore the subsequent reduction in usage and the level of minimum guarantees paid for content.

Direct Third Party Creative Production Costs. Direct third party creative production costs decreased by $339 from $656 for the three months ended June 30, 2010 to $317 for the three months ended June 30, 2011, a decrease of 52% attributable to a decrease in revenue requiring creative production costs.

General and Administrative Expenses

Compensation, Travel and Associated Costs (Including Non-Cash Stock-Based Compensation). These costs increased by $13,615 from $8,536 for the three months ended June 30, 2010 to $22,151 for the three months ended June 30, 2011, an increase of 160%. The increase was primarily due to the acquisitions in 2010 and 2011, which is offset in part by continuing cost cutting measures as we integrate the acquired businesses and some of these costs are included in integration expenses. The non-cash stock-based compensation expense increased by $3,300, from $1,084 for the three months ended June 30, 2010 to $4,384 for the three months ended June 30, 2011 primarily due to the increase in stock options granted in 2010, $1,140 accrued for compensation to be issued in stock and $380 for restricted stock units and restricted stock vested in 2011.

Legal, Accounting, Audit and Other Professional Services Fees. These expenses increased by $348 from $530 for the three months ended June 30, 2010 to $878 for the three months ended June 30, 2011, an increase of 66%. These costs increased primarily due to increases in accounting and audit fees combined with an overall increase in these expenses from the acquisitions. We expect these absolute costs to remain materially the same but decrease as a percentage of revenue due to an overall strategy to maintain these overall costs by negotiation of consulting agreements.

Office, Marketing and Other Corporate Costs. These expenses increased by $2,322 from $2,313 for the three months ended June 30, 2010 to $4,635 for the three months ended June 30, 2011, an increase of 100%. The increase was primarily due to the acquisitions which increased our number of offices and overall office costs. We expect these costs as a percentage of revenue to decrease in 2011 as we consolidate office space and manage our office costs through cost-cutting policies and negotiations with vendors.

Merger and Acquisition Related Expenses. Merger and acquisition related expenses increased by $10,030 from $886 for the three months ended June 30, 2010 to $10,916 for the three months ended June 30, 2011, an increase of 1132%. The increase is primarily due to the significant acquisitions in 2011. We expect these costs to decrease significantly due to the completion of these acquisitions.

Depreciation and Amortization. Depreciation and amortization expense increased by $1,126 from $2,049 for the three months ended June 30, 2010 to $3,175 for the three months ended June 30, 2011, an increase of 55%. The increase was primarily due to the acquisitions in 2010 and 2011. We expect these costs to increase in the next quarter and then to remain relatively stable for the rest of 2011.

Restructuring Charges. Restructuring charges was an expense of $34 for the three months ended June 30, 2011 and income of $119 for the three months ended June 30, 2010. This represents minor adjustments to the two different restructuring plans with one in the first quarter of 2010 and one in the first quarter of 2011.

Integration Expenses. Integration expenses increased by $6,332 from $3,378 for the three months ended June 30, 2010 to $9,710 for the three months ended June 30, 2011. Integration expenses in 2010 consist of IT overlap, recruiting costs, relocation of headquarters, corporate rebranding activities due to acquisitions and relocations during the year. Integration expenses in 2011 consist of cost overlap due to the integration of acquisitions. We expect these costs to be completed now as a result of the plan to fully integrate acquired businesses by the third quarter of 2011.

Interest Income. Interest income increased by $42 from $27 for the three months ended June 30, 2010 to $69 for the three months ended June 30, 2011. This increase was primarily due to the fluctuation in the level of our cash and cash equivalents.

Interest Expense. Interest expense increased by $142 from $248 for the three months ended June 30, 2010 to $390 for the three months ended June 30, 2011, an increase of 57%. This increase was mainly due to the issuance of secured notes in April and June of 2010 and May of 2011.

Amortization of Deferred Financing Costs and Debt Discount. Amortization of deferred financing costs and debt discount was $75 for the three months ended June 30, 2011 and $14 for the three months ended June 30, 2010. These costs resulted from the issuance of secured notes payable of $5,000 in April 2010, $1,000 in June 2010 and $15,000 in May 2011.

Derivative Income (Expense). Derivative income was $432 for the three months ended June 30, 2010 as compared to derivative income of $2,368 for the three months ended June 30, 2011. Derivative income or expense is the change in the period based on the fair value of warrants containing reset provisions.

Other Income/(Expense). Other income/(expense) changed by $1,024 from $604 in other income for the three months ended June 30, 2010 to other expense of $420 for the three months ended June 30, 2011, primarily due to an increase in foreign currency loss.

Net Loss Available to Common Shareholders. As a result of the factors described above, we reported net loss available to common shareholders of $19,803 for the three months ended June 30, 2011 compared to a net loss available to common shareholders of $342 for the three months ended June 30, 2010, a increase in net loss of $19,461.

Results of Operations - Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

Revenue. Consolidated revenue increased by $42,219 from $40,419 for the six months ended June 30, 2010 to $82,638 for the six months ended June 30, 2011, an increase of 104%. This increase is primarily due to an increase in customers, increased spending by existing customers, and revenue from the acquired companies not included in prior period results. In 2011, our average monthly revenue per client increased, reflecting the company's focus on higher-end opportunities in the market and large, multi-year contracts in emerging geographies. The company's client base has increased from 1,000 customers in the beginning of 2010 to over 2,000 customers at present.

Variable and Direct Third Party Costs

Cost of Goods and Services (Exclusive of Depreciation shown separately below). These costs increased by $12,372 from $10,718 for the six months ended June 30, 2010 to $23,090 for the six months ended June 30, 2011, an increase of 115%. These costs represent the costs of equipment and services for the supply of digital media and IPTV solutions, services and components. The increase is primarily due to the acquisitions of Benchmark in May 2010, Megahertz in September 2010, Brickbox in September 2010 which provided digital video asset management solutions and broadcast video systems integration and the acquisition of ioko in May 2011. There was also an increase in these costs due to the increase in revenue over 2010, not including the acquisitions. These costs will continue to increase in 2011 due to the increase in the sale of services for the supply of digital media solutions, services and components, but overall our total gross margin is expected to increase due to our overall revenue mix.

Hosting, Delivery and Reporting. These costs increased by $1,233 from $2,364 for the six months ended June 30, 2010 to $3,597 for the six months ended June 30, 2011, an increase of 52%. These costs increased primarily due to the increase in revenue over 2010 and the acquisition of ioko in May 2011. We expect these costs to decrease as an overall percentage of revenue through the continued consolidation of our data centers and price negotiations with our content delivery providers due to our increased size and bargaining power.

Content Costs. Content costs decreased by $46 from $484 for the six months ended June 30, 2010 to $438 for the six months ended June 30, 2011. The decrease is primarily due to the reduction of the use of content in integrated sales activity and therefore the subsequent reduction in usage and the level of minimum guarantees paid for content.

Direct Third Party Creative Production Costs. Direct third party creative production costs decreased by $864 from $1,546 for the six months ended June 30, 2010 to $682 for the six months ended June 30, 2011, a decrease of 56% attributable to a decrease in revenue requiring creative production costs.

General and Administrative Expenses

Compensation, Travel and Associated Costs (Including Non-Cash Stock-Based Compensation). These costs increased by $20,272 from $14,186 for the six months ended June 30, 2010 to $34,458 for the six months ended June 30, 2011, an increase of 143%. The increase was primarily due to the acquisitions in 2010 and 2011, which is offset in part by continuing cost cutting measures as we integrate the acquired businesses and some of these costs are included in integration expenses. The non-cash stock-based compensation expense increased by $4,775, from $1,636 for the six months ended June 30, 2010 to $6,411 for the six months ended June 30, 2011 primarily due to the increase in stock options granted in 2010, $1,140 accrued for compensation to be issued in stock and $787 for restricted stock units and restricted stock vested in 2011.

Legal, Accounting, Audit and Other Professional Services Fees. These expenses increased by $295 from $1,220 for the six months ended June 30, 2010 to $1,515 for the six months ended June 30, 2011, an increase of 24%. These costs increased primarily due to increases in accounting and audit fees combined with an overall increase in these expenses from the acquisitions. We expect these absolute costs to remain materially the same but decrease as a percentage of revenue due to an overall strategy to maintain these overall costs by negotiation of consulting agreements.

Office, Marketing and Other Corporate Costs. These expenses increased by $4,249 from $4,377 for the six months ended June 30, 2010 to $8,626 for the six months ended June 30, 2011, an increase of 97%. The increase was primarily due to the acquisitions which increased our number of offices and overall office costs. We expect these costs as a percentage of revenue to decrease in 2011 as we consolidate office space and manage our office costs through cost-cutting policies and negotiations with vendors.

Merger and Acquisition Related Expenses. Merger and acquisition related expenses increased by $14,061 from $2,105 for the six months ended June 30, 2010 to $16,166 for the six months ended June 30, 2011, an increase of 668%. The increase is primarily due to the significant acquisitions in 2011. We expect these costs to decrease significantly due to the completion of these acquisitions.

Depreciation and Amortization. Depreciation and amortization expense increased by $1,906 from $3,703 for the six months ended June 30, 2010 to $5,609 for the six months ended June 30, 2011, an increase of 51%. The increase was primarily due to the acquisitions in 2010 and 2011. We expect these costs to increase in the next quarter and then to remain relatively stable for the rest of 2011.

Restructuring Charges. Restructuring charges were $3,352 for the six months ended June 30, 2011 and $3,574 for the six months ended June 30, 2010. These charges represent the 2011 plan that was initiated in the first quarter of 2011 and the 2010 plan that was initiated in the first quarter of 2010.

Integration Expenses. Integration expenses increased by $12,099 from $6,299 for the six months ended June 30, 2010 to $18,398 for the six months ended June 30, 2011. Integration expenses in 2010 consist of IT overlap, recruiting costs, relocation of headquarters, corporate rebranding activities due to acquisitions and relocations during the year. Integration expenses in 2011 consist of cost overlap due to the integration of acquisitions. We expect these costs to be completed now as a result of the plan to fully integrate acquired businesses by the third quarter of 2011.

Interest Income. Interest income increased by $113 from $28 for the six months ended June 30, 2010 to $141 for the six months ended June 30, 2011. This increase was primarily due to the fluctuation in the level of our cash and cash equivalents.

Interest Expense. Interest expense increased by $320 from $340 for the six months ended June 30, 2010 to $660 for the six months ended June 30, 2011, an increase of 94%. This increase was mainly due to the issuance of secured notes in April and June of 2010 and May of 2011.

Amortization of Deferred Financing Costs and Debt Discount. Amortization of deferred financing costs and debt discount was $94 for the six months ended June 30, 2011 and $14 for the six months ended June 30, 2010. These costs resulted from the issuance of secured notes payable of $5,000 in April 2010, $1,000 in June 2010 and $15,000 in May 2011.

Derivative Income (Expense). Derivative expense was $9,075 for the six months ended June 30, 2010 as compared to derivative income of $3,042 for the six months ended June 30, 2011. Derivative income or expense is the change in the period based on the fair value of warrants containing reset provisions.

Other Income/(Expense). Other income/(expense) changed by $1,314 from $788 in other income for the six months ended June 30, 2010 to other expense of $526 for the six months ended June 30, 2011, primarily due to an increase in foreign currency loss.

Net Loss Available to Common Shareholders. As a result of the factors described above, we reported net loss available to common shareholders of $32,304 for the six months ended June 30, 2011 compared to a net loss available to common shareholders of $18,784 for the six months ended June 30, 2010, a increase in net loss of $13,520.

Liquidity and Capital Resources

As of June 30, 2011, we had cash and cash equivalents of $37,810 and working capital of approximately $48,665. Management anticipates that it has enough cash reserves and will generate sufficient cash flows from its operating activities to fund its operations, anticipated capital expenditures and debt repayment obligations for at least the next 12 months.

Our ability to meet our short and long-term liquidity needs depends on our future operating performance and on economic, financial, competitive and other factors. See "Risks Related to Our Business" under Item 1A. Risk Factors in our Form 10-K/A for more detail. Our financial projections are based on assumptions, which we believe are reasonable but contain significant uncertainties. These projections include an increase in revenue, improved operating margins and significant decreases in costs related to the restructuring and integration of acquired companies.

Net cash used by operating activities was $11,259 for the six months ended June 30, 2011, compared to $10,424 for the six months ended June 30, 2010, an increase of $835. This is due to the increase in the restructuring and integration of acquisitions.

Net cash used by investing activities was $112,111 for the six months ended June 30, 2011, compared to $13,919 for the six months ended June 30, 2010, an increase in net cash used in investing activities of $98,192. The increase in net cash used in investing activities is primarily attributable to the increase in cash paid in acquisitions in 2011 as compared to 2010.

Net cash provided by financing activities was $17,904 for the six months ended June 30, 2011, compared to net cash provided by financing activities of $85,613 for the six months ended June 30, 2010. In 2011, this primarily consisted of proceeds from the issuance of secured notes of $15,000 and the proceeds from the exercise of warrants and options of $3,819. In 2010, this primarily consisted of the proceeds from public offerings of $106,690, net proceeds from the issuance of secured notes of $5,762, proceeds from the exercise of warrants and options of $3,097 offset by payments related to the buyback of warrants of $23,925, payments of notes related to the Multicast acquisition of $4,500 and payments of other notes, capital leases and other obligations of $1,659.

Off-Balance Sheet Arrangements

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

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the United States Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this Form 10-Q regarding our strategy, future operations, financial position, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. There are a number of important factors that could cause our actual results to differ materially from those indicated by these forward-looking statements. These important factors include risks related to our history of net losses and accumulated deficits, integration of acquired businesses, future capital requirements, competition and technological advances, dependence on the market for digital advertising, and other factors that we identify in this Form 10-Q and in other filings we make with the SEC. For additional factors that can affect these forward-looking statements, see the "Risk Factors" section in our Annual Report on Form 10-K/A for the year ended December 31, 2010. You should read these factors and other cautionary statements made in this Form 10-Q as being applicable to all related forward-looking statements wherever they appear in the Form 10-Q. Except to the extent required by federal securities laws, we do not assume any obligation to update any forward-looking statements made by us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We conduct our operations in primary functional currencies: the United States dollar, the Euro, the British pound, the Australian dollar, the Swedish krona and the Czech koruna. We currently do not hedge any of our foreign currency exposures and are therefore subject to the risk of exchange rate fluctuations.

However, we attempt to employ a “natural hedge” by matching as much as possible in like currencies our customer revenues with associated customer delivery costs. We invoice our international customers primarily in U.S. dollars, British pounds, Australian dollars, Euros, Swedish kronor and Czech koruna.

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

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. We endeavor to place our cash and cash equivalents with high credit quality institutions to limit credit exposure. We have obtained callable cash collateral wherever we have identified credit risk exists with respect to these investments.

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

ITEM 4. CONTROLS AND PROCEDURES.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (1) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure; and (2) recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms.

Changes in Internal Control Over Financial Reporting

There was no change to our internal controls or in other factors that could affect these controls during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are subject to various legal proceedings and actions arising in the normal course of our business. While the results of all such proceedings and actions cannot be predicted, management believes, based on facts known to management today, that the ultimate outcome of all such proceedings and actions will not have a material adverse effect on our consolidated financial position, results of operation, or cash flows.

ITEM 1A. RISK FACTORS.

There are no material changes in the risk factors previously disclosed in our annual report on Form 10-K/A for the year ended December 31, 2010.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS.

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KIT DIGITAL, INC.

Dated: August 9, 2011

By: /s/ Kaleil Isaza Tuzman
Kaleil Isaza Tuzman
Chairman and Chief Executive Officer
(principal executive officer)

Dated: August 9, 2011

By: /s/ Robin Smyth
Robin Smyth
Chief Financial Officer
(principal financial and accounting officer)

EXHIBIT 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Kaleil Isaza Tuzman, Chairman and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KIT digital, Inc.

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

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

4. The registrant's other certifying officer 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; and

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

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

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

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

Dated: August 9, 2011

/s/ Kaleil Isaza Tuzman
Kaleil Isaza Tuzman
Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Robin Smyth, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KIT digital, Inc.

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

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

4. The registrant's other certifying officer 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; and

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

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

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

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

Dated: August 9, 2011

/s/ Robin Smyth
Robin Smyth
Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of KIT digital, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kaleil Isaza Tuzman, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350 of the Sarbanes-Oxley Act of 2002, that:

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

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

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. section 1350 and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Date: August 9, 2011

/s/ Kaleil Isaza Tuzman
Kaleil Isaza Tuzman
Chairman and Chief Executive Officer

EXHIBIT 32.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of KIT digital, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robin Smyth, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350 of the Sarbanes-Oxley Act of 2002, that:

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

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

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. section 1350 and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Date: August 9, 2011

/s/ Robin Smyth
Robin Smyth
Chief Financial Officer