KIT digital, Inc.
168 Fifth Avenue, Suite 301
New York, NY 10010, U.S.A.

PROSPECTUS

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

Pursuant to Article 36c of the Act no 256/2004, Coll. on Undertaking on Capital Market, as amended (*zákon č. 256/2004 Sb., o podnikání na kapitálovém trhu*), the Czech National Bank (*Česká národní banka*) ("CNB") has approved this prospectus by decision number Sp/2010/8/572 dated January 20, 2010 on this prospectus. This prospectus has been prepared by the issuer and its signatory accepts the responsibility for its contents. In accordance with the provisions of Article 36 (1) of the Act on Undertaking on Capital Market, the visa was granted after the CNB verified that the document was complete and comprehensible and that the information it contains are easy to analyze. It does not imply that the CNB endorses the proposed transaction nor that it has validated the accounting and financial information presented herein.

Copies of this prospectus may be obtained free of charge from KIT digital, Inc. at the address indicated above and from its securities broker in the Czech Republic, Patria Finance, a.s. (Postal address: Jungmannova 745/24, 110 00 Prague 1, Czech Republic), and on the website of the Prague Stock Exchange (www.pse.cz) and Patria Finance, a.s. (www.patria-direct.cz).

THE SHARES OF KIT DIGITAL, INC.'S COMMON STOCK OFFERED PURSUANT TO THIS PROSPECTUS (THE "OFFER SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE OFFERING IS BEING MADE OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"). THEREFORE, THE OFFER SHARES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES, OR TO OR FOR THE BENEFIT OF ANY U.S. PERSON AS SUCH TERM IS DEFINED UNDER RULE 902(K) OF REGULATION S UNLESS THE OFFER SHARES ARE REGISTERED UNDER THE SECURITIES ACT, OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT IS AVAILABLE. HEDGING TRANSACTIONS INVOLVING THE OFFER SHARES MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE SECURITIES ACT. FOR FURTHER INFORMATION, SEE ''TRANSFERABILITY" (CHAPTER C, SECTION 1.6).

NOTE TO THE PROSPECTUS

This prospectus constitutes an offer of securities by or on behalf of KIT digital, Inc. This prospectus is published in connection with the admission of KIT digital, Inc.'s common stock to listing and trading on the Prague Stock Exchange ("PSE").

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

This prospectus contains forward-looking statements concerning, among other things, the prospects for KIT digital, Inc.'s operations, which are subject to certain risks, uncertainties and assumptions. The various assumptions KIT digital, Inc. uses in its forward−looking statements, as well as risks and uncertainties relating to those statements, are set out in "Cautionary Note Regarding Forward−Looking Statements" on page 15 of KIT digital's Prospectus (as defined below).

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

(1) a table of contents;

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

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

(4) the cross-reference lists stipulated in Article 25.4 of the Prospectus Regulation presenting the information in the order stipulated in Annexes I, II and III of the Prospectus Regulation which, by application of Articles 3, 4, 5 and 6 thereof, are required for this transaction.

This prospectus also contains in Chapter C supplemental information concerning KIT digital, Inc. and its business. For a better understanding of the summary of the prospectus in Chapter A, the reader should read the entire prospectus, including Chapter C: Supplemental Information concerning KIT digital, Inc., contained on pages 28 – 47.

Further, the prospectus contains the following documents:

- Prospectus filed by KIT digital, Inc. with the U.S. Securities and Exchange Commission (the "SEC") on August 13, 2009 ("KIT digital's Prospectus");

- Registration Statement on Form S-3 filed by KIT digital, Inc. with the SEC on October 5, 2009 ("KIT digital's S-3");

- Quarterly Report on Form 10-Q filed by KIT digital, Inc. with the SEC on November 20, 2009 ("KIT digital's 10-Q");

- Current Report on Form 8-K filed by KIT digital, Inc. with the SEC on September 11, 2009;

- Current Report on Form 8-K filed by KIT digital, Inc. with the SEC on October 2, 2009;

- Current Report on Form 8-K filed by KIT digital, Inc. with the SEC on October 6, 2009;

- Current Report on Form 8-K filed by KIT digital, Inc. with the SEC on October 9, 2009;

- Press release issued by KIT digital, Inc. on November 19, 2009;
- Excerpts from press release issued by KIT digital, Inc. on December 7, 2009;
- Current Report on Form 8-K/A filed by KIT digital, Inc. with the SEC on December 22, 2009;
- Excerpts from 10KSB for the fiscal year ended December 31, 2006, filed by ROO Group, Inc. (currently KIT digital, Inc.) with the SEC on April 2, 2007; and
- Subsidiaries of KIT digital, Inc.

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COMPANY REPRESENTATIVE FOR PROSPECTUS

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

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

Robin Smyth
Chief Financial Officer of KIT digital, Inc.

Prague, January 20, 2010

SHRNUTÍ PROSPEKTU

Kopie prospektu jsou zdarma k dispozici u společnosti KIT digital, Inc. na adrese uvedené výše nebo u jejího obchodníka s cennými papíry v České republice, společnosti Patria Finance, a.s., na adrese Jungmannova 745/24, 110 00 Praha 1, Česká republika a na internetových stránkách Burzy cenných papírů Praha, a.s. (www.pse.cz) a Patria Finance, a.s. (www.patria-direct.cz).

AKCIE SPOLEČNOSTI KIT DIGITAL, INC. NABÍZENÉ V TÉTO NABÍDCE ("NABÍZENÉ AKCIE", JAK JE DEFINOVÁNO NÍŽE) NEJSOU A NEBUDOU REGISTROVÁNY VE SPOJENÝCH STÁTECH AMERICKÝCH PODLE ZÁKONA SPOJENÝCH STÁTŮ AMERICKÝCH O CENNÝCH PAPÍRECH Z ROKU 1933 ("AMERICKÝ ZÁKON O CENNÝCH PAPÍRECH") VE ZNĚNÍ POZDĚJŠÍCH PŘEDPISŮ ANI PODLE PŘEDPISŮ ŽÁDNÉHO STÁTU SPOJENÝCH STÁTŮ AMERICKÝCH. NABÍDKA JE UČINĚNA MIMO ÚZEMÍ SPOJENÝCH STÁTŮ AMERICKÝCH PODLE "NAŘÍZENÍ S" K AMERICKÉMU ZÁKONU O CENNÝCH PAPÍRECH (V ANGLIČTINĚ "REGULATION S", DÁLE JEN "NAŘÍZENÍ S"). NABÍZENÉ AKCIE PROTO NESMĚJÍ BÝT NABÍZENY ČI PRODÁVÁNY NA ÚZEMÍ SPOJENÝCH STÁTŮ AMERICKÝCH ČI VE PROSPĚCH AMERICKÝCH OSOB (V ANGLIČTINĚ "U.S. PERSON"), JAK JSOU DEFINOVÁNY V PRAVIDLE 902(K) NAŘÍZENÍ S ("AMERICKÁ OSOBA"), LEDAŽE BUDOU REGISTROVÁNY PODLE AMERICKÉHO ZÁKONA O CENNÝCH PAPÍRECH NEBO BUDOU PODLÉHAT VÝJIMCE Z POVINNÉ REGISTRACE PODLE AMERICKÉHO ZÁKONA O CENNÝCH PAPÍRECH. HEDGINGOVÉ TRANSAKCE ZAHRNUJÍCÍ NABÍZENÉ AKCIE MOHOU BÝT PROVÁDĚNY POUZE V SOULADU S AMERICKÝM ZÁKONEM O CENNÝCH PAPÍRECH. DALŠÍ INFORMACE VIZ ČÁST PROSPEKTU "PŘEVODITELNOST" (KAPITOLA C, ODDÍL 1.6, "TRANSFERABILITY").

POZNÁMKA KE SHRNUTÍ PROSPEKTU

ČNB VISA ČÍSLO Sp/2010/8/572 ZE DNE 20. LEDNA 2010

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

Poznámka pro čtenáře

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

V následujícím textu je uveden souhrn některých informací uvedených v prospektu. Upozorňujeme, že si musíte pečlivě přečíst celý prospekt včetně rizikových faktorů, našich historických finančních výkazů a komentářů k těmto finančním výkazům. Pokud z kontextu nevyplývá něco jiného, znamenají odkazy na "Společnost" a výrazy "my", "nás", "naše" a "KIT digital" uvedené v tomto prospektu odkazy na společnost KIT digital, Inc., registrovanou ve státě Delaware, Spojené státy americké, a současně na její dceřiné společnosti a předchůdce. Do května 2008 byla firma naší společnosti ROO Group, Inc.

I. OBECNÝ POPIS SPOLEČNOSTI KIT DIGITAL, INC.

1.1 Úvod

Management společnosti KIT digital je přesvědčen, že KIT digital je předním poskytovatelem řešení pro správu a poskytování video obsahu (video-on-demand) prostřednictvím protokolu IP. Naše komplexní softwarová platforma s názvem "KIT VX" nebo "VX" umožňuje významným firemním zákazníkům získávat, spravovat a distribuovat video obsah na tři obrazovky dnešního světa ("3-screen"): počítače, mobilní zařízení a televize IPTV. Naši softwarovou platformu dodáváme přes internet jako službu pro předplatitele za použití modelu "software jako služba" nebo jako "software na vyžádání", přičemž v některých případech také klientům instalujeme náš software přímo na místě v rámci podnikové licence. Náš software používají firmy z nejrůznějších oborů, jakými jsou média a zábavní průmysl, telekomunikace, maloobchod, spotřební/balené zboží, automobilový průmysl a finanční služby. Naši klienti využívají platformu VX různými způsoby, od distribuce videa zaměřeného na koncového spotřebitele až po interní podnikové využití zahrnující využití při podnikové komunikaci, v oblasti lidských zdrojů, školení, zabezpečení a sledování. K 15. lednu 2010 představovala naše klientela více než 600 podnikových zákazníků z více než 30 zemí, například společnosti The Associated Press, Best Buy, Bristol-Myers Squibb, Disney-ABC Television, General Motors, Google Inc., IMG Worldwide Inc., Intel, McDonald's, New Corp, Telefonica SA, dále U.S. Department of Defense a společnosti Verizon Communications a Vodafone. Naši klienti obvykle uzavírají dlouhodobé smlouvy, přičemž průměrná délka trvání smlouvy činí 24 měsíců.

Využití naší platformy KIT VX často doprovázejí služby v oblasti marketingu, brandingu a návrhu rozhraní a možností integrace systému IPTV – související s digitálními přehrávači, záznamovými a editačními soupravami a prostředky dálkového pořizování obsahu. Podle našich odhadů připadá 75 – 80 % našich současných výnosů na poplatky související s platformou VX a zbytek přímo souvisí s dodatečnými službami.

KIT VX používají nároční a sofistikovaní klienti z řad velkých firem. Zvláště vhodný je pro globální společnosti, které potřebují centrálně a bezpečně získávat a spravovat video obsah a současně mít možnost zpřístupňovat a publikovat jej na různých místech, na různých typech zařízení a v různých jazycích a prostřednictvím různých protokolů. Tato možnost centrálního a bezpečného spravování video obsahu s možností jeho modifikace a široké distribuce se někdy nazývá MPP (multi-point publishing). Jsme přesvědčeni, že naše platforma VX má nejpokročilejší funkce MPP na trhu.

Naše podnikání je rozděleno na tři velká nákladová a výnosová geografická střediska: (i) Evropa, Střední východ a Afrika ("EMEA"), (ii) Asie -Pacifik a (iii) Amerika. Odhadujeme, že 65 %, 20 %, respektive 15 % našich současných výnosů je vytvářeno v regionu EMEA, Asie-Pacifik a Amerika. Naši firemní klienti v každém z těchto regionů používají naši platformu VX a související služby k širšímu pokrytí publika pomocí videa a pro interní firemní účely.

1.2 Informace o segmentech

Naše podnikatelská činnost je rozdělena na dva segmenty: řešení pro digitální média (Digital Media Solutions) a agenturní služby (Agency Services). Segment Digital Media Solutions zahrnuje dodávky řešení včetně softwaru, hardwaru, služeb a komponent a dále poskytuje služby, jako je dodávání obsahu, online a mobilní vývoj a správa objektů a monetizace na bázi reklamy. Segment Agency Services zahrnuje přímý marketing, motivační programy, interní komunikaci, řízení vztahů se zákazníky, propagaci prodeje, kreativní produkci, sponzorování, mediální plánování, nakupování a balíčkování médií.

V následující tabulce jsou shrnuty finanční údaje o našich vykazovaných segmentech:

	Devítiměsíční období k 30. září		Dvanáctiměsíční období k 31. prosinci		
	2009	2008	2008	2007	2006
	(neauditováno)		(v tisících)		
Výnosy:					
Digital Media Solutions	$ 27,954	$ 9,830	$ 18,107	$ 9,525	$ 5,361
Agency Services	3,200	4,538	5,294	4,404	4,407
Výnosy celkem	31,154	14,368	23,401	13,929	9,768
Provozní zisk (ztráta):					
Digital Media Solutions	(637)	(7,046)	(7,150)	(21,920)	(10,271)
Agency Services	(92)	252	219	(57)	(524)
Ostatní činnost	(4,670)	(9,890)	(11,775)	(12,261)	(4,120)
Provozní ztráta celkem	(5,399)	(16,684)	(18,706)	(34,238)	(14,915)

1.3 Obor podnikání společnosti KIT digital

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

- konverze analogových a tradičních digitálních video formátů na IP video;
- pokračující nárůst množství a šíře video obsahu na bázi IP;
- rostoucí spotřebitelská poptávka po video obsahu na bázi IP;
- šíření širokopásmového připojení k internetu;
- expanze a vývoj mobilních sítí s možností přenosu videa;
- nárůst počtu zařízení připojených na internet; a
- rychlý nástup širokopásmového připojení a přístupu k mobilním sítím na nově vznikajících trzích.

1.4 Růstová strategie

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

- dále rozšiřovat naše vedoucí postavení v oblasti správy video obsahu na vyžádání na bázi IP – jsme přesvědčeni, že jsme největším mezinárodním poskytovatelem softwarových řešení pro správu IP video obsahu a že naše značka se stala synonymem pro špičkovou kvalitu v oboru, profesionalitu a podporu zákazníků;
- získávat nové zákazníky a území – agresivně se zaměřujeme na potenciální zákazníky, zejména prostřednictvím našich přímých obchodních zástupců, a jsme přesvědčeni, že pro naše řešení existují významné tržní příležitosti v regionu Amerika a na nově vznikajících trzích ve východní Evropě, na Středním východě, v jižní Asii a Číně a v oblasti Velké Číny ("Greater China");
- uzavírat strategická partnerství v oblasti dalšího prodeje s poskytovateli sítí na dodávání obsahu (content delivery network, "CDN"), systémovými integrátory a poskytovateli hardwaru – v současné

době máme takovéto vztahy pro oblast dalšího prodeje se společnostmi Sitecore, Tech Access (Střední východ) a Vivocom (Španělsko) a chystáme se vyhledávat a uzavírat partnerství se společnostmi s komplementární technologií a přístupem ke klientům v celém oboru videa na bázi IP;

- maximálně využívat nedávno uzavřeného partnerství se společností Akamai — s touto společností spolupracujeme v oblasti prodeje a marketingu, a vzájemně prodáváme své výrobky a služby. Věříme, že přední postavení společnosti Akamai v IP video streamingu v kombinaci s naší platformou pro správu obsahu KIT VX vytvoří unikátní nabídku pro IP video pro velké korporátní klienty po celém světě, a dále očekáváme, že toto partnerství vytvoří nové příležitosti k získávání klientů a tvorbu výnosů;

- dokončit probíhající akvizice, které rozšiřují naše pokrytí klientů a zeměpisných oblastí – hodláme i nadále usilovat o vybrané akvizice v Severní Americe i v mezinárodním rozsahu a tím upevňovat svůj podíl na trhu, rozšiřovat svou geografickou přítomnost a upevňovat své postavení předního poskytovatele špičkových řešení pro správu IP videa;

- zvyšovat příjmy na zákazníka – usilujeme o zvyšování příjmů od jednotlivých firemních zákazníků tím, že nabízíme doplňkové moduly k platformě VX a poskytujeme komplementární kreativní a technické služby;

- rozšiřovat naši nabídku – chceme dále rozvíjet možnosti a funkce naší softwarové platformy VX; a

- rozšiřovat povědomí o značce – jsme přesvědčeni, že jsme největším mezinárodním poskytovatelem softwarových řešení pro správu IP video obsahu a že se naše značka stala synonymem pro špičkovou kvalitu, profesionalitu a podporu zákazníků.

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

Emitent	KIT digital, Inc., společnost registrovaná ve státě Delaware, Spojené státy americké, se sídlem na adrese 168 Fifth Avenue, Suite 301, New York, NY 10010, Spojené státy Americké.
Nabídka	Podle prospektu nabízíme ("**Nabídka**") nejvýše 2 400 000 kusů Kmenových akcií, které naše společnost nově vydá ("**Nabízené akcie**") v souladu s Nařízením S Amerického zákona o cenných papírech (obojí definováno níže).
	Současně s Nabídkou hodlá KIT digital nabídnout nejvýše 3 500 000 kusů Kmenových akcií ("**Nabízené U.S. akcie**") ve veřejné nabídce na území Spojených států amerických na trhu Nasdaq ("**Americká nabídka**"), v níž jako "Globální koordinátor" jedná společnost Roth Capital LLC. Tento počet zahrnuje over-allotment opci na navýšený úpis ve prospěch upisovatelů v souvislosti s Americkou nabídkou. ("**Over-allotment opce**").
Registrace na burze	Naše Kmenové akcie jsou přijaty k obchodování na trhu Nasdaq Global Market ("**Nasdaq**") pod symbolem "KITD".
	Požádali jsme o přijetí Nabízených akcií, Nabízených U.S. akcií a Kmenových akcií v současnosti přijatých k obchodování na trhu Nasdaq, celkem tedy nejvýše 16 744 853 Kmenových akcií, k obchodování na BCPP. Dne 20. ledna 2010 vyslovila BCPP podmíněný

	souhlas s naší žádostí o přijetí našich Kmenových akcií k obchodování na BCPP. Účelem přijetí k obchodování na BCPP je podpořit další likviditu pro všechny investory a zajistit větší přístup ke Kmenovým akciím společnosti KIT digital manažerům evropských fondů, na které může být kladen požadavek, aby investovali pouze do trhů či měn Eurozóny.
Nabídková cena	Skutečná cena, za níž budou Nabízené akcie a Nabízené U.S. akcie nabízeny, bude stanovena v průběhu přijímání nabídek na úpis (book-building), jak je popsáno v části prospektu "Stanovení nabídkové ceny" ("Determination of the Offer Price"). Pro účely prospektu však nabídková cena jak Nabízených akcií, tak Nabízených U.S. akcií činí 11,00 USD za akcii.
Převodní zmocněnec a registrátor kmenových akcií	Continental Stock Transfer & Trust Company.
Agent pro uvedení na burzu	Patria Finance, a.s.
Identifikace cenných papírů	Kmenové akcie budou na BCPP zpočátku obchodovány pod dvěma různými zkratkami. Po dobu platnosti omezení obchodovatelnosti akcií, jak je popsáno v části prospektu "Převoditelnost" ("Transferability") budou Nabízené akcie obchodovány na BCPP pod zkratkou "KITD – REG S" a budou podléhat omezení obchodovatelnosti, jak je popsáno v části prospektu "Převoditelnost" ("Transferability"). ISIN Nabízených akcií je USU4947Q1077, jejich CUSIP potom U4947Q 107. Kmenové akcie, které jsou v současnosti přijaté k obchodování na trhu Nasdaq spolu s Nabízenými U.S. akciemi, (tyto dvě skupiny dále společně jako "**Akcie na Nasdaq**") budou na BCPP obchodovány pod zkratkou "KITD" a nebudou podléhat omezení obchodovatelnosti, jak je popsáno v části prospektu "Převoditelnost" ("Transferability"). ISIN Akcií na Nasdaq je US4824702009, jejich CUSIP potom 482470200. Po ukončení omezení obchodovatelnosti, jak je popsáno v části prospektu "Převoditelnost" ("Transferability"), budou Nabízené akcie obchodovány v souladu příslušnými právními předpisy o cenných papírech a předpisy České národní banky, U.S. Securities and Exchange Commission ("**SEC**"), Burzy cenných papírů Praha a.s. a v souladu s pravidly vypořádacích systémů příslušných clearingových společností včetně společnosti Centrální depozitář cenných papírů, a.s. ("**Centrální depozitář**") pod ISIN a CUSIP, které jsou nyní přiřazeny Akciím na Nasdaq (společně s nabízenými akciemi dále jako "**Akcie na BCPP**").
Autorizovaný kapitál	Náš autorizovaný kapitál se skládá z 30 000 000 kmenových akcií ve jmenovité hodnotě 0,0001 USD za akcii ("**Kmenové akcie**"). K 5. lednu 2010 bylo vydáno 10 844 853 kusů Kmenových akcií. Všechny údaje o akciích v prospektu zohledňují, a kde je to vhodné, také explicitně uvádějí skutečnost, že s účinností k 9. březnu 2009 byly vydané akcie sloučeny v poměru 1:35.

Autorizovaný, ale nevydaný kapitál	Zákony státu Delaware nevyžadují, aby akcionáři schvalovali případnou emisi autorizovaných akcií s výjimkou některých fúzí, kterých se společnost může účastnit. Viz část "Hlasovací práva" ("Voting Rights") na stranách 29-30 prospektu. Pravidla trhu Nasdaq však vyžadují, aby akcionáři schválili určité emise Kmenových akcií nebo cenných papírů konvertibilních na Kmenové akcie nebo za ně vyměnitelných, pokud představují ekvivalent nejméně 20 % stávajícího objemu vydaných Kmenových akcií. Poté, co proběhne Nabídka a Americká nabídka, za předpokladu, že všechny nabízené akcie budou upsány a splaceny, dále že bude v plném rozsahu uplatněna Over-allotment opce ("Over-allotment Option"), a že budou splněny další předpoklady uvedené v části prospektu "Největší zředění a čisté výtěžky" ("Maximum Dilution and Net Proceeds") bude celkem vydáno 15 944 853 kusů Kmenových akcií. Při splnění výše uvedených omezení a předpokladů může tedy představenstvo společnosti KIT digital vydat bez schválení akcionářů nejvýše 14 055 147 kusů Kmenových akcií za cenu rovnající se nejméně nominální hodnotě 0,0001 USD za akcii. Při každé emisi Kmenových akcií je třeba splnit registrační požadavky podle pravidel SEC a případně uveřejnit prospekt, pokud tak vyžaduje český zákon č. 256/2009 Sb., o podnikání na kapitálovém trhu, pokud se nejedná o některou z možných výjimek, jakou je například vydání Kmenových akcií výhradně pro nákup ze strany kvalifikovaných institucionálních investorů. K 31. prosinci 2009 byly vydány vyměnitelné dluhopisy (warranty) na nákup 5 073 095 kusů Kmenových akcií. Společnost má programy odměňování, podle nichž mohou být členům představenstva a zaměstnancům společnosti poskytnuty Kmenové akcie. Závazky společnosti v této souvislosti mohou být splněny buď prostřednictvím Kmenových akcií držených společností, nebo prostřednictvím nově vydaných Kmenových akcií. K 31. prosinci 2009 byly podle těchto programů odměňování celosvětově vydány opce na nákup 869 876 Kmenových akcií. Podrobnější informace o Akciovém opčním plánu 2004 a Motivačním akciovém plánu 2008 společnosti KIT digital jsou uvedeny na stranách 49-52 Prospektu KIT digital a na stranách 10-11 výkazu 10-Q ("Stock-based Compensation").
Dividendová politika	Společnost KIT digital nevyplácela v letech 2006, 2007 a 2008 žádné dividendy. Společnost KIT digital nepředpokládá, že by v blízké budoucnosti vyplácela dividendy. Viz "Práva na dividendu" ("Dividend Rights") na straně 29 prospektu.
Den zahájení obchodování v Praze	Zahájení obchodování s Kmenovými akciemi na BCPP se očekává dne 25. ledna 2010. Společnost KIT digital bude na BCPP obchodována kontinuálně.
Použití výtěžku	Společnost KIT digital má v plánu použít podstatnou část čistého výtěžku z Nabídky a Americké nabídky na financování akvizic či investic do konkurenčních nebo komplementárních podniků, produktů a technologií v rámci své růstové strategie. KIT digital může část čistého výtěžku použít na odkoupení vyměnitelných dluhopisů (warrantů), vydaných

	v předchozích soukromých nabídkách, od některých z jejich držitelů. Dále KIT digital zamýšlí použít část čistého výtěžku na financování provozního kapitálu a pro obecné firemní účely.
Měna obchodování	Obchody s Kmenovými akciemi budou na BCPP prováděny v českých korunách.
Vypořádání	Vypořádání všech transakcí s Kmenovými akciemi na BCPP budou prováděna prostřednictvím vypořádacího systému Centrálního depozitáře.
Převoditelnost	Nabízené akcie nejsou a nebudou registrovány ve Spojených státech amerických podle zákona o cenných papírech Spojených států amerických z roku 1933 ("**Americký zákon o cenných papírech**") ve znění pozdějších předpisů ani podle jiných předpisů žádného státu Spojených států amerických. Nabídka je učiněna mimo území Spojených států amerických podle Nařízení S k Americkému zákonu o cenných papírech (v angličtině "Regulation S", dále jen "**Nařízení S**"). Nabízené akcie proto nesmějí být nabízeny či prodávány na území Spojených států amerických či ve prospěch amerických osob (v angličtině "U.S. Person"), jak jsou definovány v Pravidle 902(k) Nařízení S ("**Americká osoba**"), ledaže budou registrovány podle Amerického zákona o cenných papírech nebo budou podléhat výjimce z povinné registrace podle Amerického zákona o cenných papírech. Hedgingové transakce zahrnující Nabízené akcie mohou být prováděny pouze v souladu s Americkým zákonem o cenných papírech. Další informace viz část prospektu "Převoditelnost" (Kapitola C, Oddíl 1.6, "Transferability").
Tržní kapitalizace	Na základě počtu 10 844 853 kusů Kmenových akcií v oběhu vydaných k 5. lednu 2010 a závěrečného kurzu Kmenových akcií na trhu Nasdaq dne 19. ledna 2010 (11,14 USD) činila tržní kapitalizace společnosti KIT digital před Nabídkou a Americkou nabídkou přibližně 120 811 662 USD, což odpovídá přibližně 2 191 644 368 Kč při směnném kurzu ze dne 19. ledna 2010 (1 USD = 18,141 Kč).

III. HLAVNÍ AKCIONÁŘI

V následující tabulce jsou uvedeny informace o jednotlivých osobách, o nichž je společnosti KIT digital známo, že byly k 31. prosinci 2009 nominálními majiteli 5 % nebo více Kmenových akcií vydaných společností KIT digital (pokud není uvedeno jinak).

Jméno a adresa nominálního majitele	Nominální podíl na Kmenových akciích (včetně podílů na základě jiných cenných papírů) * Počet	Procento
KIT Media Ltd. Mill Mall, Suite 6 Wickhams Cay 1 P.O. Box 3085 Road Town, Tortola, Britské Panenské ostrovy	5 174 612[1]	38,2 %
KIT Capital, Ltd. P.O. Box 112888 Dubai, Spojené arabské emiráty	72 857 [1]	0,7 %
Kaleil Isaza Tuzman, součet výše uvedeného c/o KIT digital, Inc. 168 Fifth Avenue, Suite 301 New York, NY 10010, Spojené státy americké	5 279 469[1]	38,9 %
Zivar Investments Ltd. ("Zivar") Geneva Place, 2nd floor 333 Waterfront Drive Road Town, Tortola, Britské Panenské ostrovy	1 768 111[2]	16,3 %
NewSpring Ventures II, L.P. c/o NewSpring Capital 555 E. Lancaster Avenue, Suite 520 Radnor, PA 19087, Spojené státy americké	787 651[3]	7,3 %
Wellington Management Company, LLP 75 State Street Boston, MA 02169, Spojené státy americké	659 531[4]	6,0 %

*: Viz poznámka (1) na str. 53 Prospektu KIT digital

IV. RIZIKOVÉ FAKTORY

Níže je uveden souhrn některých rizik, nejistot a dalších faktorů, které by mohly ovlivnit naše budoucí výsledky. Podrobný popis těchto a dalších rizikových faktorů je uveden Kapitole B ("Chapter B") na stranách 17-27 prospektu. Níže shrnuté rizikové faktory je třeba posuzovat v souvislosti s jinými rizikovými faktory a prognózami uvedenými v Kapitole B Prospektu KIT digital.

- V minulosti jsme vykazovali čisté roční ztráty a tento trend může pokračovat, což by mohlo negativně ovlivnit naši schopnost dosáhnout stanovených obchodních cílů, přičemž v auditu za rok 2008 jsme obdrželi výrok s výhradou týkající se nepřetržitého trvání podniku ("going concern").

- Naše provozní dceřiné společnosti mají krátkou provozní historii, a proto nemůžeme zaručit dlouhodobý úspěšný výkon naší podnikatelské činnosti či realizaci našeho obchodního plánu.

- Jestliže nebudeme úspěšně vyvíjet nové softwarové produkty a řešení, může být naše podnikatelská činnost poškozena.

- Případné selhání naší sítě by mohlo vést k významnému narušení našich služeb, což by mohlo poškodit naši pověst, snížit naše výnosy nebo jinak poškodit naši podnikatelskou činnost.

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1 Podle informací uvedených v Příloze13D předložené SEC dne 1. prosince 2009.

2 Podle informací uvedených v Příloze13G předložené SEC dne 18. listopadu 2009. Abacus Trustees (Gibraltar) Limited ("Abacus") je jediným akcionářem a správcem trustu, který vlastní Zivar, a může být považován za držitele hlasovacích práv a investičních pravomocí u akcií Emitenta, jež vlastní společnost Zivar.

3 Podle informací uvedených v Příloze13G předložené SEC dne 8. října 2009.

4 Podle informací uvedených v Příloze13G/A předložené SEC dne 10. prosince 2009.

- Závisíme na obsahu, k němuž nám třetí strany poskytují licenci. Jestliže tyto licence nebudeme schopni udržet, mohlo by to negativně ovlivnit naši podnikatelskou činnost a finanční situaci.
- Jestliže nebudeme adekvátně chránit naše práva z duševního vlastnictví, můžeme utrpět ztrátu výnosů a naše podnikatelská činnost může být významně poškozena.
- Jestliže nebudeme schopni udržet si služby pana Kaleila Isazy Tuzmana nebo pana Gavina Campiona nebo jestliže nedokážeme úspěšně najímat kvalifikovaný personál, mohlo by se stát, že nebudeme moci pokračovat ve výkonu naší podnikatelské činnosti.
- Cena Nabízených akcií i Akcií na Nasdaq může silně kolísat v důsledku působení mnoha různých faktorů.
- V důsledku toho, že Akcie na Nasdaq budou registrovány a obchodovány na dvou různých trzích, možnost obchodování a likvidita bude rozdělena mezi dva trhy.
- Nabízené akcie nejsou zaměnitelné s akciemi na Nasdaq.

V. POSLEDNÍ VÝVOJ

Dne 19. listopadu 2009 zveřejnila společnost KIT digital výsledek hospodaření a nové smlouvy s klienty za třetí čtvrtletí, skončené k 30. září 2009. Ve třetím čtvrtletí roku 2009 se výnosy zvýšily o 5 % na rekordních 11,0 milionu USD z 10,5 milionu USD v předchozím čtvrtletí a v porovnání se stejným čtvrtletím předchozího roku vzrostly o 104 % z 5,4 milionu USD. Podrobnější informace jsou uvedeny v Příloze VIII.

Management společnosti KIT digital očekává za čtvrté čtvrtletí skončené k 31. prosinci 2009 zvýšení příjmů o 78 % oproti stejnému období minulého roku na 16 milionů USD. Za účetní rok 2009 očekává společnost KIT digital příjmy ve výši zhruba 47 milionů USD, které představují růst zhruba o 99 % proti minulému roku. Společnost poskytne další výsledky za čtvrté čtvrtletí a celý rok v tiskové zprávě a konferenčním hovoru, které budou oznámeny následně. Management počítá, že před odečtením veškerých finančních vkladů do akvizic překročila společnost plánované příjmy o více než 40 %. Management KIT digital očekává v účetním roce 2010 nárůst příjmů o nejméně 60 % na více než 75 milionů USD.

VI. FINANČNÍ ÚDAJE SPOLEČNOSTI KIT DIGITAL, INC. ZA ÚČETNÍ ROKY 2008 A 2007 (VŽDY K 31. PROSINCI) A ZA TŘETÍ ČTVRTLETÍ ROKU 2009 (K 30. ZÁŘÍ 2009) A FINANČNÍ ÚDAJE TÝKAJÍCÍ SE SPOLEČNOSTI ROO GROUP, INC. (NYNÍ KIT DIGITAL) ZA ÚČETNÍ ROK 2006 (K 31. PROSINCI 2006)

Konsolidované finanční výkazy společností KIT digital a ROO Group, Inc. (nyní KIT digital) uvedené v tomto prospektu byly sestaveny v souladu s účetními zásadami běžnými ve Spojených státech amerických ("US GAAP"), jež byly schváleny rozhodnutím Evropské komise ze dne 12. prosince 2008.

Následující vybrané finanční údaje společností KIT digital a ROO Group, Inc. (nyní KIT digital) vycházejí z historických konsolidovaných finančních výkazů, jež jsou označeny níže, a je třeba je posuzovat v souvislosti s těmito konsolidovanými finančními výkazy a komentáři v nich uvedenými a v souvislosti s částmi "Vysvětlení managementu" ("Management's Discussion) a "Analýza finanční pozice a provozních výsledků" ("Analysis of Financial Condition and Results of Operations") na stranách 22-28 Prospektu KIT digital, respektive stranách 21-27 výkazu 10-Q.

V souvislosti s auditovanými konsolidovanými rozvahami společnosti KIT digital za rok 2008 a 2007 (k 31. prosinci) a souvisejícími konsolidovanými výkazy příjmů, cash-flow a vlastního jmění za tyto dva roky k 31. prosinci 2008 a v souvislosti se zprávou nezávislé akreditované účetní firmy k těmto konsolidovaným finančním výkazům upozorňujeme na Prospekt KIT digital, který tvoří Přílohu I prospektu.

V souvislosti s auditovanou konsolidovanou rozvahou společnosti ROO Group, Inc. (nyní KIT digital) za rok 2006 (k 31. prosinci 2006) a souvisejícím výkazem příjmů, cash-flow a vlastního jmění za tento rok k 31. prosinci 2006 a v souvislosti se zprávou nezávislé akreditované účetní firmy k této rozvaze viz Příloha XI prospektu.

Následující vybrané konsolidované výkazy provozních dat za tři měsíce a devět měsíců (k 30. září 2009 a 30. září 2008), data o cash-flow za devět měsíců (k 30. září 2009) a data z konsolidované rozvahy k 30. září 2009 vycházejí z neauditovaných konsolidovaných finančních výkazů společnosti KIT digital, jež jsou uvedeny na straně 2 – 20 výkazu 10-Q společnosti KIT digital.

VYBRANÉ FINANČNÍ ÚDAJE ZA POSLEDNÍ TŘI ROKY
(v tisících, s výjimkou údajů o akciích a za akcii)

Výsledky hospodaření

	Rok k 31. prosinci		
	2008	**2007**	**2006**
Výnosy	$ 23 401	$ 13 929	$ 9 768
Hrubý zisk	13 004	7 042	Není k dispozici
Provozní ztráta	(18 706)	(34 238)	(14 915)
Čistá ztráta před zdaněním	(18 966)	(34 426)	(14 897)
Čistá ztráta	(19 082)	(34 551)	(14 805)
Čistá ztráta na akcii	(7,55)	(34,69)	(0,92)

Přehled o peněžních tocích

	Rok k 31. prosinci		
	2008	**2007**	**2006**
Čistý peněžní tok do provozní činnosti - převedený	$ (12 816)	$ (20 785)	$ (12 426)
Čistý peněžní tok do investiční činnosti - převedený	(11 715)	(4 342)	(822)
Čistý peněžní tok z finanční činnosti	20 352	23 345	19 903
Čisté zvýšení (snížení) peněžních prostředků	(4 311)	(1 748)	6 663
Stav peněžních prostředků a peněžních ekvivalentů na konci účetního roku	5 878	10 189	11 937

Závazky a vlastní jmění

	Rok k 31. prosinci		
	2008	**2007**	**2006**
Peněžní prostředky a peněžní ekvivalenty	$ 5 878	$ 10 189	$ 11 937
Aktiva celkem	41 309	18 115	20 610
Závazky celkem	23 238	6 836	4 909
Vlastní jmění celkem	18 308	11 355	15 790

VYBRANÉ ČTVRTLETNÍ FINANČNÍ ÚDAJE
(v tisících, s výjimkou údajů za akcii - neauditováno)

Výsledky hospodaření

	Tři měsíce k 30. září		Devět měsíců k 30. září	
	2009	2008	2009	2008
Výnosy	$ 11 036	$ 5 381	$ 31 154	$ 14 368
Hrubý zisk	5 285	3 257	14 819	8 350
Provozní ztráta	(2 089)	(2 553)	(5 399)	(16 684)
Čistá ztráta před zdaněním	(11 132)	(2 539)	(4 346)	(16 502)
Čistá ztráta	(11 134)	(2 540)	(4 350)	(16 504)
Čistá ztráta na akcii	(1,65)	(0,78)	(0,82)	(7,33)

Přehled o peněžních tocích

	Devět měsíců k 30. září	
	2009	2008
Čistý peněžní tok do provozní činnosti - převedený	$ (8 506)	$ (11 089)
Čistý peněžní tok do investiční činnosti - převedený	(6 840)	(10 082)
Čistý peněžní tok z finanční činnosti	23 392	17 195
Čisté zvýšení (snížení) peněžních prostředků	7 573	(4 120)
Stav peněžních prostředků a peněžních ekvivalentů na konci účetního období	13 451	6 069

Závazky a vlastní jmění

	30. září 2009	31. prosince 2008*
Peněžní prostředky a peněžní ekvivalenty	$ 13 451	$ 5 878
Aktiva celkem	65 038	41 309
Závazky celkem	35 594	23 238
Vlastní jmění celkem	29 444	18 308

* Z auditované konsolidované rozvahy.

VII. ZVEŘEJNĚNÉ DOKUMENTY

SEC předkládáme roční, čtvrtletní a průběžné výkazy, zprávy pro akcionáře a další informace. SEC má internetové stránky *http://www.sec.gov*, na nichž jsou uvedeny výkazy, zprávy pro akcionáře, informační výkazy a další údaje týkající se podatelů, kteří předkládají výkazy v elektronické formě, tedy i naší společnosti. Internetové stránky naší společnosti jsou na adrese *www.kitd.com* a elektronickou brožuru o nabídkách našich produktů si můžete stáhnout na *www.kitd.com/brochure.pdf.* Výše zmíněné dokumenty, které společnost předává SEC lze najít na internetové adrese *http://ir.kitd.com/phoenix.zhtml?c=144912&p=irol-sec* a zároveň jsou v míře požadované příslušnými právními předpisy poskytnuty ČNB, která takové informace v souladu s příslušnými předpisy zveřejňuje. Obsah našich internetových stránek ani brožury není součástí prospektu a při posuzování této Nabídky by neměl být brán v úvahu. Kopie našich podání si můžete také zdarma vyžádat na naší adrese nebo na uvedeném telefonním čísle:

KIT digital, Inc.
168 Fifth Avenue, Suite 301
New York, NY 10010, Spojené státy americké
K rukám: Kaleil Isaza Tuzman
Chairman and Chief Executive Officer
+1 (212) 661-4111

CHAPTER A:
PROSPECTUS SUMMARY

NOTE TO THE PROSPECTUS SUMMARY

VISA NUMBER Sp/2010/8/572 DATED JANUARY 20, 2010 OF THE CNB

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

Note to the reader

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

The following is a summary of some of the information contained in this prospectus. We urge you to read this entire document carefully, including the risk factors, our historical consolidated financial statements and the notes to those financial statements. Unless the context requires otherwise, references in this prospectus to the "Company," "we," "us," "our" and "KIT digital" are to KIT digital, Inc., a Delaware corporation, and its subsidiaries and predecessors collectively. Prior to May 2008, our corporate name was ROO Group, Inc.

I. GENERAL DESCRIPTION OF KIT DIGITAL, INC.

1.1 Introduction

Management believes that KIT digital is a leading provider of on-demand content management solutions for managing Internet Protocol ("IP")-based video assets. Our comprehensive software platform, called "KIT VX" or "VX," enables large corporate customers to acquire, manage and distribute their video assets across the three screens of the computer Internet browser, the mobile device and the set-top box enabled Internet Protocol Television ("IPTV"). We deliver our software platform over the Internet as a subscription service using a software-as-a-service or on-demand model, while occasionally installing our software onsite for clients as part of an enterprise license. Our software serves corporate customers across a wide variety of industries, including media & entertainment, telecommunications, retail, consumer/packaged goods, automotive and financial services. Our clients' use of the VX platform ranges from end-consumer focused video distribution to internal corporate deployments, including corporate communications, human resources, training, security and surveillance. As of January 15, 2010, our customer base consisted of more than 600 enterprise customers from over 30 countries, including The Associated Press, Best Buy, Bristol-Myers Squibb, Disney-ABC Television, General Motors, Google Inc., IMG Worldwide Inc., Intel, McDonald's, News Corp, Telefonica SA, the U.S. Department of Defense, Verizon Communications and Vodafone. Our clients usually enter into long-term contracts, and our average contract length is approximately 24 months.

Our KIT VX platform deployments are often complemented by marketing, branding and interface design services, as well as IPTV systems integration capabilities — related to digital play-out facilities, recording and editing suites, and remote content acquisition assets. We estimate approximately 75 – 80% of our current revenues are generated by VX platform-related fees, with the remainder directly related to professional services.

KIT VX is used by demanding and sophisticated corporate clients and is particularly appropriate for global corporations that need to centrally and securely ingest and manage video content, while also being able to allow for content access and publishing in multiple geographical locations, on multiple device types, and in different languages and protocols. This ability to centrally and securely administer video content but allow for it to be modified and distributed broadly is sometimes referred to as multi-point publishing, or "MPP." We believe that our VX platform has the most advanced MPP capabilities in the market.

We manage our business across three major geographical profit and loss centers: (i) Europe, Middle East and Africa ("EMEA"), (ii) Asia-Pacific and (iii) the Americas. We estimate that approximately 65%, 20% and 15% of our current revenues are generated in EMEA, Asia-Pacific and the Americas, respectively. Our enterprise clients in each of these regions use our VX platform and related professional services to extend their audience reach using video and for internal corporate purposes.

1.2 Segment Information

Our business is divided into two segments: Digital Media Solutions and Agency Services. Digital Media Solutions includes the delivery of solutions that include software, hardware, services and components. Digital Media Solutions also provide services including content delivery, online and mobile property development and management, and advertising-based monetization. Agency Services include direct marketing, incentive programs, internal communications, customer relationship management, sales promotion, creative production, sponsorships, online marketing, media planning, media buying and packaging.

The following table summarizes financial information concerning our reportable segments:

	Nine Months Ended September 30,		Twelve months ended December 31,		
	2009	2008	2008	2007	2006
	(unaudited)		(in thousands)		
Revenue:					
Digital Media Solutions	$ 27,954	$ 9,830	$ 18,107	$ 9,525	$ 5,361
Agency Services	3,200	4,538	5,294	4,404	4,407
Total revenue	31,154	14,368	23,401	13,929	9,768
Operating (loss) income:					
Digital Media Solutions	(637)	(7,046)	(7,150)	(21,920)	(10,271)
Agency Services	(92)	252	219	(57)	(524)
Corporate	(4,670)	(9,890)	(11,775)	(12,261)	(4,120)
Total operating loss	(5,399)	(16,684)	(18,706)	(34,238)	(14,915)

1.3 KIT digital's Industry

We believe we are well positioned to take advantage of the growth within our industry. Our industry's growth globally is expected to be driven by:

- the conversion of analog and traditional digital video formats to IP video;
- the continuing rise in the amount and breadth of IP-based video content;

- the growing consumer demand for IP-based video content;
- the proliferation of broadband Internet connections;
- the expansion and evolution of video-capable mobile networks;
- the increase of Internet-connected devices; and
- the rapid “catch-up” of emerging markets broadband and mobile network access.

1.4 Growth Strategies

Our objective is to enhance our position as the leading provider of on-demand enterprise software for IP-based video asset management. Key elements of our growth strategy include:

- expand upon our leadership in on-demand, IP-based video asset management — we believe that we are the largest international provider of software solutions for managing IP video content and that our brand has become synonymous with “industrial grade” quality, professionalism and customer support;
- pursue new customers and territories — we are aggressively targeting potential customers, primarily through our direct sales force and believe that there are substantial market opportunities for our solutions in the Americas, and the emerging markets of Eastern Europe, the Middle East, South Asia and Greater China;
- enter into strategic re-selling partnerships with content delivery networks (“CDNs”), systems integration and hardware providers — we currently have reselling relationships in place with Sitecore, Tech Access (Middle East), and Vivocom (Spain) and expect to identify and partner with companies with complementary technology and access to clients across the IP-based video ecosystem;
- leverage recently signed Akamai relationship — we are engaging in collaborative sales and marketing efforts with Akamai and the reselling of each other’s products and services. Akamai’s leadership position in IP-video streaming combined with our KIT VX content management platform will, we believe, create a unique IP-video offering for large enterprise clients globally, and we expect to generate new client opportunities and revenue from this relationship;
- complete accretive acquisitions which expand our client and geographical footprint — we intend to continue to pursue selected acquisitions in North America and internationally that consolidate market share, expand our geographical footprint and further our position as the leading provider of enterprise-grade IP-based video management solutions;
- increase revenue per customer — we seek to increase revenue from each corporate customer by upselling additional modules of the VX platform, as well as complementary creative and technical services;
- enhance our product offering — we intend to further develop our VX software platform’s capabilities and features; and
- gain brand awareness — we believe that we are the largest international provider of software solutions for managing IP video content and that our brand has become synonymous with “industrial grade” quality, professionalism and customer support.

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

Issuer	KIT digital, Inc., a Delaware corporation, with its principal executive offices at 168 Fifth Avenue, Suite 301, New York, NY 10010, U.S.A.
Offering	We are offering pursuant to this prospectus (the "Offering") up to 2,400,000 shares of Common Stock (as defined below) to be newly issued by us (the "Offer Shares") in compliance with Regulation S under the Securities Act (each as defined below). Simultaneously with the Offering, KIT digital intends to offer up to 3,500,000 shares of its Common Stock ("U.S. Offer Shares") in a public offering in the United States on Nasdaq (the "U.S. Offering"), for which Roth Capital Partners, LLC is acting as "Global Coordinator." This figure includes the over-allotment option granted to the underwriters in connection with the U.S. Offering (the "Over-Allotment Option").
Stock Exchange Listing	Our Common Stock is listed on the Nasdaq Global Market ("Nasdaq") under the symbol "KITD." We have applied for admission to listing and trading on the PSE of the Offer Shares, the U.S. Offer Shares and the issued Common Stock currently listed on Nasdaq, representing in total up to 16,744,853 shares of Common Stock. On January 20, 2010, PSE conditionally approved our application for listing and trading of our Common Stock on the PSE. The PSE listing is intended to promote additional liquidity for all investors and provide greater access to KIT digital's Common Stock among European fund managers who may be required to invest in Euro-zone markets or currencies only.
Offering Price	The actual price at which the Offer Shares and the U.S. Offer Shares will be offered will be determined during a book-building process, as described under "Determination of the Offer Price." However, for purposes of this prospectus, the offering price of both the Offering and the U.S. Offering is assumed to be $11.00 per share.
Transfer Agent and Registrar for Common Stock	Continental Stock Transfer & Trust Company.
Listing Agent	Patria Finance, a.s.
Securities Identification Code	The Common Stock will initially trade on the PSE under two separate securities identification codes. Until the expiration of the trading restrictions described under "Transferability," the Offer Shares will be listed and trade on the PSE under the symbol "KITD – REG S" and will be subject to the trading restrictions described under "Transferability." The ISIN for the Offer Shares is USU4947Q1077. The CUSIP number for the Offer Shares is U4947Q 107. The shares of Common Stock currently listed on Nasdaq, together with the U.S. Offer Shares (together, the "Nasdaq Shares") will be listed and trade on the PSE under the symbol "KITD" and will not be subject to the trading restrictions described under "Transferability." The ISIN for the Nasdaq Shares is US4824702009. The CUSIP number for the Nasdaq

Shares is 482470200.

Following the expiration of the trading restrictions described under "Transferability," and subject to compliance with the applicable securities laws and regulations of the CNB and the SEC, the listing requirements of the PSE and the settlement procedures of the relevant settlement and clearing agencies including the Centrální depozitář cenných papírů, a.s. (the "Central Depositary"), the Offer Shares will trade under the CUSIP and ISIN numbers assigned to the Nasdaq Shares (together with the Offer Shares, the "PSE Listed Shares").

Authorized Capital

Our authorized capital stock consists of 30,000,000 shares of common stock, par value $0.0001 per share (the "Common Stock").

As of January 5, 2010, 10,844,853 shares of Common Stock were issued and outstanding. All shares and per share information in this prospectus reflects, and where appropriate, is restated for, a 1-for-35 reverse stock split (merger) of our outstanding shares of Common Stock, effective March 9, 2009.

Authorized but Unissued Capital Stock

Delaware law does not require stockholder approval for any issuance of authorized shares other than in connection with certain mergers to which we may be a party. See "Voting Rights" on pages 29 – 30 of this prospectus. However, the Nasdaq rules require stockholder approval of certain issuances of Common Stock or securities convertible into or exchangeable for Common Stock equal to or exceeding 20% of the then outstanding number of our Common Stock.

After giving effect to the Offering and the U.S. Offering, assuming all of the shares of Common Stock so offered are purchased and the Over-Allotment Option is exercised in full, and subject to the further assumptions set out under "Maximum Dilution and Net Proceeds," a total of 15,944,853 shares of Common Stock will be outstanding.

Accordingly, subject to the above limitations and assumptions, KIT digital's board of directors may issue up to a maximum of an additional 14,055,147 shares of Common Stock at a price equal to or higher than the par value of $0.0001 per share without authorization from the stockholders. Any issue of Common Stock would give rise to a registration requirement under the SEC rules, and may also require the publication of a prospectus under of the Act no 256/2004, Coll. on Undertaking on Capital Market absent any available exemption, such as an issue of Common Stock solely to qualified institutional buyers.

As of December 31, 2009, there were issued and outstanding warrants to purchase 5,073,095 shares of Common Stock.

The Company has equity compensation plans under which Common Stock may be provided to directors and employees of the Company. The Company's obligations in this respect may be satisfied either by Common Stock held in treasury or by newly issued Common Stock. As of December 31,2009, there were options to purchase 869,876 shares of Common Stock outstanding under the KIT digital's equity compensation plans, on a worldwide basis.

	For further information regarding KIT digital's 2004 Stock Option Plan and 2008 Incentive Stock Plan, see pages 49 – 52 of KIT digital's Prospectus and pages 10 – 11 of KIT digital's 10-Q (Stock-Based Compensation).
Dividend Policy	KIT digital did not pay any cash dividends in 2006, 2007 or 2008. KIT digital does not anticipate paying cash dividends in the foreseeable future. See "Dividend Rights" on page 29 of this prospectus.
First Prague Trading Date	Trading in the Common Stock on the PSE is expected to start on January 25, 2010. KIT digital will be continuously traded on the PSE.
Use of Proceeds	KIT digital plans to use a significant portion of the net proceeds of the Offering and the U.S. Offering to finance acquisitions of, or investments in, competitive and complementary businesses, products and technologies as a part of its growth strategy. KIT digital may use a portion of the net proceeds to purchase outstanding warrants issued in prior private placement financings from certain warrant holders. In addition KIT intends to use a portion of the net proceeds for working capital and general corporate purposes.
Currency of Trading	Trading of our Common Stock on the PSE will be in Czech Koruna.
Settlement	Settlement of any transactions on Common Stock on the PSE is expected to occur through the book-entry facilities of the Central Depositary.
Transferability	The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or the securities laws of any State of the United States. The offering is being made outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"). Therefore, the Offer Shares may not be offered or sold in the United States, or to or for the benefit of any U.S. Person as such term is defined under Rule 902(k) of Regulation S ("U.S. Person") unless the securities are registered under the Securities Act, or an exemption from the registration requirements of the Securities Act is available. Hedging transactions involving the Offer Shares may not be conducted unless in compliance with the Securities Act. For further information, see ''Transferability" (Chapter C, Section 1.6).
Market Capitalization	Based on 10,844,853 outstanding shares of Common Stock issued and outstanding as of January 5, 2010, and the closing price of the Common Stock on the Nasdaq on January 19, 2010 ($11.14), and prior to this Offering and the U.S. Offering, KIT digital had a market capitalization of approximately $120,811,662 which, based on the exchange rate on January 19, 2010 ($1 = CZK 18.141), corresponds to approximately CZK 2,191,644,368.

III. MAJOR SHAREHOLDERS

The following table shows information for each person known by KIT digital to beneficially own 5% or more of the outstanding Common Stock, as of December 31, 2009 (except as otherwise indicated).

Name and Address of Beneficial Owner	Shares of Common Stock (Including Shares Underlying Other Securities) Beneficially Owned*	
	Number	Percent
KIT Media Ltd. Mill Mall, Suite 6 Wickhams Cay 1 P.O. Box 3085 Road Town, Tortola, British Virgin Islands	5,174,612[1]	38.2%
KIT Capital, Ltd. ("KIT Capital") P.O. Box 112888 Dubai, United Arab Emirates	72,857[1]	0.7%
Kaleil Isaza Tuzman, sum of above c/o KIT digital, Inc. 168 Fifth Avenue, Suite 301 New York, NY 10010, U.S.A.	5,279,469[5]	38.9%
Zivar Investments Ltd. ("Zivar") Geneva Place, 2nd floor 333 Waterfront Drive Road Town, Tortola, British Virgin Islands	1,768,111[6]	16.3%
NewSpring Ventures II, L.P. c/o NewSpring Capital 555 E. Lancaster Avenue, Suite 520 Radnor, PA 19087, U.S.A.	787,651[7]	7.3%
Wellington Management Company, LLP 75 State Street Boston, MA 02169, U.S.A.	659,531[8]	6.0%

*: See Note (1) page 53 of KIT digital's Prospectus.

IV. RISK FACTORS

Set forth below are summaries of certain of the risks, uncertainties and other factors that may affect our future results. The full description of these and other risk factors is included in Chapter B (pages 17 – 27). The risk factors summarized below should be read in conjunction with the other risk factors and forward-looking statements in Chapter B and KIT digital's Prospectus.

- We have a history of annual net losses which may continue and which may negatively impact our ability to achieve our business objectives, and we received a going concern qualification in our 2008 audit.

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

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

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

5 Based on the information contained in the Schedule 13D filed with SEC on December 1, 2009.

6 Based on the information contained in the Schedule 13G filed with SEC on November 18, 2009. Abacus Trustees (Gibraltar) Limited ("Abacus") is the sole shareholder and Trustee of the trust that owns Zivar and may be deemed to have voting and investment power over the shares of the Issuer held by Zivar.

7 Based on the information contained in the Schedule 13G filed with SEC on October 8, 2009.

8 Based on the information contained in the Schedule 13G/A filed with SEC on December 10, 2009.

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

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

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

- The market price of the Offer Shares as well as of the Nasdaq Shares may fluctuate widely in response to different factors.

- As the Nasdaq Shares are to be listed on two exchanges, trading and liquidity will be split among two markets.

- The Offer Shares are not fungible with the Nasdaq Shares.

V. RECENT DEVELOPMENTS

On November 19, 2009, KIT digital reported record financial results and new client contracts for the third quarter ended September 30, 2009. Revenue in the third quarter of 2009 increased 5% to a record $11.0 million from $10.5 million in the previous quarter, and increased 104% from $5.4 million in the same quarter a year ago. For further information, please refer to Exhibit VIII.

KIT digital management expects revenue for the fourth quarter ended December 31, 2009 to increase 78% over the same year-ago quarter to approximately $16 million. For fiscal 2009, the Company expects to report revenue of approximately $47 million, increasing approximately 99% over the previous year. The Company will provide further results in its complete fourth quarter and full-year earnings press release and conference call which will be announced at a later date. Management calculates that on an organic basis (prior to any financial contribution by acquisitions), the Company exceeded its original 2009 guidance of more than $40 million in revenues. KIT digital management expects fiscal 2010 revenue to increase at least 60% to more than $75 million.

VI. FINANCIAL INFORMATION CONCERNING KIT DIGITAL, INC. FOR THE FISCAL YEARS ENDED DECEMBER 31, 2008 AND 2007 AND THE QUARTER ENDED SEPTEMBER 30, 2009 AND CONCERNING ROO GROUP, INC. (CURRENTLY KIT DIGITAL, INC.) FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

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

The following selected financial data of KIT digital and ROO Group, Inc. (currently KIT digital) have been derived from the historical consolidated financial statements referred to below and should be read in conjunction with such consolidated financial statements and the notes included therein, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations appearing on pages 22 – 28 of KIT digital's Prospectus and pages 21 – 27 of KIT digital's 10-Q.

For the audited consolidated balance sheets of KIT digital as of December 31, 2008 and 2007, and the related consolidated statements of income, cash flows, and stockholders' equity for each of the two years in the period ended December 31, 2008 and the report of the Independent Registered Public Accounting

Firm with respect to such consolidated financial statements, the reader's attention is called to KIT digital's Prospectus, which is attached as Exhibit I to this prospectus.

For the audited consolidated balance sheet of ROO Group, Inc. (currently KIT digital) as of December 31, 2006, and the related consolidated statements of income, cash flows, and stockholders' equity for each of the two years in the period ended December 31, 2006, and the report of the Independent Registered Public Accounting Firm with respect to such balance sheet, see Exhibit XI to this prospectus.

The following selected consolidated statements of operations data for the three and nine months ended September 30, 2009, and September 30, 2008, cash flow data for the nine months ended September 30, 2009, and consolidated balance sheet data at September 30, 2009, are derived from KIT digital's unaudited consolidated financial statements, which are contained on pages 2 – 20 of KIT digital's 10-Q.

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

Results of Operations

	Years ended December 31,		
	2008	2007	2006
Revenue	$ 23,401	$ 13,929	$ 9,768
Gross profit	13,004	7,042	Not available
Loss from operations	(18,706)	(34,238)	(14,915)
Net loss before income taxes	(18,966)	(34,426)	(14,897)
Net loss	(19,082)	(34,551)	(14,805)
Basic and diluted net loss per share	(7.55)	(34.69)	(0.92)

Cash Flow

	Years ended December 31,		
	2008	2007	2006
Net cash used by operating activities - forwarded	$ (12,816)	$ (20,785)	$ (12,426)
Net cash used by investing activities - forwarded	(11,715)	(4,342)	(822)
Net cash provided by financing activities	20,352	23,345	19,903
Net increase (decrease) in cash and cash equivalents	(4,311)	(1,748)	6,663
Cash and cash equivalents – end of year	5,878	10,189	11,937

Liabilities and Stockholders' Equity

	Years ended December 31,		
	2008	2007	2006
Cash and cash equivalents	$ 5,878	$ 10,189	$ 11,937
Total assets	41,309	18,115	20,610
Total liabilities	23,238	6,836	4,909
Total stockholders' equity	18,308	11,355	15,790

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

Results of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenue	$ 11,036	$ 5,381	$ 31,154	$ 14,368
Gross profit	5,285	3,257	14,819	8,350
Loss from operations	(2,089)	(2,553)	(5,399)	(16,684)
Net loss before income taxes	(11,132)	(2,539)	(4,346)	(16,502)
Net loss	(11,134)	(2,540)	(4,350)	(16,504)
Basic and diluted net loss per share	(1.65)	(0.78)	(0.82)	(7.33)

Cash Flow

	Nine Months Ended September 30,	
	2009	2008
Net cash used by operating activities - forwarded	$ (8,506)	$ (11,089)
Net cash used by investing activities - forwarded	(6,840)	(10,082)
Net cash provided by financing activities	23,392	17,195
Net increase (decrease) in cash and cash equivalents	7,573	(4,120)
Cash and cash equivalents – end of period	13,451	6,069

Liabilities and Stockholders' Equity

	September 30, 2009	December 31, 2008*
Cash and cash equivalents	$ 13,451	$ 5,878
Total assets	65,038	41,309
Total liabilities	35,594	23,238
Total stockholders' equity	29,444	18,308

* Derived from audited consolidated balance sheet.

VII. DOCUMENTS ON DISPLAY

We file annual, quarterly and current reports, proxy statements and other information with the SEC. The SEC maintains a website, *http://www.sec.gov*, that contains reports, proxy statements and information statements and other information regarding registrants that file electronically with the SEC, including us. We maintain a corporate website at www.kitd.com and an electronic brochure of our product offerings can be downloaded at *www.kitd.com/brochure.pdf*. Our SEC filings can be downloaded on our website at *http://ir.kitd.com/phoenix.zhtml?c=144912&p=irol-sec* and are also furnished to the extent required by law to the CNB which makes such information public in accordance with applicable rules. Neither the content of our website nor our brochure is part of this prospectus and should not be relied upon with respect to this Offering. You may also request a copy of our filings at no cost by writing or telephoning us at:

KIT digital, Inc.
168 Fifth Avenue, Suite 301
New York, NY 10010, U.S.A.
Attention: Kaleil Isaza Tuzman
Chairman and Chief Executive Officer
+1 (212) 661-4111

CHAPTER B:
RISK FACTORS

An investment in our Common Stock involves a high degree of risk. In addition to the following risk factors, you should carefully consider the risks, uncertainties and assumptions discussed below, as well in other documents that we subsequently file with the SEC and the CNB that update, supplement or supersede such information, which documents are incorporated by reference into this prospectus. See "Documents on Display." Additional risks not presently known to us or which we consider immaterial based on information currently available to us may also materially adversely affect us. If any of the events anticipated by the risks described occur, our results of operations and financial condition could be adversely affected, which could result in a decline in the market price of our common stock, causing you to lose all or part of your investment.

I. RISKS RELATED TO OUR BUSINESS

We have a history of annual net losses which may continue and which may negatively impact our ability to achieve our business objectives, and we received a going concern qualification in our 2008 audit.

For the year ended December 31, 2008, we had revenue of $23.4 million and a net loss available to common stockholders of $(19.0 million). At December 31, 2008, we had stockholders' equity of $18.3 million, an increase of $6.9 million from December 31, 2007. Our stockholders' equity was $29.4 million as of September 30, 2009. For the nine months ended September 30, 2009, we had revenue of $31.2 million, compared to revenue of $14.4 million for the comparable period in 2008. We had net loss available to common stockholders of $4.35 million for the nine months ended September 30, 2009, compared to a net loss available to common stockholders of $16.5 million for the comparable 2008 period. Our independent auditors, in their report dated April 8, 2009, expressed doubt about our ability to continue as a going concern. There can be no assurance that our future operations will result in net income. Our failure to increase our revenues or improve our gross margins will harm our business. We may not be able to sustain or increase profitability on a quarterly or annual basis in the future. If our revenues grow more slowly than we anticipate, our gross margins fail to improve or our operating expenses exceed our expectations, our operating results will suffer. The prices we charge for our Internet software and services may decrease, which would reduce our revenues and harm our business. If we are unable to sell our solutions at acceptable prices relative to our costs, or if we fail to develop and introduce on a timely basis new products from which we can derive additional revenues, our financial results will suffer.

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

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

- establishing and maintaining broad market acceptance of our products and services and converting that acceptance into direct and indirect sources of revenue,
- establishing and maintaining adoption of our technology on a wide variety of platforms and devices,

- timely and successfully developing new products, product features and services and increasing the functionality and features of existing products and services,
- developing services and products that result in high degrees of corporate client satisfaction and high levels of end-customer usage,
- successfully responding to competition, including competition from emerging technologies and solutions,
- developing and maintaining strategic relationships to enhance the distribution, features, content and utility of our products and services and
- identifying, attracting and retaining talented technical and creative services staff at reasonable market compensation rates in the markets in which we employ.

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

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

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

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

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

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

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

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

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

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

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

Our operations also depend on receipt of timely feeds from our content providers, and any failure or delay in the transmission or receipt of such feeds could disrupt our operations. We also depend on web browsers, ISPs (Internet service providers), online service providers and mobile networks to provide our clients’ end-users access to websites, IPTV and mobile content. Many of these providers have experienced outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to our systems. Any such outage, delay or difficulty could adversely affect our ability to provide our software-as-a-service, which would harm our business.

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

Much of our communications hardware and computer hardware operations are operated or safeguarded by third parties. If these providers' hardware, operations or security systems fail — particularly if they fail in unison — our reputation and business may suffer. We do not have complete backup systems for all of these hardware operations. A problem with, or failure of, our communications hardware or computer hardware operations could result in interruptions or increases in response times for our customers. If we cannot maintain our system in the event of unexpected occurrences, make necessary modifications and/or improvements to the technology, such deficiencies could have a material adverse effect upon our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

The acquisitions of The FeedRoom, Inc., Nunet AG, Visual Connection, Kamera Content, Morpheum and Narrowstep involve the integration of businesses that have previously operated separately. The difficulties of combining the operations of these businesses have included:

- the challenge of effecting technical integration while carrying on the ongoing businesses,
- the necessity of coordinating geographically separate organizations and
- effective integration of personnel with diverse business backgrounds.

The process of completing the integration of these businesses could cause an interruption of, or loss of momentum in, the activities of our company and the loss of key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with the merger and the integration of these operations could have an adverse effect on our business, financial condition or results of operations.

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

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

- identify suitable businesses or assets to buy,

- complete the purchase of those businesses on terms acceptable to us,
- complete the acquisition(s) in the time frame and within the budget we expect and

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

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

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

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

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

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

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

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

- trade barriers and changes in trade regulations,
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences,
- the need to comply with varied local laws and regulations,
- longer payment cycles,
- possible credit risk and higher levels of payment fraud,
- profit repatriation restrictions and foreign currency exchange restrictions,
- political or social unrest, economic instability or human rights issues,

- geopolitical events, including acts of war and terrorism,
- import or export regulations,
- compliance with U.S. laws (such as the Foreign Corrupt Practices Act), and local laws prohibiting corrupt payments to government officials,
- laws and business practices that favor local competitors or prohibit foreign ownership of certain businesses and
- different and more stringent user protection, data protection, privacy and other laws.

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

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

II. RISKS RELATED TO OUR SECURITIES AND THIS OFFERING

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

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

Shares of stock issuable pursuant to our stock options and warrants may adversely affect the market price of our Common Stock.

As of December 31, 2009, we have outstanding under our 2004 Stock Option Plan and 2008 Incentive Stock Plan stock options to purchase an aggregate of 869,876 shares of Common Stock and outstanding warrants to purchase 5,073,095 shares of Common Stock (for which cash would need to be remitted to us for exercise). The exercise of the stock options and warrants and the sales of stock issuable pursuant to them, would further reduce a stockholder's percentage voting and ownership interest in our Company.

The stock options and warrants are likely to be exercised when our Common Stock is trading at a price that is higher than the exercise price of these options and warrants, and we would be able to obtain a higher price for our Common Stock than we will receive under such options and warrants. The exercise, or potential exercise, of these options and warrants could adversely affect the market price of our Common Stock and adversely affect the terms on which we could obtain additional financing.

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

The sale, or availability for sale, of a substantial number of shares of Common Stock in the public market could materially adversely affect the market price of our Common Stock and could impair our ability to raise additional capital through the sale of our equity securities. At the completion of this Offering and the U.S. Offering (including the Over-Allotment Option), assuming all of the shares offered for sale are purchased, there will be approximately 15,935,762 shares of Common Stock issued and outstanding. Of these shares, approximately 2,818,182 shares would be freely transferable.

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

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

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

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

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

Our executive officers and directors currently own or control approximately 40% of our voting stock. If these stockholders act together, they will be able to exert significant control over our management and affairs requiring stockholder approval, including approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our Common Stock. This concentration of ownership may not be in the best interests of all of our stockholders.

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

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

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

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

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

There has been no prior public trading market for the Offer Shares, and an active trading market may not develop or be sustained in the future.

Prior to the Offering, there has been no trading market for the Offer Shares. After the Offering, there will be no public market for the Offer Shares outside of the Czech Republic. Although the Issuer has applied to the PSE for admission to trading on its market for listed securities, the Issuer can give no assurance that an active trading market for the PSE Listed Shares will develop on the PSE, or, if developed, can be sustained following the closing of the Offering. There can be no assurance that the Offering price will correspond to the price at which the Offer Shares will trade in the public market subsequent to this Offering or that the price of the Offer Shares or the Nasdaq Shares available in the public market will reflect our actual financial performance. If an active trading market is not developed or maintained, the liquidity and trading price of the PSE Listed Shares could be adversely affected.

The PSE is substantially smaller and less liquid than Nasdaq.

As of January 15, 2010, according to the PSE, shares representing 25 companies were registered for trading on the PSE with a market capitalization of approximately CZK 1,373 billion (€ 52.955 billion). The equity securities of 13 companies registered for trading on the main market of the PSE represented 96.1% of the total equity market capitalization as of market close on January 15, 2010. Accordingly, a very small number of companies represent the gross majority of the market capitalization and trading volumes of the PSE. There is no assurance that the PSE Listed Shares, even though expected to be listed on the main market of the PSE, will be actively traded on this exchange, and if they are not, this is likely to increase their price volatility and/or adversely affect the price and liquidity of the PSE Listed Shares on the PSE.

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

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

Future sales of the PSE Listed Shares could depress the market price of the PSE Listed Shares and could dilute interests of existing shareholders.

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

Investors purchasing the Offer Shares and the U.S. Offer Shares will suffer immediate and substantial dilution.

The public offer price for the Offer Shares will be substantially higher than the equivalent net tangible book value per share of KIT digital's outstanding Common Stock immediately after this Offering. If potential investors purchase the Offer Shares or the U.S. Offer Shares, they will incur substantial and immediate dilution in the net tangible book value of their investment. Net tangible book value per share represents the amount of total tangible assets less total liabilities, divided by the number of ordinary shares then outstanding.

The price per Offer Share and Nasdaq Share may differ substantially.

The price per share at which the Offer Shares will be traded may differ substantially from the price of Nasdag Shares traded on the PSE or on Nasdaq. Also, the price per share at which the Nasdaq shares will be traded in the PSE may differ substantially from the price of Nasdaq Shares in Nasdaq.

The Offer Shares have not been registered under the Securities Act in the United States and, consequently, such Offer Shares may only be resold, pledged or otherwise hedged or transferred (i) outside the United States to non-U.S. Persons in a transaction meeting the requirements of Regulation S and (ii) in the United States pursuant to an effective registration statement or pursuant to an exemption from the registration requirements of the Securities Act.

For further information see Chapter C, Section 1.6.

The Offer Shares are not fungible with Nasdaq Shares.

The Offer Shares are not fungible with the Nasdaq Shares, and investors may not request exchange of Offer Shares for Nasdaq Shares or vice versa. Following the expiration of the trading restrictions described in Chapter C, Section 1.6 we plan to take steps to have the CUSIP and ISIN number of the Offer Shares changed to the CUSIP and ISIN number of the Nasdaq shares and achieve listing of the

Offer Shares on Nasdaq. However, such change is subject to compliance with the applicable securities laws of the United States of America, Czech Republic and European Union as well as regulations of the CNB and the SEC, the listing requirements of the PSE and the settlement procedures of the relevant clearing and settlement agencies and such laws, rules and procedures may prevent implementation of such change.

III. MARKET RISK FACTORS

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

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

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

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

CHAPTER C:
SUPPLEMENTAL INFORMATION CONCERNING KIT DIGITAL, INC.

I. RIGHTS RELATED TO THE COMMON STOCK

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

As of September 30, 2009, the authorized capital stock of KIT digital consisted of 30,000,000 shares of Common Stock, par value $0.0001 per share. 10,844,853 shares of our Common Stock were issued and outstanding at January 5, 2010. Up to 2,400,000 shares of Common Stock are being offered pursuant to the Offering.

The Common Stock will initially trade on the PSE under two separate securities identification codes. Until the expiration of the trading restrictions described under "Transferability," the Offer Shares will be listed and trade on the PSE under the symbol "KITD – REG S" and will be subject to the trading restrictions described under "Transferability." The ISIN for the Offer Shares is USU4947Q1077. The CUSIP number for the Offer Shares is U4947Q 107.

The Nasdaq Shares will be listed and trade on the PSE under the symbol "KITD" and will not be subject to the trading restrictions described under "Transferability." The ISIN for the Nasdaq Shares is US4824702009. The CUSIP number for the Nasdaq Shares is 482470200.

Following the expiration of the trading restrictions described under "Transferability," and subject to compliance with the applicable securities laws and regulations of the CNB and the SEC, the listing requirements of the PSE and the settlement procedures of the Central Depositary, the Offer Shares will trade under the CUSIP and ISIN numbers assigned to the Nasdaq Shares.

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

Our Common Stock was created under the General Corporation Law of the State of Delaware, as codified in Title 8, Chapter 1 of the Delaware Code (the "DGCL"). On January 8, 2010, our Board of Directors approved the issuance of the Offer Shares.

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

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

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

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

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

1.4. Currency of the Securities Issue

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

1.5 Rights Attached to the Securities

Dividend Rights. KIT digital did not pay any cash dividends in 2006, 2007 or 2008. KIT digital does not anticipate paying cash dividends in the foreseeable future KIT digital currently intends to retain any future earnings to fund the development and growth of its business. Holders of Common Stock are entitled to receive dividends ratably when, as, and if declared by the board of directors out of funds legally available therefore. The terms of its senior secured term loan with Genesis Merchant Partners, which expired on December 31, 2009, prohibited KIT digital from paying cash dividends on its Common Stock.

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

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

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

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

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

(1) To change its corporate name; or

(2) To change, substitute, enlarge or diminish the nature of its business or its corporate powers and purposes; or

(3) To increase or decrease its authorized capital stock or to reclassify the same, by changing the number, par value, designations, preferences, or relative, participating, optional, or other special rights of the shares, or the qualifications, limitations or restrictions of such rights, or by changing shares with par value into shares without par value, or shares without par value into shares with par value either with or without increasing or decreasing the number of shares, or by subdividing or combining the outstanding shares of any class or series of a class of shares into a greater or lesser number of outstanding shares; or

(4) To cancel or otherwise affect the right of the holders of the shares of any class to receive dividends which have accrued but have not been declared; or

(5) To create new classes of stock having rights and preferences either prior and superior or subordinate and inferior to the stock of any class then authorized, whether issued or unissued; or

(6) To change the period of its duration.

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

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

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

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

1.6 Transferability

The Offering does not concern the United States, whether directly or indirectly. The Offering is not made in the United States or to persons located in the United States. The Offer Shares have not been and will not be registered under the Securities Act or the securities laws of any State of the United States. The offering is being made outside the United States in reliance on Regulation S under the Securities Act. This prospectus has not been submitted to the SEC. Therefore, the Offer Shares may not be offered or sold in the United States, or to or for the benefit of any U.S. Person unless the securities are registered under the Securities Act or an exemption from registration under the Securities Act is available. Hedging transactions involving the Offer Shares may not be conducted unless in compliance with the Securities Act. Consequently, neither this prospectus nor any other document relating to this prospectus or to this Offering may be circulated or sent to any U.S. Person or to the United States through the postal services of the United States or by any other means, through the intervention of bodies of the United States regulating trade among the States of the United States or abroad, or by any other national securities exchange body of the United States. This provision also applies to transmissions by facsimile, telex, telephone or electronic mail. Any acceptance of this Offering that can be assumed to result directly or indirectly from a breach of these restrictions will be deemed to be void.

The public is hereby notified that the resale, pledging, hedging or transfer of KIT digital Common Stock received in connection with the Offering is restricted as described in the following paragraphs.

Each investor participating in the Offering and acquiring Offer Shares will therefore be deemed, in the context of the Offering, to have represented, warranted and agreed to the following by participating in the Offering or accepting delivery of Offer Shares:

(1) The participation in the Offering and the acquisition of Offer Shares qualify as Offshore Transactions; the investor is not a U.S. Person, and persons on behalf of whom the investor acts are not U.S. Persons;

(2) The investor is aware that the Offer Shares were not and will not be registered under the Securities Act, that until the six-month anniversary after the closing date of the Offering to him or her, the Offer Shares cannot be resold, pledged or otherwise transferred other than to a person who is not a U.S. Person pursuant to an Offshore Transaction, and that neither the investor transferring the Offer Shares nor any person acting on his or her behalf knows that the transaction was prearranged with a U.S. Person, and agrees that he or she will not engage in hedging transactions with regard to the Offer Shares unless in compliance with the Securities Act;

(3) The investor is aware that the Offer Shares contain a legend to the effect that transfer is prohibited except in accordance with the provisions of Regulation S; and

(4) The investor acknowledges that KIT digital, Patria Finance and their respective affiliates, among others, may rely on the truth and accuracy of the above representations and warranties and agrees that he or she will advise any transferee of Offer Shares of the foregoing restrictions on transfer.

The investor understands and agrees that KIT digital will refuse, and will instruct its transfer agent and registrar to refuse, to register any purported transfer of the Offer Shares that does not comply with all of the foregoing.

It is therefore recommended that investors consult with a legal adviser before any offer, sale or transfer related to the Offer Shares, especially during the six-month period commencing after the closing of the Offering.

For purposes of this Section 1.6, "United States" shall include the United States of America, its territories and possessions, any States of the United States and the District of Columbia. Terms used in this section will have the meaning that is ascribed to them under Regulation S.

Negotiability and Transferability of the Offer Shares

The Offer Shares will be freely negotiable, except as set forth above. KIT digital has filed an application for the listing of the Offer Shares and the Nasdaq Shares on the PSE in connection with the Offering and the U.S. Offering. In order to comply with U.S. federal securities laws, however, and as further described above, the Offer Shares may not, in general, be resold, pledged or otherwise hedged or transferred to persons in the United States, to U.S. Persons, or to anyone acting for the account or benefit of U.S. Persons for six months after the closing of the Offering.

These restrictions will not affect the negotiability or transferability among non-U.S. Persons of Offer Shares on the PSE. Practically speaking, the restrictions above will have the following principal consequences: (i) U.S. Persons will be prohibited from trading in Offer Shares on the PSE for six months after issuance of the Offer Shares, and (ii) during the same period, a non-U.S. Person who acquired Offer Shares in the Offering, or on the PSE, will be prohibited from selling the Offer Shares on Nasdaq or other U.S. market system.

Any trading restrictions on the Offer Shares will be communicated by the PSE and the Central Depositary to their members via electronic and other appropriate means following the listing of the Offer Shares on the PSE. In addition, investors participating in the Offering will receive simultaneously with the crediting of their account by such financial institution from the financial institution through which they have purchased Offer Shares an information letter setting forth such restrictions.

The Nasdaq Shares will not be subject to the trading restrictions described above. Following the expiration of the trading restricted period described above and subject to compliance with the applicable securities laws and regulations of the CNB and the SEC, the listing requirements of the PSE and the settlement procedures of the Central Depositary, the Offer Shares will be listed and tradable on Nasdaq under the CUSIP and ISIN numbers assigned to the Nasdaq Shares.

1.7 Registration Number

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

1.8 General Provisions Applying to Business Combinations

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

- the transaction in which the stockholder became an interested stockholder is approved by the board of directors prior to the date the interested stockholder attained that status;

- upon consummation of the transaction that resulted in the stockholder's becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction was commenced, excluding those shares owned by persons who are directors and also officers; or

- on or subsequent to that date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

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

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

- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;

- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock or any class or series of the corporation beneficially owned by the interested stockholder; or

- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

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

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

1.9 Mandatory Squeeze-Out Rules in Relation to the Securities

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

1.10 Foreign Currency Exchange Rate Hedging, Etc.

KIT digital is subject to a variety of market risks, including risks related to foreign currency exchange rates. For a description of these market risks, please see page 27 (III. Market Risk Factors) in Chapter B above.

1.11 Reasons for the Offering and Use of Proceeds

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

Based upon and subject to the assumptions set out under "Maximum Dilution and Net Proceeds," we estimate that we will receive aggregate net proceeds of $52 million from the Offering and the U.S. Offering. We intend to use these net proceeds for the following purposes:

Application of Net Proceeds	Approximate Dollar Amount in millions	Approximate Percentage of Net Proceeds
Potential Acquisitions	$20	38.5%
Repurchase of outstanding warrants	$15 to $20	28.8% to 38.5%
Working capital and general corporate purposes	$10 to $20	19.2% to 38.5%
Total	$52	100%

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

We may use a portion of the net proceeds to purchase outstanding warrants issued in prior private placement financings from certain warrant holders.

Working capital and general corporate purposes include amounts required to pay for continuing research and development expenses, salaries, professional fees, public reporting costs, office-related expenses and other corporate expenses, including interest and overhead. Any additional net proceeds received from the exercise of the Over-Allotment Option will be used for working capital and general corporate purposes.

Pending these uses, we intend to invest most of the net proceeds from this offering in short-term, investment-grade, interest-bearing securities.

1.12 Market Capitalization

Based on 10,844,853 outstanding shares of Common Stock issued and outstanding as of January 5, 2010, and the closing price of the Common Stock on the Nasdaq on January 19, 2010 ($11.14), and prior to this Offering and the U.S. Offering, KIT digital had a market capitalization of approximately $120,811,662 which, based on the exchange rate on January 19, 2010 ($1 = CZK18.141), corresponds to approximately CZK2,191,644,368.

1.13 Legal Proceedings

There have been no material developments in connection with the legal proceedings described in KIT digital's Prospectus and KIT digital's 10-Q from October 1, 2009, until the date of this prospectus.

1.14 Related Party Transactions

As indicated in Note 14 on page 20 of KIT digital's 10-Q, in December 2007, we entered into an executive management agreement with KIT Capital, a management company beneficially controlled and led by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, under which KIT Capital has provided us managerial services and related personnel. The total amount paid to KIT Capital since October 1, 2009 is $108,375. This amount includes the services of Mr. Isaza Tuzman and two non-executive full-time personnel, as well as for employer taxes, healthcare costs, corporate fees and other expenses related to KIT Capital's work with us.

Mr. Isaza Tuzman, either individually or through affiliated entities, has indicated an intent to participate in the Offering and/or the U.S. Offering.

For further information on the related party transactions prior to October 1, 2009, please refer to pages 27 (Paragraphs beginning, "In the last 60 days…" and "In May 2008"), 47 – 48 (Employment and Management Agreements), 55 (Certain Relationships and Related Party Transactions) and F-18 (Note 5. Related Party Transactions) of Exhibit I, page 20 (Note 14. Related Party Transactions) of Exhibit III, and pages 26 – 27 (Item 12. Certain Relationships and Related Transactions) of Exhibit XI.

1.15 Research and Development ("R&D")

During fiscal year 2007, we pursued opportunities to improve and expand our products and services and have dedicated resources which continue to review and enhance our technology platform and the products and solutions we offer. R&D was conducted internally as well as through outsourcing agreements. We planned to consider opportunities to expand our current content categories to offer specific lifestyle, children's content, sport, science and educational content. We also planed to explore opportunities including both internal Company product development initiatives as well as partnership opportunities with best-in-class providers of technology such as Viewdle, Inc., Pando Networks, Inc. and Abacast, Inc. to further enhance our distribution and technological infrastructure, and maintain our competitive position. We cannot assure you, however, that we will achieve our R&D goals.

R&D expenses consisted primarily of salaries and related personnel costs, and consulting fees associated with product development. R&D expenses increased by $4,006,000 from $2,140,000 for the year ended December 31, 2006 to $6,146,000 for the year ended December 31, 2007, an increase of 187%. The increases were due primarily to the increase in development activities associated with enhancements to our technology platform in our Online Digital Media segment.

Key elements of our growth strategy include the completion of accretive acquisitions which expand our client and geographical footprint and the enhancement of our products. We plan to continue working with some of the most sophisticated IP video customers in the world to help define and drive our research and development priorities. For further information regarding our growth strategy, please refer to page 9 of Chapter A. For further information on R&D for fiscal years 2008 and 2006, please refer respectively to pages 9 (Risk Factors – "We license technology from third parties…"), 10 (Risk Factors – "We depend on content licensed to us by third parties…") and 37 (Research and Development) of Exhibit I, and pages 13 (Research and Development) and F-3 (Research and Development) of Exhibit XI.

II. FINANCIAL DATA

2.1 Statement of Capitalization and Indebtedness as of September 30, 2009

The below tables are derived from KIT digital's unaudited condensed consolidated financial statements.

2.1.1 Capitalization and Indebtedness (in thousands of US Dollars) at September 30, 2009

Total current debt	$ 2,580
- Guaranteed	-
- Secured	1,863
- Unguaranteed / Unsecured	717
Total non-current debt (excluding current portion of long-term debt)	$ -
- Guaranteed	-
- Secured	-
- Unguaranteed / Unsecured	$ -
Stockholders' equity	
a. Share capital and additional paid-in capital	$ 108,146
b. Legal reserve	-
c. Total other reserves	(78,702)
- Accumulated deficit	(78,351)
- Accumulated other comprehensive loss	(351)
Total stockholders' equity	$ 29,444

2.1.2 Net Indebtedness (in thousands of US Dollars) at September 30, 2009

A.+B.	Cash and cash equivalents	$ 13,451
C.	Investments	215
D.	**Liquidity** (A) + (B) + (C)	**$ 13,665**
E.	**Current financial receivable**	**-**
F.	Current bank debt	$ 717
G.	Current portion of non-current debt	
H.	Other current financial debt	1,863
I.	**Other financial debt** (F) + (G) + (H)	**$ 2,580**
J.	**Net current financial indebtedness** (I) – (E) – (D)	**$ (11,085)**
K.	Non-current bank loans	-
L.	Bonds issued	-
M.	Other non-current loans	-
N.	**Non-current financial indebtedness** (K) + (L) + (M)	**$ -**
O.	**Net financial indebtedness** (J) + (N)	**$ (11,085)**

As of the date of this prospectus, there have been no material changes in the financial information relating to KIT digital's capitalization and indebtedness, as contained in the tables above in this Section II, except as presented in Exhibit 99.3 to Exhibit X of this prospectus, in connection with the acquisition of The FeedRoom, Inc. For information relating to KIT digital's indirect and contingent indebtedness, the reader's attention is called to pages F-21 – F-22 (Note 10. Commitments and Contingencies) of Exhibit I.

2.2 Financial Information Concerning KIT digital, Inc. for the Fiscal Years Ended December 31, 2008 and 2007 and the Quarter Ended September 30, 2009 and Concerning ROO Group, Inc. (Currently KIT digital, Inc.) for the Fiscal Year Ended December 31, 2006

The consolidated financial statements of KIT digital and ROO Group, Inc. (currently KIT digital) set out in this prospectus have been prepared in accordance with U.S. GAAP, as authorized by the decision of the European Commission of December 12, 2008.

The following selected financial data of KIT digital and ROO Group, Inc. (currently KIT digital) have been derived from the historical consolidated financial statements referred to below and should be read in conjunction with such consolidated financial statements and the notes included therein, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations appearing on pages 22 – 28 of KIT digital's Prospectus and pages 21 – 27 of KIT digital's 10-Q.

For the audited consolidated balance sheets of KIT digital as of December 31, 2008 and 2007, and the related consolidated statements of income, cash flows, and stockholders' equity for each of the two years in the period ended December 31, 2008 and the report of the Independent Registered Public Accounting Firm with respect to such consolidated financial statements, the reader's attention is called to KIT digital's Prospectus, which is attached as Exhibit I to this prospectus.

For the audited consolidated balance sheet of ROO Group, Inc. (currently KIT digital) as of December 31, 2006, and the related consolidated statements of income, cash flows, and stockholders' equity for each of the two years in the period ended December 31, 2006, and the report of the Independent Registered Public Accounting Firm with respect to such balance sheet, see Exhibit XI to this prospectus.

The following selected consolidated statements of operations data for the three and nine months ended September 30, 2009, and September 30, 2008, cash flow data for the nine months ended September 30, 2009, and consolidated balance sheet data at September 30, 2009, are derived from KIT digital's unaudited consolidated financial statements, which are contained on pages 2 – 20 of KIT digital's 10-Q.

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

Results of Operations

	Years ended December 31,		
	2008	2007	2006
Revenue	$ 23,401	$ 13,929	$ 9,768
Gross profit	13,004	7,042	Not available
Loss from operations	(18,706)	(34,238)	(14,915)
Net loss before income taxes	(18,966)	(34,426)	(14,897)
Net loss	(19,082)	(34,551)	(14,805)
Basic and diluted net loss per share	(7.55)	(34.69)	(0.92)

Cash Flow

	Years ended December 31, 2008	2007	2006
Net cash used by operating activities - forwarded	$ (12,816)	$ (20,785)	$ (12,426)
Net cash used by investing activities - forwarded	(11,715)	(4,342)	(822)
Net cash provided by financing activities	20,352	23,345	19,903
Net increase (decrease) in cash and cash equivalents	(4,311)	(1,748)	6,663
Cash and cash equivalents – end of year	5,878	10,189	11,937

Liabilities and Stockholders' Equity

	Years ended December 31, 2008	2007	2006
Cash and cash equivalents	$ 5,878	$ 10,189	$ 11,937
Total assets	41,309	18,115	20,610
Total liabilities	23,238	6,836	4,909
Total stockholders' equity	18,308	11,355	15,790

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

Results of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenue	$ 11,036	$ 5,381	$ 31,154	$ 14,368
Gross profit	5,285	3,257	14,819	8,350
Loss from operations	(2,089)	(2,553)	(5,399)	(16,684)
Net loss before income taxes	(11,132)	(2,539)	(4,346)	(16,502)
Net loss	(11,134)	(2,540)	(4,350)	(16,504)
Basic and diluted net loss per share	(1.65)	(0.78)	(0.82)	(7.33)

Cash Flow

	Nine Months Ended September 30, 2009	2008
Net cash used by operating activities - forwarded	$ (8,506)	$ (11,089)
Net cash used by investing activities - forwarded	(6,840)	(10,082)
Net cash provided by financing activities	23,392	17,195
Net increase (decrease) in cash and cash equivalents	7,573	(4,120)
Cash and cash equivalents – end of period	13,451	6,069

Liabilities and Stockholders' Equity

	September 30, 2009	December 31, 2008*
Cash and cash equivalents	$ 13,451	$ 5,878
Total assets	65,038	41,309
Total liabilities	35,594	23,238
Total stockholders' equity	29,444	18,308

* Derived from audited consolidated balance sheet.

2.3 Independent Registered Public Accounting Firms

Since October 2, 2009, the independent registered public accounting firm of KIT digital is Grant Thornton LLP, 666 Third Avenue, New York, NY 10017, U.S.A. Grant Thornton LLP is registered with the Public Company Accounting Oversight Board (United States) and a member of the American Institute of Certified Public Accountants.

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

III. DIRECTORS AND EXECUTIVE OFFICERS

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

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

(a) been convicted in relation to fraudulent offenses;

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

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

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

The Company does not have a supervisory board.

IV. MAJOR SHAREHOLDERS

The following table shows information for each person known by KIT digital to beneficially own 5% or more of the outstanding Common Stock, as of December 31, 2009 (except as otherwise indicated).

Name and Address of Beneficial Owner	Shares of Common Stock (Including Shares Underlying Other Securities) Beneficially Owned*	
	Number	Percent
KIT Media Ltd. Mill Mall, Suite 6 Wickhams Cay 1 P.O. Box 3085 Road Town, Tortola, British Virgin Islands	5,174,612[5]	38.2%
KIT Capital, Ltd. P.O. Box 112888 Dubai, United Arab Emirates	72,857[5]	0.7%
Kaleil Isaza Tuzman, sum of above c/o KIT digital, Inc. 168 Fifth Avenue, Suite 301 New York, NY 10010, U.S.A.	5,279,469[9]	38.9%
Zivar Geneva Place, 2nd floor 333 Waterfront Drive Road Town, Tortola, British Virgin Islands	1,768,111[10]	16.3%
NewSpring Ventures II, L.P. c/o NewSpring Capital 555 E. Lancaster Avenue, Suite 520 Radnor, PA 19087, U.S.A.	787,651[11]	7.3%
Wellington Management Company, LLP 75 State Street Boston, MA 02169, U.S.A.	659,531[12]	6.0%

*: See Note (1) page 53 of KIT digital's Prospectus.

V. EMPLOYEES

The below chart sets forth historical information regarding the approximate number of KIT digital's employees and their geographic breakdown as of January 15, 2010, and for each of the fiscal years ended December 31, 2008, 2007 and 2006:

	JANUARY 15, 2010	2008	2007	2006
United States	37	9	51	41
International	247	189	90	99
Total	**284**	**198**	**141**	**140**

9 Based on the information contained in the Schedule 13D filed with SEC on December 1, 2009.

10 Based on the information contained in the Schedule 13G filed with SEC on November 18, 2009. Abacus is the sole shareholder and Trustee of the trust that owns Zivar and may be deemed to have voting and investment power over the shares of the Issuer held by Zivar.

11 Based on the information contained in the Schedule 13G filed with SEC on October 8, 2009.

12 Based on the information contained in the Schedule 13G/A filed with SEC on December 10, 2009.

VI. TERMS AND CONDITIONS OF THE OFFER

6.1 General Information on the Offer Shares and Offering

We are offering for subscription up to 2,400,000 Offer Shares. The Offer Shares are being offered at the Offer Price (as defined below), which shall be determined through a book-building process.

The Offering consists of offering of the Offer Shares to institutional investors in the Czech Republic and a concurrent private placement of the Offer Shares to institutional investors in certain jurisdictions outside the Czech Republic, in each case outside the United States in reliance on Regulation S under the Securities Act. In addition, this prospectus covers the admission of the Nasdaq Shares to listing and trading on the PSE.

For information on applicable selling restrictions in respect of the Offer Shares, see "Transferability" and for information regarding the rights pertaining to the Shares, see "Rights Attached to the Securities"

6.2 Timetable of the Offering

The timetable below lists key dates relating to the Offering. All times and dates referred to in this timetable are based on CET time and may be adjusted by us. In case of such adjustment, we will notify the CNB, and will publish such fact in a manner compliant with applicable regulations, as well as market practices in the Czech Republic.

Subscription Period and book-building for eligible investors	From January 18-22, 2010
Allotment Date and pricing	On or about January 22, 2010
Settlement and Payment Date	On or about January 27, 2010
Delivery Date	On or about January 27, 2010

Any extension of the timetable for the Offering will be announced in a press release (together with any related revision of the expected dates of pricing, allocation and closing), at least three hours before the expiration of the original Subscription Period. Any extension of the timetable for the Offering will be for a minimum of one full business day.

KIT digital, together with the Lead Managers (as defined in Section 7.2), plans to begin marketing the Offer Shares by contacting selected eligible investors in the context of the private placement prior to the start of the Offering. Both the private placement and the Offering shall however end on the same date.

Cancellation of the Offering

We may cancel the Offering, upon recommendation of the Global Coordinator or at its own initiative, at any time prior to the Allotment Date. We may also change the dates of opening and closing of the Subscription Period, or decide that the Offering will be postponed and that new dates of the Offering will be provided by us later. Information on change of dates or suspension of the Offering will be announced in the form of a supplement to the Prospectus.

We may also cancel this Offering, upon recommendation of the Global Coordinator or at its own initiative, at any time after beginning of the Subscription Period, but not later than on the Allotment Date, if we consider it impracticable or inadvisable to proceed with the Offering. Such reasons include, but are not limited to: (i) suspension or material limitation in trading in securities generally on the PSE as well as any other official stock exchange in the United States and the European Union; (ii) sudden and material adverse change in the economic or political situation in the Czech Republic or worldwide; (iii) a material loss or interference with our business; (iv) any material change or development in or affecting the general affairs, management, financial position, shareholders' equity or results of our operations or the operations of our subsidiaries; or (v) an insufficient, in ours or the Global Coordinator's opinion, expected free float of the Offer Shares on the PSE.

In such event, subscriptions for the Offer Shares that have been made will be disregarded, and any subscription payments made will be returned without interest or any other compensation. All dealings in the Offer Shares prior to the commencement of the official trading on the PSE, and in particular transactions executed under the conditional trading regime on the PSE, will be at the sole risk of the investor concerned. If the Offering is terminated prior to the time at which the Offer Shares will be ready for listing, the admission of the Offer Shares to the PSE will not become effective. Any decision on cancellation of the Offering will be published in a manner compliant with applicable regulations, as well as the respective market practices in the Czech Republic. The Offering may not be cancelled or suspended after the Settlement Date.

6.3 Eligible Investors

The Offer Shares may be acquired in the Offering in the Czech Republic institutional investors having their registered office within the territory of the Czech Republic.

In addition, the Offer Shares will be offered in a private placement to selected institutional investors in certain jurisdictions outside of the Czech Republic, where such offering may be lawfully conducted.

We reserve the right, within the Offering to allocate the Offer Shares between such groups of investors at our absolute discretion, following consultation with the Managers.

All investors that intend to acquire any of the Offer Shares should acquaint themselves with the relevant laws prior to making a decision to subscribe for the Offer Shares.

6.4 Currency of the Offering

All monetary amounts used in this Offering will be expressed in U.S. Dollars. In particular, the Offer Price will be set and the book-building process will be carried out in U.S. Dollars.

6.5 Maximum Offer Price

The maximum price at which the Offer Price may be set (the “Maximum Price”) is $11.50 per share. The Maximum Price does not necessarily reflect what the Offer Price will be in the Offering.

Any change in the Maximum Price will be notified to the CNB and, following approval by the CNB will be published in the form of a supplement to this prospectus in accordance with applicable regulations.

6.6 Determination of the Offer Price

During the Subscription Period, a book-building process with the institutional investors will take place, during which such investors interested in subscribing for the Offer Shares will indicate the number of the Offer Shares they will be willing to acquire and the price, not higher than the Maximum Price, which they will be willing to pay.

The Offer Price will be determined by us upon recommendation of the Lead Managers and the Global Coordinator, and will not exceed the Maximum Price. The Offer Price will take into account mainly: (i) results of the book-building process; (ii) size and price sensitivity of demand during the book-building process; and (iii) the then current and anticipated situation on the Czech and international capital markets. The Offer Price will be published in a pricing supplement pursuant to Section 36d of the Act no. 256/2004 Coll, on Undertaking on Capital Market a manner compliant with applicable regulations, as well as the respective market practices in the Czech Republic and filing of a pricing statement with the CNB. Such publication will be made by posting of the pricing supplement on the website of the PSE (www.pse.cz) and of Patria Finance (www.patria-direct.cz).

The final Offer Price will be the same for all Offer Shares and U.S. Offer Shares, as well as for all categories of investors and will be set in U.S. Dollars.

6.7 Final Number of the Offer Shares

The final number of the Offer Shares in the Offering will not exceed 2,400,000 shares of Common Stock.

Until the completion of the book-building process we reserve the right to reduce the number of the Offer Shares and allocate in total a smaller number of the Offer Shares than 2,400,000, based on: (i) the results of the book-building process; (ii) the volume and quality of demand during the book-building process; and (iii) the then current and anticipated situation on the Czech and international capital markets.

The final number of the Offer Shares and the Offer Price will be published in a pricing statement filed with the CNB, as well as in the other forms compliant with the respective market practices in the Czech Republic.

6.8 Maximum Number of Offer Shares per One Subscription Order

There is no minimum or maximum size of purchase order.

All investors have a right to place multiple subscription orders (also at various price levels) to acquire the Offer Shares.

6.9 General Rules for Placing Subscription Orders

Subscription orders from institutional investors can be submitted through Patria Direct, a.s. in the Czech Republic (including internet based online subscriptions).

By placing a subscription order, each prospective investor will be deemed to have read this prospectus, accepted the terms of the Offering, including the possibility of being allotted a lower number of the Offer Shares than the number specified in such investor's order, and consented to not being allocated any Offer Shares at all, in accordance with the terms of the Offering as set forth herein.

Amounts payable for the Offer Shares will be expressed in U.S. Dollars as a base currency. The settlement of the subscription following the closing of the books will be in U.S. Dollars.

Until the end of the Subscription Period, the subscription orders placed by the investors with the Lead Managers may be withdrawn and/or modified. Entities managing securities portfolios on behalf of their clients should liaise with the Lead Managers in order to discuss actions required to place subscription orders and to pay for the allocated Offer Shares

6.10 General Principles of Share Allotment

We will allocate the Offer Shares to institutional investors that: (i) will be invited by the Lead Managers to participate in the book-building; (ii) will subscribe for the Offer Shares for a price not lower than the Offer Price; and (iii) will be included in the allotment list. The allocation to institutional investors will be made in our absolute discretion, but upon consultation with the Lead Managers. Institutional investors will be notified of their allocations by the Lead Managers.

The results of the Offering, including in particular the final Offer Price, the final number of the Offer Shares and allocation among the various categories of investors, will be published promptly upon allotment by publishing a pricing supplement pursuant to Section 36d of the Act no. 256/2004 Coll, on Undertaking on Capital Market, in a manner compliant with all applicable regulations, as well as market practices.

6.11 Subscription and Payment of the Offer Price by Institutional Investors

Institutional investors included in the allotment list will be required to pay amounts in U.S. Dollars, unless otherwise agreed, corresponding to the product of the number of the Offer Shares that was allocated to them and the Offer Price, not later than on the Settlement and Payment Date and in a manner agreed with the Lead Managers.

Institutional investors, and in particular, entities managing securities portfolios on behalf of their clients should liaise with the Lead Managers in order to discuss actions required to place subscription orders and to pay for allocated Offer Shares.

VII. ADMISSION TO TRADING AND DEALING ARRANGEMENTS

7.1 Listing and Trading

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

With respect to the listing on the PSE, the approval of the admission and trading is expected to be granted on or about January 20, 2010. Conditional trading in the PSE Listed Shares on the PSE is expected to commence on or about January 25, 2010 and official trading on the PSE is expected to commence on or about January 28, 2010, or as soon as possible thereafter.

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

7.2 Listing Agent; Lead Managers

We have appointed Patria Finance, a.s., to act as our listing agent with respect to the PSE Listed Shares for the purposes of admission to trading on the main market of the PSE.

Patria Finance and Panmure Gordon & Co are acting as lead managers for the Offering (the "Lead Managers"). The Lead Managers will be acting as placement agent for the Offering on a best-efforts basis, i.e. the Offer Shares will not be underwritten by any of the Lead Managers, and there will not be any over-allotment facilities in connection with the Offering.

7.3 Settlement and Delivery of the Offer Shares

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

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

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

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

Each shareholder in the Czech Republic and the investors in selected European jurisdictions who will be allocated Offer Shares listed on the PSE must designate its local custodian who must be a member of the Central Depositary, to perform all steps necessary for settlement of the interests in the Offer Shares. In particular, the local custodian must be instructed to enter an instruction into the Central Depositary system to receive the allocated Offer Shares from the shareholder in accordance with the Central Depositary rules and operating procedures. The manner in which the investors intend to hold the allocated Offer Shares (for instance whether on the applicant's own account opened with the Central Depositary or through a custodial account) and the manner of funding the purchase of the allocated Offer Shares shall be agreed between the applicant and its local custodian.

Delivery of the interests in the Offer Shares will be made in accordance with settlement instructions placed by investors in a manner and time as instructed by the Managers upon subscription, through the facilities of Clearstream and onwards through the facilities of the Central Depositary. No assurance can be given that the Offer Shares will be properly delivered unless the applicants comply with all relevant instructions of the Managers.

Payment for the Offer Shares will be effected in U.S. Dollars, if not otherwise agreed to between the respective Manager and the applicant.

Delivery of interests in the Offer Shares in the Czech Republic and in selected European jurisdiction who will be allocated Offer Shares listed on the PSE is expected to take place on or about January 27, 2010, subject to unforeseen circumstances. The exact delivery date will depend on the actual timing of a share transfer from Clearstream to the Central Depositary system. The relevant Central Depositary accounts are expected to be credited with interest in the Offer Shares on or about January 27, 2010.

VIII. MAXIMUM DILUTION AND NET PROCEEDS

8.1 Maximum dilution

KIT digital is seeking to raise approximately $20 million in the Offering and approximately an additional $36 million in the U.S. Offering. Assuming that the Offering Price is $11.00 per share, approximately 1,825,000 shares of Common Stock will be issued in the Offering and approximately 3,275,000 shares of Common Stock will be issued in the U.S. Offering (including shares to be issued if the Over-Allotment Option is exercised in full).

Assuming all of the shares of Common Stock offered under this Offering and the U.S. Offering are purchased and the Over-Allotment Option is exercised in full, the holdings of a stockholder of KIT digital holding 1% of the total outstanding share capital of KIT digital as of January 5, 2010, (i.e., 108,448 shares) and who does not participate in the Offering or the U.S. Offering, would be diluted as indicated in the following table:

	Percentage of the total outstanding Shares	Total number of outstanding Shares
Before the Offering and the U.S. Offering (as of January 5, 2010)	1.00%	10,844,853
After issuance of 5,100,000 shares under the Offering and the U.S. Offering	0.68%	15,944,853

8.2 Net Proceeds

Assuming that all of the shares of Common Stock offered pursuant to the Offering and the U.S. Offering are purchased and the Over-Allotment Option is exercised in full, and that a total of approximately 5,100,000 shares of Common Stock are issued, the gross proceeds of KIT digital in connection with the Offering pursuant to this prospectus and the U.S. Offering would be $56,000,000. After deducting legal, accounting, placement and underwriting expenses in connection with the Offering and the U.S. Offering, the net proceeds, based on the above assumptions, would be approximately $52,000,000.

IX. ORGANIZATIONAL STRUCTURE

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

X. WORKING CAPITAL STATEMENT

As of the date of this prospectus, KIT digital believes that its cash, cash equivalents and cash flows from its operating activities will be sufficient to meet its working capital needs (including debt service) and capital expenditures for at least the next 12 months.

XI. TAX CONSEQUENCES

Set out below are the main Czech tax consequences likely to apply to Czech investors who will hold shares of KIT digital under Czech domestic law in force on January 20, 2010, and the Czech-US income tax treaty signed on September 13, 1993 (the "Czech-US Tax Treaty"). The tax regime described below may be modified by subsequent laws or regulations, which should be followed by the investors with the help of their usual advisor.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pursuant to Sections 19(1)(ze) and 19(3) of the CITA the following conditions must be met in order to qualify for the participation exemption:

(i) the capital gain must be realized by a parent company established or effectively managed in the Czech Republic;

(ii) the Czech parent company must have the legal form of a limited liability company, a joint stock company or a co-operative under Czech commercial law;

(iii) the parent company must have held at least 10 % of the registered capital of KIT digital for at least 12 months;

(iv) KIT digital must not be in the process of liquidation;

(v) KIT digital must be a resident of the US under the Czech-US Tax Treaty;

(vi) KIT digital must have the legal form comparable to a limited liability company, a joint stock company or a co-operative under Czech commercial law;

(vii) KIT digital must be subject to a corporate income tax at the rate not lower then 12%.

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

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

11.3 Withholding Tax

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

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

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

11.4 Other Taxes and Duties

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

XII. DOCUMENTS ON DISPLAY

We file annual, quarterly and current reports, proxy statements and other information with the SEC. The SEC maintains a website, *http://www.sec.gov*, that contains reports, proxy statements and information statements and other information regarding registrants that file electronically with the SEC, including us. We maintain a corporate website at www.kitd.com and an electronic brochure of our product offerings can be downloaded at *www.kitd.com/brochure.pdf*. Our SEC filings can be downloaded on our website at *http://ir.kitd.com/phoenix.zhtml?c=144912&p=irol-sec* and are also furnished to the extent required by law to the CNB, which makes such information public in accordance with applicable rules. Neither the content of our website nor our brochure is part of this prospectus and should not be relied upon with respect to this offering. You may also request a copy of our filings at no cost by writing or telephoning us at:

KIT digital, Inc.
168 Fifth Avenue, Suite 301
New York, NY 10010, U.S.A.
Attention: Kaleil Isaza Tuzman
Chairman and Chief Executive Officer
+1 (212) 661-4111

CROSS-REFERENCE LISTS

ANNEX I

MINIMUM DISCLOSURE REQUIREMENTS FOR THE SHARE REGISTRATION DOCUMENT (SCHEDULE)

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

Item #	Item contents	Chapter/Exhibit	Page/Section
1.	**PERSONS RESPONSIBLE**		
1.1.	All persons responsible for the information given in the prospectus	Prospectus	6 (Company Representative for Prospectus)
		Exhibit II	II-5 – II-6 (Signatures)
		Exhibit III	Exhibits 31.1, 31.2, 32.1 and 32.2
1.2.	A declaration by those responsible for the prospectus	Prospectus	6 (Company Representative for Prospectus)
2.	**STATUTORY AUDITORS**		
2.1.	Names and addresses of the issuer's auditors	Chapter C	38 (2.3 Independent Registered Public Accounting Firms)
		Exhibit I	F-2 (Report of Independent Registered Public Accounting Firm)
		Exhibit XI	F-1 (Report of Independent Registered Public Accounting Firm)
2.2.	If auditors have resigned, been removed or not been re-appointed during the period covered by the historical financial information, indicate details if material.	Exhibit V	All pages
3.	**SELECTED FINANCIAL INFORMATION**		
3.1.	Selected historical financial information	Chapter C	36 – 37 (2.2 Financial Information

Item #	Item contents	Chapter/Exhibit	Page/Section
			for the fiscal years ended December 31, 2008, 2007 and 2006 and the quarter ended September 30, 2009)
		Exhibit I	19 – 21 (Selected Financial Data)
3.2.	Interim periods	Chapter C	36 – 37 (2.2 Financial Information for the fiscal years ended December 31, 2008, 2007 and 2006 and the quarter ended September 30, 2009)
		Exhibit I	19 – 21 (Selected Financial Data)
4.	**RISK FACTORS**	Exhibit I	7 – 14 (Risk Factors) and 28 (Qualitative and Quantitative Disclosures About Market Risk)
		Exhibit III	28 (Item 3. Quantitative and Qualitative Disclosures About Market Risk)
5.	**INFORMATION ABOUT THE ISSUER**		
5.1.	**History and Development of the Issuer**		
5.1.1.	The legal and commercial name of the issuer	Exhibit II	Cover Page
5.1.2	The place of registration of the issuer and its registration number	Chapter C	32 (1.7 Registration Number)
		Exhibit II	Cover Page
5.1.3	The date of incorporation and the length of life of the issuer, except where indefinite	Exhibit I	4 (Corporate Information)
5.1.4	The domicile and legal form of the issuer, the legislation under which the issuer operates, its	Chapter C	28 (1.2 Legislation and Authorization

Item #	Item contents	Chapter/Exhibit	Page/Section
	country of incorporation, as well as the address and telephone number		Under Which the Securities Have Been Created; Purpose)
		Exhibit I	4 (Corporate Information)
		Exhibit II	Cover Page
5.1.5	Important events in the development of the issuer's business	Exhibit I	2 (Paragraphs beginning, "We completed two…" and "On June 29, 2009…"), 29 – 37 (Excerpts from Business), F-14 – F-18 (Note 4. Acquisitions) and F-37 (Note 4. Acquisitions)
		Exhibit III	20 (Note 15. Subsequent Events)
		Exhibit IV	All Pages
		Exhibit VI	All pages
		Exhibit VII	All pages
		Exhibit IX	Exhibit 99.1 (Integration of Nunet)
5.2.	**<u>Investments</u>**		

Item #	Item contents	Chapter/Exhibit	Page/Section
5.2.1.	A description (including the amount) of the issuer's principal investments for each financial year for the period covered by the historical financial information up to the date of the prospectus	Exhibit I	2 (Paragraph beginning, "We completed two…"), F-7 (Investing Activities), F-14 – F-18 (Note 4. Acquisitions), F-21 (Leases), F-28 (Note 18. Subsequent Events), F-31 (Investing Activities) and F-37 (Note 4. Acquisitions)
		Exhibit III	5 (Investing Activities), 13 –14 (Note 4. Acquisitions) and 20 (Note 15. Subsequent Events)
		Exhibit VI	All Pages
		Exhibit VII	All Pages
		Exhibit IX	Exhibit 99.1 (Integration of Nunet)
		Exhibit X	2 (Item 2.01. Completion of Acquisition)
		Exhibit XI	1 –6 (Other Acquisitions: Reality Group Pty Ltd., Undercover Media Pty Ltd. Bickhams Media, Inc., Factory 212 Pty Ltd., And MyVideoDaily.), 14 (Paragraph

Item #	Item contents	Chapter/Exhibit	Page/Section
			beginning, "Net cash used in investing activities…") F-6 (Investing Activities) F-15 – F-18 (Note 4. Acquisitions) F-19 (Note 5. Commitments) F-30 – F-31 (Note13. Subsequent Events)
5.2.2	A description of the issuer's principal investments that are in progress	Exhibit I	F-7 (Investing Activities), F-21 (Leases) and F-31 (Investing Activities)
5.2.3	Information concerning the issuer's principal future investments on which its management bodies have already made firm commitments	Chapter C	33 (1.11 Reasons for the Offering and Use of Proceeds)
		Exhibit I	F-21 (Leases)
6.	**BUSINESS OVERVIEW**		
6.1.	**<u>Principal Activities</u>**		
6.1.1	A description of, and key factors relating to, the nature of the issuer's operations and its principal activities	Exhibit I	1 – 4 (Our Company, Our Industry, Our Solution, Our Growth Strategy), 22 – 23 (Overview) and 29 – 38 (Business to Locations)
		Exhibit III	17 – 18 (Note 11. Segment Reporting)
		Exhibit XI	6 – 7 (Overview of Our Business, History of the

Item #	Item contents	Chapter/Exhibit	Page/Section
			Development of Our Business and Operations Strategy) and 13 – 14 (Results of Operations)
6.1.2	An indication of any significant new products and/or services that have been introduced	Exhibit VI	2 (Paragraph beginning, “FeedRoom…”) All Pages (Exhibit 99.1)
		Exhibit VII	2 (Paragraph beginning, “Nunet…”) All Pages (Exhibit 99.1)
		Exhibit IX	1 (Exhibit 99.1 – Integration of Nunet and the FeedRoom)
		Exhibit XI	2 (Paragraph beginning “Reality Group… ”), 3 (Sentence beginning “Cooee is a provider… ”), 4 – 5 (Paragraph beginning “The features of Media Manager…. “), 5 (Sentence beginning “Sputnik is an Australian… ”) and 13 – 14 (Results of Operations)
6.2.	Principal markets	Exhibit I	1 – 4 (Our Company, Our Industry, Our Solution, Our Growth Strategy),

Item #	Item contents	Chapter/Exhibit	Page/Section
			22 (Overview) and 29 – 38 (Business to Locations)
		Exhibit III	17 – 18 (Note 11. Segment Reporting)
		Exhibit XI	6 – 7 (Overview of Our Business, History of the Development of Our Business and Operations Strategy) and 13 (General)
6.3.	Where the information given pursuant to items **6.1.** and **6.2.** has been influenced by exceptional factors, mention that fact	Exhibit III	20 (Note 15. Subsequent Events)
		Exhibit VI	All Pages
		Exhibit VII	All Pages
		Exhibit IX	Exhibit 99.1 (Integration of Nunet)
		Exhibit X	2 (Item 2.01. Completion of Acquisition)
6.4.	The extent to which the issuer is dependent, on patents or licenses, industrial, commercial or financial contracts or new manufacturing processes	Exhibit I	2 (Paragraph beginning, “We derive our revenue…”) 9 – 10 (Risk Factors – “We depend on various third parties…”, “We license technology from third parties…”, “We depend on content licensed to us by third parties…” and “If we do not adequately protect our intellectual property rights…”)

Item #	Item contents	Chapter/Exhibit	Page/Section
			22 (Paragraph beginning, "Our success is driven…") 30 (Paragraph beginning, "We derive our revenue…")
6.5.	Issuer's competitive position	Chapter A	7 (Paragraph beginning "Management believes…") and 9 (Bullet point beginning "expand upon our leadership in on-demand…")
		Exhibit I	37 (Competition)
7.	**ORGANIZATIONAL STRUCTURE**		
7.1.	Description of the group	Exhibit XII	All Pages
7.2.	A list of the issuer's significant subsidiaries	Exhibit XII	All Pages
8.	**PROPERTY, PLANTS AND EQUIPMENT**		
8.1.	Information regarding any existing or planned material tangible fixed assets	Exhibit I	26 (Impairment of Property and Equipment), 38 (Locations), F-19 (Note 6. Property and Equipment), F-21 (Leases) and F-40 (Note 10. Impairment of Property and Equipment)
		Exhibit III	17 (Note 10. Impairment of Property and Equipment) and

Item #	Item contents	Chapter/Exhibit	Page/Section
			25 (Impairment of Property and Equipment)
		Exhibit IV	Exhibit 99.1 (Operational Headquarters move to Prague)
8.2.	Environmental issues that may affect the issuer's utilization of the tangible fixed assets	Not Applicable	Not Applicable
9.	**OPERATING AND FINANCIAL REVIEW**		
9.1.	Financial condition	Exhibit I	22 – 26 (Management's Discussion and Analysis of Financial Condition and Results of Operations, up to Liquidity and Capital Resources)
		Exhibit III	21 – 25 (Management's Discussion and Analysis of Financial Condition and Results of Operations, up to Liquidity and Capital Resources)
		Exhibit XI	12 – 14 (Management's Discussion and Analysis or Plan of Operations, up to Liquidity and Capital Resources)
9.2.	**Operating Results**		
9.2.1.	Significant factors materially affecting the issuer's income from operations	Exhibit I	22 – 26 (Management's Discussion and Analysis of Financial Condition and Results of Operations, up to Liquidity and Capital

Item #	Item contents	Chapter/Exhibit	Page/Section
			Resources)
		Exhibit III	21 – 25 (Management's Discussion and Analysis of Financial Condition and Results of Operations, up to Liquidity and Capital Resources)
		Exhibit XI	12 – 14 (Management's Discussion and Analysis or Plan of Operations, up to Liquidity and Capital Resources)
9.2.2	Material changes in net sales or revenues	Exhibit I	24 (Revenue), 25 (Revenue), F-26 – F-27 (Note 17. Segment Reporting) and F-40 – F-41 (Note 11. Segment Reporting)
		Exhibit III	17 – 18 (Note 11. Segment Reporting), 21 (Revenue) and 23 (Revenue)
		Exhibit XI	13 (Net Revenue)
9.2.3.	Governmental, economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, directly or indirectly, the issuer's operations	Exhibit I	12 (Risk Factors – "Our international operations…" and "Violations of complex foreign…"), 28 (Quantitative and Qualitative Disclosures about Market Risk) and 38 (Government

Item #	Item contents	Chapter/Exhibit	Page/Section
			Regulation)
		Exhibit III	28 (Item 3. Quantitative and Qualitative Disclosures about Market Risk)
10.	**CAPITAL RESOURCES**		
10.1.	Issuer's capital resources	Exhibit I	26 – 27 (Liquidity and Capital Resources)
		Exhibit III	25 – 26 (Liquidity and Capital Resources)
10.2.	Narrative description of the issuer's cash flows	Exhibit II	26 – 27 (Liquidity and Capital Resources)
		Exhibit III	25 – 26 (Liquidity and Capital Resources)
10.3.	Information on the borrowing requirements and funding structure of the issuer	Exhibit I	26 – 27 (Liquidity and Capital Resources), 27 (Recent Securities Offerings) and F-20 (Note 8. Senior Secured Notes Payable)
		Exhibit III	13 (Note 3. Notes Payable) and 25 – 26 (Liquidity and Capital Resources)
10.4.	Information regarding any restrictions on the use of capital resources	Chapter C	29 (Dividend Rights)
		Exhibit I	17 (Dividend Policy)
10.5.	Information regarding the anticipated sources of funds needed to fulfill commitments referred to in items **5.2.3.** and **8.1.**	Chapter C	33 (1.11 Reasons for the Offering and Use of Proceeds)

Item #	Item contents	Chapter/Exhibit	Page/Section
		Exhibit I	26 – 27 (Liquidity and Capital Resources)
		Exhibit III	25 – 26 (Liquidity and Capital Resources)
11.	**RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES**	Chapter C	34 – 35 (1.15 Research and Development)
		Exhibit I	9 (Risk Factors – "We license technology from third parties…"), 10 (Risk Factors – "We depend on content licensed to us by third parties…") and 37 (Research and Development)
		Exhibit XI	13 (Research and Development) F-3 (Research and Development)
12.	**TREND INFORMATION**		
12.1.	Significant trends that affected production, sales and inventory, and costs and selling prices since the end of the last financial year to the date of the prospectus	Exhibit III	21 (Overview)
		Exhibit VIII	All Pages
		Exhibit IX	Exhibit 99.1 (Corporate Outlook)
12.2.	Trends, uncertainties or events that are likely to affect the issuer for at least the current financial year	Exhibit I	3 – 4 (Our Industry), 7 – 14 Risk (Factors), 28 (Quantitative and Qualitative Disclosures about Market Risk) and

Item #	Item contents	Chapter/Exhibit	Page/Section
			38 (Government Regulation)
		Exhibit III	21 (Overview) and 28 (Item 3. Quantitative and Qualitative Disclosures about Market Risk)
		Exhibit VIII	All Pages
		Exhibit IX	Exhibit 99.1 (Corporate Outlook for Q4 2009 and Strategic Priorities for 2010)
13.	**PROFIT FORECASTS OR ESTIMATES**	Not applicable	Not applicable
14.	**ADMINISTRATIVE, MANAGEMENT, SUPERVISORY BODIES AND SENIOR MANAGEMENT**		
14.1.	Names, business addresses and functions in the issuer of the following persons and an indication of the principal activities performed by them outside the issuer where these are significant with respect to that issuer: a) members of the administrative, management or supervisory bodies;	Chapter C	38 (Directors and Executive Officers)
		Exhibit I	40 – 41 (Directors and Executive Officers)
	b) partners with unlimited liability, in the case of a limited partnership with a share capital;	Not applicable	Not applicable
	c) founders, if the issuer has been established for fewer than five years; and	Not applicable	Not applicable
	d) any senior manager who is relevant to establishing that the issuer has the appropriate expertise and experience for the management of the issuer's business.	Exhibit I	40 – 41 (Directors and Executive Officers)
		Exhibit IV	2 (Item 5.02, Appointment of Certain Officers) and Exhibit 99.1, 1 (Paragraph beginning, "In conjunction with…"

Item #	Item contents	Chapter/Exhibit	Page/Section
			with respect to the appointment of Robin Smyth as Chief Financial Officer)
	The nature of any family relationship between any of those persons	Chapter C	38 (Directors and Executive Officers)
	In the case of each member of the administrative, management or supervisory bodies of the issuer and each person mentioned in points (b) and (d) of the first subparagraph, details of that person's relevant management expertise and experience and the following information: (a) the nature of all companies and partnerships of which such person has been a member of the administrative, management and supervisory bodies or partner at any time in the previous five years, indicating whether or not the individual is still a member of the administrative, management or supervisory bodies or partner. It is not necessary to list all the subsidiaries of an issuer of which the person is also a member of the administrative, management or supervisory bodies or partner;	Exhibit I	40 – 41 (Director and Executive Officers)
	(b) any convictions in relation to fraudulent offences for at least the previous five years; (c) details of any bankruptcies, receiverships or liquidations with which a person described in (a) and (d) of the first subparagraph who was acting in the capacity of any of the positions set out in (a) and (d) of the first subparagraph was associated for at least the previous five years; (d) details of any official public incrimination and/or sanctions of such person by statutory or regulatory authorities (including designated professional bodies) and whether such person has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer for at least the previous five years. If there is no such information to be disclosed, a statement to that effect is to be made.	Chapter C	38 (Directors and Executive Officers)
14.2.	Administrative, management, and supervisory bodies and senior management conflicts of interests	Exhibit I	27 (Paragraphs beginning, "In the last 60 days…" and

Item #	Item contents	Chapter/Exhibit	Page/Section
			"In May 2008"), 47 – 48 (Employment and Management Agreements) and 55 (Certain Relationships and Related Party Transactions)
15.	**REMUNERATION AND BENEFITS**		
15.1.	The amount of remuneration paid to the members of the administrative, management, supervisory and senior management bodies or to the general managers of the issuer	Exhibit I	44 – 45 (Director Compensation) and 46 – 48 (Executive Compensation, including Summary Compensation Table and Employment and Management Agreements)
15.2.	The total amounts set aside or accrued by the issuer or its subsidiaries to provide pension, retirement or similar benefits to the above persons	Not applicable	Not applicable
16.	**Board Practices**		
16.1.	Date of expiration of the current term of office, if applicable, and the period during which the person has served in that office	Chapter C	29 (Paragraph beginning, "*Voting Rights*. Holders of Common Stock…")
		Exhibit I	40 – 41 (Directors and Executive Officers)
16.2.	Information about members of the administrative, management or supervisory bodies' service contracts with the issuer or any of its subsidiaries providing for benefits upon termination of employment	Exhibit I	47 – 48 (Employment and Management Agreements)
16.3.	Information about the issuer's audit committee and remuneration committee, including the names of committee members and a summary of the of the terms of reference under which the committee operates	Exhibit I	41 – 42 (Board of Directors and Corporate Governance) and 42 – 43 (Committees

Item #	Item contents	Chapter/Exhibit	Page/Section
			of the Board)
16.4.	Compliance with corporate governance regime(s)	Exhibit III	Exhibits 31.1, 31.2, 32.1 and 32.2
		Exhibit I	41 – 42 (Board of Directors and Corporate Governance), 42 (Paragraph beginning, “ The board, its committees…”) and 42 – 43 (Committees of the Board)
17.	**EMPLOYEES**		
17.1.	Number of employees	Chapter C	39 (V. Employees)
		Exhibit I	38 (Employees)
17.2.	Shareholdings and stock options with respect to each person referred to in points (a) and (d) of the first subparagraph of item 14.1.	Chapter C	38 – 39 (IV. Major Shareholders)
		Exhibit I	45 (Director Compensation – Stock Awards and Option Awards Columns), 46 (Summary Compensation Table - Stock Awards and Option Awards Columns), 49 (Outstanding Equity Awards at Fiscal Year End), 49 – 50 (KIT digital 2004 Stock Option Plan), 51 – 52 (Grants under the 2008 Incentive Plan) and

Item #	Item contents	Chapter/Exhibit	Page/Section
			52 – 55 (Security Ownership of Management and Certain Beneficial Owners)
17.3	Description of any arrangements for involving the employees in the capital of the issuer	Exhibit I	49 – 50 (KIT digital 2004 Stock Option Plan), 50 (2008 Incentive Stock Plan), 50 – 51 (Summary Description of the 2008 Incentive Plan), 51 – 52 (Grants Under the 2008 Incentive Plan), F-11 – F-12 (Stock-Based Compensation), F-25 (Note 13. Stock Option Plans) and F-35 – F-36 (Stock-Based Compensation)
		Exhibit III	10 – 11 (Stock-Based Compensation)
18.	**Major Stockholders**		
18.1.	Name of any stockholders who are not members of administrative and/or management bodies	Chapter C	38 – 39 (IV. Major Shareholders)
		Exhibit I	52 – 55 (Security Ownership of Management and Certain Beneficial Owners)
18.2.	Whether the issuer's major stockholders have different voting rights	Chapter C	29 – 30 (Voting Rights)
18.3.	Information on the persons directly or indirectly controlling the issuer	Chapter C	38 – 39 (IV. Major Shareholders)

Item #	Item contents	Chapter/Exhibit	Page/Section
		Exhibit I	27 (Paragraphs beginning, "In the last 60 days…" and "In May 2008"), 47 – 48 (Employment and Management Agreements) and 55 (Certain Relationships and Related Party Transactions)
		Exhibit III	20 (Note 14. Related Party Transactions)
18.4.	Agreement known to the issuer that may result in a change in control of the issuer	Not applicable	Not applicable
19.	**RELATED PARTY TRANSACTIONS**	Chapter C	34 (1.14 Related Party Transactions)
		Exhibit I	27 (Paragraphs beginning, "In the last 60 days…" and "In May 2008"), 47 – 48 (Employment and Management Agreements), 55 (Certain Relationships and Related Party Transactions) and F-18 (Note 5. Related Party Transactions)
		Exhibit III	20 (Note 14. Related Party Transactions)
		Exhibit XI	26 – 27 (Item 12. Certain Relationships and Related Transactions)

Item #	Item contents	Chapter/Exhibit	Page/Section
20.	**FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES**		
20.1.	Historical Financial Information Consolidated balance sheets of KIT digital as of December 31, 2008 and 2007, the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2008	Exhibit I	F-3 (Consolidated Balance Sheets), F-4 (Consolidated Statements of Operations and Comprehensive Loss), F-5 – F-6 (Consolidated Statements of Stockholders' Equity), F-7 – F-8 (Consolidated Statements of Cash Flows) and F-9 – F-28 (Notes to Consolidated Financial Statements)
	Consolidated balance sheets of The FeedRoom, Inc. as of December 31, 2008 and 2007, the related statements of operations, stockholders' equity (deficit), and cash flows for each of the two years in the period ended December 31, 2008	Exhibit X	Exhibit 99.1 (Audited Financial Statements of FeedRoom as of and for the years ended December 31, 2008 and 2007, and accompanying notes)
	Consolidated balance sheet of ROO Group, Inc. as of December 31, 2006, the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2006	Exhibit XI	F-2 (Consolidated Balance Sheet as of December 31, 2006), F-3 (Consolidated Statements of Operations and Comprehensive Income (Loss)), F-4 – F-5 (Consolidated Statements of Stockholders' Equity

Item #	Item contents	Chapter/Exhibit	Page/Section
			(Deficit)), F-6 – F-7 (Consolidated Statements of Cash Flows) and F-8 – F-31 (Notes to Consolidated Financial Statements)
20.2.	Pro forma financial information	Exhibit X	Page after Cover Page (Independent Accountant's Report) Exhibit 99.3 (Unaudited Condensed Combined Pro Forma Financial Statements as of September 30, 2009 and for the Nine Months Ended September 30, 2009 and the Year Ended December 31, 2008, for KIT digital and FeedRoom Combined)
20.3.	Financial statements Consolidated balance sheets of KIT digital as of December 31, 2008 and 2007, the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2008	Exhibit I	F-3 (Consolidated Balance Sheets), F-4 (Consolidated Statements of Operations and Comprehensive Loss), F-5 – F-6 (Consolidated Statements of Stockholders' Equity), F-7 – F-8 (Consolidated Statements of Cash Flows) and F-9 – F-28 (Notes to

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			Consolidated Financial Statements)
	Consolidated balance sheets of The FeedRoom, Inc. as of December 31, 2008 and 2007, the related statements of operations, stockholders' equity (deficit), and cash flows for each of the two years in the period ended December 31, 2008	Exhibit X	Exhibit 99.1 (Audited Financial Statements of FeedRoom as of and for the years ended December 31, 2008 and 2007, and accompanying notes)
	Consolidated balance sheet of ROO Group, Inc. as of December 31, 2006, the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2006	Exhibit XI	F-2 (Consolidated Balance Sheet as of December 31, 2006), F-3 (Consolidated Statements of Operations and Comprehensive Income (Loss)), F-4 – F-5 (Consolidated Statements of Stockholders' Equity), F-6 – F-7 (Consolidated Statements of Cash Flows) and F-8 – F-31 (Notes to Consolidated Financial Statements)
20.4.	**Auditing of historical annual financial information**		
20.4.1.	Statement that the historical financial information has been audited Report of Independent Registered Public Accounting Firm on consolidated balance sheets of KIT digital as of December 31, 2008 and 2007, the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2008	Exhibit I	F-2 (Report of Independent Registered Public Accounting Firm)

Item #	Item contents	Chapter/Exhibit	Page/Section
	Independent Auditors' Report on Consolidated balance sheets of The FeedRoom, Inc. as of December 31, 2008 and 2007, the related statements of operations, stockholders' equity (deficit), and cash flows for each of the two years in the period ended December 31, 2008	Exhibit X	Exhibit 99.1, 1 (Independent Auditors' Report)
	Report of Independent Registered Public Accounting Firm on consolidated balance sheet of ROO Group, Inc. as of December 31, 2006, the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2006	Exhibit XI	F-1 (Report of Independent Registered Public Accounting Firm)
20.4.2.	Indication of other information in the prospectus which has been audited by the auditors	Not applicable	Not applicable
20.4.3.	Unaudited financial data in prospectus	Exhibit I	F-29 (Consolidated Balance Sheets), F-30 (Consolidated Statements of Operations and Comprehensive Income (Loss)), F-31 (Consolidated Statements of Cash Flows) and F-32 – F-42 (Notes to Consolidated Financial Statements (Unaudited))
		Exhibit III	2 (Consolidated Balance Sheets), 3 (Consolidated Statements of Operations and Comprehensive Income (Loss)), 4 (Consolidated Statements of Stockholders' Equity), 5 – 6 (Consolidated Statements of Cash

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			Flows) and 7 – 20 (Notes to Consolidated Financial Statements)
		Exhibit VIII	All pages
		Exhibit X	Exhibit 99.2 (Unaudited Financial Statements of FeedRoom as of and for the Nine Months Ended September 30, 2009)
20.5.	**<u>Age of latest financial information</u>**		
20.5.1.	The last year of audited financial information	Exhibit I	F-2 (Report of Independent Registered Public Accounting Firm)
		Exhibit X	Exhibit 99.1, 1 (Independent Auditors' Report)
20.6.	**<u>Interim and other financial information</u>**		
20.6.1.	Quarterly or half yearly financial information since the date of the last audited financial statements	Exhibit III	2 (Consolidated Balance Sheets), 3 (Consolidated Statements of Operations and Comprehensive Income (Loss)), 4 (Consolidated Statements of Stockholders' Equity), 5 – 6 (Consolidated Statements of Cash Flows) and 7 – 20 (Notes to Consolidated Financial Statement))

Item #	Item contents	Chapter/Exhibit	Page/Section
		Exhibit X	Exhibit 99.2 (Unaudited Financial Statements of FeedRoom as of and for the Nine Months Ended September 30, 2009)
20.6.2.	Interim financial information	Exhibit III	2 (Consolidated Balance Sheets), 3 (Consolidated Statements of Operations and Comprehensive Income (Loss)), 4 (Consolidated Statements of Stockholders' Equity), 5 – 6 (Consolidated Statements of Cash Flows) and 7 – 20(Notes to Consolidated Financial Statements)
		Exhibit X	Exhibit 99.2 (Unaudited Financial Statements of FeedRoom as of and for the Nine Months Ended September 30, 2009)
20.7.	**<u>Dividend policy</u>**	Chapter C	29 (Dividend Rights)
		Exhibit I	14 (Risk Factors – "We do not anticipate paying dividends in the foreseeable future…"), 17 (Dividend Policy) and 56 (Excerpts from

Item #	Item contents	Chapter/Exhibit	Page/Section
			Common Stock)
20.7.1.	The amount of the dividend per share for each financial year for the period covered by the historical financial information	Exhibit I	17 (Dividend Policy)
20.8.	Legal and arbitration proceedings	Chapter C	34 (1.13 Legal Proceedings)
		Exhibit I	39 (Legal Proceedings) and F-21 – F-22 (Note 10. Commitments and Contingencies)
		Exhibit III	29 (Legal Proceedings)
20.9.	Significant change in the issuer's financial or trading position	Chapter C	33 (1.11 Reasons for the Offering and Use of Proceeds)
		Exhibit III	20 (15. Subsequent Events)
		Exhibit VI	All pages
		Exhibit VII	All pages
		Exhibit IX	Exhibit 99.1 (Integration of Nunet)
21.	**ADDITIONAL INFORMATION**		
21.1.	**<u>Share Capital</u>**		
21.1.1.	The amount of issued capital	Exhibit III	2 (Consolidated Balance Sheets)
21.1.2.	Shares not representing capital	Not applicable	Not applicable
21.1.3.	Shares in the issuer held by the issuer or subsidiaries	Not applicable	Not applicable
21.1.4.	The amount of any convertible securities, exchangeable securities or securities with warrants, with an indication of the conditions governing and the procedures for conversion, exchange or subscription	Exhibit II	4 (Reference to warrants) and 5 (Description of Warrants)

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		Exhibit III	11 (Paragraph beginning, “Also included in non-cash compensation…”), 13 (Note 3. Notes Payable) and 20 (Paragraph beginning, “On May 1, 2009…”)
21.1.5.	Information about and terms of any acquisition rights and or obligations over authorized but unissued capital or an undertaking to increase the capital	Exhibit II	4 (Reference to warrants) and 5 (Description of Warrants)
		Exhibit III	11 (Paragraph beginning, “Also included in non-cash compensation…”), 13 (Note 3. Notes Payable) and 20 (Paragraph beginning, “On May 1, 2009…”)
21.1.6.	Information about any capital of any member of the group which is under option or agreed conditionally or unconditionally to be put under option	Exhibit I	45 (Director Compensation – Stock Awards and Option Awards Columns), 46 (Summary Compensation Table - Stock Awards and Option Awards Columns), 49 – 50 (KIT digital 2004 Stock Option Plan), 50 (2008 Incentive Stock Plan), 50 – 51 (Summary Description of the 2008 Incentive Plan),

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			51 – 52 (Grants Under the 2008 Incentive Plan), F-11 – F-12 (Stock-Based Compensation), F-18 (Paragraph beginning, “During 2008…”), F-25 (Note 13. Stock Option Plans) and F-35 – F-36 (Stock-Based Compensation)
		Exhibit II	4 (References to stock options and warrants) and 5 (Description of Warrants)
		Exhibit III	10 – 11 (Stock-Based Compensation), 11 (Paragraph beginning, “Also included in non-cash compensation…”) and 13 (Paragraph beginning, “On May1, 2009…”)
21.1.7.	A history of share capital for the period covered by the historical financial information	Exhibit I	56 (General), F-5 – F-6 (Consolidated Statements of Stockholders’ Equity), F-22 – F-24 (Note 12. Stock Issuances) and

Item #	Item contents	Chapter/Exhibit	Page/Section
			F-39 (Note 7. Stock Issuances)
		Exhibit III	4 (Consolidated Statements of Stockholders' Equity) and 16 (Note 7. Stock Issuances)
		Exhibit XI	F-4 – F-5 (Consolidated Statements of Stockholders' Equity) and F-25 – F-27 (Note 11. Stock Issuances)
21.2.	**<u>Memorandum and Articles of Association</u>**		
21.2.1.	Issuer's objects and purposes	Chapter C	28 (1.2 Legislation and Authorization Under Which the Securities Have Been Created; Purpose)
21.2.2	A summary of any provisions of the issuer's articles of association, statutes, charter or bylaws with respect to the members of the administrative, management and supervisory bodies	Exhibit I	57 (Limited Liability and Indemnification)
21.2.3.	A description of the rights, preferences and restrictions attaching to each class of the existing shares	Chapter C	29 – 30 (1.5 Rights Attached to the Securities)
		Exhibit I	56 (Common Stock)
21.2.4.	What action is necessary to change the rights of holders of the shares	Chapter C	29 – 30 (Voting Rights)
21.2.5.	Conditions governing the manner in which annual general meetings and extraordinary general meetings of stockholders are called	Chapter C	29 – 30 (Voting Rights)
21.2.6.	Provisions of the issuer's articles of association, statutes, charter or bylaws that would have an effect	Exhibit I	56 – 57 (Delaware Anti-Takeover Law)

Item #	Item contents	Chapter/Exhibit	Page/Section
	of delaying, deferring or preventing a change in control of the issuer	Chapter C	32 – 33 (1.8 General Provisions Applying to Business Combinations)
21.2.7.	An indication of the articles of association, statutes, charter or bylaw provisions, if any, governing the ownership threshold above which stockholder ownership must be disclosed	Not applicable	Not applicable
21.2.8.	A description of the conditions imposed by the memorandum and articles of association statutes, charter or bylaw governing changes in the capital, where such conditions are more stringent than is required by law	Not applicable	Not applicable
22.	**MATERIAL CONTRACTS**		
	Summary of material contracts	Exhibit I	10 (Risk Factors – "If we are unable to retain …"), 22 (Paragraph beginning, "On June 29, 2009…"), 27 (Recent Securities Offerings), 35 (Distribution Partners), F-14 – F-18 (Note 4 Acquisitions), F-22 – F-24 (Note12 Stock Issuances), F-37 (Note 4. Acquisitions) and F-39 (Note 7. Stock Issuances)
		Exhibit III	13 – 14 (Note 4. Acquisitions), 19 (Note 12. Software License Agreement) and 20 (Note 15.

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			Subsequent Events)
		Exhibit VI	All pages
		Exhibit VII	All pages
		Exhibit IX	Exhibit 99.1 (Integration of Nunet)
		Exhibit X	2 (Item 2.01. Completion of Acquisition)
23.	**THIRD PARTY INFORMATION AND STATEMENT BY EXPERTS AND DECLARATIONS OF ANY INTEREST**		
23.1.	Where a statement or report attributed to a person as an expert is included in the Registration Document, provide such person's name, business address, qualifications and material interest if any in the issuer	Not applicable	Not applicable
23.2.	Where information has been sourced from a third party, provide a confirmation that this information has been accurately reproduced	Not applicable	Not applicable
24.	**DOCUMENTS ON DISPLAY**	Chapter C	47 – 48 (XII. Documents on Display)
		Exhibit I	15 (Where you can find more information)
25.	**INFORMATION ON HOLDINGS**	Chapter C	45 (IX. Organizational Structure)
		Exhibit I	2 (Paragraph beginning, "We completed two…"), F-14 – F-18 (Note 4. Acquisitions) and F-37 (Note 4. Acquisitions)
		Exhibit III	13 – 14 (Note 4. Acquisitions) and

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			20 (Note 15. Subsequent Events)
		Exhibit VI	All Pages
		Exhibit VII	All Pages
		Exhibit IX	Exhibit 99.1 (Integration of Nunet)
		Exhibit X	2 (Item 2.01. Completion of Acquisition)
		Exhibit XI	F-15 – F-18 (Note 4. Acquisitions) F-30 – F-31 (Note13. Subsequent Events)
		Exhibit XII	All Pages

ANNEX II

PRO FORMA FINANCIAL INFORMATION BUILDING BLOCK

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

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1.	The pro forma information must include a description of the transaction, the businesses or entities involved and the period to which it refers, and must clearly state the following: a) the purpose to which it has been prepared; b) the fact that it has been prepared for illustrative purposes only; c) the fact that because of its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the company's actual financial position or results.	Exhibit X	Exhibit 99.3 (Unaudited Condensed Combined Pro Forma Financial Statements as of September 30, 2009 and for the Nine Months Ended September 30, 2009 and the Year Ended December 31, 2008, for KIT digital and FeedRoom Combined)
2.	In order to present pro forma financial information, a balance sheet and profit and loss account, and accompanying explanatory notes, depending on the circumstances may be included.	Exhibit X	Exhibit 99.3 (Unaudited Condensed Combined Pro Forma Financial Statements as of September 30, 2009 and for the Nine Months Ended September 30, 2009 and the Year Ended December 31, 2008, for KIT digital and FeedRoom Combined)

Item #	Item contents	Chapter/Exhibit	Page/Section
3.	Pro forma financial information must normally be presented in columnar format, composed of: d) the historical unadjusted information; e) the pro forma adjustments; and f) the resulting pro forma financial information in the final column. The sources of the pro forma financial information have to be stated and, if applicable, the financial statements of the acquired businesses or entities must be included in the prospectus.	Exhibit X	Exhibit 99.3 (Unaudited Condensed Combined Pro Forma Financial Statements as of September 30, 2009 and for the Nine Months Ended September 30, 2009 and the Year Ended December 31, 2008, for KIT digital and FeedRoom Combined)
4.	The pro forma information must be prepared in a manner consistent with the accounting policies adopted by the issuer in its last or next financial statements and shall identify the following: g) the basis upon which it is prepared; h) the source of each item of information and adjustment.	Exhibit X	Exhibit 99.3 (Unaudited Condensed Combined Pro Forma Financial Statements as of September 30, 2009 and for the Nine Months Ended September 30, 2009 and the Year Ended December 31, 2008, for KIT digital and FeedRoom Combined)
5.	Pro forma information may only be published in respect of i) the current financial period; j) the most recently completed financial period; and/or k) the most recent interim period for which relevant unadjusted information has been or will be published or is being published in the same document.	Exhibit X	Exhibit 99.3 (Unaudited Condensed Combined Pro Forma Financial Statements as of September 30, 2009 and for the Nine Months Ended September 30, 2009 and the Year Ended December 31, 2008, for KIT digital and FeedRoom Combined)

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6.	Pro forma adjustments related to the pro forma financial information must be: l) clearly shown and explained; m) directly attributable to the transaction; n) factually supportable. In addition, in respect of a pro forma profit and loss or cash flow statement, they must be clearly identified as to those expected to have a continuing impact on the issuer and those which are not.	Exhibit X	Exhibit 99.3 (Unaudited Condensed Combined Pro Forma Financial Statements as of September 30, 2009 and for the Nine Months Ended September 30, 2009 and the Year Ended December 31, 2008, for KIT digital and FeedRoom Combined)
7.	The report prepared by the independent accountants or auditors must state that in their opinion: o) the pro forma financial information has been properly compiled on the basis stated; p) that basis is consistent with the accounting policies of the issuer.	Exhibit X	Page after Cover Page (Independent Accountant’s Report)

ANNEX III

MINIMUM DISCLOSURE REQUIREMENTS FOR THE SHARE SECURITIES NOTE (SCHEDULE)

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

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		Exhibit II	II-5 – II-6 (Signatures)
		Exhibit III	Exhibits 31.1, 31.2, 32.1 and 32.2
1.2.	A declaration by those responsible for the prospectus.	Prospectus	6 (Company Representative for Prospectus)
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		Exhibit III	28 (Item 3. Qualitative and Quantitative Disclosure About Market Risk)
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3.2	Capitalization and indebtedness	Chapter C	35 – 36 (2.1. Statement of Capitalization and Indebtedness as of September 30, 2009)
3.3	Interest of natural and legal persons involved in the	Not applicable	Not applicable

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	issue/offer		
3.4	Reasons for the offer and use of proceeds	Chapter C	33 (1.11 Reasons for the Offering and Use of Proceeds)
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4.1	Type and the class of the securities being offered, including the security identification code.	Chapter C	28 (1.1 Type and the Class of the Securities Being Offered, Including the Security Identification Code)
4.2	Legislation under which the securities have been created.	Chapter C	28 (1.2 Legislation and Authorization Under Which the Securities Have Been Created; Purpose)
4.3	Form of securities, name and address of the entity in charge of keeping the records.	Chapter C	28 (1.3 Form of Securities, Name and Address of the Entity In Charge of Keeping the Records)
4.4	Currency of the securities issue.	Chapter C	29 (1.4 Currency of the Securities Issue)
4.5	Rights attached to the securities	Chapter C	29 – 30 (1.5 Rights Attached to the Securities)
4.6	Statement of the resolutions, authorizations and approvals by virtue of which the securities have been or will be created and/or issued.	Chapter C	28 (1.2 Legislation and Authorization Under Which the Securities Have Been Created; Purpose)
4.7	Expected issue date of the securities.	Chapter C	40 – 41 (6.2 Timetable of the Offering)
4.8	Description of any restrictions on the free transferability of the securities.	Chapter C	30 – 32 (1.6 Transferability)
4.9	Mandatory takeover bids and/or squeeze-out and	Chapter C	32 – 33 (1.8 General Provisions

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	sell-out rules in relation to the securities.		Applying to Business and 1.9 Mandatory Squeeze-Out Rules in Relation to the Securities Combinations)
		Exhibit I	56 – 57 (Delaware Anti-Takeover Law)
		Exhibit II	7 (Delaware Anti-Takeover Law)
4.10	An indication of public takeover bids by third parties in respect of the issuer's equity, which have occurred during the last financial year and the current financial year.	Not applicable	Not applicable
4.11	Information on taxes on the income from the securities withheld at source	Chapter C	45 – 47 (XI. Tax Consequences)
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5.1.2	Total amount of the issue/offer.	Chapter C	40 (6.1 General Information on the Offer Shares and Offering) and 42 (6.7 Final Number of the Offer Shares)
5.1.3	Time period during which the offer will be open and description of the application process.	Chapter C	40 – 41 (6.2 Timetable of the Offering), 42 (6.9 General Rules for Placing Subscription Orders),

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5.1.5	Possibility to reduce subscriptions and the manner for refunding excess amount paid by applicants.	Chapter C	42 (6.9 General Rules for Placing Subscription Orders)
5.1.6	Minimum and/or maximum amount of application.	Chapter C	42 (6.8 Maximum Number of Offer Shares per One Subscription Order)
5.1.7	Period during which an application may be withdrawn.	Chapter C	42 (6.9 General Rules for Placing Subscription Orders)
5.1.8	Method and time limits for paying up the securities and for delivery of the securities.	Chapter C	40 – 41 (6.2 Timetable of the Offering), 43 (6.11 Subscription and Payment of the Offer Price by Institutional Investors) and 43 – 44 (7.3 Settlement and Delivery of the Offer Shares)
5.1.9	Manner and date in which results of the offer are to be made public.	Chapter C	42 (6.7 Final Number of the Offer Shares)
5.1.10	Procedure for the exercise of any right of pre-emption.	Not applicable	Not applicable
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5.2.1.	The various categories of potential investors to which the securities are offered.	Chapter C	41 (6.3 Eligible Investors)
5.2.2.	Indication of whether major shareholders or members of the issuer's management, supervisory or administrative bodies intended to subscribe in the offer, or whether any person intends to subscribe for more than five per cent of the offer.	Chapter C	34 (1.14 Related Party Transactions)
5.2.3.	Pre-allotment Disclosure:		
a)	The division into tranches of the offer;	Chapter C	40 (6.1 General Information on the Offer Shares and Offering) and 42 (6.10 General Principles of Share Allotment)
b)	The conditions under which the claw-back may be used;	Chapter C	42 (6.10 General Principles of Share Allotment)
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d)	Pre-determined preferential treatment to be accorded to certain classes of investors or certain affinity groups.	Chapter C	42 (6.10 General Principles of Share Allotment)
e)	Whether the treatment of subscriptions or bids to subscribe in the allotment may be determined on the basis of which firm they are made through or by;	Chapter C	42 (6.10 General Principles of Share Allotment)
f)	A target minimum individual allotment if any within the retail tranche;	Not applicable	Not applicable
g)	The conditions for the closing of the offer as well as the date on which the offer may be closed at the earliest;	Chapter C	40 – 41 (6.2 Timetable of the Offering)
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5.2.4.	Process for notification to applicants of the amount allotted.	Chapter C	43 (6.11 Subscription and Payment of the Offer Price by

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5.2.5.	Over-allotment and 'green shoe':		
a)	The existence and size of any over-allotment facility and/or 'green shoe'.	Chapter C	43 (7.2 Listing Agent; Lead Managers)
b)	The existence period of the over-allotment facility and/or 'green shoe'.	Not applicable	Not applicable
c)	Any conditions for the use of the over-allotment facility or exercise of the 'green shoe'.	Not applicable	Not applicable
5.3	**Pricing**		
5.3.1.	An indication of the price at which the securities will be offered.	Chapter C	41 (6.5 Maximum Offer Price) and 41 – 42 (6.6 Determination of the Offer Price)
5.3.2.	Process for the disclosure of the offer price.	Not applicable	42 (6.7 Final Number of the Offer Shares)
5.3.3.	If the issuer's equity holders have pre-emptive purchase rights and this right is restricted or withdrawn.	Chapter C	30 (No Preemptive, Redemptive or Conversion Provisions)
5.3.4	Where there is or could be a material disparity between the public offer price and the effective cash cost to members of the administrative, management or supervisory bodies or senior management, or affiliated persons, of securities acquired by them in transactions during the past year.	Not applicable	Not applicable
5.4.	**Placing and Underwriting**		
5.4.1	Name and address of the co-coordinator(s) of the global offer.	Chapter C	43 (7.2 Listing Agent; Lead Managers)

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5.4.2	Name and address of any paying agents and depository agents in each country.	Chapter C	28 (1.3 Form of Securities, Name and Address of the Entity In Charge of Keeping the Records)
5.4.3.	Name and address of the entities agreeing to underwrite the issue on a firm commitment basis.	Chapter C	43 (7.2 Listing Agent; Lead Managers)
5.4.4.	When the underwriting agreement has been or will be reached.	Chapter C	43 (7.2 Listing Agent; Lead Managers)
6.	**ADMISSION TO TRADING AND DEALING ARRANGEMENTS**		
6.1	Whether the securities offered are or will be the object of an application for admission to trading.	Chapter C	28 (1.1 Type and the Class of the Securities Being Offered, Including the Security Identification Code) and 43 (7.1 Listing and Trading)
6.2	Regulated markets or equivalent markets on which securities of the same class of the securities to be offered or admitted to trading are already admitted to trading.	Chapter C	28 (1.1 Type and the Class of the Securities Being Offered, Including the Security Identification Code) and 43 (7.1 Listing and Trading)
6.3	Simultaneous private placement.	Chapter C	40 (6.1 General Information on the Offer Shares and Offering)
6.4	Details of the entities which have a firm commitment to act as intermediaries in secondary trading, providing liquidity.	Not applicable	Not applicable
6.5	**Stabilization**		
6.5.1.	The fact that stabilization may be undertaken, that	Not applicable	Not applicable

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	there is no assurance that it will be undertaken and that it may be stopped at any time,		
6.5.2.	The beginning and the end of the period during which stabilization may occur,	Not applicable	Not applicable
6.5.3.	Identity of the stabilization manager	Not applicable	Not applicable
6.5.4.	The fact that stabilization transactions may result in a market price that is higher than would otherwise prevail.	Not applicable	Not applicable
7.	**SELLING SECURITIES HOLDERS**		
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7.2.	The number and class of securities being offered by each of the selling security holders.	Not applicable	Not applicable
7.3.	Lock-up agreements	Not applicable	Not applicable
8.	**EXPENSE OF THE ISSUE/OFFER**		
8.1.	The total net proceeds and an estimate of the total expenses of the issue/offer.	Chapter C	45 (8.2 Net Proceeds)
9.	**DILUTION**		
9.1.	The amount and percentage of immediate dilution resulting from the offer.	Chapter C	44 – 45 (8.1 Maximum Dilution)
9.2.	In the case of a subscription offer to existing equity holders, the amount and percentage of immediate dilution if they do not subscribe to the new offer.	Not applicable	Not applicable
10.	**ADDITIONAL INFORMATION**		
10.1.	If advisors connected with an issue are mentioned in the Securities Note, a statement of the capacity in which the advisors have acted.	Not applicable	Not applicable
10.2.	An indication of other information in the Securities Note which has been audited or reviewed by statutory auditors.	Not applicable	Not applicable
10.3.	Where a statement or report attributed to a person as an expert is included in the Securities Note, provide such persons' name, business address, qualifications and material interest if any in the issuer.	Not applicable	Not applicable

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10.4.	Where information has been sourced from a third party.	Not applicable	Not applicable

EXHIBITS

EXHIBIT I

PROSPECTUS FILED BY KIT DIGITAL, INC. WITH THE SEC ON AUGUST 13, 2009

Filed Pursuant to Rule 424(b)(4)
File Nos. 333-160182 and 333-161308

PROSPECTUS

3,960,000 Shares

Common Stock

Of the 3,960,000 shares of our common stock offered by this prospectus, 3,410,000 shares are being sold by us and 550,000 shares are being sold by certain existing, unaffiliated stockholders. No stockholder affiliated with management is selling shares in this offering. We will not receive any proceeds from the sale of shares by the selling stockholders.

On August 12, 2009, our common stock closed at $7.33 per share on the OTC Bulletin Board. Our common stock has been approved for listing on the Nasdaq Global Market under the symbol KITD.

KIT Media Ltd., our largest single stockholder, controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, has indicated to us that it will be purchasing $4.0 million of common stock (572,000 shares) in this offering, in part through the conversion into common stock of an interim note payable by us in the amount of $3.35 million. All shares sold to KIT Media will be at the same price and on the same terms as the other investors in this offering. Gavin Campion, our President, is also an investor in KIT Media, as are several members of our board of directors.

These are speculative securities and involve a high degree of risk and substantial dilution. You should not invest in our securities unless you can afford to lose your entire investment. Please see "Risk Factors" beginning on page 7 of this prospectus.

	Price to Public	Underwriting Discounts and Commissions (1) (2)	Proceeds, Before Expenses, to KIT digital	Proceeds, Before Expenses, to Selling Stockholders
Per Share	$ 7.00	$ 0.42	$ 6.58	$ 6.58
Total	$ 27,720,000	$ 1,401,960	$ 22,699,040	$ 3,619,000

(1) Does not reflect additional compensation to the underwriters in the form of a non-accountable expense allowance of 1.375% of the total offering price, except for shares of common stock sold to KIT Media Ltd. and Granahan McCourt Capital, LLC (excluding the over-allotment option). See "Underwriting."

(2) We are not paying an underwriting commission and discount on shares of common stock sold to KIT Media Ltd. and Granahan McCourt Capital, LLC, which are purchasing 572,000 shares and 50,000 shares in this offering, respectively.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

We have granted the underwriters an option to purchase up to an additional 594,000 shares of common stock at the public offering price, less the underwriting discount, to cover over-allotments. The underwriters may exercise this option at any time and from time to time within 30 days after the date of this prospectus. We expect that the shares of common stock will be ready for delivery in New York, New York on or about August 18, 2009.

Roth Capital Partners

Merriman Curhan Ford & Co.

Maxim Group LLC

The date of this prospectus is August 12, 2009

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KIT digital's VX Software Platform

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You should rely only on the information contained in this prospectus. Neither the underwriters nor we have authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. Neither the underwriters nor we are making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully. All references to "we," "us," the "company" and "KIT digital" mean KIT digital, Inc., including subsidiaries and predecessors, except where it is clear that the term refers only to KIT digital, Inc. Unless otherwise indicated, all information contained in this prospectus assumes that the underwriters will not exercise their over-allotment option or their underwriters' warrants, and that no outstanding stock options or warrants will be exercised. This prospectus contains forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.

Our Company

KIT digital is a leading provider of on-demand content management solutions for managing Internet Protocol (IP)-based video assets. Our comprehensive software platform, called "KIT VX" or "VX," enables large corporate customers to acquire, manage and distribute their video assets across the three screens of the computer Internet browser, the mobile device and the set-top box enabled Internet Protocol Television (IPTV). We deliver our software platform over the Internet as a subscription service using a software-as-a-service or on-demand model, while occasionally installing our software onsite for clients as part of an enterprise license. Our software serves corporate customers across a wide variety of industries, including media & entertainment, telecommunications, retail, consumer/packaged goods, automotive and financial services. Our clients' use of the VX platform ranges from end-consumer focused video distribution to internal corporate deployments, including corporate communications, human resources, training, security and surveillance. As of August 10, 2009, our customer base consisted of more than 470 enterprise customers from over 30 countries, including The Associated Press, Disney-ABC Television, Google Inc., IMG Worldwide Inc., Kmart, Nasdaq Stock Market, News Corp., RCS, Sensis Corp., Telefónica SA and Verizon Communications. Our clients usually enter into long-term contracts, and our average contract length is approximately 24 months.

Our KIT VX platform deployments are often complemented by marketing, branding and interface design services, as well as IPTV systems integration capabilities — related to digital play-out facilities, recording and editing suites, and remote content acquisition assets. We estimate approximately 75 – 80% of our current revenues are generated by VX platform-related fees, with the remainder directly related to professional services.

KIT VX is used by demanding and sophisticated corporate clients and is particularly appropriate for global corporations that need to centrally and securely ingest and manage video content, while also being able to allow for content access and publishing in multiple geographical locations, on multiple device types, and in different languages and protocols. This ability to centrally and securely administer video content but allow for it to be modified and distributed broadly is sometimes referred to as multi-point publishing, or "MPP." We believe that our VX platform has the most advanced MPP capabilities in the market.

We manage our business across three major geographical profit and loss centers: (i) Europe, Middle East and Africa (EMEA), (ii) Asia-Pacific and (iii) the Americas. We estimate that approximately 65%, 29% and 6% of our current revenues are generated in EMEA, Asia-Pacific and the Americas, respectively. Our enterprise clients in each of these regions use our VX platform and related professional services to extend their audience reach using video and for internal corporate purposes. Specific customer examples:

- AutoTrader in the United Kingdom has licensed our KIT VX platform to manage and showcase user-generated videos of automobiles for offer through AutoTrader's online and mobile marketplace.
- Telefónica 02 has licensed our VX platform to acquire IP-based content at sports venues in Central Europe, edit and distribute related video to online, mobile and other IP-enabled points of delivery.
- In Asia, Yellow (part of Sensis Corp.) has licensed out the KIT VX platform to manage and distribute video geared towards making their core classified offering more engaging and functional for the end user.

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- Citadel/ABC Radio, based in North America, has licensed our VX platform to manage video content that can be displayed across its network of over 200 radio station websites, as well as through mobile handsets.

We believe the proliferation of Internet-connected devices, coupled with the accelerating worldwide adoption of broadband Internet connections and video-capable mobile networks, is fueling long-term growth in IP-based video content management. Our software-as-a-service, or “SaaS,” was specifically developed to help large corporations manage and deliver video to both end-users and internal constituents. Our VX software platform is served through the Internet from centrally hosted computing facilities to our customers’ IP connections, and delivers high levels of reliability, scalability and security at a very reasonable cost. In addition to our on-demand software, we address the needs of our customers at various stages along the IP video value chain — from the repurposing and monetization of video assets to the deployment of related IP recording and broadcast facilities — by offering professional services related to creative interface design, branding strategies, strategic planning and technical integration. Furthermore, those customers lacking proprietary video content or looking to supplement their existing video content can access approximately 80 KIT-syndicated channels and over 40,000 regularly updated KIT-syndicated videos. We believe our VX software platform, combined with our systems integration and creative services, provides us a sustainable, competitive advantage over other solutions currently being offered in the marketplace. Our focus on advanced multi-point publishing capabilities meets the needs of an evolving IP video marketplace.

We derive our revenues from on-demand software subscription license fees, software usage fees, upfront license fees and professional services fees. For the year ended December 31, 2008, we recorded consolidated revenue of $23.4 million as compared to revenue of $13.9 million for the year ended December 31, 2007. For the three months ended March 31, 2009, we recorded consolidated revenue of $9.6 million as compared to consolidated revenue of $3.5 million for the three months ended March 31, 2008, representing a year-over-year increase of 175%. For the three months ended March 31, 2009, we generated $198,000 of operating EBITDA, defined as earnings before derivative income (loss), non-cash stock-based compensation, acquisition-related restructuring costs, impairment of property and equipment, merger and acquisition expenses, investor relation expenses and depreciation and amortization. Operating EBITDA is a measure we use to manage our business and assist our stockholders in understanding our operating results. It is not a metric presented in accordance with generally accepted accounting principles.

We completed two principal acquisitions during 2008 — the May 2008 acquisition of Kamera Content AB and the October 2008 acquisition of Visual Connection, a.s. — bringing mobile content publishing and IPTV solutions capabilities, respectively, to our core VX product offering. In addition, each of these acquisitions allowed for the realization of cost synergies, and brought with them internal managers and external customers who have continued to contribute to our business. We believe we have effectively integrated these acquisitions at this time.

On June 29, 2009, we announced a global strategic alliance with Akamai Technologies, Inc., a leading IP streaming infrastructure provider. The agreement with Akamai calls for joint packaging and reselling of each companies’ products and services, as well as collaborative marketing and sales efforts. We expect the Akamai agreement to augment our existing client and revenue base over time, and we will endeavor to enter into similar reselling agreements with other market participants in the future.

We currently employ approximately 190 full-time individuals, with principal offices in eight countries and sales representative offices in several other locations. We believe that, based on our own research, we are the largest company — as measured by revenue, operating EBITDA, enterprise client base and geographical reach — in the IP video platform marketplace, and see industry consolidation as a component of our growth strategy. As such, we intend to pursue a combined organic and acquisition growth path.

Our Industry

We believe we are well positioned to take advantage of the growth within our industry. Our industry's growth globally is expected to be driven by:

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

Our Solution

Our comprehensive platform, KIT VX, is designed to serve as a single system for acquiring, managing and distributing a company's IP-based video assets. Key highlights are:

- comprehensive IP-based video asset management solution — our software platform allows our customers to ingest IP-based video content from multiple origination points such as satellite capture or IP feeds;
- modularity — our VX platform is designed to offer an end-to-end solution and is comprised of nine primary modules;
- multi-point publishing capability — our VX platform is able to centrally and securely administer video content but allow for it to be modified and distributed broadly;
- highly configurable on-demand applications — our software solution is highly configurable, allowing customers to tailor their deployment to reflect their identity, unique business processes and existing forms and templates;
- integration with leading CMS and ERP software systems — our software suite was designed to work with traditional content management systems and large enterprise resource planning, or ERP, software systems, including Microsoft, Oracle and SAP;
- systems deployment and integration services — we believe our VX software, combined with our systems integration and complex video deployment capabilities, provides us a sustainable, competitive advantage over other solutions currently being offered in the marketplace; and
- marketing, branding and interface design services — we offer our customers top-grade creative and professional services to support the successful implementation of their IP-based video strategy, including creative interface design, branding strategies and strategic planning.

Our Growth Strategy

Our objective is to enhance our position as the leading provider of on-demand enterprise software for IP-based video asset management. Key elements of our growth strategy include:

- expand upon our leadership in on-demand, IP-based video asset management — we believe that we are the largest international provider of software solutions for managing IP video content and that our brand has become synonymous with "industrial grade" quality, professionalism and customer support;
- pursue new customers and territories — we are aggressively targeting potential customers, primarily through our direct sales force and believe that there are substantial market opportunities for our solutions in the Americas, and the emerging markets of Eastern Europe, the Middle East, South Asia and Greater China;

- enter into strategic re-selling partnerships with content delivery networks (CDNs), systems integration and hardware providers — we currently have reselling relationships in place with Sitecore, Tech Access (Middle East), and Vivocom (Spain) and expect to identify and partner with companies with complementary technology and access to clients across the IP-based video ecosystem;
- leverage recently signed Akamai relationship — we are engaging in collaborative sales and marketing efforts with Akamai and the reselling of each other's products and services. Akamai's leadership position in IP-video streaming combined with our KIT VX content management platform will, we believe, create a unique IP-video offering for large enterprise clients globally, and we expect to generate new client opportunities and revenue from this relationship;
- complete accretive acquisitions which expand our client and geographical footprint — we intend to continue to pursue selected acquisitions in North America and internationally that consolidate market share, expand our geographical footprint and further our position as the leading provider of enterprise-grade IP-based video management solutions;
- increase revenue per customer — we seek to increase revenue from each corporate customer by upselling additional modules of the VX platform, as well as complementary creative and technical services;
- enhance our product offering — we intend to further develop our VX software platform's capabilities and features; and
- gain brand awareness — we believe that we are the largest international provider of software solutions for managing IP video content and that our brand has become synonymous with "industrial grade" quality, professionalism and customer support.

Corporate Information

We were organized as a corporation under the laws of the State of Delaware in August 1998, and commenced operations in our current line of business in December 2003. Our principal executive offices are located at 168 Fifth Avenue, Suite 301, New York, New York 10010, and our telephone number is +1 (212) 661-4111. We maintain a corporate website at *www.kitd.com* and an electronic brochure of our product offerings can be downloaded at *www.kitd.com/brochure.pdf* . Neither the contents of our website nor our brochure is part of this prospectus and should not be relied upon with respect to this offering.

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The Offering

Common stock offered by KIT digital	3,410,000 shares of common stock
Common stock offered by the selling stockholders	550,000 shares of common stock
Common stock outstanding prior to this offering	4,819,591 shares [(1)]
Common stock to be outstanding after this offering	8,229,591 shares [(1)]
Use of proceeds	We intend to use the net proceeds of this offering to finance possible acquisitions of, or investments in, competitive businesses, products and technologies as a part of our growth strategy, to repay certain outstanding debt, and for working capital and general corporate purposes.
Nasdaq Global Market trading symbol	KITD
Ownership after this offering	Our executive officers and directors will beneficially own approximately 30.5% of our outstanding common stock after the completion of this offering.
Risk factors	See "Risk Factors" beginning on page 7 and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.

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(1) Based on 4,819,591 shares outstanding on August 10, 2009, the number of shares to be outstanding after this offering excludes the following:

- 563,417 shares of common stock reserved for issuance upon the exercise of outstanding stock options under our 2004 Stock Option Plan and 2008 Incentive Stock Plan,
- 3,424,451 shares of common stock reserved for issuance upon the exercise of outstanding warrants (for which cash would need to be remitted to us for exercise), and
- 59,245 shares of common stock reserved for issuance under the underwriters' warrants.

All shares and per share information in this prospectus reflects, and where appropriate, is restated for, a 1-for-35 reverse stock split of our outstanding shares of common stock, effective March 9, 2009.

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Summary Consolidated Financial Data

The summary consolidated financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the related notes included elsewhere in this prospectus.

	Year Ended December 31,		Three Months Ended March 31,	
	2007	2008	2008 (Unaudited)	2009 (Unaudited)
	(In Thousands, Except Share and per Share Data)			
Consolidated Statement of Operations Data:				
Revenue	$ 13,929	$ 23,401	$ 3,502	$ 9,624
Gross profit	7,042	13,004	2,050	4,598
Total general and administrative expenses	41,280	31,710	12,861	6,104
Loss from operations	(34,238)	(18,706)	(10,811)	(1,506)
Net income (loss) available to common stockholders	$ (34,564)	$ (18,975)	$ (10,647)	$ 168
Net income (loss) per share:				
Basic	$ (34.69)	$ (7.55)	$ (9.57)	$ 0.04
Diluted	$ (34.69)	$ (7.55)	$ (9.57)	$ 0.04
Weighted average number of shares outstanding:				
Basic	996,267	2,512,415	1,112,459	4,289,630
Diluted	996,267	2,512,415	1,112,459	4,473,679
Comprehensive income (loss)	$ (34,518)	$ (19,279)	$ (10,583)	$ 131

	As of March 31, 2009 (Unaudited)	
	Actual	Pro Forma as Adjusted for Note Conversion and This Offering [(1)]
	(In Thousands)	
Consolidated Balance Sheet Data:		
Cash and cash equivalents	$ 2,525	$ 23,414
Working capital (deficiency)	(6,779)	14,110
Total assets	41,039	61,928
Total liabilities	24,210	23,122
Total stockholders' equity	16,829	38,806

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(1) Reflects our sale of 3,410,000 shares of common stock offered by this prospectus at the public offering price of $7.00 per share, after deducting the underwriting discount and the estimated offering expenses that we will pay, and the conversion into common stock of notes payable by us to KIT Media and to Granahan McCourt Capital, LLC.

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RISK FACTORS

A purchase of our shares of common stock involves a high degree of risk. You should consider carefully the following risk factors, in addition to the other information contained in this prospectus and the documents incorporated by reference into this prospectus, before purchasing any shares.

Risks Related to Our Business

We have a history of annual net losses which may continue and which may negatively impact our ability to achieve our business objectives, and we received a going concern qualification in our 2008 audit.

For the year ended December 31, 2008, we had revenue of $23.4 million and a net loss available to common stockholders of $(19.0 million). At December 31, 2008, we had stockholders' equity of $18.3 million, an increase of $6.9 million from December 31, 2007. Our stockholders' equity was $16.8 million as of March 31, 2009. For the three months ended March 31, 2009, we had revenue of $9.6 million, compared to revenue of $3.5 million for the comparable period in 2008. We had net income available to common stockholders of $168,000 for the three months ended March 31, 2009, compared to a net loss available to common stockholders of $(10.6 million) for the comparable 2008 period. Our independent auditors, in their report dated April 8, 2009, expressed doubt about our ability to continue as a going concern. There can be no assurance that our future operations will result in net income. Our failure to increase our revenues or improve our gross margins will harm our business. We may not be able to sustain or increase profitability on a quarterly or annual basis in the future. If our revenues grow more slowly than we anticipate, our gross margins fail to improve or our operating expenses exceed our expectations, our operating results will suffer. The prices we charge for our Internet software and services may decrease, which would reduce our revenues and harm our business. If we are unable to sell our solutions at acceptable prices relative to our costs, or if we fail to develop and introduce on a timely basis new products from which we can derive additional revenues, our financial results will suffer.

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

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

- establishing and maintaining broad market acceptance of our products and services and converting that acceptance into direct and indirect sources of revenue,
- establishing and maintaining adoption of our technology on a wide variety of platforms and devices,
- timely and successfully developing new products, product features and services and increasing the functionality and features of existing products and services,
- developing services and products that result in high degrees of corporate client satisfaction and high levels of end-customer usage,
- successfully responding to competition, including competition from emerging technologies and solutions,
- developing and maintaining strategic relationships to enhance the distribution, features, content and utility of our products and services and
- identifying, attracting and retaining talented technical and creative services staff at reasonable market compensation rates in the markets in which we employ.

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

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

We may fail to adequately manage our anticipated future growth. Any growth in our operations will place a significant strain on our administrative, financial and operational resources, and increase demands on our management and on our operational and administrative systems, controls and other resources. We cannot assure you that our existing personnel, systems, procedures or controls will be adequate to support our operations in the future or that we will be able to successfully implement appropriate measures consistent with our growth strategy. As part of this growth, we may have to implement new operational and financial systems, procedures and controls to expand, train and manage our employee base, and maintain close coordination among our technical, accounting, finance, marketing, sales and editorial staff. We cannot guarantee that we will be able to do so, or that if we are able to do so, we will be able to effectively integrate them into our existing staff and systems. There may be greater strain on our systems mainly because we have acquired several businesses over the last 18 months and have had to devote significant management time and expense to the ongoing integration and alignment of management, systems, controls and marketing. To the extent we acquire other businesses, we will also need to integrate and assimilate new operations, technologies and personnel. If we are unable to manage growth effectively, such as if our sales and marketing efforts exceed our capacity to install, maintain and service our products or if new employees are unable to achieve performance levels, our business, operating results and financial condition could be materially and adversely affected.

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

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

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

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

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

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

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

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

Our operations also depend on receipt of timely feeds from our content providers, and any failure or delay in the transmission or receipt of such feeds could disrupt our operations. We also depend on web browsers, ISPs (Internet service providers), online service providers and mobile networks to provide our clients’ end-users access to websites, IPTV and mobile content. Many of these providers have experienced outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to our systems. Any such outage, delay or difficulty could adversely affect our ability to provide our software-as-a-service, which would harm our business.

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

Much of our communications hardware and computer hardware operations are operated or safeguarded by third parties. If these providers’ hardware, operations or security systems fail — particularly if they fail in unison — our reputation and business may suffer. We do not have complete backup systems for all of these hardware operations. A problem with, or failure of, our communications hardware or computer hardware operations could result in interruptions or increases in response times for our customers. If we cannot maintain our system in the event of unexpected occurrences, make necessary modifications and/or improvements to the technology, such deficiencies could have a material adverse effect upon our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

The acquisitions of Visual Connection, Kamera Content, Morpheum and Narrowstep involve the integration of businesses that have previously operated separately. The difficulties of combining the operations of these businesses have included:

- the challenge of effecting technical integration while carrying on the ongoing businesses,
- the necessity of coordinating geographically separate organizations and
- effective integration of personnel with diverse business backgrounds.

The process of completing the integration of these businesses could cause an interruption of, or loss of momentum in, the activities of our company and the loss of key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with the merger and the integration of these operations could have an adverse effect on our business, financial condition or results of operations.

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

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

- identify suitable businesses or assets to buy,
- complete the purchase of those businesses on terms acceptable to us,
- complete the acquisition(s) in the time frame and within the budget we expect and
- improve the results of operations of each of the businesses that we buy and successfully integrate its operations on an accretive basis.

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Securities and this Offering

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

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

You will experience immediate and substantial dilution when you purchase shares in this offering.

Upon the closing of this offering, investors will incur immediate and substantial dilution in the per share net tangible book value of their common stock. At March 31, 2009, after giving pro forma effect to our receipt of the net proceeds of this offering, we would have a pro forma net tangible book value of $2.21 per share. Net tangible book value is the amount of our total assets minus intangible assets and liabilities. This represents a gain in our net tangible book value of $3.09 per share for the benefit of our current stockholders, and dilution of $4.79, or 68.5% of the public offering price, for investors in this offering. Investors in this offering will be subject to increased dilution upon the exercise of existing outstanding stock options and warrants. These stock options and warrants, for which cash would need to be remitted to us for exercise, represent an additional 3,987,868 shares of common stock that could be issued in the future.

Shares of stock issuable pursuant to our stock options, warrants and underwriters' warrants may adversely affect the market price of our common stock.

As of March 31, 2009, we have outstanding under our 2004 Stock Option Plan and 2008 Incentive Stock Plan stock options to purchase an aggregate of 563,417 shares of common stock at a weighted average exercise price of $6.79 per share and outstanding warrants to purchase 3,424,451 shares of common stock (for which cash would need to be remitted to us for exercise) at a weighted average exercise price of $18.45 per share. The exercise of the stock options and warrants and the sales of stock issuable pursuant to them, would further reduce a stockholder's percentage voting and ownership interest.

Upon completion of this offering, we will issue to the underwriters for nominal consideration warrants to purchase up to 59,245 shares of common stock. The warrants will be exercisable for four years after the date of this prospectus at an exercise price of $8.40 per share (120% of the public offering price of the common stock).

The stock options, warrants and underwriters' warrants are likely to be exercised when our common stock is trading at a price that is higher than the exercise price of these options and warrants, and we would be able to obtain a higher price for our common stock than we will receive under such options and warrants. The exercise, or potential exercise, of these options and warrants could adversely affect the market price of our common stock and adversely affect the terms on which we could obtain additional financing.

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

The sale, or availability for sale, of a substantial number of shares of common stock in the public market could materially adversely affect the market price of our common stock and could impair our ability to raise additional capital through the sale of our equity securities. At the completion of this offering, there will be approximately 8,229,591 shares of common stock issued and outstanding. Of these shares, approximately 5,089,686 shares would be freely transferable. Our executive officers and directors would beneficially own approximately 2,508,454 shares, or 30.5% of our outstanding common stock after the completion of this offering, which would be eligible for resale, subject to the volume and manner of sale limitations of Rule 144 of the Securities Act. An additional 631,451 shares are "restricted shares," as that term is defined in Rule 144, and are eligible for sale under the provisions of Rule 144.

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

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

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likelihood we would be required to pay any expenses they incurred in defending the lawsuit and any judgment or settlement they otherwise would be required to pay.

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

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

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

Our executive officers and directors currently own or control 40.2% of our voting stock. Upon the completion of this offering, our executive officers and directors will own or control approximately 30.5% of our voting stock. If these stockholders act together, they will be able to exert significant control over our management and affairs requiring stockholder approval, including approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our common stock. This concentration of ownership may not be in the best interests of all of our stockholders.

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

We currently intend to retain our future earnings to support operations and to finance expansion and, therefore, we do not anticipate paying any cash dividends on our capital stock in the foreseeable future. Our senior secured term loan with Genesis Merchant Partners also prohibits us from paying cash dividends on our common stock. This term loan expires on December 31, 2009. You should not buy our stock if you are expecting to receive cash dividends.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Included in this prospectus are “forward-looking” statements, as well as historical information. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that the expectations reflected in these forward-looking statements will prove to be correct. Our actual results could differ materially from those anticipated in forward-looking statements as a result of certain factors, including matters described in the section titled “Risk Factors.” Forward-looking statements include those that use forward-looking terminology, such as the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “project,” “plan,” “will,” “shall,” “should” and similar expressions, including when used in the negative. Although we believe that the expectations reflected in these forward-looking statements are reasonable and achievable, these statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Actual results may be materially different than those described herein. Important factors that could cause our actual results, performance or achievements to differ from these forward-looking statements include the factors described in the “Risk Factors” section and elsewhere in this prospectus.

All forward-looking statements attributable to us are expressly qualified in their entirety by these and other factors. We undertake no obligation to update or revise these forward-looking statements, whether to reflect events or circumstances after the date initially filed or published, to reflect the occurrence of unanticipated events or otherwise, except to the extent required by federal securities laws.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-1 with the U.S. Securities and Exchange Commission, or the SEC, to register the shares of our common stock being offered by this prospectus. In addition, we file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information that we file at the SEC’s public reference facilities at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information regarding the public reference facilities. The SEC maintains a website, *http://www.sec.gov* , that contains reports, proxy statements and information statements and other information regarding registrants that file electronically with the SEC, including us. Our SEC filings are also available to the public from commercial document retrieval services. Information contained on our website should not be considered part of this prospectus.

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

KIT digital, Inc.
168 Fifth Avenue, Suite 301
New York, New York 10010
Attention: Mr. Kaleil Isaza Tuzman
Chairman and Chief Executive Officer
+1 (212) 661-4111

USE OF PROCEEDS

We estimate the net proceeds to us from the sale of the common stock in this offering will be approximately $18,481,000, or approximately $22,389,000 if the underwriters' over-allotment option is exercised in full, based on the public offering price of $7.00 per share and after deducting the underwriting discount and our estimated offering expenses. We will not receive any proceeds from the sale of shares being offered in this offering by the selling stockholders or from the shares we are issuing through the conversion into common stock of notes payable by us in the aggregate amount of $3.7 million.

We intend to use the net proceeds from this offering for the following purposes and in the following order of priority:

Purpose	Estimated Amount	Estimated Percentage of Net Proceeds
Funding of potential acquisitions	$ 14,589,000	78.9%
Repayment of outstanding loans	$ 1,292,000	7.0%
Working capital and general corporate purposes	$ 2,600,000	14.1%
Total	$ 18,481,000	100.0%

We plan to use a significant portion of the net proceeds of this offering to finance acquisitions of, or investments in, competitive and complementary businesses as a part of our growth strategy. We currently have no commitments with respect to any such acquisitions or investments.

In November 2008, we received a $1.5 million senior secured term loan from Genesis Merchant Partners, LP, pursuant to the terms of a note purchase agreement. The senior secured term loan bears cash interest at 14.5% per annum payable monthly in arrears, and matures on December 31, 2009. We will utilize approximately $1,292,000 of the net proceeds of this offering to repay the loan. The loan has been used by us for our general working capital needs. We may also use a limited amount of additional proceeds to pay down lesser working capital-oriented bank facilities.

Working capital and general corporate purposes include amounts required to pay for research and development expenses, salaries, professional fees, public reporting costs, office-related expenses and other corporate expenses, including interest and overhead. Any additional net proceeds received from the exercise of the over-allotment option will be used for working capital and general corporate purposes.

We may also use a limited portion of the net proceeds, together with remaining amounts previously funded under notes payable by us, to redeem outstanding warrants from certain warrant holders and/or to settle certain future earn-out payments relating to previously acquired companies. A description of the notes payable by us that are being applied to purchase shares in this offering are described below under “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Recent Securities Offerings.”

Pending these uses, we intend to invest most of the net proceeds from this offering in short-term, investment-grade, interest-bearing securities.

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DIVIDEND POLICY

We have never paid any cash dividends on our capital stock and do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain any future earnings to fund the development and growth of our business. There are no restrictions in our certificate of incorporation or by-laws on declaring dividends. The terms of our senior secured term loan with Genesis Merchant Partners, which expires on December 31, 2009, prohibit us from paying cash dividends on our common stock.

CAPITALIZATION

The following table summarizes our short-term debt and capitalization as of March 31, 2009, (a) on an actual basis, and (b) on a pro forma as adjusted basis to reflect the estimated net proceeds we will receive from the sale of 3,410,000 shares of common stock offered by this prospectus at the public offering price of $7.00 per share, after deducting the underwriting discount and the estimated offering expenses we will pay, and the conversion into common stock of notes payable (issued in the second quarter of 2009) by us in the aggregate amount of $3.7 million.

	As of March 31, 2009	
	Actual	Pro Forma as Adjusted for Note Conversion and This Offering [1]
	(Unaudited)	(Unaudited)
	(In Thousands)	
Short-term debt	$ 3,832	$ 2,744
Long-term debt and capitalized lease obligations, net of current portion	$ 1,064	$ 1,064
Stockholders' equity:		
Common Stock, $0.0001 par value: authorized 30,000,000 shares; issued and outstanding 4,745,756, shares, actual; issued and outstanding, pro forma as adjusted for this offering, 8,155,756 shares [1]	—	1
Additional paid-in capital	84,868	107,048
Accumulated deficit	(67,751)	(67,955)
Accumulated other comprehensive loss	(288)	(288)
Total stockholders' equity	16,829	38,806
Total capitalization	$ 17,893	$ 39,870

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(1) The number of shares issued and outstanding and the additional paid-in capital exclude (a) 563,417 shares of common stock reserved for issuance upon the exercise of stock options outstanding under our 2004 Stock Option Plan and 2008 Incentive Stock Plan, (b) 3,424,451 shares of common stock reserved for issuance upon the exercise of outstanding warrants (for which cash would need to be remitted to us for exercise), and (c) 59,245 shares of common stock reserved for issuance under the underwriters' warrants.

PRICE RANGE OF COMMON STOCK

Our common stock has been quoted on the OTC Bulletin Board under the symbol KDGL since March 10, 2009. From May 29, 2008 to March 9, 2009 (the date of our 1-for-35 reverse stock split), our trading symbol was KITD. Prior to May 29, 2008, when our corporate name was ROO Group, Inc., our trading symbol was RGRP. Our common stock has been approved for listing on the Nasdaq Global Market under the symbol KITD.

The following table sets forth the range of high and low trading prices as reported by the OTC Bulletin Board for the periods indicated.

	Year Ended December 31,					
Quarter	**2007**		**2008**		**2009**	
	High	**Low**	**High**	**Low**	**High**	**Low**
First	$ 154.00	$ 88.55	$ 8.58	$ 2.10	$ 9.25	$ 5.95
Second	110.95	65.80	14.70	5.25	9.00	7.01
Third (through August 12, 2009)	70.00	24.50	11.20	6.65	7.33	6.75
Fourth	40.25	4.87	9.45	3.85	—	—

These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual transactions. These prices have been adjusted from the actual prices for such periods to reflect the 1-for-35 reverse stock split which took place on March 9, 2009.

The closing price of our common stock on August 12, 2009 was $7.33 per share.

As of August 10, 2009, we had 241 stockholders of record and approximately 1,450 beneficial owners of our common stock.

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DILUTION

Purchasers of common stock in this offering will be diluted to the extent of the difference between the public offering price per share and the net tangible book value per share of our common stock immediately after this offering. Net tangible book value dilution per share represents the difference between the amount per share paid by purchasers of common stock in this offering and the pro forma, adjusted net tangible book value per share of common stock immediately after completion of this offering.

Our pro forma, adjusted net tangible book value (deficit) as of March 31, 2009, would have been $(4.2 million) or $(0.88) per share of common stock. Pro forma net tangible book value (deficit) per share as of a specified date is determined by dividing our tangible book value (deficit) (total tangible assets less total liabilities) by the number of outstanding shares of common stock at such date. After giving effect to our sale of the 3,410,000 shares of common stock offered by this prospectus (based upon the public offering price of $7.00 per share, after deducting the underwriting discount and our estimated offering expenses), our pro forma net tangible book value as of March 31, 2009, would have been $18.0 million, or $2.21 per share of common stock. This represents an immediate increase in pro forma net tangible book value to existing stockholders of $3.09 per share, and an immediate dilution to new investors of $4.79 per share, or 68.5% of the public offering price of the shares offered in this offering. The following table illustrates the per share dilution:

Public offering price per share		$ 7.00
Pro forma net tangible book value (deficit) per share as of March 31, 2009	$ (0.88)	
Increase in pro forma net tangible book value (deficit) per share attributable to new investors in this offering	3.09	
Pro forma net tangible book value per share as of March 31, 2009 after this offering		2.21
Pro forma net tangible book value dilution per share to new investors in this offering		$ 4.79

Sales by existing unaffiliated stockholders in this offering will reduce the number of shares held by all existing stockholders to 4,269,591, or 51.9% of the total number of shares of common stock to be outstanding after this offering, and will increase the number of shares to be purchased by new investors to 3,960,000, or 48.1% of the total shares of common stock to be outstanding after this offering.

Investors in this offering will be subject to increased dilution upon the exercise of outstanding stock options and warrants. As of August 10, 2009, these stock options and warrants represent an additional 3,987,868 shares that could be issued (for which cash would need to be remitted to us for exercise) in the future.

SELECTED FINANCIAL DATA

The following selected statement of operations data for the years ended December 31, 2007 and December 31, 2008, and the selected balance sheet data at those dates, are derived from our consolidated financial statements and notes thereto audited by MSPC, our independent registered public accounting firm. The statement of operations data for the three months ended March 31, 2008 and March 31, 2009 are unaudited. Per share data and shares outstanding reflect an adjustment for the effect of the 1-for-35 reverse stock split of our outstanding shares of common stock, which became effective on March 9, 2009. The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto included elsewhere in this prospectus.

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Consolidated Statement of Operations Data

	Year Ended December 31,		Three Months Ended March 31,	
	2007	2008	2008	2009
			(Unaudited)	(Unaudited)
	(In Thousands, Except Share and per Share Data)			
Revenue	$ 13,929	$ 23,401	$ 3,502	$ 9,624
Cost of goods and services	—	2,845	—	3,478
Hosting, delivery and reporting	2,341	2,024	515	282
Content costs	1,304	2,419	184	461
Direct third party creative production costs	3,242	3,109	753	805
Total variable and direct third party costs	6,887	10,397	1,452	5,026
Gross profit	7,042	13,004	2,050	4,598
Compensation, travel and associated costs (including non-cash stock-based compensation)	28,587	20,366	8,324	3,693
Legal, accounting, audit and other professional service fees	1,807	1,227	345	270
Office, marketing and other corporate costs	3,988	3,511	838	717
Merger and acquisition and investor relations expenses	—	427	—	378
Depreciation and amortization	2,236	1,771	245	683
Restructuring charges	—	3,068	2,745	119
Other non-recurring charges	—	1,111	135	244
Settlement of MyVideoDaily agreement	500	—	—	—
Impairment of property and equipment	788	229	229	—
Impairment of intangible assets	3,124	—	—	—
Impairment of goodwill	250	—	—	—
Total general and administrative expenses	41,280	31,710	12,861	6,104
Income (loss) from operations	(34,238)	(18,706)	(10,811)	(1,506)
Interest income	725	164	61	1
Interest expense	(70)	(228)	(14)	(139)
Amortization of deferred financing costs and debt discount	—	(110)	—	(164)
Derivative income	(51)	31	—	1,950
Other income	(792)	(117)	22	29
Net income (loss) before income taxes	(34,426)	(18,966)	(10,742)	171
Income tax expense	(125)	(116)	(1)	(3)
Net income (loss)	(34,551)	(19,082)	(10,743)	168
Minority interest	(13)	107	96	—
Net income (loss) available to	$ (34,564)	$ (18,975)	$ (10,647)	$ 168

common stockholders				
Net income (loss) per share:				
Basic	$ (34.69)	$ (7.55)	$ (9.57)	$ 0.04
Diluted	$ (34.69)	$ (7.55)	$ (9.57)	$ 0.04
Weighted average number of shares outstanding:				
Basic	996,267	2,512,415	1,112,459	4,289,630
Diluted	996,267	2,512,415	1,112,459	4,473,679
Comprehensive income (loss)	$ (34,518)	$ (19,279)	$ (10,583)	$ 131

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Consolidated Balance Sheet Data

	As of December 31,		
	2007	2008	As of March 31, 2009
			(Unaudited)
		(In Thousands)	
Cash and cash equivalents	$ 10,189	$ 5,878	$ 2,525
Working capital (deficiency)	8,090	(3,100)	(6,779)
Total assets	18,115	41,309	41,039
Long-term liabilities	292	2,260	1,602
Total liabilities	6,836	23,238	24,210
Total stockholders' equity	11,355	18,308	16,829

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus. The following discussion should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this prospectus.

Overview

We provide solutions for managing Internet Protocol (IP)-based video assets. Our comprehensive software platform enables enterprise customers to acquire, manage and distribute their video assets across the three screens of the computer Internet browser, the mobile device and set-top box enabled Internet Protocol Television (IPTV). We generally deliver our software platform over the Internet as a subscription service using a software-as-a-service or on-demand model, while occasionally installing our software onsite for clients as part of an enterprise license. Our software serves corporate customers across a wide variety of industries, including media & entertainment, telecommunications, retail, consumer/packaged goods, automotive and financial services. Our clients' use of the VX platform range from end-consumer focused video distribution to internal corporate deployments, including corporate communications, human resources, training, security and surveillance. As of August 10, 2009, our customer base consisted of more than 470 enterprise customers from over 30 countries, including The Associated Press, Disney-ABC Television, Google Inc., IMG Worldwide Inc., Kmart, Nasdaq Stock Market, News Corp., RCS, Sensis Corp., Telefónica SA and Verizon Communications. Our clients usually enter into long-term contracts, and our average contract length is approximately 24 months.

In addition to our on-demand software, we provide professional and creative services including marketing services, creative interface design, branding strategies, strategic planning and technical/systems integration services, and provide over 40,000 syndicated videos. We currently provide our software solutions, professional and creative services internationally through our operating subsidiaries in Dubai, Melbourne, Toronto, Stockholm, New York, London, Prague, Buenos Aires, Cairo, Bogotá and Singapore.

Our success is driven primarily by our ability to attract new customers and to continue to develop our software suite. Our customers are typically large global corporations that are seeking software management tools for consumer-focused video distribution or internal corporate video use, including corporate communications, human resources and training and security/surveillance. Our revenue model consists of on-demand software subscription license fees, software usage fees, upfront license fees and professional services fees. We estimate approximately 75 – 80% of our current revenues are generated by VX platform-related fees, with the remainder directly related to professional services. We invoice customers on a monthly basis.

On June 29, 2009, we announced a global strategic alliance with Akamai Technologies, Inc., a leading IP streaming infrastructure provider. The agreement with Akamai calls for joint packaging and reselling of each companies' products and services, as well as collaborative marketing and sales efforts. We expect the Akamai agreement to augment our existing client and revenue base over time, and we will endeavor to enter into similar reselling agreements with other market participants in the future.

Set forth below is a discussion of the financial condition and results of operations of our company, KIT digital, Inc. and its consolidated subsidiaries (collectively, "we," "us" or "our"), for the three months ended March 31, 2009 and 2008 and the years ended December 31, 2008 and 2007. The consolidated financial statements include the accounts of all the wholly-owned subsidiaries of KIT digital, Inc. Included in the consolidation with Kamera Content AB are Kamera Content AB's 95%-owned subsidiary Kamera (S) PTE LTD and its 55%-owned subsidiary Swegypt Company for Telecommunications (S.A.E.).

As a component of our management's review of the 2008 financial statements, and in light of recent and prospective business changes, our management reviewed and modified the categorization of costs in the Consolidated Statements of Operations. The current categories are presented below under Results of Operations. These changes were made on a prospective basis, with previously reported amounts recategorized to conform with the presentation for the current period. In light of recent and potential future acquisitions, management may choose to introduce additional cost categories in future financial statements.

Critical Accounting Policies and Estimates

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make judgments and estimates. On an ongoing basis, we evaluate our estimates, the most significant of which include establishing allowances for doubtful accounts and determining the recoverability of our long-lived tangible and intangible assets. The basis for our estimates are historical experience and various assumptions that are believed to be reasonable under the circumstances, given the available information at the time of the estimate, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from the amounts estimated and recorded in our financial statements.

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

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

Inventories. We value inventories at the lower of cost (first-in, first-out method) or market and are comprised of finished goods. On a quarterly basis, we review inventory quantities on hand and analyze the provision for excess and obsolete inventory based primarily on product age in inventory and our estimated sales forecast, which is based on sales history and anticipated future demand. Our estimates of future product demand may not be accurate and we may understate or overstate the provision required for excess and obsolete inventory. Accordingly, any significant unanticipated changes in demand could have a significant impact on the value of our inventory and results of operations. As of December 31, 2008 and March 31, 2009, our reserve for excess and obsolete inventory was $0.2 million and $0.1 million, respectively.

Cash and Cash Equivalents. We consider all highly liquid investments with original maturities of 90 days or less when purchased, or fully cash-collateralized investments with immediate callability of collateral, to be cash or cash equivalents.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from our customers not making their required payments. Based on historical information, we believe that our allowance is adequate. Changes in general economic, business and market conditions could result in an impairment in the ability of our customers to make their required payments, which would have an adverse effect on cash flows and our results of operations. The allowance for doubtful accounts is reviewed monthly and changes to the allowance are updated based on actual collection experience. We use a combination of the specific identification method and analysis of the aging of accounts receivable to establish an allowance for losses on accounts receivable. The allowance for doubtful accounts as of December 31, 2007, 2008 and 2009 and March 31, 2009 was $0.3 million, $0.6 million and $0.5 million, respectively.

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

Results of Operations

The following discussion should be read in conjunction with the information set forth in the consolidated financial statements and the related notes thereto appearing elsewhere in this prospectus.

Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008

Revenue

Consolidated revenue increased by $6.1 million from $3.5 million for the three months ended March 31, 2008 to $9.6 million for the three months ended March 31, 2009, an increase of 175%.

Digital media segment revenue for the three months ended March 31, 2009 was $8.8 million compared to $2.4 million for the three months ended March 31, 2008, an increase of $6.5 million or 272%. The increase was principally due to an increase in customers, increased usage by existing customers, and revenue from the acquired companies not included in prior period results. Professional services segment revenue for the three months ended March 31, 2009 was $0.8 million compared to $1.1 million for the three months ended March 31, 2008, a decrease of $0.3 million or 29%. The decrease was primarily from the decreases in spending by existing customers.

Variable and Direct Third Party Costs

Cost of goods and services of $3.5 million represents the costs by KIT digital Czech for the supply of IPTV solutions, services and components; no such expenses were incurred prior to the acquisition of KIT digital Czech in October 2008. Hosting, delivery and reporting costs for the three months ended March 31, 2009 were $0.3 million compared to $0.5 million for the three months ended March 31, 2008, a decrease of $0.2 million or 45% These costs decreased primarily from the establishment of an internal datacenter which reduced our reliance on third party suppliers. Content costs for the three months ended March 31, 2009 were $0.5 million compared to $0.2 million for the three months ended March 31, 2008, an increase of $0.3 million or 151% The increase is primarily from the inclusion of costs from the acquisition of Kamera in May 2008. Direct third party creative production costs for the three months ended March 31, 2009 compared to three months ended March 31, 2008 were relatively flat at $0.8 million.

General and Administrative Expenses

Compensation, travel and associated costs for the three months ended March 31, 2009 were $3.4 million compared to $4.3 million for the three months ended March 31, 2008, a decrease of $0.9 million or 21%. The decrease was primarily from the broad cost-cutting measures begun in the first quarter of 2008 which included a reduction in headcount and salary levels offset in part by our business acquisitions. Non-cash stock-based compensation expense for the three months ended March 31, 2009 was $0.3 million compared to $4.0 million for the three months ended March 31, 2008, a decrease of $3.7 million or 93%. Merger and acquisition and certain investor relation expenses for the three months ended March 31, 2009 were $0.4 million. There were no such expenses in the three months ended March 31, 2008.

Depreciation and amortization expense for the three months ended March 31, 2009 was $0.7 million compared to $0.2 million for the three months ended March 31, 2008, an increase of $0.5 million or 179%. The increase was primarily from the acquisitions of KIT digital Czech in October 2008 and Kamera in May 2008. Restructuring charges for the three months ended March 31, 2009 were $0.1 million compared to $2.7 million for the three months ended March 31, 2008, a decrease of $2.6 million or 96%.

Other Income Expense, Net

Derivative Income. Derivative income for the three months ended March 31, 2009 was $2.0 million. Under EITF 07-05 and FAS 133, we recorded a reduction in the fair value of warrants containing reset provisions.

Net Income (Loss). As a result of the factors described above, we reported net income available to common stockholders of $0.2 million for the three months ended March 31, 2009 compared to net loss available to common stockholders of $10.7 million for the three months ended March 31, 2008, an increase of $10.9 million.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Revenue

Consolidated revenue for the year ended December 31, 2008 was $23.4 million compared to $13.9 million for the year ended December 31, 2007, an increase of $9.5 million or 68%.

Digital media segment revenue for the year ended December 31, 2008 was $18.1 million compared to $9.5 million for the year ended December 31, 2007, an increase of $8.6 million or 90%. The increase was primarily from an increase in customers, increased spending by existing customers, and revenue from the acquired companies not included in prior period results. Agency segment revenue for the year ended December 31, 2008 was $5.3 million compared to $4.4 million for the year ended December 31, 2007, an increase of $0.9 million or 20%. The increase was primarily from the growth of our customer base and increases in spending by existing customers.

Variable and Direct Third Party Costs

Cost of goods and services of $2.8 million represents the costs of equipment and services by Visual for the supply of digital media and IPTV solutions, services and components; no such expenses were incurred prior to the acquisition of Visual in October 2008. Hosting, delivery and reporting costs for the year ended December 31, 2008 were $2.0 million compared to $2.3 million for the year ended December 31, 2007, a decrease of $0.3 million or 14%. These costs decreased primarily due to the termination of the use of external marketing tools that were used in 2007 and the establishment of an internal datacenter which reduced our reliance on third party suppliers. Content costs for the year ended December 31, 2008 were $2.4 million compared to $1.3 million for the year ended December 31, 2007, an increase of $1.1 million or 86%. The increase is primarily costs from the acquisition of Kamera in May 2008. Direct third party creative production costs for the year ended December 31, 2008 were $3.1 million compared to $3.2 million for the year ended December 31, 2007, a decrease of $0.1 million or 4%.

General and Administrative Expenses

Compensation, travel and associated costs decreased by $8.3 million from $23.9 million for the year ended December 31, 2007 to $15.5 million for the year ended December 31, 2008, a decrease of 35%. The decrease was primarily from broad cost cutting measures begun in the first quarter of 2008 which included a reduction in headcount and salary levels offset in part by increases due to acquisitions. Non-cash stock-based compensation expense increased 3% by $0.1 million, from $4.7 million for the year ended December 31, 2007 to $4.9 million for the year ended December 31, 2008. Merger and acquisition and investor relation expenses were $0.4 million for the year ended December 31, 2008. There were no such expenses in 2007.

Depreciation and amortization expense for the year ended December 31, 2008 was $1.8 million compared to from $2.2 million for the year ended December 31, 2007, a decrease of $0.5 million or 21%. This expense has remained relatively constant primarily due to the increases related to the acquisitions of Kamera in May 2008 and Morpheum in September 2008, and Visual in October 2008 offsetting the depreciation and amortization that decreased due to the assets of approximately $4.3 million acquired from the asset purchase agreement with Wurld Media in July 2007, which were subsequently abandoned in December 2007.

Restructuring charges for the year ended December 31, 2008 were $3.1 million and consist of employee termination costs, contract settlements and facility closing costs. There were no restructuring charges for the year ended December 31, 2007. Other non-recurring charges for the year ended December 31, 2008 were $1.1 million and consist of IT overlap, acquisition costs, recruiting costs, relocation of headquarters, corporate rebranding and write-off of a prior year disputed charge. There were no other non-recurring charges for the year ended December 31, 2007.

Other Income Expense, Net

Settlement of MyVideoDaily Agreement. A settlement of $0.5 million for the year ended December 31, 2007 was paid upon the execution of the settlement agreement with RJM Price & Company, Inc. and Robertson Price on October 18, 2007.

Impairment of Property and Equipment. Impairment of property and equipment was $0.2 million for the year ended December 31, 2008 and $0.8 million for the year ended December 31, 2007. In 2008, the impairment related to the abandonment of assets due to the downsizing of our London office. In 2007, a loss on impairment of property and equipment of $0.8 million was recorded related to the abandonment of the assets of a business that we acquired in the agreement with Wurld Media.

Impairment of Goodwill and Intangible Assets. In 2007, a loss on impairment of goodwill and intangible assets of $3.4 million was recorded. This is comprised of $2.8 million related to the abandonment of the software assets of a business that we acquired in the agreement with Wurld Media, $0.3 million related to the impairment of content, $0.3 million related to the impairment of goodwill related to the MyVideoDaily acquisition and $0.1 million related to the impairment of customer lists acquired from Cooee. There were no impairment charges in 2008.

Interest Income. Interest income for the year ended December 31, 2008 was $0.2 million compared to $0.7 million for the year ended December 31, 2007, a decrease of $0.5 million or 77%. This decrease was primarily from a decrease in our cash and cash equivalents related to the timing of the proceeds from private placements.

Registration Rights Liquidated Damages. Registration rights liquidated damages for the year ended December 31, 2008 were $0.1 million compared to $0.8 million for the year ended December 31, 2007.

Net Loss Available to Common Stockholders. As a result of the factors described above, we reported a net loss before income taxes and minority interest of $19.0 million for the year ended December 31, 2008 compared to $34.6 million for the year ended December 31, 2007, a decrease of $15.6 million or 45%.

Liquidity and Capital Resources

As of March 31, 2009, we had cash and cash equivalents of $2.5 million. Management anticipates that going forward, we will generate sufficient cash flows from our operating activities to meet our capital requirements. However, we may choose to raise equity or debt capital from time to time to support general working capital needs, certain capital expenditures or potential acquisitions. KIT Media Ltd., an entity controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, has made advances to us and participated in such financings in the past, at competitive market levels, and may do so in the future.

Net cash used in operating activities was $1.2 million for the three months ended March 31, 2009, compared to $4.8 million for the three months ended March 31, 2008, a decrease of $3.7 million, or 76%. The decrease in net cash used in operating activities is primarily related to an increase in revenues from customers, and the reduction in general and administrative costs.

Net cash used in investing activities was $1.9 million for the three months ended March 31, 2009, compared to net cash provided by investing activities of $0.1 million for the three months ended March 31, 2008, an increase in net cash used in investing activities of $2.0 million. This increase in net cash used in investing activities is primarily the acquisition of Visual and purchase of property and equipment of $1.5 million which is mainly a purchase of software.

Net cash used in financing activities was $0.2 million for the three months ended March 31, 2009, compared net cash provided in financing activities of $0.1 million for the three months ended March 31, 2008. In 2009, this primarily consisted of payments of secured notes and capital leases. In 2008, this primarily consisted of proceeds from our bank line.

Recent Securities Offerings

In the last 60 days, KIT Media Ltd., an entity controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, made $3.35 million available to us in an interim convertible promissory note bearing an 8% interest rate per annum and convertible into the current common stock offering under terms identical to other investors in this offering. In connection with our acquisition of certain assets of Narrowstep Inc. in April 2009, Granahan McCourt Capital, LLC, a stockholder of Narrowstep, loaned us $350,000, pursuant to a convertible promissory note on substantially the same terms as the KIT Media note described above. We and the respective noteholders have agreed that the KIT Media and Granahan McCourt notes payable will convert into common stock in this offering.

In November 2008, we received a $1.5 million senior secured term loan from Genesis Merchant Partners, LP, pursuant to the terms of a note purchase agreement. The senior secured term loan bears cash interest payable monthly in arrears, and matures on December 31, 2009. The principal is repayable in monthly installments of $75,000 beginning in May 2009, with the remainder of the principal due at maturity. The note is secured by a substantial amount of our property, including accounts receivable and inventory, but excludes any security interests in our Visual Connection, a.s. and Reality Group Pty Ltd. subsidiaries. In conjunction with the borrowing, we issued to Genesis Merchant Partners, LP a warrant entitling it to purchase, for $11.90 per share, 139,286 shares of our common stock through October 31, 2013.

In May 2008, we completed a private placement of 2,142,858 units to 35 accredited investors. Each unit was comprised of one share of common stock and a warrant to purchase one share of common stock. The units were sold at a price of $7.00 per unit or an aggregate of $15.0 million. The warrants have an exercise price of $11.90 per share, a term of five years and provide the investors with “full ratchet” anti-dilution protection as to the exercise price of each warrant. KIT Media purchased an aggregate of 1,008,572 units in the May 2008 private placement, consisting of 1,008,572 shares of common stock and 1,008,572 shares of common stock underlying the warrants.

Off-Balance Sheet Arrangements

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

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for the years ended December 31, 2007 and 2008 or the three months ended March 31, 2008 and 2009. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

Recently-Issued Accounting Standards

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (SFAS 141(R)), which replaces SFAS No. 141, “Business Combinations.” SFAS 141(R) retains the underlying concepts of SFAS 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting but SFAS 141(R) changed the method of applying the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; noncontrolling interests will be valued at fair value at the acquisition date; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS 141(R) amends SFAS 109 such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS 141(R) would also apply the provisions of SFAS 141(R). Early adoption was not permitted. SFAS 141(R) may have a material impact on our financial statements if or when we enter into another business combination.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51.” This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, with earlier adoption prohibited. This statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent’s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. It also amends certain of ARB No. 51’s consolidation procedures for consistency with the requirements of SFAS 141(R). This statement also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. The adoption of SFAS No. 160 on January 1, 2009 did not have a material impact on the reporting of our results of operations.

Quantitative and Qualitative Disclosures about Market Risk

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

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

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

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

BUSINESS

Company Overview

KIT digital is a leading provider of on-demand content management solutions for managing Internet Protocol (IP)-based video assets. Our comprehensive software platform, called “KIT VX” or “VX,” enables large corporate customers to acquire, manage and distribute their video assets across the three screens of the computer Internet browser, the mobile device and the set-top box enabled Internet Protocol Television (IPTV). We deliver our software platform over the Internet as a subscription service using a software-as-a-service or on-demand model, while occasionally installing our software onsite for clients as part of an enterprise license. Our software serves corporate customers across a wide variety of industries, including media & entertainment, telecommunications, retail, consumer/packaged goods, automotive and financial services. Our clients’ use of the VX platform range from end-consumer focused video distribution to internal corporate deployments, including corporate communications, human resources, training, security and surveillance. As of August 10, 2009, our customer base consisted of more than 470 enterprise customers from over 30 countries, including The Associated Press, Disney-ABC Television, Google Inc., IMG Worldwide Inc., Kmart, Nasdaq Stock Market, News Corp., RCS, Sensis Corp., Telefónica SA and Verizon Communications. Our clients usually enter into long-term contracts, and our average contract length is approximately 24 months.

Our KIT VX platform deployments are often complemented by marketing, branding and interface design services, as well as IPTV systems integration capabilities — related to digital play-out facilities, recording and editing suites, and remote content acquisition assets. We estimate approximately 75 – 80% of our current revenues are generated by VX platform-related fees, with the remainder directly related to professional services.

KIT VX is used by demanding and sophisticated corporate clients in, and is particularly appropriate for global corporations that need to centrally and securely ingest and manage video content, while also being able to allow for content access and publishing in multiple geographical locations, on multiple device types, and in different languages and protocols. This ability to centrally and securely administer video content but allow for it to be modified and distributed broadly is sometimes referred to as multi-point publishing, or “MPP.” We believe that our VX platform has the most advanced MPP capabilities in the market.

We manage our business across three major geographical profit and loss centers: (i) Europe, Middle East and Africa (EMEA), (ii) Asia-Pacific and (iii) the Americas. We estimate that approximately 65%, 29% and 6% of our current revenues are generated in EMEA, Asia-Pacific and the Americas, respectively. Our enterprise clients in each of these regions use our VX platform and related professional services to extend their audience reach using video and for internal corporate purposes. Specific customer examples:

- AutoTrader in the United Kingdom has licensed our KIT VX platform to manage and showcase user-generated videos of automobiles for offer through AutoTrader’s online and mobile marketplace.
- Telefónica 02 has licensed our VX platform to acquire IP-based content at sports venues in Central Europe, edit and distribute related video to online, mobile and other IP-enabled points of delivery.
- In Asia, Yellow (part of Sensis Corp.) has licensed out the KIT VX platform to manage and distribute video geared towards making their core classified offering more engaging and functional for the end user.
- Citadel/ABC Radio, based in North America, has licensed our VX platform to manage video content that can be displayed across its network of over 200 radio station websites, as well as through mobile handsets.

We believe the proliferation of Internet-connected devices, coupled with the accelerating worldwide adoption of broadband Internet connections and video-capable mobile networks, is fueling long-term growth in IP-based video content management. Our software-as-a-service, or “SaaS,” was specifically developed to help large corporations manage and deliver video to both end-users and internal constituents. Our VX software platform is served through the Internet from centrally hosted computing facilities to our customers’ IP connections, and delivers high levels of reliability, scalability and security at a very reasonable cost. In addition to our on-demand software, we address the needs of our customers at various stages along the IP video value chain — from the repurposing and monetization of video assets to the deployment of related IP recording and broadcast facilities — by offering professional services related to creative interface design, branding strategies, strategic planning and technical integration. Furthermore, those customers lacking proprietary video content or looking to supplement their existing video content can access approximately 80 KIT-syndicated channels and over 40,000 regularly updated KIT-syndicated videos. We believe our VX software platform, combined with our systems integration and creative services, provides us a sustainable, competitive advantage over other solutions currently being offered in the marketplace. Our focus on advanced multi-point publishing capabilities meets the needs of an evolving IP video marketplace.

We derive our revenues from on-demand software subscription license fees, software usage fees, upfront license fees and professional services fees. For the year ended December 31, 2008, we recorded consolidated revenue of $23.4 million as compared to revenue of $13.9 million for the year ended December 31, 2007. For the three months ended March 31, 2009, we recorded consolidated revenue of $9.6 million as compared to consolidated revenue of $3.5 million for the three months ended March 31, 2008, representing a year-over-year increase of 175%. For the three months ended March 31, 2009, we generated $198,000 of operating EBITDA, defined as earnings before derivative income (loss), non-cash stock-based compensation, acquisition-related restructuring costs, impairment of property and equipment, merger and acquisition expenses, investor relation expenses and depreciation and amortization. Operating EBITDA is a measure we use to manage our business and assist our stockholders in understanding our operating results. It is not a metric presented in accordance with generally accepted accounting principles.

We completed two principal acquisitions during 2008 — the May 2008 acquisition of Kamera Content AB and the October 2008 acquisition of Visual Connection, a.s. — bringing mobile content publishing and IPTV solutions capabilities, respectively, to our core VX product offering. In addition, each of these acquisitions allowed for the realization of cost synergies, and brought with them internal managers and external customers who have continued to contribute to our business. We believe we have effectively integrated these acquisitions at this time.

On June 29, 2009, we announced a global strategic alliance with Akamai Technologies, Inc., a leading IP streaming infrastructure provider. The agreement with Akamai calls for joint packaging and reselling of each companies' products and services, as well as collaborative marketing and sales efforts. We expect the Akamai agreement to augment our existing client and revenue base over time, and we will endeavor to enter into similar reselling agreements with other market participants in the future.

We currently employ approximately 190 full-time individuals, with principal offices in eight countries and sales representative offices in several other locations. We believe that, based on our own research, we are the largest company — as measured by revenue, operating EBITDA, enterprise client base and geographical reach — in the IP video platform marketplace, and see industry consolidation as a component of our growth strategy. As such, we intend to pursue a combined organic and acquisition growth path.

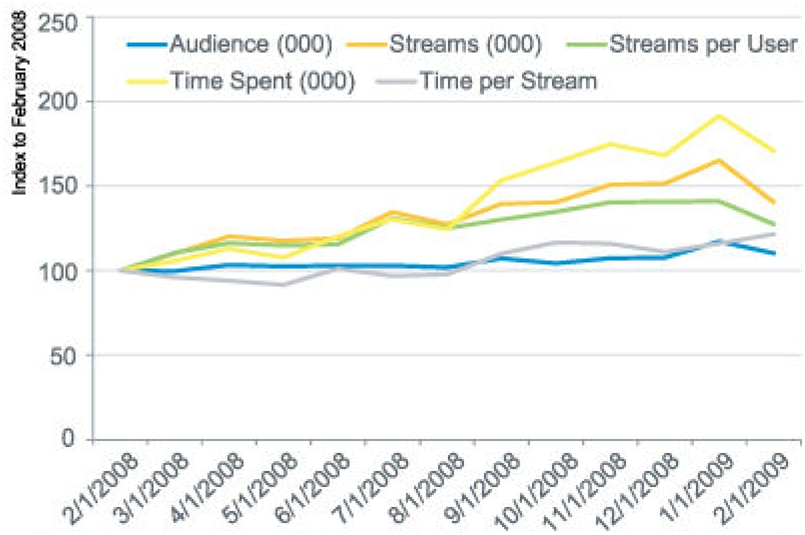
The net proceeds from this offering are intended primarily to support opportunistic, accretive acquisitions in our industry.

Industry

Our industry is driven in part by the growth in the use of video through the web browser, mobile phone and IPTV-enabled television set, and in part by the conversion of analog and traditional digital video formats to IP video. According to Cisco Systems' *Cisco Visual Networking Index: Forecast and Methodology, 2008 – 2013* , Internet video now accounts for approximately one-third of all consumer Internet traffic and will account for over 60% of all consumer Internet traffic in 2013. We believe this trend will have a positive impact on video content management services providers like us.

The growth in Internet and mobile network video traffic has been driven by the rapid advances have been made in the quality of IP-based video delivery, significantly improving the viewing experience throughout each of the three screens. As of early 2008, video viewership sessions over the Internet have surpassed traditional television viewership sessions. From February 2008 to February 2009, video viewership online has grown along many relevant benchmarks, including a 71% growth in monthly minutes viewed online and a 10% increase in unique users viewing video online.

Growth in IP-Based Video Consumption

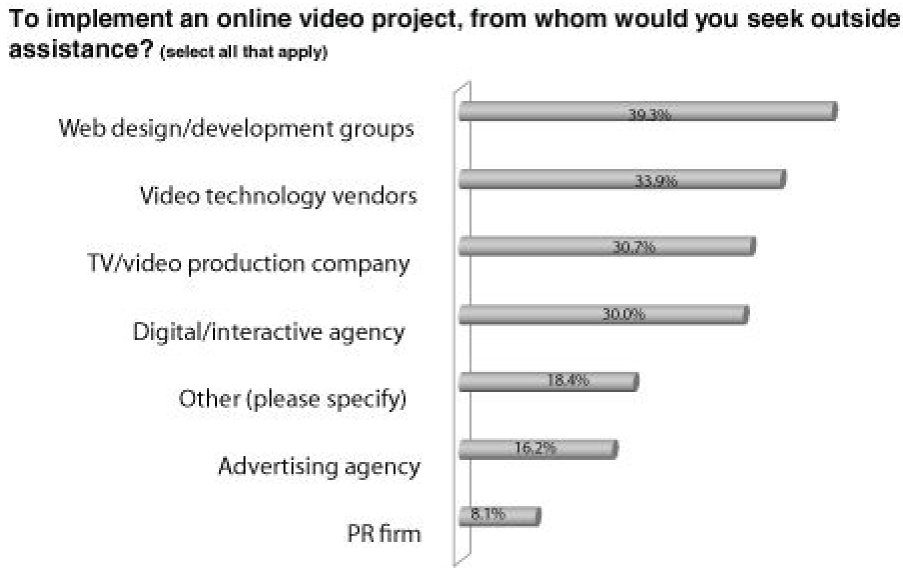


Metric	Feb 2008	Feb 2009	% Change
Minutes (000)	12,647,342	21,600,555	71%
Streams (000)	6,333,326	8,897,943	41%
Streams per User	54.7	77.1	27%
Minutes per Stream	2.0	2.43	22%
Unique Viewers (000)	115,799	127,613	10%

Source: Nielsen VideoCensus

In March 2009, comScore, Inc., a leader in measuring the digital world, reported that 77.8% of the total U.S Internet audience viewed online video and the average online video viewer watched 327 minutes of video, or nearly 5.5 hours. The duration of the average online video was 3.4 minutes. We believe that advertisers will continue to view IP video as an effective means to target audiences, and corporations that use video for corporate communications, human resources, training, and security and surveillance will continue to migrate to IP video solutions. As such, we believe optimized video solutions like those that we provide will continue to be in demand.

We believe that virtually all large global corporations (as reflected in the viewership trends reported by Nielsen above) are assessing how to use IP-based video for their branding and internal corporate needs. According to a December 2008 independent industry report, 400 senior professionals were surveyed as to their IP-video needs for 2009. Approximately 67% of the executives in this survey responded that the focus of their digital media budgets in 2009 would be IP-based video. To implement IP video solutions, these 400 professionals said that they would look towards the following types of providers. We provide all of these services through our modular VX platform, professional services capabilities, and subcontracting partners:



Unlike most traditional video delivery mechanisms which are generally limited to national/regional geographical territories, Internet protocal is truly global, allowing targeted audiences to be aggregated across the globe in sufficient numbers to make directed content economically viable. We believe that the provision of IP-based video content will be a fast-growth market.

In addition, video delivery systems such as wireless/mobile and closed-network IPTV will also provide considerable market opportunities beyond the growth of video on traditional web portals. In the United States alone, Pyramid Research, Inc., the telecom research arm of the Light Reading Communications Network, estimates that revenue from mobile video services will reach $16 billion by 2014. Much of the demand, according to Pyramid Research, will come from Europe and Asia/Pacific, which we believe aligns our global reach and international track record with the geographic growth segment of the industry.

We believe that there is an increasing use of IP-based video in internal corporate communications and digital marketing campaigns. We expect to see growth in this sector in parallel with the growth in media/publishing usage. eMarketer, an independent trade publication, reported in January 2009, that there was a 40% growth in the consumption of retail videos online from October 2007 through October 2008. The proliferation of YouTube, Hulu and other similar online video portals enhances consumers' familiarity with the IP-video medium, and bolsters corporations' decisions to deploy more capital towards IP-video strategies.

We also believe that a validating factor in the growing popularity and global acceptance of IP-based video is the level of advertising dollars being spent on the medium. According to eMarketer, one in every ten dollars spent online will be spent on video (a market of $4 billion up from $775 million in 2008 in the United States). With respect to mobile video, eMarketer projects even faster growth in mobile video advertising — globally reaching $4 billion by 2011 (up from $427 million in 2008 in the United States). We believe these trends are the leading indicator towards corporations using video for their branding.

Our Solution

Our comprehensive software platform, KIT VX, is designed to serve as a centralized system for acquiring, managing and distributing a company's IP-based video assets.

Comprehensive IP-based video asset management solution. Our VX software platform allows our customers to ingest IP-based video content from multiple origination points such as satellite capture or IP feeds. Once imported into VX, video content can be managed including transcoding, storage, metatagging, localization, editing/repurposing, search optimization, advertising and syndication. Video is then able to be distributed across the three screens: the computer Internet browser, mobile device and the IPTV-enabled television set.

Modular VX software platform. Our VX platform is designed to offer an end-to-end solution and is comprised of eight primary modules. This design enables customers to start with one or a few modules and easily add more modules over time. Our modules, all of which leverage our VX platform capabilities of multi-point content ingestion, management and multi-point publishing/distribution (depicted graphically below), consist of:

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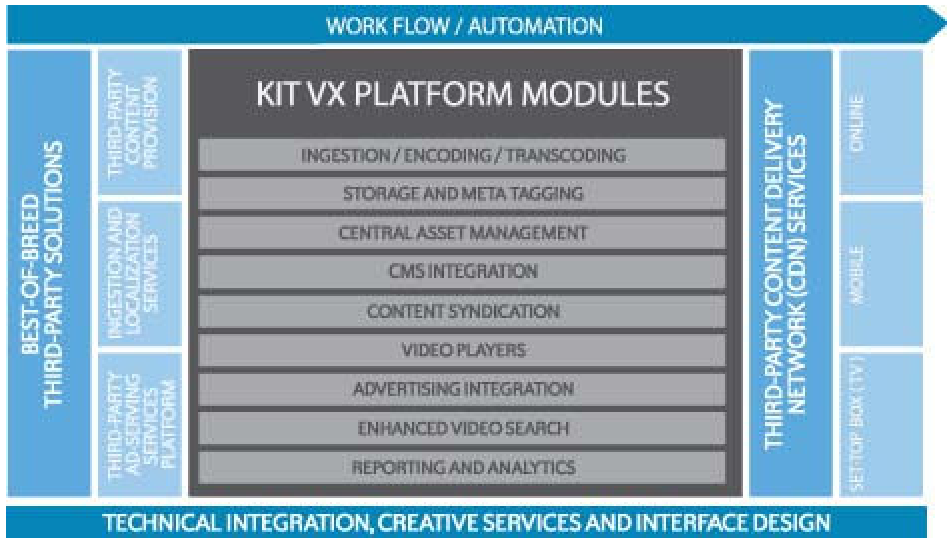
KIT VX Modular Detail



- **Online Browser** — delivers and enables video content display and associated rich metadata within single or multiple websites. We also offer multiple languages and professional services allowing for customization.
- **Mobile** — transcodes, delivers and enables video content display and associated rich metadata into the multiple formats in which video is displayed on mobile devices.
- **IPTV** — provides IP-middleware and content delivery, CRM and metadata services to virtually any set-top box, so that customers can offer content to their customers on the television set.
- **Content Provision** — enables customers access to our library of licensed content from global content providers such as The Associated Press, Disney-ABC and Reuters.
- **Content Management System** — provides database management, reporting and security.
- **Dashboards** — provides real-time usage statistics and analytics of our customers IP video deployments.
- **Digital Junction** — allows corporate customers an exchange-like capability, by which they can syndicate their video, based on permission and subscription levels, to other corporate customers.
- **Integration Services** — implementation of VX-enabled digital play-out facilities, recording and editing suites and remote content ingestion assets.
- **Creative and Marketing Services** — interface design, branding, campaign management, strategic planning and agency representation.

Highly configurable on-demand application suite. We deliver our VX software platform over the Internet as a subscription service using the SaaS model, eliminating the need for customers to buy, maintain and up-grade on-premise hardware and software. Our software solution is highly configurable, allowing customers to tailor their deployment to reflect their identity, unique business processes and existing forms and templates. Additionally, our architecture enables us to maintain high levels of availability, scale easily as we and our customers grow, and provide a safe and secure environment for our customers’ video assets.

Integration. Our software suite was designed to work with traditional content management systems and large enterprise resource planning, or ERP, software systems, including Microsoft, Oracle and SAP.

Monetization/Implementation. We offer our customers top-grade creative and professional services to support the successful implementation of their IP-based video strategy, including creative interface design, branding strategies, strategic planning and technical integration services.

Our Growth Strategy

Our objective is to enhance our position as the leading provider of on-demand software for IP-based video asset management. Key elements of our growth strategy include:

Pursue new customers and territories. We are aggressively targeting potential customers, primarily through our direct sales force. Although certain markets in East Asia, Australasia and Western Europe have made quicker advances in corporate use of IP-based video, as other markets “catch up” in IPTV-capable broadband provisioning and 3G/4G mobile network, we believe that there are substantial market opportunities for our solutions in the Americas, and the emerging markets of Eastern Europe, the Middle East, South Asia and Greater China. We plan to continue to aggressively market to potential customers in with our existing sales force, while assessing whether to add to our sales force in other regions.

Enter into strategic reselling partnerships. We currently have reselling relationships in place with Web Alive (AsiaPac), Tech Access (Middle East), CAN Communicate (UK) and Vivocom (Spain). We expect to identify and partner with companies with complementary technology and access to clients across the IP-based video ecosystem. Content delivery networks (CDNs), systems integration companies and IP-based hardware providers are primary targets for such reselling partnerships in the future.

Leverage recently signed Akamai relationship. We are engaging in collaborative sales and marketing efforts with Akamai and the reselling of each other’s products and services. Akamai’s leadership position in IP-video streaming combined with our KIT VX content management platform will, we believe, create a unique IP-video offering for large enterprise clients globally, and we expect to generate new client opportunities and revenue from this relationship.

Complete selected, accretive acquisitions. We intend to continue to pursue selected acquisitions in North America and internationally that consolidate market share, expand our geographical footprint and further our position as the leading provider of enterprise-grade IP-based video management solutions. Any acquisition will be pursued with a focus on accretion, through disciplined relative consideration analysis and the realization of pro forma cost synergies and revenue enhancement.

Increase revenue per customer. We seek to increase revenue from each corporate customer by upselling additional modules of the VX platform, as well as complementary creative and technical services. In addition, by continuously enhancing the functionality of our VX software, customers find more uses for our solutions, renewing existing licenses, purchasing additional licenses or modules, and enhancing usage (and associated usage fees) on the platform.

Enhance platform offering. We intend to further develop our VX software platform’s capabilities and features. We believe that customer requirements will continue to evolve and require different solutions in the future. Investing in our technology and improving our modular capabilities will enable us to handle increasingly demanding delivery methods, file formats and publishing needs. We plan to continue working with some of the most sophisticated IP video customers in the world to help define and drive our research and development priorities.

Gain brand awareness. Brand reputation and recognition are key distinguishing factors among the providers in our industry. We believe that we are the largest international provider of software solutions for managing IP video content and that our brand has become synonymous with “industrial grade” quality, professionalism and customer support.

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Customers

As of August 10, 2009, we had more than 470 customers. Our standard license agreement for our enterprise customers runs 24 months and our average remaining contract life is approximately 18 months. Our professional services are contracted on a project basis and in some cases on an hourly basis.

We provide services to customers in multiple vertical industry segments, including media and entertainment, telecommunications, automotive, financial services, retail, consumer/packaged goods and government. Our customer base is not concentrated in any particular industry. None of our customers accounted for more than 10% of revenues in the fiscal years ended December 31, 2007 and 2008 or for the three months ended March 31, 2009. Set forth below is a representative list of our customers, grouped by industry, and listed alphabetically:

Automotive: General Motors, Saab, Suzuki

Classifieds/Search: AutoTrader, Google, Sensis

Consumer/Packaged Goods: Johnson & Johnson, Nestle, Playtex

Financial: Fidelity Investments, GE Money, Nasdaq

Media: The Associated Press, Czech TV, Disney-ABC Television, RCN, Z1

Publishing: News Corporation, New York Post, RCS, The Sun

Retail/Franchising: Kmart, Tabcorp

Telecommunications: AT&T, Telefónica 02, Verizon, Vodafone

Sales and Marketing

We primarily sell our software solution directly through our sales force and to a lesser extent, utilize distribution relationships such as resellers and affiliate partners. We target providers and users of IP video content through our:

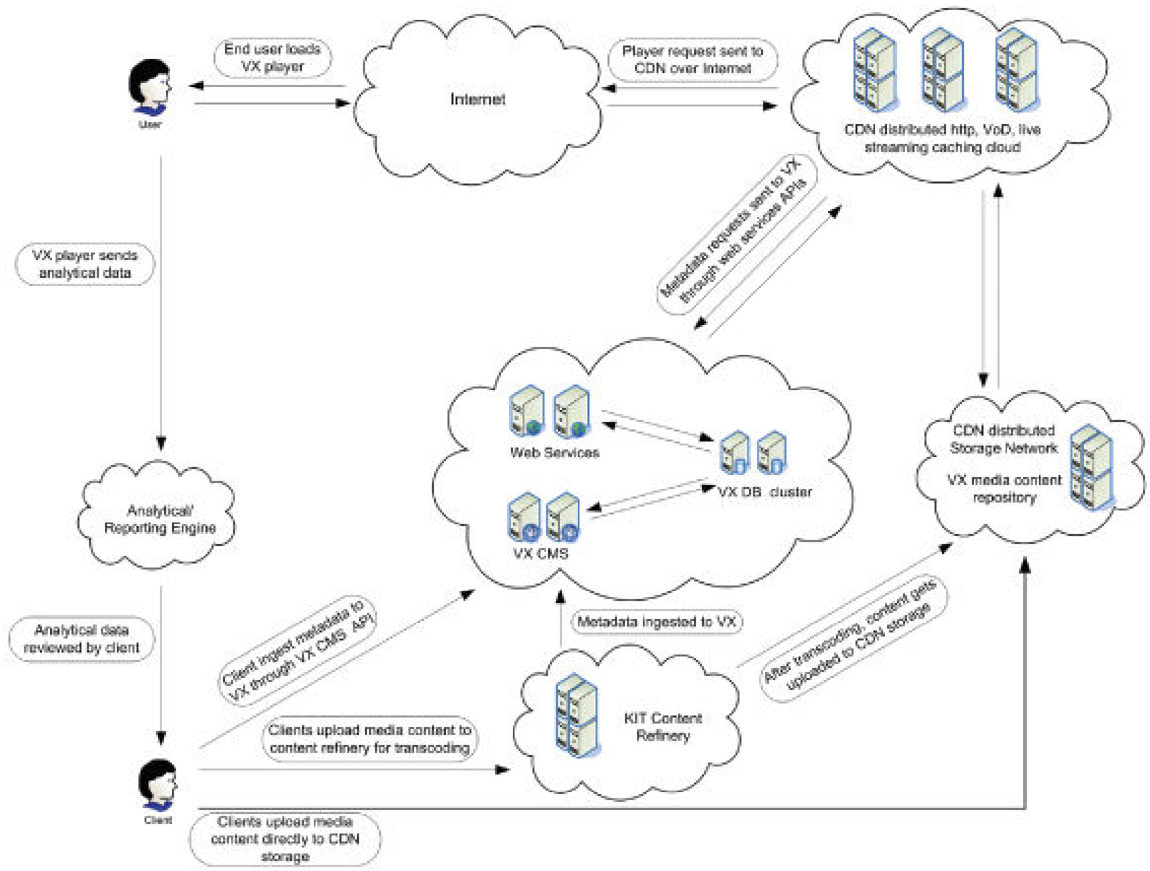
- **Field sales force.** We have developed a field sales force and currently have approximately 30 sales personnel in various geographic markets, including 15 in Europe, Middle East and Africa, 8 in Asia-Pacific and 7 in the Americas (including both North and South America). Our direct sales force is responsible for identifying and managing individual sales opportunities in their respective regions. Certain sales representatives have cross-regional, “vertical” responsibilities as well, meaning they are responsible for identifying global sales opportunities in a specific industry vertical, such as classifieds, retail or publishing.
- **Distribution partners.** We maintain relationships with certain resellers and distribution partners that we believe have complementary efforts in the IP-video marketplace, and strong existing client bases with in-region sales forces. Currently, we have deployed formal reselling relationships with five partners: Akamai (Global), Web Alive (AsiaPac), Tech Access (Middle East), CAN Communicate (UK) and Vivocom (Spain). We intend to aggressively expand our reseller network, with a particular focus on content delivery networks (CDNs) and IP-based hardware providers.

We focus our corporate marketing efforts on increasing brand awareness, communicating the VX software platform advantages, and generating qualified leads for our sales teams. Our corporate marketing plan is designed to continually elevate awareness of our brand and generate demand for our software solution. We rely on a number of vehicles in this area, including tradeshows, advertising, public relations, webinars, our website and collaborative relationships with complementary technology vendors.

Our Technology

We have built our VX software platform on a highly scalable, multi-tenant application written within Microsoft frameworks, including C++ and .NET. We use commercially available hardware and a combination of proprietary and commercially available software, including Microsoft SQL Server and Microsoft Windows, to provide our solutions. Because new customers are provisioned within this already-existing infrastructure, we believe we can efficiently scale our software delivery as both our business and our customers' business grow. For a graphical overview of how we are set up, please see the diagram below:

KIT VX Workflow



Our customers access our solutions through multiple screens: web browsers (without installing any software or downloading Java applets, Microsoft ActiveX, or .NET controls), on their mobile handsets and through IPTV solutions that deliver video to the consumers' televisions.

We own all of the hardware deployed in support of our KIT VX software platform. We have multiple redundant co-location facilities including London, New York, Toronto, Prague and Brisbane, Australia, in addition to our primary location in Ashburn, Virginia. Our facilities are state-of-the-art and provide around-the-clock security personnel, video surveillance and biometric access screening, and are serviced by onsite electrical generators, fire detection and suppression systems. Our facilities afford us multiple Tier 1 interconnects to the global Internet. Our multiple co-location facilities provide increased platform uptime and application availability and redundancy, which are essential to support the business-critical needs of our customers.

We regularly monitor the performance and uptime of our VX software platform. We have a highly available, scalable infrastructure that utilizes load-balanced web server pools, redundant interconnected network switches and firewalls, intrusion detection, replicated databases, and fault-tolerant storage devices. User and performance data is backed up on a daily basis and stored in multiple locations to ensure integrity and restoration capability. Application monitoring includes automated tools that ensure our VX software platform is running and operating within performance benchmarks. Since migrating to our own delivery architecture in May 2008, our platform uptime has been 100% — though there can be no guarantee of perfect uptime in the future.

We do not have material patents, trademarks or copyrights, but we believe that the long-term commercial usage of our VX platform and its component parts (dating back to 1999 for certain key elements) provides us material defensibility around our core intellectual property. We rely upon confidentiality agreements signed by our employees, consultants and third parties, and trade secret laws of general applicability, to safeguard our software and technology.

Research and Development

Our research and development personnel are continuously undertaking efforts to enhance and improve our existing services and create new services in response to our customers' needs and market demand for software tools to manage and deliver IP-video. Accordingly, we have invested, and intend to continue to invest, significant time and resources in our development activities to establish and maintain ourselves as a leader in the provision of optimized IP-based video solutions that address the business needs of our customers. As of August 10, 2009, we had approximately 27 employees on our research and development team. Our research and development expenses were $4.7 million and $0.8 million for the fiscal year ended December 31, 2008 and the three months ended March 31, 2009, respectively. As a practice, we generally do not capitalize research and development, and these amounts were not capitalized.

Competition

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

- video content management and enablement; and
- video-centric integration, interface design and creative services.

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

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

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

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

- the breadth and depth of the VX suite functionality;
- our integrated online, mobile and IPTV set-top box ("3-screen") publishing capability;
- our global customer and sales footprint, including multicultural and multilingual customer services and support;
- our advanced multi-point ingestion and multi-point publishing capabilities;
- our multi-format content syndication and repurposing capabilities; and
- our creative services and integration capabilities.

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Government Regulation

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

Employees

As of August 10, 2009, we had a total of approximately 190 full-time employees. Our future success will depend in part on our ability to attract, retain and motivate highly qualified technical and management personnel for whom competition is intense. Our employees are not represented by any collective bargaining unit. We believe our relations with employees and contractors are good.

Locations

We are a global company with offices in Dubai, Melbourne, Prague, Toronto, New York, London, Stockholm, Cairo, Bogotá, Buenos Aires and Singapore. Our current operational headquarters are located in Dubai. As our sales, service and technology support to customers and strategic partners expands in Europe, we may determine to relocate our global operational headquarters to that region. An index of our present office locations and types is illustrated below:

We expect total rent expense to be approximately $940,000 under office leases for 2009.

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Legal Proceedings

Other than as set forth below, we are not a party to any pending legal proceeding nor is our property the subject of a pending legal proceeding that is not in the ordinary course of business or otherwise material to the financial condition of our business.

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

In November 2007, our wholly-owned subsidiary, ROO HD, Inc. (ROO HD) (currently KIT HD, Inc.), was named as the defendant in a purported class action lawsuit entitled Julie Vittengl et al. vs. ROO HD, Inc., in New York Supreme Court, Saratoga County, New York. The suit, brought by four former employees of Wurld Media, Inc. ("Wurld"), purportedly on behalf of themselves and others similarly situated, claims that ROO HD's acquisition of certain assets of Wurld was a fraudulent conveyance and that ROO HD is the alter-ego of Wurld. Plaintiffs seek the appointment of a receiver to take charge of our property in constructive trust for plaintiffs and payment of plaintiffs' unpaid wages and costs of suit, both in an unspecified dollar amount. ROO HD filed its answer to the complaint in January 2008, and there have been no further developments in this action since then.

In May 2009, Christine M. Stuto filed suit against ten shareholders of Wurld, ROO HD, and ROO Group, Inc. (ROO Group), in New York Supreme Court, Albany County, New York. Plaintiff, a former employee of Wurld, seeks to hold the ten largest shareholders of Wurld liable for $99,918 in wages that Wurld allegedly failed to pay Plaintiff. She further asserts a variety of claims based on the allegation that ROO HD's acquisition of certain assets of Wurld was a fraudulent conveyance, and that ROO HD is the successor to Wurld and liable for Wurld's debts. Based on these allegations, Plaintiff seeks payment of her wages, the (unspecified) fair market value of her shares of stock in Wurld, rescission of the asset purchase agreement between Wurld and ROO HD, plus attorney's fees. To our knowledge, neither ROO HD nor ROO Group has been served with the summons and complaint in this matter. In any event, however, we believe that the suit is without merit, and if served, we intend to defend vigorously.

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MANAGEMENT

Directors and Executive Officers

The following table sets forth the names and ages of our directors and executive officers, and their positions with us, as of August 10, 2009:

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

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

Kaleil Isaza Tuzman was elected Chairman of the Board and has served as our Chief Executive Officer since January 2008. Mr. Isaza Tuzman has worked in the digital media industry since the late 1990s as a venture capitalist and entrepreneur. From 2005 to 2007, he served as the President and Chief Operating Officer of JumpTV Inc. (TSX, AIM: JTV), a leader in IP-based broadcasting of international television and sports. From 2002 to date, Mr. Isaza Tuzman has served as the Managing Partner of KIT Capital, a software and digital media-focused restructuring and merchant banking firm which merged into Dubai-based merchant bank KCP Capital in 2008. From 2001 to 2002, he served as Chairman and Chief Executive Officer of KPE, Inc., a leading digital media services company. Prior to that, Mr. Isaza Tuzman worked at Goldman Sachs, in investment banking and equities risk arbitrage. He has been a member of the Council on Foreign Relations, and has acted as a U.S. trade representative. Mr. Isaza Tuzman graduated *magna cum laude* and holds an A.B. from Harvard University and holds graduate certificates in International Relations from El Colegio de México and in Latin American Studies from Harvard University.

Gavin Campion has served as our President since April 2008 and elected as a Director in November 2008. From January 2005 to March 2008, he served as managing director of Sputnik Agency Pty Ltd., an Australian-based interactive marketing agency. In 1999, Mr. Campion co-founded Reality Group Pty Ltd., a subsidiary of KIT digital, which has attracted blue-chip advertising customers. From 2004 to 2008, Mr. Campion served as Chief Executive Officer of Shoppers Advantage, a leading Australian e-commerce company, and as a director of Presidential Card, Australia’s largest discount loyalty program. Mr. Campion received his B.A. with honors in marketing from the University of Huddersfield in England.

Jonathan Hirst has served as our Chief Financial Officer since April 2009. From September 2007 to February 2008, Mr. Hirst was a consultant with BT Associates, LLC, a strategic and financial consulting firm servicing the professional communication industry. From November 2004 to August 2007, he served as Chief Financial Officer of Lowe Worldwide, Inc., a global multi-unit international marketing communications division of The Interpublic Group of Companies, Inc. From January 1996 to October 2004, Mr. Hirst was the Senior Vice President of International Finance of Grey Global Group Inc., a leading marketing communications firm. Mr. Hirst is a member of the Institute of Chartered Accountants (FCA) and holds a B.A and M.A. in economics from the University of Cambridge and an M.B.A. from INSEAD.

Kamal El-Tayara has served as a Director since February 2008. Since 2004, Mr. El-Tayara has been the managing partner of MNA Partners, a Dubai-based merchant bank, which merged into KCP Capital in 2008. Prior to that, Mr. El-Tayara held senior positions with Merrill Lynch and Salomon Smith Barney in the Middle East. In early 2003, Mr. El-Tayara managed the corporate finance initiatives of MBC Group, MENA’s (Middle East and North Africa) largest media company, where he participated in the set up of Alarabiya News Channel, for which he acted as Chief Financial Officer. In 2007, Mr. El-Tayara set up the Swiss EFG Bank in

Dubai, for which he acted as the Dubai Head. Mr. El-Tayara is a board member of KIT Media Ltd. Mr. El-Tayara holds a B.S. in electrical engineering from the American University of Beirut (with distinction) and an M.B.A. from INSEAD.

Steven G. Felsher has served as a Director since November 2008 and is our lead director and Chairman of our Audit Committee. Mr. Felsher was the Vice Chairman and Chief Financial Officer-Worldwide of Grey Global Group Inc., and was responsible for its integration into WPP Group plc following WPP Group's acquisition of Grey in March 2005. Mr. Felsher was responsible for overseeing Grey's financial operations, investor relations, acquisitions and other corporate functions. Mr. Felsher joined Grey in 1979 as a Vice President, became Senior Vice President in 1986, and Chief Financial Officer in 1989. He headed Grey's Legal Affairs department from 1979 to 1989. Since leaving Grey, Mr. Felsher consults for a number of intellectual property and marketing services companies. Mr. Felsher holds a B.A. in Classical Greek from Dickinson College, was a Thomas J. Watson Fellow, and holds a J.D. from Yale Law School.

Daniel W. Hart has served as a Director since March 2008. Mr. Hart is the founder and managing partner of River Road Ventures, a private equity and advisory firm, since February 2004. River Road Ventures merged into KCP Capital in 2008. Prior to founding River Road Ventures, Mr. Hart founded Fundamental Capital, an investment partnership which integrated operational management with early-stage venture capital. Mr. Hart's entrepreneurial and investing background has focused on the digital media, wireless, semiconductor, enterprise software areas. Mr. Hart is a board member of KIT Media Ltd. Mr. Hart holds an A.B. in economics from Harvard University.

Lars Kroijer has served as a Director since February 2008 and is Chairman of our Compensation Committee. Mr. Kroijer is the founder and Chief Executive Officer of Holte Capital Ltd., a special situations hedge fund, since April 2002. From June 1999 to March 2002, Mr. Kroijer worked for HBK Investments focusing on special situations investing and event-driven arbitrage. Prior to that, Mr. Kroijer worked for SC Fundamental, a value-focused hedge fund, and for Lazard Frères, a boutique investment banking firm. Mr. Kroijer graduated *magna cum laude* and holds an A.B. from Harvard University and an M.B.A. from Harvard Business School.

Robin Smyth has served as a Director since December 2003 and previously served as our Chief Financial Officer, at times, from December 2003 through April 2009. From 1998 to 2001, Mr. Smyth was a partner at Infinity International, a consulting and IT recruitment operation. From 1990 to 1998, he worked for Computer Consultants International. He is also on the board of directors of a number of wholly-owned subsidiaries of KIT digital. Mr. Smyth received his undergraduate degree in economics from Monash University in Australia.

Wayne Walker has served as a Director since January 2008 and is Chairman of our Nominations and Corporate Governance Committee. Mr. Walker has served as the managing partner of Walker Nell Consultants, Inc. since 2004. He has more than 20 years of experience in corporate law and corporate restructuring. Prior to establishing Walker Nell, he served as the Principal of Parente Randolph, LLC, an accounting and consulting firm, from July 2001 to February 2004. He served as Senior Counsel of DuPont Corporation from 1984 to 1998 and as Chairman of Habitat for Humanity from 1995 to 1998. He holds a B.A. from Loyola University New Orleans and a J.D. from Catholic University of America. He also studied finance for non-financial managers at the University of Chicago's Graduate School of Business.

All directors hold office until the next annual meeting of stockholders and the election and qualification of their successors. Officers are elected annually by the board of directors and serve at the discretion of the board. There are no family relationships among our directors and executive officers. As of the date of this prospectus, there are no material proceedings to which any of our directors, executive officers, affiliates or stockholders is a party adverse to us.

Board of Directors and Corporate Governance

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

We established an Audit Committee, Compensation Committee and Nominations and Corporate Governance Committee in 2008. The charters for the Audit Committee, Compensation Committee and Nominations and Corporate Governance Committee are available at our website, *www.kitd.com* . We believe Kamal

El-Tayara, Steven G. Felsher, Daniel W. Hart, Lars Kroijer and Wayne Walker are independent members of our board of directors, under Nasdaq's independence standards. Each of the board committees is composed of two or more of these independent members. Although Messrs. El-Tayara and Hart are board members of KIT Media Ltd., our largest single stockholder, they are neither controlling shareholders nor employees of KIT Media, and are not disqualified under Nasdaq's independence standards from being considered independent directors by us.

The board, its committees and our management strive to perform and fulfill their respective duties and obligations in a responsible and ethical manner. The board and the Audit, Compensation and Nominations and Corporate Governance Committees each perform annual self evaluations. We have adopted a Code of Ethics that applies to our Chief Executive Officer and Chief Financial Officer. Upon request, we will provide to any person without charge a copy of our Code of Ethics. Any such request should be made to Jonathan Hirst, Chief Financial Officer, KIT digital, Inc., 168 Fifth Avenue, Suite 301, New York, New York 10010.

Steven G. Felsher serves as our lead director and an ex-officio member of each of our board committees.

Committees of the Board

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

- recommending to the board of directors the engagement or discharge of our independent public accountants, including pre-approving all audit and non-audit related services;
- the appointment, compensation, retention and oversight of the work of the independent auditor engaged by us for the purpose of preparing or issuing an audit report or performing other audit review or attest services for us;
- establishing procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- approving the scope of the financial audit;
- requiring the rotation of the lead audit partner;
- consulting regarding the completeness of our financial statements;
- reviewing changes in accounting principles;
- reviewing the audit plan and results of the auditing engagement with our independent auditors and with our officers;
- reviewing with our officers, the scope and nature and adequacy of our internal accounting and other internal controls over financial reporting and disclosure controls and procedures;
- reviewing the adequacy of the Audit Committee Charter at least annually;
- performing an internal evaluation of the Audit Committee on an annual basis; and
- reporting to the board of directors on the Audit Committee's activities, conclusions and recommendations.

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

- approving and evaluating the compensation of directors and executive officers;
- establishing strategies and compensation policies and programs for employees to provide incentives for delivery of value to our stockholders;
- establishing policies to hire and retain senior executives, with the objective of aligning the compensation of senior management with our business and the interests of our stockholders;
- together with management, surveying the amount and types of executive compensation paid by comparable companies, and engaging consultants as necessary to assist them;
- periodically reviewing corporate goals and objectives relevant to executive compensation and making recommendations to the board for changes;
- assisting management in evaluating each executive officer's performance in light of corporate goals and objectives, and recommending to the board (for approval by the independent directors) the executive officers' compensation levels based on this evaluation;
- overseeing our stock option plan or other stock-based plans with respect to our executive officers and employee board members, who are subject to the short-swing profit restrictions of Section 16 of the Securities Exchange Act of 1934, as amended;
- reviewing the overall performance of our employee benefit plans and making recommendations to the board regarding incentive-compensation plans and equity-based plans;
- together with the Nominations and Corporate Governance Committee, reviewing and making recommendations to the independent directors of the board regarding the form and amount of director compensation;
- ensuring that our compensation policies meet or exceed all legal and regulatory requirements and any other requirements imposed on us by the board; and
- producing an annual report on executive compensation for inclusion in our information statement.

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

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

- identifying individuals qualified to become board members and recommending that the board select a group of director nominees for each next annual meeting of our stockholders;
- ensuring that the Audit, Compensation and Nominations and Corporate Governance Committees of the board have the benefit of qualified and experienced “independent” directors;

- developing and recommending to the board a set of effective corporate governance policies and procedures applicable to us, and reviewing and reassessing the adequacy of such guidelines annually and recommending to the board any changes deemed appropriate;
- periodically reviewing the charters of all board committees and recommending to the committees and board any changes deemed appropriate;
- developing policies on the size and composition of the board;
- conducting annual evaluations of the performance of the board, committees of the board and individual directors;
- reviewing conflicts of interest and the independence status of directors;
- together with the Compensation Committee, reviewing and making recommendations to the independent directors of the board regarding the form and amount of director compensation;
- reviewing the structure of our senior staffing and management succession plans with the Chief Executive Officer;
- together with the Compensation Committee, developing criteria to assist the board's assessment of the Chief Executive Officer's leadership of our company; and
- generally advising the board (as a whole) on corporate governance matters.

Director Compensation

All directors are reimbursed for their reasonable out-of-pocket expenses incurred in connection with their duties to us. With the exception of Messrs. Isaza Tuzman and Campion (who instead receive compensation for their service as officers of our company), all directors receive compensation for their services. To date, we have compensated directors entirely through stock options granted under our incentive compensation plans. Directors receive the following compensation package:

- Grant of stock options to purchase 8,143 shares of our common stock pursuant to our 2008 Incentive Stock Plan.
- Annual compensation in the amount of $37,500, payable in arrears for the preceding calendar year on February 15 of every year beginning 2009, which may be paid in either cash or stock options (priced using the “Black-Scholes-Merton” options pricing model), or a combination of both. The form of payment (i.e., cash, stock options or a combination) will be determined by us in our sole discretion; provided that if we are operating income (or EBITDA) positive in the preceding calendar year, such determination may be made by each independent director. The lead director will receive annual compensation in the amount of $50,000 in consideration for broader responsibilities.
- Fees of $2,000 per board meeting attended; $1,500 per committee meeting chaired; and $750 per committee meeting attended but not chaired. The foregoing fees will be discounted by 50% when meetings are attended or chaired telephonically. Payment will be made according to the same schedule and in the same manner as set forth in the paragraph above.

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Director Compensation

Name	Year	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($) [1]	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Kamal El-Tayara	2008	—	—	44,035	—	—	—	44,035
	2007	—	—	—	—	—	—	—
Steven G. Felsher	2008	—	—	25,111	—	—	—	25,111
	2007	—	—	—	—	—	—	—
Daniel W. Hart	2008	—	—	43,444	—	—	—	43,444
	2007	—	—	—	—	—	—	—
Lars Kroijer	2008	—	—	30,585	—	—	—	30,585
	2007	—	—	—	—	—	—	—
Robin Smyth [2]	2008	—	—	—	—	—	—	—
	2007	—	—	—	—	—	—	—
Wayne Walker	2008	—	—	32,616	—	—	—	32,616
	2007	—	—	—	—	—	—	—

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(1) The determination of value of option awards is based upon the Black-Scholes-Merton options pricing model, details and assumptions of which are set out in our financial statements included in this prospectus. The amounts represent annual amortization of fair value of stock options granted to the named director.

(2) Prior to April 27, 2009, Mr. Smyth was also an executive officer and did not receive compensation for serving as a director. See “Employment and Management Agreement — Robin Smyth Agreement” below.

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Executive Compensation

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

Summary Compensation Table

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Award(s) ($)	Non-Equity Incentive Plan Compensation (#)	Non-Qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Kaleil Isaza Tuzman [1] (amounts paid to KIT Capital, a company controlled by Mr. Isaza Tuzman) Chairman and Chief Executive Officer	2008	289,652	—	—	—	—	—	—	289,652
	2007	—	—	—	—	—	—	—	—
Gavin Campion [2] President and Director	2008	130,833	—	—	—	—	—	—	130,833
	2007	—	—	—	—	—	—	—	—
Jonathan Hirst [3] Chief Financial Officer	2008	—	—	—	—	—	—	—	—
	2007	—	—	—	—	—	—	—	—
Robin Smyth [4] Former Chief Financial Officer, Secretary, Treasurer and Director	2008	213,167	—	—	—	—	—	275,000	488,167
	2007	250,000	150,000	—	—	—	—	—	400,000
Robert Petty [5] Former Chief Executive Officer, President and Chairman of the Board	2008	151,619	—	—	—	—	—	675,000	826,619
	2007	344,500	—	—	—	—	—	—	344,500

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

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

(3) Mr. Hirst became our Chief Financial Officer on April 27, 2009. See "Employment and Management Agreements — Jonathan Hirst Employment Agreement" below.

(4) Mr. Smyth served as our Chief Financial Officer, Secretary and Treasurer through April 27, 2009. Included in All Other Compensation is the payment of $275,000 related to the settlement of his separation agreement on March 31, 2008.

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

Our board has granted the right to certain of our executive officers and key personnel to elect to have a portion of their respective base cash compensation for future fiscal periods paid in the form of stock options or restricted stock rather than cash. Such stock options and stock will be valued at then current market prices.

Employment and Management Agreements

KIT Capital Management Agreement. During 2008, the managerial services of Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, and two non-executive personnel, were provided to us through KIT Capital, which is beneficially controlled by Mr. Isaza Tuzman. For these services, we paid KIT Capital aggregate fees of $573,284 for these three individuals in 2008, of which $289,652 was paid to Mr. Isaza Tuzman and the remainder to other KIT Capital personnel dedicated full-time to KIT digital, as well as for employer taxes, healthcare costs, corporate fees and other expenses related to KIT Capital's work with KIT digital.

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

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

In addition, under the Management Agreement, KIT Capital received the right to: (a) purchase up to 5,100,000 shares of series A preferred stock at a then purchase price of $0.38 per share from the holders of such shares; (b) purchase from us (i) up to $5.0 million of our common stock at a price per share of no higher than a 15% premium to the closing price of the common stock on December 18, 2007, and (ii) up to an additional $10.0 million of our common stock at a price not exceeding 90% of the five-day trailing weighted average trading price of the common stock at the time of purchase; and (c) include any such purchased shares of preferred stock and common stock in a registration statement filed by us with the SEC.

Notwithstanding these agreements, subsequent to the date of the Management Agreement, (a) we effected the automatic conversion of all then outstanding shares of series A preferred stock into 11,429 shares of common stock, thereby preventing KIT Capital from purchasing such shares, (b) we requested KIT Capital to waive its registration rights in respect of its purchase of 1,008,572 shares of common stock and warrants to purchase a like number of shares in our May 2008 financing, and (c) at the recommendation of our financial advisor, KIT Capital waived its right to purchase an additional $10.0 million in securities due to the potential negative effect on the market price with such a large controlling stockholder. For facilitating these corporate actions and waiving its rights as described above, and for KIT Capital's investment of $5.0 million at a time when similar third-party financing transactions were unavailable and we required such funds in connection with pending acquisition transactions, we issued to KIT Capital a warrant to purchase 580,358 shares of our common stock (representing 65% warrant coverage on KIT Capital's investment, as compared to 100% warrant coverage in the May 2008 financing transaction), for a term of five years commencing on December 31, 2008, at an exercise price of $11.90 per share, subject to the occurrence of certain events that could potentially reduce the exercise price to $5.60 per share.

The Management Agreement provides that upon termination of the agreement or after the expiration date for any reason, except cause (as defined in the Management Agreement), we are required to pay KIT Capital, in addition to any other payments due, a cash severance payment equal to the greater of (i) the total amount paid to KIT Capital during the preceding 12 months, including base compensation and all bonuses, or (ii) the previous month's installment of base compensation multiplied by 12.

Gavin Campion Employment Agreement. On March 16, 2008, we entered into an employment agreement with Gavin Campion to serve as our President. Pursuant to the terms of his agreement, Mr. Campion will serve as our President for an indefinite term, unless terminated by either party upon no less than 30 days written notice. If the agreement is terminated by Mr. Campion (or by us for the reasons specified below) prior to two years of consecutive service (April 1, 2010), Mr. Campion will be required to reimburse us for all expenses related to his employment. Mr. Campion's initial base compensation under the agreement is fixed at

$200,000, payable in UAE dirham equivalent (inclusive of his transportation and housing allowance). Mr. Campion also received stock options to purchase 34,286 shares of our common stock upon entering into the agreement. We are entitled to terminate Mr. Campion without advance notice and without the payment of any benefits upon the occurrence of certain events, including if Mr. Campion engages in fraud, dishonesty or any other act of material misconduct in the performance of his duties on our behalf, or Mr. Campion violates any material provision of his employment agreement which is not cured under any applicable cure period allowable under the agreement.

Robin Smyth Agreement. On March 30, 2008, we entered into a Separation and Re-Employment Agreement with Robin Smyth, pursuant to which he was retained as Chief Financial Officer on an “at-will” basis. The Smyth Agreement provided for the termination of the employment agreement between Mr. Smyth and us, dated as of November 1, 2004, and the payment of $475,000 in satisfaction of our obligations under the employment agreement. A final payment of $135,000 is to be made upon completion of this offering. Mr. Smyth resigned as our Chief Financial Officer effective April 27, 2009.

Jonathan Hirst Employment Agreement. Effective March 9, 2009, Jonathan Hirst entered into an employment agreement with us to begin employment on March 23, 2009, and to serve as our Chief Financial Officer beginning on April 27, 2009. Pursuant to the employment agreement, Mr. Hirst devotes all of his professional time and attention to our business.

The employment agreement provides that Mr. Hirst receives a fixed salary at an annual rate of $200,000, inclusive of a transportation and housing allowance. Mr. Hirst is also entitled to receive an annual performance incentive bonus of up to 50% of his total compensation based on the success of our financial results as provided in an executive bonus plan still to be determined. We also agreed to issue Mr. Hirst stock options to purchase 11,429 shares of common stock at an exercise price equal to the market price on his first date of employment in accordance with the 2008 Incentive Plan.

The employment agreement provides for termination of employment by us or Mr. Hirst at any time on not less than 30 days written notice, or by us immediately upon an act of fraud, dishonesty or misconduct by Mr. Hirst or a material breach by him of his obligations to us. In the event Mr. Hirst’s contract is terminated by us without cause he will be entitled to compensation for three months. The employment agreement also contains covenants (a) restricting him from engaging in any activities competitive with our business during the term of his employment agreement and for a period of three months thereafter, and (b) prohibiting him from disclosure of our confidential information at any time.

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Outstanding Equity Awards at Fiscal Year End

	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Exercise Price Option	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
Kaleil Isaza Tuzman	32,223	27,777		$ 6.11	January 9, 2013	—	—	—	—
Kaleil Isaza Tuzman	2,500	17,500		$ 9.80	June 21, 2013	—	—	—	—
Gavin Campion	15,134	19,152		$ 2.80	March 17, 2013	—	—	—	—
Gavin Campion	2,500	17,500		$ 9.80	June 21, 2013	—	—	—	—
Robin Smyth	11,715	—		$ 2.80	March 17, 2013	—	—	—	—
Robin Smyth	893	6,250		$ 9.80	June 21, 2013	—	—	—	—

KIT digital 2004 Stock Option Plan

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

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

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

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

Options Issued under 2004 Option Plan

Optionee	Quantity	Exercise Price ($)	Date Granted	Vest Date	Expiration Date
KIT Capital, Ltd.	60,000	6.11	January 9, 2008	Over 36 months	January 9, 2013
KIT Capital, Ltd.	20,000	9.80	March 17, 2008	Over 48 months	March 17, 2013

KIT digital 2008 Incentive Stock Plan

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

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

Description of the 2008 Incentive Plan

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

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

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

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

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

- **Purchase Price.** The purchase price of the common stock subject to each incentive stock option will not be less than the fair market value (as set forth in the 2008 Incentive Plan), or in the case of the grant of an incentive stock option to a principal stockholder, not less that 110% of fair market value of such common stock at the time such option is granted.
- **Vesting.** The dates on which each option (or portion thereof) will be exercisable and the conditions precedent to such exercise, if any, will be fixed by the board of directors, in its discretion, at the time such option is granted. Unless otherwise provided in the grant agreement, in the event of a change of control (as set forth in the 2008 Incentive Plan), 50% of the vesting restrictions will terminate.

- **Expiration.** Any option granted to an employee will become exercisable over a period of no longer than five years. No option will in any event be exercisable after five years from, and no Incentive Stock Option granted to a ten percent stockholder will become exercisable after the expiration of five years from the date of the option.
- **Transferability.** No option will be transferable, except by will or the laws of descent and distribution, and any option may be exercised during the lifetime of the optionee only by such optionee. No option granted under the 2008 Incentive Plan shall be subject to execution, attachment or other process.
- **Option Adjustments.** In the event of any change in the outstanding stock by reason of a stock split, stock dividend, combination or reclassification of shares, recapitalization, merger, or similar event, the board or the committee may adjust proportionally (a) the number of shares of common stock (i) reserved under the 2008 Incentive Plan, (ii) available for Incentive Stock Options and Nonstatutory Options and (iii) covered by outstanding stock awards or restricted stock purchase offers; (b) the stock prices related to outstanding grants; and (c) the appropriate fair market value and other price determinations for such grants. In the event of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the board or the committee will be authorized to issue or assume stock options, whether or not in a transaction to which Section 424(a) of the Code applies, and other grants by means of substitution of new grant agreements for previously issued grants or an assumption of previously issued grants.
- **Termination, Modification and Amendment.** The board may, insofar as permitted by law, from time to time, suspend or terminate the 2008 Incentive Plan or revise or amend it in any respect whatsoever, except that without the approval of the stockholders, no such revision or amendment may (i) increase the number of shares subject to the 2008 Incentive Plan, (ii) decrease the price at which grants may be granted, (iii) materially increase the benefits to participants, or (iv) change the class of persons eligible to receive grants under the 2008 Incentive Plan; provided no such action may alter or impair the rights and obligations under any option, or stock award, or restricted stock purchase offer outstanding as of the date thereof without the written consent of the participant.

Grants under the 2008 Incentive Plan

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

Name and Position	Dollar Value	No. of Options
Kamal El-Tayara, Director	$ 58,425	12,214
Daniel W. Hart, Director	72,675	12,214
Lars Kroijer, Director	58,425	12,214
Wayne Walker, Director	58,425	12,214
Gavin Campion, President	273,000	54,286
Robin Smyth, Director and former Chief Financial Officer	96,200	18,858

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

In addition, our board of directors has approved the grant of 8,143 options to new independent directors upon their appointment to the board. The board also approved annual compensation of $25,000, payable in arrears for the preceding calendar year on February 15 of every year beginning 2009, which may be paid in either cash or stock options (priced using the “Black-Scholes-Merton” options pricing model), or a combination of both.

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PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information regarding the number of shares of our common stock beneficially owned on August 10, 2009, and as adjusted to reflect the sale of the shares of common stock offered by this prospectus, by:

- each of our executive officers,
- each of our directors,
- each of the selling stockholders,
- all of our directors and executive officers as a group, and
- each person who is known by us to beneficially own 5% or more of our common stock.

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of our common stock which may be acquired upon exercise of stock options or warrants which are currently exercisable or which become exercisable within 60 days after the date indicated in the table are deemed beneficially owned by the optionees or warrant holders. Subject to any applicable community property laws, the persons or entities named in the table above have sole voting and investment power with respect to all shares indicated as beneficially owned by them.

None of the selling stockholders listed below are our management, insiders or affiliates presently or within the past three years. None of the selling stockholders are broker-dealers regulated by the Financial Industry Regulatory Authority or affiliates of a broker-dealer.

Unless otherwise indicated, the persons named in the table below have sole voting and investment power with respect to the number of shares indicated as beneficially owned by them. Unless otherwise indicated, the address of the beneficial owner is c/o KIT digital, Inc., 168 Fifth Avenue, Suite 301, New York, New York 10010.

	Shares of Common Stock (Including Shares Underlying Other Securities) Beneficially Owned Before this Offering (1)			Shares of Common Stock (Including Shares Underlying Other Securities) Beneficially Owned After this Offering (1)	
Name and Address of Beneficial Owner	Number	Percent	Number of Shares Offered	Number	Percent
Executive Officers, Directors and Principal Stockholders:					
KIT Media Ltd. Mill Mall, Suite 6 Wickhams Cay 1 P.O. Box 3085 Road Town, Tortola British Virgin Islands	3,490,360 (2)	54.5%	—	4,062,360 (19)	41.4%
KIT Capital, Ltd. P.O. Box 112888 Dubai, United Arab Emirates	66,330 (3)	1.4%	—	66,330	*
Kaleil Isaza Tuzman, sum of above	3,556,690 (2) (3)	55.1%	—	4,128,690	41.8%
Gavin Campion	34,993 (4)	*	—	34,993	*
Jonathan Hirst	1,429 (5)	*		1,429	*
Robin Smyth	81,091 (6)	1.7%	—	81,091	*
Kamal El-Tayara	22,086 (7)	*	—	22,086	*

EXHIBIT I - KIT DIGITAL'S PROSPECTUS

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Name and Address of Beneficial Owner	Shares of Common Stock (Including Shares Underlying Other Securities) Beneficially Owned Before this Offering [(1)] Number	Percent	Number of Shares Offered	Shares of Common Stock (Including Shares Underlying Other Securities) Beneficially Owned After this Offering [(1)] Number	Percent
Steven G. Felsher	15,991 [(8)]	*	—	15,991	*
Daniel W. Hart	18,287 [(9)]	*	—	18,287	*
Lars Kroijer	16,815 [(10)]	*	—	16,815	*
Wayne Walker	17,227 [(11)]	*	—	17,227	*
Wellington Trust Company, NA 75 State Street Boston, MA 02169	167,703 [(12)]	3.4%	—	167,703	2.0%
Wellington Management Company, LLP 75 State Street Boston, MA 02169	597,300 [(13)]	12.0%	—	597,300	7.1%
All directors and executive officers as a group (9 persons)	3,764,609	59.4%	—	4,336,609	43.1%
Selling Stockholders:					
Castlerigg Master Investments Ltd. 40 W. 57 th Street, 26 th Floor New York, NY 10019	577,143 [(14)]	11.3%	283,500	293,643	3.4%
Hale Capital Partners, LP 570 Lexington Avenue, 49 th Floor New York, NY 10022	263,423 [(15)]	5.3%	143,500	119,923	1.4%
Narrowstep, Inc. P.O. Box 565 Hopewell, NJ 08525	25,000 [(16)]	*	25,000	—	*
The Raptor Global Portfolio Ltd. c/o Raptor Capital Management LP 50 Rowes Wharf, 6 th Floor Boston, MA 02110	127,274 [(17)]	2.0%	97,800	29,474	*
The Altar Rock Fund LP c/o Raptor Capital Management LP 50 Rowes Wharf, 6 th Floor Boston, MA 02110	263 [(18)]	*	200	63	*
			550,000		

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* Represents less than 1% of outstanding common stock or voting power.

(1) Applicable percentage ownership is based on 4,819,591 shares of common stock outstanding as of August 10, 2009, and 8,229,591 shares of common stock at the completion of this offering, and assumes no exercise of the underwriters' over-allotment option.

(2) Represents (a) 1,901,430 shares of common stock, (b) 1,008,572 warrants acquired in our May 2008 financing and (c) warrants

to purchase 580,358 shares of common stock acquired upon exercise of the right vested in that certain Executive Management Agreement, dated as of December 18, 2007. Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, holds a controlling interest in KIT Media and holds the voting and dispositive power of the shares directly held by KIT Media Ltd. For purposes of voting, on an actual basis, KIT Media Limited owns 39.4% of our outstanding shares. For purposes of voting, on an actual basis, Mr. Isaza Tuzman owns 39.8% of our outstanding shares.

(3) Represents (a) 17,858 shares of common stock and (b) 60,000 shares underlying stock options granted to KIT Capital pursuant to that certain Executive Management Agreement, dated as of December 18, 2007. 20,000 of the options vested on January 8, 2008. The remainder of the options vest and become exercisable at the rate of 1/36 th per month commencing on February 9, 2008, of which 22,222 options vest within the next 60 days, with an exercise price of $6.11 per share and an expiration date of June 21, 2013. Also includes 20,000 shares of common stock issuable upon the exercise of stock options, of which 6,250 vest within the next 60 days, with an exercise price of $9.80 per share and an expiration date of June 21, 2013. Mr. Isaza Tuzman holds a controlling interest in KIT Capital and holds the voting and dispositive power of the shares directly held by KIT Capital. For purposes of voting, on an actual basis, KIT Capital owns 0.37% of our outstanding shares. For purposes of voting, on an actual basis, Mr. Isaza Tuzman owns 39.8% of our outstanding shares.

(4) Represents (a) 9,188 shares of common stock, (b) 34,286 shares of common stock issuable upon the exercise of stock options, of which 19,554 vest within the next 60 days, with an exercise price of $2.80 per share and an expiration date of March 16, 2013, and (c) 20,000 shares of common stock issuable upon the exercise of stock options, of which 6,250 vest within the next 60 days, with an exercise price of $9.80 per share and an expiration date of June 21, 2013. For purposes of voting, on an actual basis, Mr. Campion owns 0.19% of our outstanding shares.

(5) Represents 11,429 shares of common stock issuable upon the exercise of stock options, of which 1,429 vest within the next 60 days, with an exercise price of $7.00 per share and an expiration date of February 15, 2014.

(6) Represents (a) 2,858 shares of common stock owned directly by Mr. Smyth, (b) 11,715 shares of common stock issuable upon the exercise of stock options, of which 11,715 vest within the next 60 days, with an exercise price of $2.80 per share and an expiration date of March 16, 2013, (c) 81,429 shares of common stock issuable upon exercise of warrants, of which 64,286 vest within the next 60 days, and are exercisable at an exercise price of $4.66 per share and have an expiration date of March 30, 2012, and (d) 7,143 shares of common stock issuable upon the exercise of stock options, of which 2,232 vest within the next 60 days, with an exercise price of $9.80 per share and an expiration date of June 21, 2013. For purposes of voting, on an actual basis, Mr. Smyth owns 0.06% of our outstanding shares.

(7) Represents (a) 2,858 shares of common stock owned directly by Mr. El-Tayara, (b) 8,143 shares of common stock issuable upon the exercise of stock options, of which 3,352 vest within the next 60 days, with an exercise price of $2.80 per share and an expiration date of March 16, 2013, (c) 4,072 shares of common stock issuable upon the exercise of stock options, of which 1,272 vest within the next 60 days, with an exercise price of $9.80 per share and an expiration date of June 21, 2013, and (d) 14,604 shares of common stock issuable upon the exercise of stock options, of which 14,604 vest within the next 60 days, with an exercise price of $7.00 per share and an expiration date of March 6, 2014. For purposes of voting, on an actual basis, Mr. El-Tayara owns 0.06% of our outstanding shares.

(8) Represents (a) 10,286 shares of common stock issuable upon the exercise of stock options, of which 2,571 will be vested within the next 60 days with an exercise price of $7.00 per share and an expiration date of February 15, 2014, and (b) 13,419 shares of common stock issuable upon the exercise of stock options, of which 13,419 vest within the next 60 days, with an exercise price of $7.00 per share and an expiration date of March 6, 2014. For purposes of voting, on an actual basis, Mr. Felsher owns no outstanding shares.

(9) Represents (a) 8,143 shares of common stock issuable upon the exercise of stock options, of which 3,054 will be vested within the next 60 days with an exercise price of $4.55 per share and an expiration date of March 30, 2013, (b) 4,072 shares of common stock issuable upon the exercise of stock options, of which 1,272 vest within the next 60 days, with an exercise price of $9.80 per share and an expiration date of June 21, 2013, and (c) 13,961 shares of common stock issuable upon the exercise of stock options, of which 13,961 vest within the next 60 days, with an exercise price of $7.00 per share and an expiration date of March 6, 2014. For purposes of voting, on an actual basis, Mr. Hart owns no outstanding shares.

(10) Represents (a) 1,144 shares of common stock, (b) 8,143 shares of common stock issuable upon the exercise of stock options, of which 3,352 vest within the next 60 days, with an exercise price of $2.80 per share and an expiration date of March 16, 2013, (c) 4,072 shares of common stock issuable upon the exercise of stock options, of which 1,272 vest within the next 60 days, with an exercise price of $9.80 per share and an expiration date of June 21, 2013, and (d) 11,047 shares of common stock issuable upon the exercise of stock options, of which 11,047 vest within the next 60 days, with an exercise price of

$7.00 per share and an expiration date of March 6, 2014. For purposes of voting, on an actual basis, Mr. Kroijer owns 0.02% of our outstanding shares.

(11) Represents (a) 1,118 shares of common stock, (b) 8,143 shares of common stock issuable upon the exercise of stock options, of which 3,352 vest within the next 60 days, with an exercise price of $2.80 per share and an expiration date of March 16, 2013, (c) 4,072 shares of common stock issuable upon the exercise of stock options, of which 1,272 vest within the next 60 days, with an exercise price of $9.80 per share and an expiration date of June 21, 2013, and (d) 11,484 shares of common stock issuable upon the exercise of stock options, of which 11,484 vest within the next 60 days, with an exercise price of $7.00 per share and an expiration date of March 6, 2014. For purposes of voting, on an actual basis, Mr. Walker owns 0.02% of our outstanding shares.

(12) As reported in a Schedule 13G filed with the SEC on February 17, 2009. Represents 102,694 shares of common stock and 65,009 warrants. For purposes of voting, on an actual basis, Wellington Trust Company, NA owns 2.13% of our outstanding shares.

(13) As reported in a Schedule 13G filed with the SEC on June 10, 2009. Represents 419,451 shares of common stock and 177,849 warrants which are owned by clients of Wellington Management. Except for Wellington Trust Company, NA, none of these clients owns more than 5% of our outstanding shares of common stock. For purposes of voting, on an actual basis, Wellington Management Company, LLP owns 8.7% of our outstanding shares.

(14) Includes 288,571 shares of common stock issuable upon the exercise of warrants.

(15) Includes 119,919 shares of common stock issuable upon the exercise of warrants.

(16) Narrowstep, Inc. acquired shares of our common stock in April 2009 in connection with our acquisition of certain of its assets.

(17) Includes 29,372 shares of common stock issuable upon the exercise of warrants.

(18) Includes 61 shares of common stock issuable upon the exercise of warrants.

(19) Includes 572,000 shares of common stock being purchased in this offering, in part through the conversion into common stock of an interim note payable by us in the amount of $3.35 million.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Other than the Executive Management Agreement described under “Management — Employment and Management Agreements; KIT Capital Management Agreement” and the $3.35 million interim note payable by us to KIT Media Ltd. and the 1,008,571 units purchased by KIT Media Ltd. in our May 2008 private placement described under “Management’s Discussion and Analysis of Results of Operations and Financial Condition — Recent Securities Offerings” above (all of which is incorporated herein by this reference), there are no transactions requiring disclosure between us and our related persons, promoters or control persons.

Each of the directors Gavin Campion, Kamal El-Tayara, Steven G. Felsher, Daniel W. Hart and Lars Kroijer is a minority investor in KIT Media Ltd., our largest single stockholder controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer. Messrs. El-Tayara and Hart are also board members of KIT Media.

DESCRIPTION OF SECURITIES

General

Our authorized capital stock consists of 30,000,000 shares of common stock. We do not have any authorized preferred stock. As of August 10, 2009, there were issued and outstanding:

- 4,819,591 shares of common stock,
- stock options to purchase 563,417 shares of common stock at an average weighted price of $6.79 per share, and
- warrants to purchase 3,424,451 shares of common stock (for which cash would need to be remitted to us for exercise), at an average exercise price of $18.45 per share.

On March 6, 2009, we filed a certificate of amendment of our certificate of incorporation to (i) effect a 1-for-35 reverse stock split of our outstanding common stock; (ii) decrease the total number of shares of common stock authorized to be issued from 500,000,000 shares to 30,000,000 shares; and (iii) eliminate the authorization of a class of preferred stock. The changes made by the certificate of amendment were effective on March 9, 2009.

The following summary of the material provisions of our common stock, certificate of incorporation and by-laws is qualified by reference to the provisions of our certificate of incorporation and by-laws incorporated by reference as exhibits to the registration statement of which this prospectus is a part.

Common Stock

Holders of common stock are entitled to one vote for each share held of record on each matter submitted to a vote of stockholders. There is no cumulative voting for election of directors. Accordingly, the holders of a majority of our outstanding shares of common stock entitled to vote in any election of directors can elect all of the directors standing for election, if they should so choose. Holders of common stock are entitled to receive dividends ratably when, as, and if declared by the board of directors out of funds legally available therefor and, upon our liquidation, dissolution or winding up are entitled to share ratably in all assets remaining after payment of liabilities. Holders of common stock have no preemptive rights and have no rights to convert their common stock into any other securities. There are no redemption or sinking fund provisions applicable to our common stock. The outstanding shares of common stock are, and the shares of common stock being sold in this offering will be, when issued, validly authorized and issued, fully paid and nonassessable.

Market Information

Our common stock has been approved for listing on the Nasdaq Global Market under the symbol KITD.

Transfer Agent

The transfer agent and registrar for our common stock is Continental Stock Transfer & Trust Company and its address is 17 Battery Place, New York, New York, 10004, telephone number +1 (212) 509-4000.

Anti-Takeover Law, Limitations of Liability and Indemnification

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

- the transaction in which the stockholder became an interested stockholder is approved by the board of directors prior to the date the interested stockholder attained that status,

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

This statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us.

Limited Liability and Indemnification. Our certificate of incorporation eliminates the personal liability of our directors for monetary damages arising from a breach of their fiduciary duty as directors to the fullest extent permitted by Delaware law. This limitation does not affect the availability of equitable remedies, such as injunctive relief or rescission. Our certificate of incorporation requires us to indemnify our directors and officers to the fullest extent permitted by Delaware law, including in circumstances in which indemnification is otherwise discretionary under Delaware law.

Under Delaware law, we may indemnify our directors or officers or other persons who were, are or are threatened to be made a named defendant or respondent in a proceeding because the person is or was our director, officer, employee or agent, if we determine that the person:

- conducted himself or herself in good faith,
- reasonably believed, in the case of conduct in his or her official capacity as our director or officer, that his or her conduct was in our best interests, and, in all other cases, that his or her conduct was at least not opposed to our best interests, and
- in the case of any criminal proceeding, had no reasonable cause to believe that his or her conduct was unlawful.

These persons may be indemnified against expenses, including attorneys fees, judgments, fines, including excise taxes, and amounts paid in settlement, actually and reasonably incurred, by the person in connection with the proceeding. If the person is found liable to the corporation, no indemnification shall be made unless the court in which the action was brought determines that the person is fairly and reasonably entitled to indemnity in an amount that the court will establish.

Insofar as indemnification for liabilities under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the above provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment of expenses incurred or paid by a director, officer or controlling person in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SHARES ELIGIBLE FOR FUTURE SALE

The sale, or availability for sale, of a substantial number of shares of common stock in the public market subsequent to this offering pursuant to Rule 144 of the Securities Act or otherwise could materially adversely affect the market price of our common stock and could impair our ability to raise additional capital through the sale of equity securities or debt financing. Upon completion of this offering, there will be approximately 8,229,591 shares of common stock issued and outstanding. Of these shares, approximately 5,089,686 shares would be freely transferable. Our executive officers and directors would beneficially own approximately 2,508,454 shares, or 30.5% of our outstanding common stock after the completion of this offering, which would be eligible for resale subject to the volume and manner of sale limitations of Rule 144 of the Securities Act. An additional 631,451 shares are “restricted securities,” as that term is defined in Rule 144, and are eligible for sale under the provisions of Rule 144.

Stock options to purchase an aggregate of 563,417 shares of common stock were outstanding under our 2004 Stock Option Plan and 2008 Incentive Stock Plan as of August 10, 2009. Warrants to purchase an aggregate of 3,424,451 shares of common stock (for which cash would need to be remitted to us for exercise) were outstanding as of August 10, 2009.

The shares of common stock outstanding that are deemed to be “restricted securities” (as that term is defined under Rule 144) or that are owned by our affiliates may only be sold pursuant to an effective registration statement under the Securities Act, in compliance with the exemption provisions of Rule 144 or pursuant to another exemption under the Securities Act. Restricted shares and shares of common stock held by our affiliates that are not “restricted” will be eligible for sale, under Rule 144, subject to certain volume and manner of sale limitations prescribed by Rule 144. In general, under Rule 144 as currently in effect, a person (or persons whose shares are required to be aggregated), including a person who may be deemed an “affiliate” of the company, who has beneficially owned restricted securities for at least six months may sell, within any three-month period, a number of shares that does not exceed the greater of: (1) 1% of the then outstanding shares of common stock or (2) the average weekly trading volume of the common stock during the four calendar weeks preceding the date on which notice of such sale was filed under Rule 144. Sales of shares held by our affiliates that are not “restricted” are subject to such volume limitations, but are not subject to the holding period requirement. Sales under Rule 144 are also subject to certain requirements as to the manner of sale, notice and availability of current public information about our company. A person who is not deemed to have been an affiliate of our company at any time during the 90 days preceding a sale by such person, and who has beneficially owned the restricted shares for at least six months, is entitled to sell such shares under Rule 144 without regard to any of the restrictions described above.

Following this offering, we cannot predict the effect, if any, that the availability for sale of shares held by our current stockholders will have on the market price from time to time. Nevertheless, sales by our current stockholders of a substantial number of shares of common stock in the public market could materially and adversely affect the market price for our common stock. In addition, the availability for sale of a substantial number of shares of our common stock acquired through the exercise of outstanding stock options or warrants could materially adversely affect the market price of our common stock.

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UNDERWRITING

We and the selling stockholders have entered into an underwriting agreement with Roth Capital Partners, LLC acting as the representative of the several underwriters including Merriman Curhan Ford & Co. and Maxim Group LLC with respect to the shares subject to this offering. Subject to certain conditions, we and the selling stockholders have agreed to sell to the underwriters, and the underwriters have agreed to purchase 3,410,000 shares of our common stock from us and 550,000 shares of our common stock from the selling stockholders.

The underwriting agreement provides that the obligation of the underwriters to purchase the shares offered hereby is subject to certain conditions and that the underwriters are obligated to purchase all of the shares of common stock offered hereby if any of the shares are purchased.

If the underwriters sell more shares than the above number, the underwriters have an option for 30 days to buy up to an additional 594,000 shares from us at the public offering price less the underwriting commissions and discounts to cover these sales.

The underwriters propose to offer to the public the shares of common stock purchased pursuant to the underwriting agreement at the public offering price on the cover page of this prospectus. In addition, the underwriters may offer some of the shares to other securities dealers and finders at such price less a concession of $0.21 per share. The underwriters may also allow, and such dealers may reallow, a concession not in excess of $0.10 per share to other dealers. After the shares are released for sale to the public, the underwriters may change the offering price and other selling terms at various times. In connection with the sale of the shares of common stock to be purchased by the underwriters, the underwriters will be deemed to have received compensation in the form of underwriting commissions and discounts.

At the closing of this offering, the underwriters will receive warrants to purchase a number of shares of our common stock equal to 2.125% of the shares of common stock issued in the offering, other than shares issued to KIT Media Ltd. and Granahan McCourt Capital, LLC. The warrants will have a term of four years, have an exercise price equal to 120% of the public offering price of the common stock and, in accordance with FINRA Rule 5110(g)(1), may not be sold, transferred, assigned, pledged or hypothecated, or be the subject of any hedging, short sale, derivative, put or call transaction that would result in the effective economic disposition of such warrant by any person for a period of 180 days immediately following the effective date of the registration statement, except as provided in FINRA Rule 5110(g)(2).

We have also agreed to provide the underwriters with a (i) non-accountable expense reimbursement equal to 1.375% of the gross proceeds (not including proceeds subject to the underwriters' over-allotment option) received from the sale of securities issued in the offering to parties other than KIT Media Ltd. and Granahan McCourt Capital, LLC and (ii) accountable expense reimbursement of a maximum of $90,000 of out-of-pocket expenses incurred by them with respect to this offering.

The following table summarizes the compensation and estimated expenses we and the selling stockholders will pay:

	Per Share		Total	
	Without Over-allotment	With Over-allotment	Without Over-allotment	With Over-allotment
Underwriting discounts and commissions payable by us	$ 0.42	$ 0.42	$ 1,170,960	$ 1,420,440
Underwriting discounts and commissions payable by selling stockholders	$ 0.42	$ 0.42	$ 231,000	$ 231,000
Non-accountable and accountable expenses payable by us	$ 0.1285	$ 0.1059	$ 358,345	$ 358,345
Non-accountable and accountable expenses payable by selling stockholders	$ 0.0963	$ 0.0963	$ 52,938	$ 52,938

We have agreed not to offer, sell, contract to sell or otherwise issue any shares of common stock or securities exchangeable or convertible into common stock, without the prior written consent of Roth Capital Partners, LLC, for a period of 180 days, subject to an 18-day extension under certain circumstances, following the date of this prospectus, subject to certain exceptions including for acquisitions. In addition, all of our executive officers, directors and principal stockholders have entered into lock-up agreements with the underwriters. Under those lock-up agreements, subject to exceptions, those holders of stock may not, directly or indirectly, offer, sell, contract to sell, pledge or otherwise dispose of or hedge any common stock or securities convertible into or exchangeable for shares of common stock, or publicly announce to do any of the foregoing, without the prior written consent of Roth Capital Partners, LLC, for a period of 180 days, subject to an 18-day extension under certain circumstances, from the date of this prospectus. This consent may be given at any time without public notice.

Pursuant to the underwriting agreement, we have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments which the underwriters or such other indemnified parties may be required to make in respect of any such liabilities.

Our common stock has been approved for listing on the Nasdaq Global Market under the symbol KITD.

The underwriters and their respective affiliates have provided, and may in the future provide, various investment banking, commercial banking and other financial services for us for which services they have received, and may receive in the future, customary fees. Specifically, Merriman Curhan Ford & Co. acted as a placement agent for our private placement offerings in each of 2006, 2007 and 2008 and as an advisor on our ownership restructuring. Merriman Curhan Ford & Co. is also a market maker in our stock, and has covered us on a research basis since June 2006. Roth Capital Partners, LLC was retained as our placement agent in 2008. Other than the foregoing, Roth Capital Partners, LLC, Merriman Curhan Ford & Co. and Maxim Group LLC do not have any material relationship with us or any of our officers, directors or controlling persons, except with respect to the contractual relationship of Roth Capital Partners, LLC, Merriman Curhan Ford & Co. and Maxim Group LLC with us entered into in connection with this offering.

In connection with the offering the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.
- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.
- Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be discontinued at any time. Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters make representation that the representative will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

A prospectus supplement and the accompanying prospectus in electronic format may be made available on the Internet sites or through other online services maintained by one or more of the underwriters and/or selling group members participating in this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter or selling group member, prospective investors may be allowed to place orders online.

Other than the prospectus supplement and the accompanying prospectus in electronic format, the information on any underwriter's or selling group member's website and any information contained in any other web site maintained by an underwriter or selling group member is not part of the prospectus supplement, the accompanying prospectus or the registration statement of which this prospectus supplement and the accompanying prospectus forms a part, has not been approved and/or endorsed by us or any underwriter or selling group member in its capacity as underwriter or selling group member and should not be relied upon by investors.

KIT Media Ltd., our largest single stockholder, controlled by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, has indicated to us that it will be purchasing $4.0 million of common stock (572,000 shares) in this offering, in part through the conversion into common stock of an interim note payable by us in the amount of $3.35 million. All shares sold to KIT Media will be at the same price and on the same terms as the other investors in this offering. Gavin Campion, our President, is also an investor in KIT Media, as are several members of our board of directors.

Granahan McCourt Capital, LLC will be participating in this offering through the conversion into common stock of a promissory note payable by us in the amount of $350,000.

No underwriter or selling group member will receive any fees or warrants in connection with the purchase by KIT Media and Granahan McCourt of shares of common stock in this offering.

LEGAL MATTERS

Greenberg Traurig, LLP, New York, New York, will pass upon the validity of the issuance of the common stock offered by this prospectus as our counsel. Winston & Strawn LLP, New York, New York, is counsel for the underwriters in connection with this offering.

EXPERTS

The financial statements included in this prospectus have been audited by MSPC, independent registered public accountants, to the extent and for the periods set forth in its report appearing elsewhere herein and are included in reliance upon such report given upon the authority of that firm as experts in auditing and accounting.

INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Section 145 of the Delaware General Corporation Law, as amended, authorizes us to indemnify any director or officer under certain prescribed circumstances and subject to certain limitations against certain costs and expenses, including attorney's fees actually and reasonably incurred in connection with any action, suit or proceeding, whether civil, criminal, administrative or investigative, to which a person is a party by reason of being one of our directors or officers if it is determined that such person acted in accordance with the applicable standard of conduct set forth in such statutory provisions. Our certificate of incorporation contains provisions relating to the indemnification of director and officers and our by-laws extend such indemnities to the full extent permitted by Delaware law. We may also purchase and maintain insurance for the benefit of any director or officer, which may cover claims for which we could not indemnify such persons.

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Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

There are not and have not been any disagreements between us and our accountants on any matter of accounting principles, practices or financial statement disclosure during our two most recent fiscal years and subsequent interim period.

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KIT DIGITAL, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
KIT digital, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of KIT digital, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KIT digital, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the two years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company has suffered recurring losses and negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also discussed in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ MSPC

MSPC
Certified Public Accountants and Advisors,
A Professional Corporation

New York, New York
April 8, 2009

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KIT DIGITAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Share Data)

	Year ended December 31, 2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,878	$ 10,189
Accounts receivable, net	8,331	3,057
Inventory, net	2,130	—
Restricted cash	—	100
Other current assets	1,539	1,288
Total current assets	17,878	14,634
Property and equipment, net	2,928	1,307
Deferred tax assets	64	263
Software, net	2,265	505
Customer list, net	2,988	253
Domain names, net	19	30
Goodwill	15,167	1,123
Total assets	$ 41,309	$ 18,115
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank overdraft	$ 1,456	$ 190
Capital lease and other obligations	395	—
Secured notes payable	966	—
Senior secured notes payable, net of debt discount of $550	950	—
Accounts payable	5,775	3,121
Accrued expenses	2,240	1,616
Income tax payable	160	139
Acquisition liability – Kamera	3,000	—
Acquisition liability – Visual	2,218	—
Other current liabilities	3,818	1,478
Total current liabilities	20,978	6,544
Capital lease and other obligations, net of current	949	292
Secured notes payable, net of current	236	—
Acquisition liability – Visual, net of current	1,075	—
Total liabilities	23,238	6,836
Minority interest	(237)	(76)
Stockholders' Equity:		
Series A preferred shares, $0.0001 par value: authorized 10,000,000 shares; issued and outstanding 10,000,000	—	1
Common stock, $0.0001 par value: authorized 30,000,000 shares; issued and outstanding 4,183,280 and 1,112,459, respectively	—	—
Additional paid-in capital	101,057	74,824
Accumulated deficit	(82,499)	(63,524)
Accumulated other comprehensive (loss) income	(250)	54
Total stockholders' equity	18,308	11,355
Total liabilities and stockholders' equity	$ 41,309	$ 18,115

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

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KIT DIGITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Amounts in Thousands, Except Share and Per Share Data)

	Year ended December 31, 2008	Year ended December 31, 2007
Revenue	$ 23,401	$ 13,929
Variable and direct third party costs:		
Cost of goods and services	2,845	—
Hosting, delivery and reporting	2,024	2,341
Content costs	2,419	1,304
Direct third party creative production costs	3,109	3,242
Total variable and direct third party costs	10,397	6,887
Gross profit	13,004	7,042
General and administrative expenses:		
Compensation, travel and associated costs (including non-cash stock-based compensation of $4,869 and $4,748, respectively)	20,366	28,587
Legal, accounting, audit and other professional service fees	1,227	1,807
Office, marketing and other corporate costs	3,511	3,988
Merger and acquisition and investor relations expenses	427	—
Depreciation and amortization	1,771	2,236
Restructuring charges	3,068	—
Other non-recurring charges	1,111	—
Settlement of MyVideoDaily agreement	—	500
Impairment of property and equipment	229	788
Impairment of intangible assets	—	3,124
Impairment of goodwill	—	250
Total general and administrative expenses	31,710	41,280
Loss from operations	(18,706)	(34,238)
Interest income	164	725
Interest expense	(228)	(70)
Amortization of deferred financing costs and debt discount	(110)	—
Other income (expense)	31	(51)
Registration rights liquidated damages	(117)	(792)
Net loss before income taxes	(18,966)	(34,426)
Income tax expense	(116)	(125)
Net loss before minority interest	(19,082)	(34,551)
Minority interest	107	(13)
Net loss available to common shareholders	$ (18,975)	$ (34,564)
Basic and diluted net loss per common share	$ (7.55)	$ (34.69)
Basic and diluted weighted average common shares outstanding	2,512,415	996,267
Comprehensive loss:		
Net loss	$ (18,975)	$ (34,564)
Foreign currency translation	(304)	46
Comprehensive loss	$ (19,279)	$ (34,518)

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

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KIT DIGITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in Thousands, Except Share Data)

	Series A Preferred Shares	Series A Preferred Shares Par Value	Common Stock	Common Stock Par Value
Balance – January 1, 2007	10,000,000	$ 1	744,995	$ —
Issuance of stock in private placements	—	—	285,714	—
Stock-based compensation	—	—	—	—
Issuance of stock for News Corp.	—	—	57,143	—
Issuance of stock for MyVideoDaily acquisition	—	—	2,639	—
Return and cancellation of stock for MyVideoDaily acquisition	—	—	(2,639)	—
Issuance of stock upon conversion of warrants	—	—	286	—
Issuance of stock upon cashless conversion of warrants	—	—	5,592	—
Issuance of stock into escrow related to Wurld Media	—	—	18,729	—
Foreign currency translation adjustment	—	—	—	—
Net loss	—	—	—	—
Balance – December 31, 2007	10,000,000	$ 1	1,112,459	$ —
Issue of stock in private placement	—	—	2,142,857	—
Issue of stock in placement to KIT Media	—	—	892,857	—
Conversion of preferred stock to common stock	(10,000,000)	(1)	11,429	—
Issue of warrants for private placement	—	—	—	—
Issue of stock for exercise of stock options	—	—	7,821	—
Issue of stock in Asset Acquisition	—	—	13,714	—
Issue of warrants with short term debt	—	—	—	—
Issue of stock for services	—	—	2,143	—
Stock-based compensation	—	—	—	—
Foreign currency translation adjustment	—	—	—	—
Net loss	—	—	—	—
Balance – December 31, 2008	—	$ —	4,183,280	$ —

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

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KIT DIGITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in Thousands, Except Share Data)

	Additional Paid-in Capital	Accumulated (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance – January 1, 2007	$ 44,741	$ (28,960)	$ 8	$ 15,790
Issuance of stock in private placements	23,875	—	—	23,875
Stock-based compensation	4,748	—	—	4,748
Issuance of stock for News Corp	340	—	—	340
Issuance of stock for MyVideoDaily acquisition	250	—	—	250
Return and cancellation of stock for MyVideoDaily acquisition	(250)	—	—	(250)
Issuance of stock upon conversion of warrants	12	—	—	12
Issuance of stock upon cashless conversion of warrants	—	—	—	—
Issuance of stock into escrow related to Wurld Media	1,108	—	—	1,108
Foreign currency translation adjustment	—	—	46	46
Net loss	—	(34,564)	—	(34,564)
Balance – December 31, 2007	$ 74,824	$ (63,524)	$ 54	$ 11,355
Issue of stock in private placement	14,680	—	—	14,680
Issue of stock in placement to KIT Media	5,000			5,000
Conversion of preferred stock to common stock	1	—	—	—
Issue of warrants for private placement	1,038	—	—	1,038
Issue of stock for exercise of stock options	22	—	—	22
Issue of stock in Asset Acquisition	106	—	—	106
Issue of warrants with short term debt	642	—	—	642
Issue of stock for services	11	—	—	11
Stock-based compensation	4,733	—	—	4,733
Foreign currency translation adjustment	—	—	(304)	(304)
Net loss	—	(18,975)	—	(18,975)
Balance – December 31, 2008	$ 101,057	$ (82,499)	$ (250)	$ 18,308

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

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KIT DIGITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years ended December 31, 2008	2007
Operating Activities:		
Net loss	$ (18,975)	$ (34,564)
Adjustments to reconcile net loss to net cash used by operating activities:		
Provision for doubtful accounts	143	120
Depreciation	729	902
Amortization of intangible assets	1,042	1,334
Amortization of deferred financing costs	18	
Amortization of debt discount	92	
Impairment of property and equipment	229	788
Impairment of goodwill and intangible assets	—	3,374
Non-cash stock-based compensation	4,733	4,748
Issuance of warrants for settlement of separation agreements	1,038	—
Non-cash stock for services	11	—
Non-cash issuance of shares for News Corporation agreement	—	340
Minority interest in subsidiaries	(107)	13
Changes in assets and liabilities:		
Accounts receivable	(2,133)	231
Inventories	(738)	—
Other assets	585	(137)
Accounts payable	(512)	1,348
Accrued expenses	310	613
Income tax payable	171	(34)
Other liabilities	548	139
Total adjustments	6,159	13,779
Net Cash Used By Operating Activities – Forward	(12,816)	(20,785)
Investing Activities:		
Investment in restricted cash	100	(100)
Cash paid in acquisition of Visual	(1,311)	—
Cash received in acquisition of Visual	110	—
Cash paid in acquisition of Kamera	(4,634)	—
Cash received in acquisition of Kamera	271	—
Cash paid for completion of acquisition of Sputnik	(4,656)	—
Cash paid in acquisition of Morpheum	(790)	—
Cash received in acquisition of Morpheum	141	—
Cash paid for assets acquired from Juzou	(19)	—
Cash paid in MyVideoDaily acquisition	—	(250)
Cash paid for assets acquired from Wurld Media	—	(3,174)
Proceeds from sale of equipment	33	—
Capitalization of content	—	(89)
Purchase of equipment	(960)	(729)
Net Cash Used By Investing Activities – Forward	$ (11,715)	$ (4,342)

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

KIT DIGITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years ended December 31,	
	2008	2007
Net Cash Used By Operating Activities – Forwarded	$ (12,816)	$ (20,785)
Net Cash Used By Investing Activities – Forwarded	(11,715)	(4,342)
Financing Activities:		
Proceeds from private placements, net	14,680	23,875
Proceeds from private placement to KIT Media	5,000	—
Bank overdraft and other obligations	(89)	(372)
Proceeds from exercise of stock options	22	—
Proceeds from issuance of Secured Notes	(322)	—
Proceeds from issuance of Senior Secured Note	1,500	—
Proceeds from exercise of warrants	—	12
Payments on capital leases	(259)	(170)
Net Cash Provided By Financing Activities	20,352	23,345
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(312)	34
Net Decrease in Cash and Cash Equivalents	(4,311)	(1,748)
Cash and Cash Equivalents – Beginning of Year	10,189	11,937
Cash and Cash Equivalents – End of Year	$ 5,878	$ 10,189
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the years for:		
Income taxes	$ —	$ —
Interest	$ 251	$ 50

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

During the years ended December 31, 2007 and 2008, the Company acquired equipment under capital lease obligations of $184 and $0, respectively.

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

KIT DIGITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(1) Basis of Presentation

KIT digital, Inc. ("we," "us," "our," the "Company" or "KIT digital"), through our operating subsidiaries, provide enterprise customers and end-to-end technology platform for managing IP-based video assets for consumption across the computer Internet browser, mobile device and television set via IPTV. We offer creative interface design, branding, strategic planning and technical integration professional services to complement our platform. Our business is divided into two segments: Digital Media Solutions and Agency Services. Digital Media Solutions includes the delivery of solutions that include software, hardware, services and components. Digital Media Solutions also provide services including content delivery, online and mobile property development and management, and advertising-based monetization. Agency Services include direct marketing, incentive programs, internal communications, customer relationship management, sales promotion, creative production, sponsorships, online marketing, media planning, media buying and packaging.

(2) Summary of Significant Accounting Policies

Principles of Consolidation — Our consolidated financial statements include the accounts of KIT digital, Inc., its wholly-owned subsidiary KIT Media Corporation, ("KIT Media Corp") its wholly-owned subsidiary Bickhams Media, Inc. ("Bickhams"), its 51% subsidiary Reality Group Pty. Ltd ("Reality Group"), its wholly-owned subsidiary Kamera Content AB ("Kamera") (included as of the acquisition date of May 19, 2008), its wholly-owned subsidiary KIT digital FZ LLC and its wholly-owned subsidiary KIT HD, Inc. Included in the consolidation with KIT Media Corp are KIT Media Corp's wholly-owned subsidiary KIT digital Pty. Ltd. (formerly ROO Media (Australia) Pty Ltd.) and KIT digital Pty Ltd.'s wholly-owned subsidiary Undercover Media Pty. Ltd., its wholly-owned subsidiary KIT digital Limited (formerly ROO Media Europe Limited), its wholly-owned subsidiary KIT Broadcasting Limited (formerly ROO Broadcasting Limited), its wholly-owned subsidiary Sputnik Agency Pty. Ltd. (formerly Factory212 Pty. Ltd.), its wholly-owned subsidiary KIT TV Pty Ltd. (formerly ROO TV Pty Ltd.) and its wholly owned subsidiary Morpheum Internet Services Pty Ltd (included as of the date of acquisition of September 2, 2008). Included in the consolidation with Bickhams is Bickhams' wholly-owned subsidiary VideoDome.com Networks, Inc. Included in the consolidation with Kamera are Kamera's 95%-owned subsidiary Kamera (S) PTE Ltd and its 55%-owned subsidiary Swegypt Company for Telecommunications (S.A.E.). Included in the consolidation with KIT digital FZ LLC is its wholly-owned subsidiary Visual Connection, a.s. and Visual's wholly owned subsidiaries Visual Media Services a.s. and Visual Connection, spol. s.r.o. (included as of the acquisition date of October 5, 2008).

Management Estimates — The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Certain amounts included in the financial statements are estimated based on currently available information and management's judgment as to the outcome of future conditions and circumstances. Changes in the status of certain facts or circumstances could result in material changes to the estimates used in the preparation of financial statements and actual results could differ from the estimates and assumptions.

Foreign Currency Translation — Assets and liabilities of KIT digital's foreign subsidiaries are translated at current exchange rates and related revenues and expenses are translated at average exchange rates in effect during the periods. Resulting translation adjustments are recorded as a component of accumulated comprehensive income (loss) in stockholders' equity.

Fair value of Financial Instruments — On the first day of fiscal 2008, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. SFAS 157 defines fair value as the amount that would be received upon sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly

KIT DIGITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies – (continued)

transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which prioritizes the types of inputs to valuation techniques that companies may use to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1). The next highest priority is given to inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2). The lowest priority is given to unobservable inputs in which there is little or no market data available and which require the reporting entity to develop its own assumptions (Level 3). No Level 2 or Level 3 inputs were used to record assets or liabilities at fair value.

Risk Concentrations — Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. We endeavor to place our cash and cash equivalents with high credit quality institutions to limit credit exposure, and from time to time, obtain collateral for our accounts where we deem prudent and is feasible. We have obtained callable cash collateral wherever we have identified credit risk exists with respect to these investments. The amount of cash beyond insured amounts as of December 31, 2008 and 2007, was $5,634 and $10,084, respectively.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the nature of our customers who are dispersed across many industries and geographic regions. The allowance for doubtful accounts as of December 31, 2008 and 2007 was $571 and $282, respectively. As of December 31, 2008, no customers made up more than 10% of our trade accounts receivable. As of December 31, 2007, one customer accounted for approximately 12% of our trade accounts receivable. We routinely assess the financial strength of customers and, based upon factors concerning credit risk, we establish an allowance for doubtful accounts. Management believes that accounts receivable credit risk exposure beyond such allowance is limited.

Impairment of Long-Lived Assets — We review our long-lived assets and identifiable intangibles for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such factors and circumstances exist, we compare the projected undiscounted future cash flows associated with the future use and disposal of the related asset or group of assets to their respective carrying amounts. Impairment, if any, is measured as the excess of the carrying amount over the fair value based on market value (when available) or discounted expected cash flows of those assets, and is recorded in the period in which the determination is made.

Cash and Cash Equivalents — We consider all highly liquid investments with original maturities of 90 days or less when purchased, or fully cash-collateralized investments with immediate callability of collateral, to be cash or cash equivalents. As of December 31, 2008, we had $3,001 of cash equivalents in an account that pays interest at LIBOR plus 150 basis points. This account is guaranteed and backed by liquid collateral instruments, and can be redeemed with 14 days written notice.

Restricted Cash — As of December 31, 2007, we pledged approximately $100 as collateral for a standby letter of credit that guaranteed our obligation related to a real estate lease agreement. In 2008, we were released from our real estate lease agreement and our $100 was returned to us.

Property and Equipment — Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided for using the straight-line and declining balance methods of accounting over the estimated useful lives of the assets [See Note 6].

Routine maintenance and repair costs are charged to expense as incurred and renewals and improvements that extend the useful life of the assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is reported in the statement of operations.

Income Taxes — Pursuant to SFAS No. 109, "Accounting for Income Taxes," income tax expense [or benefit] for the year is the sum of deferred tax expense [or benefit] and income taxes currently payable [or

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(2) Summary of Significant Accounting Policies – (continued)

refundable]. Deferred tax expense [or benefit] is the change during the year in a company's deferred tax liabilities and assets. Deferred tax liabilities and assets are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Intangible Assets — Amortizable intangible assets of the Company are recorded at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of the assets, with periods of up to five years. Goodwill is reviewed for impairment at least annually and all other intangible assets are reviewed for impairment if events or circumstances indicate that carrying amounts may not be recoverable [See Note 7].

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

Research and Development — Costs incurred in research and development are expensed as incurred. Software development costs are required to be capitalized when a product’s technological feasibility has been established through the date the product is available for general release to customers. The Company does not capitalize any software development costs, as technological feasibility is generally not established until a working model is completed, at which time substantially all development is complete.

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

Stock-Based Compensation — On January 1, 2006, the Company adopted SFAS No. 123R, “Share-Based Payment.” Among other items, SFAS 123R requires companies to record compensation expense for share-based awards issued to employees and directors in exchange for services provided. The amount of the compensation expense is based on the estimated fair value of the awards on their grant dates and is recognized over the required service periods. The Company’s share-based awards include stock options, warrants and restricted stock awards.

The Company adopted SFAS 123R using the modified prospective transition method, which requires the application of the accounting standard to all share-based awards issued on or after January 1, 2006 and any outstanding share-based awards that were issued but not vested as of January 1, 2006. For the years ended December 31, 2008 and 2007, the Company recognized $4,869 and $4,748, respectively, of stock-based

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(2) Summary of Significant Accounting Policies – (continued)

compensation expense in the consolidated statements of operations. Included in the 2008 amount of $4,869, is $136 for director's fees for 2008 in which options have been issued in 2009 and is included in accrued expenses as of December 31, 2008.

The estimated fair value underlying the Company's calculation of compensation expense for stock options is based on the Black-Scholes-Merton pricing model. SFAS 123R requires forfeitures of share-based awards to be estimated at the time of grant and revised, if necessary, in subsequent periods if estimates change based on the actual amount of forfeitures experienced.

On March 17, 2008, the Board of Directors adopted an incentive compensation plan (the "2008 Incentive Stock Plan"). The 2008 Incentive Stock Plan has reserved 400,000 shares of common stock for issuance. Under the 2008 Incentive Stock Plan, options may be granted which are intended to qualify as Incentive Stock Options under Section 422 of the Internal Revenue Code of 1986 or which are not intended to qualify as Incentive Stock Options thereunder. In addition, direct grants of stock or restricted stock may be awarded. Also, on March 17, 2008, the Board of Directors resolved that, subject to the agreement of the individuals, a surrender of options under the 2004 Stock Option Plan were exchanged for options under the 2008 Incentive Stock Plan. A total of 101,158 stock options in the 2004 Stock Option Plan were surrendered, of which a total of 49,023 stock options were cancelled or expired and a total of 52,134 stock options were forfeited. These were exchanged for a total of 38,158 stock options under the 2008 Incentive Stock Plan.

Under the 2004 Stock Option Plan, the Company granted options with an exercise price of $6.11 to $9.80 to purchase 80,000 shares of its common stock during the year ended December 31, 2008. During the year ended December 31, 2008, a total of 45,331 stock options vested, a total of 100,813 stock options were cancelled or expired, a total of 82,918 stock options were forfeited, and 45,278 stock options were unvested as of December 31, 2008. A total of 81,429 stock options were outstanding under this plan on December 31, 2008.

Under the 2008 Incentive Stock Plan, the Company granted options with exercise prices ranging from $2.80 to $10.50 to purchase 509,036 shares of its common stock during the year ended December 31, 2008. During the year ended December 31, 2008, a total of 143,038 stock options vested, 7,612 stock options were exercised, 81,240 stock options were cancelled, expired or forfeited with 325,174 stock options unvested as of December 31, 2008. A total of 420,184 stock options were outstanding under this plan on December 31, 2008.

Also included in non-cash compensation are warrants to purchase 34,286 shares of common stock with an exercise price of $4.655 issued to Robin Smyth, the Company's Chief Financial Officer, on March 30, 2008 that vest over 36 months from the issue date. During the year ended December 31, 2008, a total of 8,571 warrants vested with 25,715 warrants unvested as of December 31, 2008.

On August 11, 2008, the Company's Board of Directors approved an amendment to the Company's 2008 Incentive Stock Plan increasing the number of shares of common stock reserved for issuance under the plan by 457,143 shares, to a new total of 857,143 shares. The amendment to the 2008 Incentive Stock Plan was subsequently approved by holders of a majority of the Company's common stock.

Net Loss Per Share — We compute net loss income per common share under the provisions of SFAS No. 128, "Earnings per Share," which establishes standards for computing and presenting earnings per share. SFAS No. 128 requires us to report both basic net (loss) income per share, which is based on the weighted average number of common shares outstanding during the period, and diluted net (loss) income per share, which is based on the weighted average number of common shares outstanding plus all potentially dilutive common shares outstanding. All equivalent shares underlying options, warrants, and convertible Series A Preferred Stock were excluded from the calculation of diluted loss per share because we had net losses for all years presented and therefore equivalent shares would have an anti-dilutive effect.

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(2) Summary of Significant Accounting Policies – (continued)

Reclassification — Certain prior period amounts have been reclassified to conform to the current presentation.

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

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

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

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

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

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

(3) Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in

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(3) Going Concern – (continued)

the normal course of business. Since its inception, the Company has incurred losses, had an accumulated deficit, and has experienced negative cash flows from operations. This raises doubt about the Company's ability to continue as a going concern. Management expects cash flows from operating activities to improve, primarily as a result of an increase in revenue and a decrease in costs, although there can be no assurance thereof. The accompanying consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

(4) Acquisitions

On January 22, 2007, we entered into an Asset Purchase Agreement (the "APA") with RJM Price & Company, Inc. ("RJM") and Robertson Price. Pursuant to the APA, we acquired all of the properties, rights and assets constituting the business of RJM, which operates under the name MyVideoDaily ("MVD"). The APA provided for consideration of up to an aggregate of $1,350, of which $250 was paid upon the execution of the APA. The APA included milestone payments, which provided certain defined targets and conditions to be met. Pursuant to the terms of the APA, we also entered into an employment agreement with Mr. Price. On May 17, 2007, RJM was issued 2,639 shares of our common stock valued at $250, for achieving the first quarter milestone.

On October 18, 2007, we entered into a settlement agreement with RJM and Robertson Price, resolving all payment and other obligations among the parties arising out of the APA dated as of January 22, 2007. Pursuant to the agreement, KIT digital paid RJM $500 on October 23, 2007, and RJM delivered to KIT digital 2,639 shares of KIT digital common stock, which had been previously issued by KIT digital. These shares have been canceled and the value recorded on May 17, 2007 has been reversed. This agreement is the full and final settlement of any outstanding items or amounts related to the APA. The $250 paid upon execution of the APA was recorded as goodwill. The $500 paid upon the execution of the settlement agreement was recorded as settlement of MVD agreement in the Statement of Operations. As of December 31, 2007, the goodwill of $250 was impaired and recorded as impairment of goodwill expense in the Statement of Operations (See Note 8).

On February 16, 2007, Wurld Media, Inc. ("Wurld Media") issued a promissory note to the Company in the principal amount of $1,500. Pursuant to the promissory note the Company advanced to Wurld Media the sum of $800, and in its sole discretion may make additional advances of up to, but not exceeding $1,500. The promissory note accrues interest at the annual rate of 8% and in the event of a default will accrue interest at the annual rate of 10%. The promissory note is secured by all of the assets of Wurld Media. The promissory note is due and payable upon the earlier of (i) the closing of the acquisition of the assets of Wurld Media, in which event, the loan amount will be credited against the purchase price of the assets or (ii) November 26, 2007. This promissory note has been paid in full and is included in the assets of Wurld Media acquired. The loan made to Wurld Media was recorded as a component of "Investment in assets acquired from Wurld Media" on the Statement of Cash Flows.

On June 15, 2007, Gregory Kerber issued a promissory note to the Company in the principal amount of $400. Pursuant to the promissory note, the Company advanced to Mr. Kerber the sum of $394. The promissory note accrues interest at the rate of 8% and in the event of a default will accrue interest at the rate of 10%. The promissory note is secured by certain of his shares in Wurld Media. The promissory note is due and payable upon demand by the Company. This promissory note has been paid in full and is included in the assets of Wurld Media acquired. The loan made to Mr. Kerber was recorded as a component of "Investment in assets acquired from Wurld Media" on the Statement of Cash Flows.

(4) Acquisitions

On July 12, 2007, KIT HD, Inc. ("KIT HD"), a wholly-owned subsidiary of KIT digital, entered into an asset purchase agreement with Wurld Media, Gregory Kerber and Kirk Feathers. Wurld Media specializes in

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(4) Acquisitions – (continued)

the peer-to-peer distribution of music, movies, games, TV shows and other audio, video, and audio/video content. The acquisition was completed and closed on July 17, 2007. The assets acquired by KIT HD, pursuant to the agreement, included: (i) certain fixed assets, equipment, fixtures, and leasehold improvements located at Wurld Media's office in Saratoga Springs, New York; (ii) certain intellectual property of Wurld Media; (iii) the customer logs, location files and records of Wurld Media, and (iv) all claims, entitlements, rebates, refunds, settlements, awards or other rights related to the assets acquired by KIT HD. The consideration for the assets acquired by KIT HD was an aggregate of $4,320, consisting of $3,174 in cash, $38 in accrued liabilities related to the purchase and the issuance of 18,729 shares of our common stock valued on July 17, 2007 at $59.15 per share or $1,108. The total purchase consideration was allocated to the assets acquired at their estimated fair values as of the date of acquisition, as determined by management, as $3,180 of software and $1,140 of fixed assets.

At the end of December 2007, we decided to abandon the development and assets of the peer-to-peer business that we acquired in the asset purchase agreement with Wurld Media (See Note 8).

Sputnik Acquisition

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

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

Kamera Acquisition

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

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

The aggregate cost of the acquisition of Kamera was $7,634. This is comprised of the $4,500 paid at closing, $1,500 accrued for the consideration payable six months from the Completion Date and paid in March 2009 and $1,500 accrued for the consideration payable 13 months from Completion Date and are included in the Balance Sheet in "Acquisition liability — Kamera," and $134 in legal costs related to the acquisition. The Company has not recorded the contingent liability of $3,000 in consideration that is payable 21 months from Completion Date as it is not certain that the performance criteria will be met. The Company has allocated the aggregate cost of the acquisition to Kamera's net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded to goodwill.

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(4) Acquisitions – (continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (May 19, 2008).

Current assets	$	1,214
Property and equipment		156
Intangible assets – developed software		1,000
Intangible assets – customer list		1,500
Goodwill		5,111
Total assets acquired		8,981
Current liabilities		1,347
Total liabilities assumed		1,347
Net assets acquired	$	7,634

The results of operations of Kamera for the period from May 19, 2008 to December 31, 2008 have been included in the Consolidated Statements of Operations.

Morpheum Acquisition

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

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (August 31, 2008).

Current assets	$	416
Property and equipment		116
Intangible assets – developed software		1,122
Total assets acquired		1,654
Current liabilities		864
Total liabilities assumed		864
Net assets acquired	$	790

The results of operations of Morpheum for the period from September 1, 2008 to December 31, 2008 have been included in the Consolidated Statements of Operations.

Visual Connection Acquisition

On October 5, 2008, through our wholly-owned subsidiary, KIT digital FZ-LLC ("KIT"), we acquired 100% of Visual Connection, a.s., a Prague, Czech Republic-based company ("Visual") specializing in the supply and delivery of comprehensive IPTV solutions which link software expertise with hardware configuration, integration capabilities and 24/7 customer service. Visual's 200+ customers included television and radio stations, graphics publishers, audiovisual production and post production houses, state and federal government administration, education companies, telcos and healthcare providers.

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(4) Acquisitions – (continued)

Taking into account certain adjustments made to the original Visual Share Purchase Agreement mutually agreed to on March 31, 2009, the purchase price of Visual consisted of:

(a) $1,180 in cash, after certain adjustments were made for negative working capital;

(b) $1,500 in shares of our common stock for a total of 163,043 shares, issued by April 15, 2009, restricted for sale for 12 months thereafter;

(c) an earn-out of $3,225 in a combination of shares of our common stock (determined based on the higher of (i) the 20-day trailing weighted average closing price per share prior to the respective payment date, or (ii) a price “floor” of $7.70 per share), payable in three equal installments of $1,075, (i) 12 months after closing, (iii) 18 months after closing, and (iii) 24 months after closing, subject in each case to targeted levels of the Company’s net revenues and EBITDA. and the retention of key personnel; and

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

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

The aggregate cost of the acquisition of Visual was $4,286. This is comprised of the $1,000 paid in November 2008 of the initial purchase price of $2,500 less negative working capital of $1,320 or $1,180. The remaining $180 of the initial purchase price is included in the Balance Sheet in “Acquisition liability — Visual.” Additionally, the cost includes $1,500 for the payable six months after closing, $538 (50% of the amount) for the minimum payable for 12 months after closing, $1,075 (50% of the amount) total for the minimum payable for 18 and 24 months after closing, and $311 in legal and consulting costs related to the acquisition. From the above, $2,218 is included in the Balance Sheet in “Acquisition liability — Visual” and $1,075 is in the Balance Sheet in “Acquisition liability — Visual, net of current.” The Company has not recorded the contingent liability of $1,613 in consideration that is payable 12, 18 and 24 months from closing as it is not certain that the performance criteria will be met. The Company has allocated the aggregate cost of the acquisition to Visual’s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded to goodwill.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (August 31, 2008).

Current assets	$	4,287
Property and equipment		1,609
Intangible assets – customer list		1,000
Goodwill		5,131
Total assets acquired		12,027
Current liabilities		4,317
Capital leases and notes payable		3,106
Total liabilities assumed		7,423
Net assets acquired	$	4,604

The results of operations of Visual for the period from October 1, 2008 to December 31, 2008 have been included in the Consolidated Statements of Operations.

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(4) Acquisitions – (continued)

Juzou Acquisition

In November 2008, we purchased specified assets of Extreme Mobile Services Limited (also known as Juzou), a company formed under the laws of the United Kingdom. Juzou's business involves content management and web services with live streaming capabilities. Under an Asset Purchase Agreement, dated November 15, 2008, we acquired the Juzou trademark and system and ongoing customers and other operating contracts. The total purchase price of the assets was $800, payable in shares of our common stock based on meeting specified financial and operating targets over the ensuing two-year period. At closing, we issued 13,715 shares of our common stock to Juzou valued at $120 against the total purchase price.

(5) Related Party Transactions

On March 6, 2007, Reality Group Pty. Ltd. issued a promissory note to the Company in the principal amount of $380. Pursuant to the promissory note, the Company advanced to Reality Group the sum of $190 on March 6, 2007 and $190 on March 13, 2007. Interest on the promissory note accrued at the rate of 8% per annum. The promissory note was due on June 30, 2008 and was secured by all the assets of Reality Group. In addition, two shareholders of Reality Group agreed to pledge 20% of the ordinary shares of Reality Group which they own as security for Reality Group's obligations under the promissory note. These notes eliminated in consolidation. As part of the Sputnik acquisition, these notes were extinguished as of May 12, 2008.

On May 11, 2007, Reality Group Pty. Ltd. issued a promissory note to the Company in the principal amount of $400. Pursuant to the promissory note, the Company advanced to Reality Group the sum of $400 on May 11, 2007. Interest on the promissory note accrued at the rate of 8% per annum. The promissory note was due on May 11, 2008. These notes eliminated in consolidation. As part of the Sputnik acquisition, these notes were extinguished as of May 12, 2008.

In December 2007, we entered into an agreement with KIT Capital, a company beneficially controlled and led by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, under which KIT Capital has provided us managerial services through several senior personnel. The total amount paid to KIT Capital and included in our results of operations in the years ended December 31, 2008 and 2007 were $573 and $69, respectively.

In May 2008, KIT Media, Ltd., an affiliate of KIT Capital, bought 1,008,572 shares of our common stock for $7,060 in the May 2008 Financing which included 1,008,572 warrants to purchase one share of common stock. The Company's Chief Executive Officer, Kaleil Isaza Tuzman, holds a controlling interest in KIT Media.

On December 31, 2008, the Company completed the investment for $5,000 with KIT Capital as defined under the Executive Management Agreement for the issue of 892,858 shares of common stock at $5.60 per share. In addition we issued to KIT Capital a warrant to purchase 580,358 shares of our common stock (representing 65% warrant coverage on KIT Capital's investment, as compared to 100% warrant coverage in the May 2008 financing transaction), for a term of five years commencing on December 31, 2008, at an exercise price of $11.90 per share, subject to the occurrence of certain events that could potentially reduce the exercise price to $5.60 per share.

During 2008, 60,000 stock options were granted to KIT Capital pursuant to the Executive Management Agreement, dated as of December 18, 2007, with an exercise price of $6.11 per share and an expiration date of January 9, 2013. An additional 20,000 stock options were granted to KIT Capital with an exercise price of $9.80 share and an expiration date of June 21, 2013.

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(6) Property and Equipment

Property and equipment at December 31, 2008 consists of the following:

	Office Equipment Capital Lease	Motor Vehicles Capital Lease	Computer Software	Leasehold Improvements	Furniture and Fixtures	Office Equipment	Total
Cost	$ 611	$ 544	$ 249	$ 553	$ 311	$ 2,009	$ 4,277
Accumulated Depreciation	(82)	(54)	(123)	(255)	(183)	(652)	(1,349)
Net	$ 529	$ 490	$ 126	$ 298	$ 128	$ 1,357	$ 2,928
Estimated useful life	2 – 10 years	3 – 5 years	2 – 4 years	1 – 20 years	3 – 10 years	2 – 10 years	

Depreciation expense amounted to $729 and $902 for the years ended December 31, 2008 and 2007, respectively.

(7) Goodwill and Intangible Assets

As of December 31, 2008, goodwill is $15,167 and is comprised of the following; $1,033 from the acquisition of Reality Group,

- $90 related to the acquisition of 24% of KIT digital Limited, which was owned by a third party,
- $3,802 from the acquisition of Sputnik,
- $5,111 from the acquisition of Kamera, and
- $5,131 from the acquisition of Visual.

At December 31, 2008 intangible assets include the following:

	Customer List	Software	Domain Name
Cost	$ 4,231	$ 3,546	$ 54
Less Amortization	(1,243)	(1,281)	(35)
Totals	$ 2,988	$ 2,265	$ 19

Estimated future annual amortization expense as of December 31, 2008 is as follows:

	Customer List	Software	Domain Name
2009	$ 894	$ 672	$ 11
2010	874	459	8
2011	825	445	—
2012	395	445	—
2013	—	244	—
Thereafter	—	—	—
Totals	$ 2,988	$ 2,265	$ 19

The values attributed to customer lists come from the following acquisitions: $650 from Reality Group, $1,081 from Sputnik, $1,500 from Kamera and $1,000 from Visual, and are being amortized over four year periods on a straight line basis. The values attributed to software come from the following acquisitions: $1,320 from VideoDome, $1,000 from Kamera, $1,122 from Morpheum and $104 from Juzou, and is being amortized over 5 year periods on a straight line basis. The Company purchased the domain name *roo.com* in November 2005 and it is being amortized over a five year period on a straight line basis.

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(8) Senior Secured Notes Payable

In November 2008, we received $1,500 in gross proceeds from the issuance of a non-convertible note to Genesis Merchant Partners, LP. Interest is payable monthly in arrears at 14.5% and matures on December 31, 2009. The principal is repayable in monthly installments of $75 beginning in May 2009, with the remainder of the principal due at maturity. The note is secured by the company's property, including accounts receivable and inventory, but excludes any security interests in Visual and Reality Group or assets of these subsidiaries. In conjunction with the borrowing, we issued to Genesis Merchant Partners, LP a warrant entitling it to purchase, for $11.90 per share, 139,286 shares of our common stock through October 31, 2013. A debt discount of $642 was recorded related to this debt and is being amortized over fourteen months which is the life of the note.

(9) Income Taxes

The Company's expected global income tax benefit computed at the statutory rate for each taxing authority on the pre-tax loss amounted to approximately $99,128 in 2008 and $84,178 in 2007. Such benefits were not recognized in the accompanying financial statements due to KIT digital's history of past operating losses, and consequently valuation allowances were recorded for all of KIT digital's deferred tax assets at December 31, 2008 and 2007.

Deferred tax attributes resulting from differences between financial accounting amounts and tax bases of assets and liabilities at December 31, 2008 and 2007 are as follows:

	2008	2007
Current Assets		
Non-Cash Compensation	$ 5,922	$ 4,748
Subtotal	5,922	4,748
Valuation allowance	(5,922)	(4,748)
Current deferred tax asset	$ —	$ —
Non-current assets		
Net operating loss carryforward	$ 99,128	$ 84,178
Valuation allowance	(99,128)	(84,178)
Non-current deferred tax asset	$ —	$ —

The valuation allowance increased by $14,950 and $23,569 for the years ended December 31, 2008 and 2007, respectively. As of December 31, 2008, KIT digital has federal net operating loss carryforwards of approximately $99,128 that will be available to offset future taxable income, if any, through December 2028. The utilization of KIT digital's net operating losses may be subject to substantial limitations due to various tax law provisions in different jurisdictions. Such limitation may result in the expiration of the net operating loss carry forwards before their utilization. KIT digital has established a 100% valuation allowance for all of its deferred tax assets due to uncertainty as to their future realization.

As a matter of course, the Company can be audited by federal and state authorities. At this time, there are no audits identified or in process from any taxing authority. In June 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109". FIN 48 clarifies the accounting for uncertainties in income taxes recognized in a company's financial statements in accordance with Statement 109 and prescribes a recognition threshold and measurement attributes for financial disclosure of tax positions taken or expected to be taken on a tax return. Additionally, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, and disclosure and transition.

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(10) Commitments and Contingencies

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

The following is a schedule of future minimum payments under capital leases and operating leases as of December 31, 2008.

Year	Capital Leases	Operating Leases	Total
2009	$ 559	$ 1,292	$ 1,851
2010	459	847	1,306
2011	332	505	837
2012	171	86	257
2013	42	43	85
Thereafter	—	—	—
Total Minimum Lease Payments	1,563	$ 2,773	$ 4,336
Less Amount Representing Interest	(219)		
Total Obligations Under Capital Leases	$ 1,344		

Rent expense amounted to $1,156 and $1,170 for the years ended December 31, 2008 and 2007, respectively.

Employment Agreements — On December 18, 2007, the Company entered into the Management Agreement with KIT Capital for a term commencing on January 9, 2008 and terminating on January 9, 2011, unless sooner terminated or mutually extended. As a result of this Management Agreement, KIT Capital designated Kaleil Isaza Tuzman as Chief Executive Officer, and two other KIT Capital employees as Head of Communications and as Corporate Development Manager of the Company, respectively. The Management Agreement provided for an aggregate compensation for KIT Capital as follows: (i) $51 monthly (which has been subsequently adjusted downwards to $42 monthly effective November 1, 2008), which includes the cost of at least three employees inclusive of benefits and taxes, (ii) signing incentive payment of $69, (iii) an incentive bonus equal to the greater of (x) the preceding twelve months' base compensation or (y) the previous month's monthly installment of base compensation multiplied by twelve if the Company shall achieve 2 consecutive quarters of profitability or the Company's total monthly revenue equals or exceeds $6,000, and (iv) a "phantom stock plan" for 2,100,000 shares that vest over a 36-month period. Specific terms of this plan are subject to finalization. The Management Agreement provides that upon termination of the Management Agreement or after the Management Agreement's expiration date for any reason except cause (as defined in the Management Agreement), the Company shall pay KIT Capital, in addition to any other payments due hereunder, a cash severance payment equal to the greater of (i) the total amount paid to KIT Capital during the preceding twelve months, including base compensation and all bonuses, and (ii) the previous month's monthly installment of base compensation multiplied by twelve.

Litigation — In November 2007, our wholly-owned subsidiary, KIT HD, Inc. ("KIT HD"), was named as the defendant in a purported class action lawsuit entitled Julie Vittengl et al. vs. KIT HD, in New York Supreme Court, Saratoga County, New York. The suit, brought by four former employees of Wurld Media, Inc. ("Wurld"), purportedly on behalf of themselves and "others similarly situated," claims that KIT HD's acquisition of certain assets of Wurld was a fraudulent conveyance and that KIT HD is the alter-ego of Wurld. Plaintiffs seek the appointment of a receiver to take charge of our property in constructive trust for plaintiffs and payment of plaintiffs' unpaid wages and costs of suit, both in an unspecified dollar amount. KIT HD filed

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(10) Commitments and Contingencies – (continued)

its answer to the complaint in January 2008, and there have been no further developments in this action since then. We believe that the suit is without merit and we intend to defend this action vigorously should the case become active.

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

(11) Preferred Shares

On March 30, 2008, the Board of Directors and stockholders holding a majority of the Company's voting stock approved the filing of an amendment to the Company's Certificate of Incorporation to reduce its authorized preferred stock from 20,000,000 to 10,000,000 shares. Also, on March 30, 2008, the stockholders holding a majority of the Company's voting stock approved the filing of an amendment to its Certificate of Designation of the Series A Preferred Stock to provide for automatic conversion of the outstanding Series A Preferred stock into 11,429 shares of common stock. The conversion of the Series A Preferred Stock into common stock was conditional upon the effectuation of the amendment to the Certificate of Incorporation to reduce the authorized preferred stock from 20,000,000 to 10,000,000 shares. On May 19, 2008, the Company filed the amendment to its Certificate of Incorporation to reduce the authorized preferred stock from 20,000,000 to 10,000,000 shares. On May 22, 2008, the Company filed the amendment to the Certificate of Designation of the Series A Preferred to provide for the automatic conversion of the outstanding Series A Preferred Stock into 11,429 shares of common stock.

(12) Stock Issuances

On January 25, 2007, we entered into an agreement with News Corporation ("News Corp"). The Agreement provides for the issuance of 57,143 shares of our common stock upon execution of the Agreement, which were to be held in escrow and released to News Corp on January 1, 2008, if the average monthly revenues from News Corp and its affiliates for the three month period ended December 31, 2007 is not less than the revenue from News Corp and its affiliates for the one month period ending December 31, 2006 (the "Revenue Target"). On February 7, 2008, we released the 57,143 shares of our common stock to News Corp for meeting the Revenue Target. The shares were valued at $5.95 per share or $340, and that amount was recorded as sales and marketing expense for the year ended December 31, 2007.

We also agreed to issue an additional 57,143 shares of our common stock to News Corp if within three years of the date of the Agreement the average monthly revenue from News Corp and its affiliates for any consecutive three month period equals at least six times the Revenue Target. Further, we agreed that if the foregoing is not timely achieved, we shall issue to News Corp warrants to purchase 57,143 shares of our common stock which shall be exercisable for a term of two years from the date of issuance at a price of $94.50. The exercise price of the warrants will be subject to customary anti-dilution protection for stock splits, recapitalizations, stock dividends and the like.

We have granted News Corp piggy-back registration rights in connection with the shares issuable pursuant to the Agreement.

On May 4, 2007, we entered into a securities purchase agreement pursuant to which the Company sold an aggregate of 285,715 shares of our common stock and warrants to purchase an additional 85,714 shares of

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(12) Stock Issuances – (continued)

our common stock to accredited investors resulting in gross proceeds of $25,000. The offering closed on May 10, 2007. The unit price of the common stock and corresponding warrant was $87.50. The warrants have an exercise price of $157.50 per share and a term of five years. The warrants were valued under the Black-Scholes method as $5,117. At any time at which the market price of our Common Stock exceeds 210.00 for 10 trading days during any 20 consecutive trading days, we may elect to call the warrants, provided that, the shares underlying such warrants are registered pursuant to a registration statement. We agreed to prepare and file a registration statement with the Securities and Exchange Commission registering the resale of the shares of common stock sold in the private placement on or prior to 30 days following the closing date. If the registration statement is not filed within such time, the Company must pay liquidated damages to the investors equal to 1% of the dollar amount of their investment for each calendar month or portion thereof that the registration statement is not filed, up to a maximum of 10%. The registration statement was filed on June 11, 2007. Also, if the registration statement is not declared effective within 120 days following the closing date, the Company must pay liquidated damages to the investors equal to 1% of the dollar amount of their investment for each calendar month or portion thereof that the registration statement is declared effective, up to a maximum of 10%, which increases to 18% if the registration statement is not declared effective within two years following the closing date. The registration statement was declared effective on August 14, 2007. Merriman Curhan Ford & Co. and Brimberg & Co., registered broker-dealers, acted as placement agents for the sale of the Company's common stock. In connection with the May 2007 Financing, we received net proceeds of $23,875 after payment of placement agent fees of $1,000, legal fees and expenses of $120, and escrow agent fees of $5.

In 2007, the Company failed to fulfill its obligations to keep the registration statements effective related to the August 23, 2005, October 20, 2005, December 28, 2005, August 18, 2006, and November 14, 2006 private placements and owes approximately $863 in liquidated damages to these investors. This amount has been accrued and is included in accrued expenses and registration rights liquidated damages.

On May 8, 2008, the Company entered into a Securities Purchase Agreement pursuant to which it sold 2,142,858 units to 35 accredited investors, each unit comprising of one share of common stock plus one warrant to purchase one share of common stock. The offering closed on May 8, 2008. The units were sold at a price of $7.00 per unit for aggregate gross proceeds of $15,000. The warrants have an exercise price of $11.90 per share and a term of five years. These warrants were valued under the Black-Scholes-Merton method as $20,250. The warrants provide the investors with full ratchet anti-dilution protection with relation to the exercise price of each warrant. KIT Media Ltd. ("KIT Media"), an affiliate of KIT Capital, was the largest investor in the May 2008 Financing, investing $7,060 for a total of 1,008,572 units. The Company's Chief Executive Officer, Kaleil Isaza Tuzman, holds a controlling interest in KIT Media.

Pursuant to the terms of the Securities Purchase Agreement entered into with each of the accredited investors, the Company agreed to prepare and file a registration statement with the SEC registering the resale of the shares of common stock and the shares underlying the warrants on or prior to 30 days following the closing date. If the registration statement or any subsequent registration statement required to be filed by the Company was not filed within such time, the Company was required to pay liquidated damages to the investors equal to 1% of the dollar amount of their investment per month (pro rata on a 30-day basis), up to a maximum of 10% until the registration statement is filed. Further, if the registration statement was not declared effective within (i) 90 days of the closing (or in the event of a review by the SEC, within 120 days following the closing date), or (ii) 5 trading days after being notified that the registration will not be reviewed or will not be subject to further review, the Company was required to pay liquidated damages to the investors equal to 1% of the dollar amount of their investment per month (pro rata on a 30-day basis), up to a maximum of 10% until the registration statement is declared effective; provided that if one or more registration statements shall not be effective two years after the closing, the Company shall be required to pay an additional 8% in liquidated damages. In the event one or more registration statements are filed and declared

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(12) Stock Issuances – (continued)

effective, but shall thereafter cease to be effective and such lapse is not cured within 10 business days, the Company shall be required to pay liquidated damages to the investors equal to 1% of the dollar amount of their investment per month (pro rata on a 30-day basis), up to a maximum of 10% until the earlier of (i) the date the lapse is cured or (ii) the earlier of the expiration of the date on which all of the securities purchased by the investors can be sold either under the registration statement or pursuant to Rule 144. Upon the Company's request, KIT Media has allowed that the 1,008,572 shares of common stock and the 1,008,572 shares underlying warrants purchased by KIT Media in the May 2008 Financing be left unregistered to date. The Company failed to fulfill its obligations to file and have the registration statement made effective in the required time periods and owes approximately $117 in liquidated damages to the investors. This amount has been accrued and is included in accrued expenses and registration rights liquidated damages on the balance sheet and statement of operations, respectively.

Merriman Curhan Ford & Co. and Brimberg & Co., registered broker-dealers, acted as placement agents for the May 2008 Financing. In connection with the May 2008 Financing, the Company paid the placement agents a cash fee of an aggregate $155. In addition, the Company issued to the placement agents 23,536 and 12,071 warrants to purchase shares of common stock with an exercise price of $0.35 and $11.90 per share exercisable for a period of five years and were valued under the Black-Scholes-Merton method as $222 and $118, respectively. In connection with the May 2008 Financing, the Company received net proceeds of $14,680 after payment of placement agents' fees of $155, legal fees and expenses of $160 and escrow agent fees of $5.

On December 31, 2008, the Company completed the investment for $5,000 with KIT Capital as defined under the Executive Management Agreement for the issue of 892,858 shares of common stock at $5.60 per share. In addition we issued to KIT Capital a warrant to purchase 580,358 shares of our common stock (representing 65% warrant coverage on KIT Capital's investment, as compared to 100% warrant coverage in the May 2008 financing transaction), for a term of five years commencing on December 31, 2008, at an exercise price of $11.90 per share, subject to the occurrence of certain events that could potentially reduce the exercise price to $5.60 per share.

(13) Stock Option Plans

Under SFAS No. 123(R) the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Expected life (in years)	5.00	4.78
Risk-free interest rate	2.84%	4.54%
Volatility	155.51%	89%
Dividend yield	0	0

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(13) Stock Option Plans – (continued)

A summary of the status of stock option awards and changes during the years ended December 31, 2007 and December 31, 2008 are presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Intrinsic Value
Outstanding at January 1, 2007	161,367	$ 78.75		
Granted	117,429	131.95		
Exercised	—	—		
Cancelled, expired, or forfeited	(93,636)	79.80		
Outstanding at December 31, 2007	185,160	112.00		
Granted	589,036	6.30		
Exercised	(7,612)	2.80		
Cancelled, expired, or forfeited	(264,971)	2.80		
Outstanding at December 31, 2008	501,613	5.25	7.00	$ 0
Exercisable at December 31, 2008	129,732	4.90	4.90	0

The weighted-average grant-date fair value of option awards granted during the years ended December 31, 2008 and 2007 was $6.30 and $78.75, respectively. There were 266,408 options exercised from January 1, 2008 through December 31, 2008.

(14) Restructuring Charges

The Company recorded restructuring charges of $3,068 in the year ended December 31, 2008. This amount is comprised of employee termination costs related to the reorganization of the Company of $2,794, contract settlement and facility closing costs of $274 related to the closing of the Clifton Park, New York office and the closing of one of the Melbourne, Australia offices, and vendor settlements related to the reorganization. Included in the employee termination costs of $2,794 are $2,397 related to the settlement of separation agreements as described below. On March 26, 2008 and March 30, 2008, the Company reached negotiated settlements with Robert Petty and Robin Smyth, respectively, restructuring their respective employment agreements, each of which involved one-time cash severance payments. In exchange for entering into new, “at will” employment agreements, Messrs. Petty and Smyth received cash settlements of $675 and $275, respectively, as well as fully-vested warrants to purchase an aggregate of 200,000 and 47,143 shares, respectively, of the Company’s common stock, at a strike price equal to the three-day trailing weighted average closing price per share of $4.655 as of March 31, 2008. These warrants have been valued under the Black-Scholes-Merton method at $1,038. These warrants will become exercisable in 1/12 increments on a monthly basis starting six months from the effective date. Also, Mr. Smyth will receive a lump-sum payment of $100, within nine months, and another lump-sum payment of $100, less applicable tax withholding and deductions, within 13 months. Mr. Smyth’s restructured employment agreement involves certain warrant-based incentives which can be earned over a period of three years based on ongoing service to the Company. As part of their respective settlements, Messrs. Petty and Smyth agreed to vote their shares of Series A Preferred Stock according to the Company’s designation, involving the elimination of these shares. Included in the $2,397 are cash payments of $1,150 and $1,088 related to the valuation of the warrants and $209 in legal fees paid on behalf of Mr. Petty, which is part of Mr. Petty’s separation agreement.

(15) Other Non-Recurring Charges

The Company has recorded other non-recurring charges of $1,111 in the year ended December 31, 2008. This amount is comprised of $480 related to the redundancy in staff and consultants during reorganization for

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(15) Other Non-Recurring Charges – (continued)

the transition of technology infrastructure due to the centralizing of resources in Toronto and Prague and recruiting costs of $295 related to the reorganization of the Company including the centralizing of resources in Toronto and relocation of the corporate headquarters. Also included is $100 in relocation costs related to the reorganization including the move of the corporate headquarters, $82 for the corporate rebranding related to the reorganization, $117 in other prior year non-recurring charges and $37 in non-recurring advisory fees.

(16) Impairment of Assets

At the end of December 2007, we decided to abandon the development and assets of the peer-to-peer business that we acquired in the Asset Purchase Agreement with Wurld Media, which was comprised of software and property and equipment. Accordingly, we evaluated the ongoing value of these assets. Based on this evaluation, we determined that software with a carrying amount of $2,783 was impaired; this is recorded as loss on impairment of intangible assets in the Statement of Operations. Based on this evaluation, we also determined that property and equipment with a carrying amount of $855 was impaired and we wrote it down by $788; this amount was recorded as loss on impairment of property and equipment in the Statement of Operations. Subsequent to December 31, 2007, $33 of this property and equipment was sold to a third party for book value, and no gain or loss was recorded on the sale.

At the end of 2007, we determined that goodwill recorded when we acquired the properties, rights and assets pursuant to the Asset Purchase Agreement with MVD was impaired. We evaluated the goodwill for impairment by comparing the estimated fair value, which was based on the present value of estimated future cash flows to be generated to the carrying amount of $250. The estimated future cash flows were determined to be negligible based on actual results in 2007. Based on this evaluation, we determined that goodwill was impaired and we recorded $250 as a loss on impairment of goodwill in the Statement of Operations.

At the end of November 2007, we decided to stop the production of content and terminate the content production department. We have and will continue to license content from outside sources. Accordingly, we evaluated the ongoing value of the content recorded as an asset. Based on this evaluation, we determined that content with a carrying amount of $255 was impaired; this amount was recorded as impairment of intangible assets in the Statement of Operations.

In November 2007, it was mutually agreed to terminate the agreement between Reality Group and Coeee Melbourne Pty Ltd. (“Cooee”) and settle the remaining payments in the agreement due to the loss of the customers acquired from Cooee. Accordingly, we evaluated the ongoing value of these assets. Based on this evaluation, we determined that customer lists with a gross carrying amount of $220 and a net carrying amount of $86 was impaired; this is recorded as impairment of intangible assets in the Statement of Operations.

In March 2008, the Company decided to downsize the office in London and move to another location to reduce costs. This includes removing and abandoning the leasehold improvements and furniture and fixtures in the former London office. Due to its office relocation, the Company recorded an impairment charge for certain property and equipment which totaled $229 during the year ended December 31, 2008. This amount was recorded as a loss on impairment of property and equipment in the Statement of Operations.

(17) Segment Reporting

We derive our revenue from two operating segments. These operating segments are presented on a worldwide basis and include: Digital Media Solutions and Agency Services.

Digital Media Solutions includes comprehensive delivery of solutions that include software, hardware, services and components. Within Digital Media Solutions, we design, deliver and integrate systems for professional production, processing, distribution and archiving of audiovisual materials. Digital Media Solutions also provides services including content delivery, online and mobile property development and management, and advertising-based monetization.

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(17) Segment Reporting – (continued)

Agency Services operations include direct marketing, incentive programs, internal communications, customer relationship management, sales promotion, creative production, sponsorships, online marketing, media planning, media buying and packaging. Although the Agency Services segment includes online media, its activities are broader than the video-centric activities of the Company's Digital Media Solutions segment. As its operations continue to evolve, the Company will continue to regularly review the business to determine if there is a need to make changes to these reported segments.

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," all prior period information has been reported to conform to the new segment presentation. The following table provides revenue and segment income (loss) from operations for each of the segments. Segment income (loss) from operations, as shown below, is the performance measure used by management to assess segment performance and excludes the effects of: stock-based compensation, amortization of intangible assets and corporate expenses. Corporate expenses consist of those costs not directly attributable to a segment, and include: salaries and benefits for the Company's corporate executives, corporate governance costs, fees for professional service providers including audit, legal, tax, insurance, and, other corporate expenses.

	Twelve months ended December 31, 2008	Twelve months ended December 31, 2007
Revenue:		
Digital Media Solutions	$ 18,107	$ 9,525
Agency Services	5,294	4,404
Total revenue	$ 23,401	$ 13,929
Operating (loss) income:		
Digital Media Solutions	$ (7,150)	$ (21,920)
Agency Services	219	(57)
Corporate	(11,775)	(12,261)
Total operating loss	$ (18,706)	$ (34,238)

	December 31, 2008	December 31, 2007
Assets:		
Digital Media Solutions	$ 15,901	$ 5,049
Agency Services	836	1,887
Corporate	24,572	11,179
Total assets	$ 41,309	$ 18,115

(18) Subsequent Events

On March 6, 2009, we filed a certificate of amendment of our certificate of incorporation to (i) effect a 1-for-35 reverse stock split of our common stock; (ii) decrease the total number of shares of common stock authorized to be issued from 500,000,000 shares to 30,000,000 shares; and (iii) eliminate the authorization of a class of preferred stock. The changes made by the certificate of amendment were effective on March 9, 2009 and per share amounts in the accompanying financial statements have been adjusted for the split. As a result of the reverse stock split, we have 4,586,700 outstanding shares of common stock as of April 10, 2009, including recent issuances related to our purchase of the remaining minority interest in Reality Group Pty Ltd. and the scheduled earn-out from our June 2008 acquisition of Kamera Content AB. Effective March 9, 2009, our ticker symbol on the OTC Bulletin Board was changed to "KDGL" from "KITD."

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(18) Subsequent Events – (continued)

On March 6, 2009, we acquired the remaining 49% outstanding share capital that we did not previously own in Reality Group Pty Ltd., a Australian company, in consideration of issuing the sellers 90,073 shares of our common stock for a purchase price of $631. Reality Group is an advertising agency offering customers a full range of traditional advertising services including media buying and planning, creative development, and packaging.

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CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Share Data)

	March 31, 2009 (Unaudited)	December 31, 2008 (A)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,525	$ 5,878
Investments	200	—
Accounts receivable, net	9,073	8,331
Inventory, net	1,088	2,130
Other current assets	2,943	1,539
Total current assets	15,829	17,878
Property and equipment, net	4,128	2,928
Deferred tax assets	64	64
Software, net	2,087	2,265
Customer list, net	2,765	2,988
Domain names, net	16	19
Goodwill	16,150	15,167
Total assets	$ 41,039	$ 41,309
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank overdraft	$ 1,454	$ 1,456
Capital lease and other obligations	356	395
Secured notes payable	934	966
Senior secured notes payable, net of debt discount of $412 and $550	1,088	950
Accounts payable	6,649	5,775
Accrued expenses	3,447	2,240
Income tax payable	152	160
Acquisition liability – Kamera	1,500	3,000
Acquisition liability – Visual	1,075	2,218
Derivative liability	3,720	—
Other current liabilities	2,233	3,818
Total current liabilities	22,608	20,978
Capital lease and other obligations, net of current	862	949
Secured notes payable, net of current	202	236
Acquisition liability – Visual, net of current	538	1,075
Total liabilities	24,210	23,238
Equity:		
Stockholders' equity:		
Common stock, $0.0001 par value: authorized 30,000,000 shares; issued and outstanding 4,745,756 and 4,183,280, respectively	—	—
Additional paid-in capital	84,868	101,057
Accumulated deficit	(67,751)	(82,499)
Accumulated other comprehensive loss	(288)	(250)
Total stockholders' equity	16,829	18,308
Non-controlling interest	—	(237)
Total equity	16,829	18,071
Total liabilities and equity	$ 41,039	$ 41,309

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(A) Reference is made to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the U.S.

Securities and Exchange Commission on April 15, 2009.

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

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KIT DIGITAL, INC. AND SUBSIDIARIES

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

	Three months ended March 31, 2009	Three months ended March 31, 2008
Revenue	$ 9,624	$ 3,502
Variable and direct third party costs:		
Cost of goods and services	3,478	—
Hosting, delivery and reporting	282	515
Content costs	461	184
Direct third party creative production costs	805	753
Total variable and direct third party costs	5,026	1,452
Gross profit	4,598	2,050
General and administrative expenses:		
Compensation, travel and associated costs (including non-cash stock-based compensation of $280 and $4,001, respectively)	3,693	8,324
Legal, accounting, audit and other professional service fees	270	345
Office, marketing and other corporate costs	717	838
Merger and acquisition and investor relations expenses	378	—
Depreciation and amortization	683	245
Restructuring charges	119	2,745
Other non-recurring charges	244	135
Impairment of property and equipment	—	229
Total general and administrative expenses	6,104	12,861
Income (Loss) from operations	(1,506)	(10,811)
Interest income	1	61
Interest expense	(139)	(14)
Amortization of deferred financing costs and debt discount	(164)	—
Derivative income	1,950	—
Other income	29	22
Net income (loss) before income taxes	171	(10,742)
Income tax expense	(3)	(1)
Net income (loss)	168	(10,743)
Plus: Net loss attributable to the non-controlling interest	—	96
Net income (loss) available to common shareholders	$ 168	$ (10,647)
Basic net income (loss) per common share	$ 0.04	$ (9.57)
Diluted net income (loss) per common share	$ 0.04	$ (9.57)
Basic weighted average common shares outstanding	4,289,630	1,112,459
Diluted weighted average common shares outstanding	4,473,679	1,112,459
Comprehensive income (loss):		
Net loss	$ 168	$ (10,647
Foreign currency translation gain (loss)	(37)	64
Comprehensive income (loss)	$ 131	$ (10,583)

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

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KIT DIGITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)
(Unaudited)

	Three months ended March 31, 2009	Three months ended March 31, 2008
Operating Activities:		
Net income (loss)	$ 168	$ (10,647)
Adjustments to reconcile net loss to net cash used by operating activities:		
Provision for doubtful accounts	57	94
Depreciation	279	108
Amortization of intangible assets	404	137
Amortization of deferred financing costs	26	—
Amortization of debt discount	138	—
Derivative income	(1,950)	—
Loss on impairment of property and equipment	—	229
Loss on impairment of goodwill	—	1,038
Non-cash stock based compensation	407	4,001
Non-controlling interest	—	(96)
Changes in assets and liabilities:		
Accounts receivable	(799)	(774)
Inventories	1,042	
Other assets	(1,430)	55
Accounts payable	874	(534)
Accrued expenses	1,207	1,464
Income tax payable	—	(12)
Other liabilities	(1,585)	119
Total adjustments	(1,330)	5,829
Net cash used by operating activities – forward	(1,162)	(4,818)
Investing Activities:		
Release of restricted cash	—	100
Cash paid into investments	(200)	—
Cash paid in acquisition of Visual	(180)	—
Proceeds from sale of equipment	—	33
Purchase of equipment	(1,512)	(26)
Net cash (used) provided by investing activities – forward	$ (1,892)	$ 107
Net cash used by operating activities – forwarded	$ (1,162)	$ (4,818)
Net cash (used) provided by investing activities – forward	(1,892)	107
Financing Activities:		
Proceeds from exercise of stock options	25	—
Bank overdraft	(2)	89
Payment of Secured notes	(67)	
Payment on capital leases	(126)	(28)
Net cash (used) provided by financing activities	(170)	61
Effect of exchange rate changes on cash	(129)	41
Net decrease in cash and cash equivalents	(3,353)	(4,609)
Cash and cash equivalents – beginning of period	5,878	10,189
Cash and cash equivalents – end of period	$ 2,525	$ 5,580
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Income taxes	$ —	$ —
Interest	$ 139	13

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

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KIT DIGITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

(1) Basis of Presentation

KIT digital, Inc. (“we,”“us,” “our,” the “Company” or “KIT digital”), through our operating subsidiaries, provides enterprise customers an end-to-end technology platform for managing Internet Protocol (“IP”)-based video assets across the browser, mobile device and IPTV set-top box-enabled television set. We offer creative interface design, branding, strategic planning and technical integration services to complement our “VX”-branded software platform. Our business is divided into two segments: Digital Media Solutions and Professional Services (formerly “Agency Services”). Digital Media Solutions includes the delivery of IP video software solutions, including software-as-a-service (“SaaS”) fees, enterprise license fees, software usage fees, set-up/support services, storage, hardware components, content delivery, content syndication, and advertising-based monetization. Professional Services include technical integration services, interface design, branding, strategic planning, creative production, online marketing, media planning and analytics.

On March 6, 2009, we filed a certificate of amendment of our certificate of incorporation to (i) effect a 1-for-35 reverse stock split of our common stock; (ii) decrease the total number of shares of common stock authorized to be issued from 500,000,000 shares to 30,000,000 shares; and (iii) eliminate the authorization of a class of preferred stock. The changes made by the certificate of amendment were effective on March 9, 2009, and per share amounts in the accompanying financial statements have been adjusted for the reverse stock split. As a result of the reverse stock split, we had 4,805,489 outstanding shares of common stock as of May 15, 2009. Effective March 9, 2009, our ticker symbol on the OTC Bulletin Board was changed to “KDGL” from “KITD.”

The accompanying unaudited consolidated financial statements of KIT digital, Inc. and subsidiaries have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all information and footnotes required by general accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the interim financial statements not misleading have been included. The consolidated results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto of the Company and management’s discussion and analysis of financial condition and results of operations included in the our annual report on Form 10-K for the year ended December 31, 2008.

Principles of Consolidation — Our consolidated financial statements include the accounts of KIT digital, Inc., and all its wholly-owned subsidiaries. Included in the consolidation with wholly-owned subsidiary Kamera Content AB (“Kamera”) are Kamera’s 95%-owned subsidiary Kamera (S) PTE Ltd and its 55%-owned subsidiary Swegypt Company for Telecommunications (S.A.E).

Management Estimates — The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Certain amounts included in the financial statements are estimated based on currently available information and management's judgment as to the outcome of future conditions and circumstances. Changes in the status of certain facts or circumstances could result in material changes to the estimates used in the preparation of financial statements and actual results could differ from the estimates and assumptions.

Foreign Currency Translation — Assets and liabilities of KIT digital’s foreign subsidiaries are translated at current exchange rates and related revenues and expenses are translated at average exchange rates in effect during the periods. Resulting translation adjustments are recorded as a component of accumulated other comprehensive income (loss) in stockholders' equity.

KIT DIGITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

(1) Basis of Presentation – (continued)

Fair Value of Financial Instruments — On the first day of fiscal 2008, we adopted Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. SFAS 157 defines fair value as the amount that would be received upon sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which prioritizes the types of inputs to valuation techniques that companies may use to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1). The next highest priority is given to inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2). The lowest priority is given to unobservable inputs in which there is little or no market data available and which require the reporting entity to develop its own assumptions (Level 3). No Level 2 or Level 3 inputs were used to record assets or liabilities at fair value.

The following table presents our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. See Note 6 for fair value hierarchy on the Derivative Liabilities.

		Fair Value Measurements at Reporting Date Using		
Description	**March 31, 2009**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 2)**
Investments	$ 200	$ 200	—	—

Risk Concentrations — Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. From time to time, we obtain collateral for our cash and cash equivalent accounts where we deem prudent and is feasible. We have obtained callable cash collateral wherever we have identified credit risk exists with respect to these investments. The amount of cash beyond insured amounts as of March 31, 2009 was $2,506.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the nature of our customers who are dispersed across many industries and geographic regions. The allowance for doubtful accounts as of March 31, 2009 was $514. As of March 31, 2008, no customers made up more than 10% of our trade accounts receivable. As of March 31, 2009, two customers accounted for approximately 29.1% of our trade accounts receivable. We routinely assess the financial strength of customers and, based upon factors concerning credit risk, we establish an allowance for doubtful accounts. Management believes that accounts receivable credit risk exposure beyond such allowance is limited, and customer payments have been made subsequent to March 31, 2009 which have had the effect of lowering the concentration of trade accounts receivable.

Impairment of Long-Lived Assets — We review our long-lived assets and identifiable intangibles for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such factors and circumstances exist, we compare the projected undiscounted future cash flows associated with the future use and disposal of the related asset or group of assets to their respective carrying amounts. Impairment, if any, is measured as the excess of the carrying amount over the fair value based on market value (when available) or discounted expected cash flows of those assets, and is recorded in the period in which the determination is made.

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

(1) Basis of Presentation – (continued)

Cash and Cash Equivalents — We consider all highly liquid investments with original maturities of 90 days or less when purchased, or fully cash-collateralized investments with immediate callability of collateral, to be cash or cash equivalents. As of March 31, 2009, we had $2,001 of cash equivalents in an account that pays interest at LIBOR, plus 150 basis points. This account is guaranteed and backed by liquid collateral instruments, and can be redeemed with 14 days written notice.

Investments — Investments include an investment in a limited partnership fund which invests, on a hedged basis, primarily in the U.S. equity markets. This investment was made in March 2008 and is recorded at a fair value of $200.

Property and Equipment — Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided for using the straight-line and declining balance methods of accounting over the estimated useful lives of the assets which range from one year to twenty years.

Routine maintenance and repair costs are charged to expense as incurred and renewals and improvements that extend the useful life of the assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is reported in the statement of operations.

Income Taxes — Pursuant to SFAS No. 109, “Accounting for Income Taxes,” income tax expense (or benefit) for the year is the sum of deferred tax expense (or benefit) and income taxes currently payable (or refundable). Deferred tax expense (or benefit) is the change during the year in a company's deferred tax liabilities and assets. Deferred tax liabilities and assets are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Intangible Assets — Amortizable intangible assets of the Company are recorded at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of the assets, with periods of up to five years. Goodwill is reviewed for impairment at least annually and all other intangible assets are reviewed for impairment if events or circumstances indicate that carrying amounts may not be recoverable (See Note 6).

Inventory — Inventories are valued at the lower of cost (first-in, first-out method) or market and are comprised of finished goods. On a quarterly basis, we review inventory quantities on hand and analyze the provision for excess and obsolete inventory based primarily on product age in inventory and our estimated sales forecast, which is based on sales history and anticipated future demand. Our estimates of future product demand may not be accurate and we may understate or overstate the provision required for excess and obsolete inventory. Accordingly, any significant unanticipated changes in demand could have a significant impact on the value of our inventory and results of operations. As of March 31, 2009 and December 31, 2008, our reserves for excess and obsolete inventory were $120 and $157, respectively.

Derivative Financial Instruments — Upon the adoption of EITF 07-05 “Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock” on January 1, 2009, certain of our financial instruments with “down-round” protection features are no longer considered indexed to our Company’s stock for purposes of determining whether they meet the first part of the scope exception in paragraph 11(a) of Statement 133. As such, these instruments no longer meet the conditions to obtain equity classification and are required to be carried as derivative liabilities, at fair value with changes in fair value reflected in our income (loss). The fair value of the investor warrants issued in the May 2008 private placement was $5,670 and $3,720 on January 1, 2009 and March 31, 2009, respectively.

Research and Development — Costs incurred in research and development are expensed as incurred. Software development costs are required to be capitalized when a product’s technological feasibility has been

KIT DIGITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

(1) Basis of Presentation – (continued)

established through the date the product is available for general release to customers. We do not capitalize any software development costs, as technological feasibility is generally not established until a working model is completed, at which time substantially all development is complete.

Revenue Recognition — We recognize revenue in accordance with the following authoritative literature: AICPA Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition" and Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition in Financial Statements," which requires that four basic criteria be met before revenue can be recognized:
(i) persuasive evidence that an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) product delivery has occurred or services have been rendered. We recognize revenue, net of sales taxes assessed by any governmental authority. Revenues are derived principally from the delivery of digital media solutions and professional services. Our revenues include fees charged for software-as-a-service ("SaaS"), enterprise licenses, software usage, storage, software set-up/support services, hardware components, content delivery, content syndication fees, advertising-based monetization and professional services. Revenue is recognized when the product and/or service has been provided to the customer. We may enter into agreements whereby we guarantee a minimum service level, or a minimum number of impressions, click-throughs or other criteria on our software platform's points of distribution for a specified period. To the extent these guarantees are not met, we may defer recognition of the corresponding revenue until guaranteed delivery levels are achieved.

Stock-Based Compensation — On January 1, 2006, the Company adopted SFAS No. 123R, "Share-Based Payment." Among other items, SFAS 123R requires companies to record compensation expense for share-based awards issued to employees and directors in exchange for services provided. The amount of the compensation expense is based on the estimated fair value of the awards on their grant dates and is recognized over the required service periods. Our share-based awards include stock options, warrants and restricted stock awards.

We adopted SFAS 123R using the modified prospective transition method, which requires the application of the accounting standard to all share-based awards issued on or after January 1, 2006 and any outstanding share-based awards that were issued but not vested as of January 1, 2006. For the three months ended March 31, 2009 and 2008, we recognized $280 and $4,001, respectively, of stock-based compensation expense in the consolidated statements of operations.

The estimated fair value underlying our calculation of compensation expense for stock options is based on the Black-Scholes-Merton pricing model. SFAS 123R requires forfeitures of share-based awards to be estimated at the time of grant and revised, if necessary, in subsequent periods if estimates change based on the actual amount of forfeitures experienced.

On March 17, 2008, the Board of Directors adopted an incentive compensation plan (the "2008 Incentive Stock Plan"). The 2008 Incentive Stock Plan currently has reserved 857,143 shares of common stock for issuance. Under the 2008 Incentive Stock Plan, options may be granted which are intended to qualify as Incentive Stock Options under Section 422 of the Internal Revenue Code of 1986 or which are not intended to qualify as Incentive Stock Options thereunder. In addition, direct grants of stock or restricted stock may be awarded.

Under the 2004 Stock Option Plan, we did not grant options to purchase shares of our common stock during the three months ended March 31, 2009. During the three months ended March 31, 2009, a total of 4,583 stock options vested, no stock options were cancelled or expired, no stock options were forfeited, and 40,694 stock options were unvested as of March 31, 2009. A total of 81,429 stock options were outstanding under this plan on March 31, 2009.

KIT DIGITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

(1) Basis of Presentation – (continued)

Under the 2008 Incentive Stock Plan, we granted options with exercise prices of $7.00 to purchase 93,374 shares of its common stock during the three months ended March 31, 2009. During the three months ended March 31, 2009, a total of 79,211 stock options vested, 8,820 stock options were exercised, and 22,750 stock options were cancelled, expired or forfeited with 321,298 stock options unvested as of March 31, 2009. A total of 481,988 stock options were outstanding under this plan on March 31, 2009.

Also included in non-cash compensation are warrants to purchase 34,286 shares of common stock with an exercise price of $4.655 issued to Robin Smyth, our former Chief Financial Officer on March 30, 2008, that vest over 36 months from the issue date. During the year ended March 31, 2009, a total of 2,858 warrants vested with 22,857 warrants unvested as of March 31, 2009.

Net Income (Loss) Per Share — We compute net income (loss) per common share under the provisions of SFAS No. 128, “Earnings per Share,” which establishes standards for computing and presenting earnings per share. SFAS No. 128 requires us to report both basic net (loss) income per share, which is based on the weighted average number of common shares outstanding during the period, and diluted net (loss) income per share, which is based on the weighted average number of common shares outstanding plus all potentially dilutive common shares outstanding. All equivalent shares underlying options and warrants were excluded from the calculation of diluted loss per share because we had net losses for all periods presented and therefore equivalent shares would have an anti-dilutive effect.

Reclassification — Certain prior period amounts have been reclassified to conform to the current presentation.

Recent Accounting Pronouncements — In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141 (revised 2007), “Business Combinations,” and SFAS No. 160, “Accounting and Reporting of Non-controlling Interest in Consolidated Financial Statements, an amendment of ARB 51,” which will change the accounting for and reporting of business combination transactions and non-controlling interests in consolidated financial statements. The provisions of SFAS 141R and SFAS 160 were effective for us on January 1, 2009. SFAS 141R had no impact on previously recorded acquisitions. SFAS 160 requires changes in classification and presentation of minority interests in the consolidated balance sheets, statements of operations and stockholders’ equity. We implemented these changes, which led to changes in the presentation of prior period results.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. This FSP shall be effective for interim reporting periods ending after June 15, 2009. We are currently evaluating the impact that this standard may have on our financial statements.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. This FSP amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The FSP shall be effective for interim and annual reporting periods ending after June 15, 2009. We are currently evaluating the impact that this standard may have on our financial statements.

In April 2009, the SEC released Staff Accounting Bulletin No. 111 (“SAB 111”), which amends SAB Topic 5-M. SAB 111 notes that FSP No. 115-2 and FAS 124-2 were scoped to debt securities only, and the

KIT DIGITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

(1) Basis of Presentation – (continued)

FSP referred readers to SEC SAB Topic 5-M for factors to consider with respect to other-than-temporary impairments for equity securities. With the amendments in SAB 111, debt securities are excluded from the scope of Topic 5-M, but the SEC staff's views on equity securities are still included within the topic. We are currently evaluating the impact that this standard may have on our financial statements.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, to address some of the application issues under SFAS 141(R). The FSP deals with the initial recognition and measurement of an asset acquired or a liability assumed in a business combination that arises from a contingency provided the asset or liability's fair value on the date of acquisition can be determined. When the fair value can't be determined, the FSP requires using the guidance under SFAS No. 5, Accounting for Contingencies, and FASB Interpretation (FIN) No. 14, Reasonable Estimation of the Amount of a Loss. This FSP was effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after January 1, 2009. SFAS 141(R) may have a material impact on our consolidated financial statements if or when it enters into another business transaction.

(3) Going Concern

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Since its inception, we have incurred losses, have an accumulated deficit, and have experienced negative cash flows. Our cash flows have improved sequentially over the last five operating quarters, and management expects cash flows from operating activities to continue to improve, primarily as a result of the ongoing increase in revenue and maintenance of reduced costs on a relative basis. Furthermore, in the event the Company has required working capital in the past, we have historically received advances from KIT Media, Ltd. ("KIT Media"), an entity controlled by our chairman and chief executive officer Kaleil Isaza Tuzman, at pricing in line with prevailing market availability. However, there can be no assurance thereof, and this raises doubt about our ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might be necessary should we are unable to continue as a going concern.

(4) Acquisitions

On March 6, 2009, we acquired the remaining 49% outstanding share capital that we did not previously own in subsidiary Reality Group Pty. Ltd., in consideration of issuing the sellers 90,073 shares of our common stock for a total purchase price of $631. Reality Group's activities are part of the Professional Services segment of our business.

(5) Acquisition Liabilities

On March 9, 2009, we issued 300,539 shares of our common stock in satisfaction of a $1,500 acquisition liability incurred in connection with the acquisition of Kamera Content AB in 2008. This reduced the remaining total liability included in the Balance Sheet in "Acquisition liability — Kamera" to $1,500 as of March 31, 2009.

On March 31, 2009, we issued 163,044 shares of our common stock to the former shareholders of Visual Connection a.s., pursuant to the Visual Share Purchase Agreement dated October 5, 2008, in satisfaction of a $1,500 acquisition liability. This reduced the liability included in the Balance Sheet in "Acquisition liability — Visual" to $1,075 and "Acquisition liability — Visual, net of current" to $538 as of March 31, 2009.

KIT DIGITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

(6) Derivative Liabilities

In June 2008, the Emerging Issues Task Force issued EITF Consensus No. 07-05 “Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock”. Under EITF 07-05, 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 in paragraph 11(a) of Statement 133. The adoption of this EITF 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 to liabilities. SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“FAS 133”) requires that the fair value of these liabilities be re-measured at the end of every reporting period with the change in value reported in the statement of operations. The difference between the amount at which the warrants were originally recorded in the financials and the fair value of the instruments on January 1, 2009 was considered a cumulative effect of a change in the accounting principle, and required an adjustment to the opening balance of retained earnings in the amount of $14,580. The common shares indexed to the derivative financial instruments recorded as liabilities at January 1, 2009 and March 31, 2009 were 2,142,858.

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-Merton (“BSM”) option valuation technique, 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 BSM) are highly volatile and sensitive to small changes in trading volatility and the trading market price of our common stock, and BSM does not effectively capture the cash-exercise nature of our warrants (and lack of liquidity in the underlying instrument). Since derivative financial instruments are initially and subsequently carried at fair values, our income (loss) will reflect the variability of the BSM method, the volatility in these estimates, and any changes made in the assumptions upon which these estimates are predicated.

The following tables summarize the components of derivative liabilities as of March 31, 2009 and the re-measurement date, January 1, 2009:

	March 31, 2009	Re-measurement date January 1, 2009
Investor warrants issued in May 2008 private placement	$ (3,720)	$ (5,670)
Significant assumptions (or ranges):		
Trading market values [(1)]	$ 9.20	$ 5.25
Term (years)	4.11	4.35
Volatility [(1)]	59.34%	101.98%
Risk-free rate [(2)]	1.67%	1.55%
Effective Exercise price	$ 11.17	$ 5.92

KIT DIGITAL, INC. AND SUBSIDIARIES

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

(6) Derivative Liabilities – (continued)

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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 (loss) associated with changes in the fair values of our derivative financial instruments for the quarter ended March 31, 2009 was $1,950.

(7) Stock Issuances

On May 8, 2008, we entered into a Securities Purchase Agreement pursuant to which it sold 2,142,858 units to 35 accredited investors, each unit comprising of one share of common stock plus one warrant to purchase one share of common stock. The offering closed on May 8, 2008. The units were sold at a price of $7.00 per unit for aggregate gross proceeds of $15,000. The warrants have an exercise price of $11.90 per share and a term of five years. These warrants were valued under the BSM method as $20,250. The warrants provide the investors with full ratchet anti-dilution protection with relation to the exercise price of each warrant. KIT Media was the largest investor in the May 2008 Financing, investing $7,060 for a total of 1,008,572 units. Our Chief Executive Officer, Kaleil Isaza Tuzman, holds a controlling interest in KIT Media.

Pursuant to the terms of the Securities Purchase Agreement entered into with each of the accredited investors, we may be required to pay liquidated damages to the investors based on certain criteria. Upon the our request, KIT Media has allowed that the 1,008,572 shares of common stock and the 1,008,572 shares underlying warrants purchased by KIT Media in the May 2008 Financing be left unregistered to date. We failed to fulfill our obligations to file and have the registration statement made effective in the required time periods and owe approximately $117 in liquidated damages to the investors. This amount has been accrued and is included in accrued expenses and registration rights liquidated damages on the balance sheet and statement of operations, respectively.

In connection with the May 2008 Financing, we paid the placement agents a cash fee of an aggregate $155. In addition, we issued to the placement agents 23,536 and 12,071 warrants to purchase shares of common stock with an exercise price of $0.35 and $11.90 per share exercisable for a period of five years and were valued under the BSM method as $222 and $118, respectively. In connection with the May 2008 Financing, we received net proceeds of $14,680 after payment of placement agents' fees of $155, legal fees and expenses of $160 and escrow agent fees of $5.

On December 31, 2008, we completed the investment for $5,000 with KIT Capital as called for under the Management Agreement for the issue of 892,858 shares of common stock at $5.60 per share. In addition we issued to KIT Capital a warrant to purchase 580,358 shares of our common stock (representing 65% warrant coverage on KIT Capital's investment, as compared to 100% warrant coverage in the May 2008 financing transaction), for a term of five years commencing on December 31, 2008, at an exercise price of $11.90 per share, subject to the occurrence of certain events that could potentially reduce the exercise price to $5.60 per share.

KIT DIGITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

(8) Restructuring Charges

In the quarter ended March 31, 2009, we recorded restructuring charges of $119 in the three months ended March 31, 2009. This amount is comprised of employee termination costs related to the reorganization of the Company of $47, facility closing costs of $72 related to the closing of one of the Melbourne, Australia offices.

In the quarter ended March 31, 2008, we recorded restructuring charges of $2,745 in the three month period ended March 31, 2008. This amount is comprised of employee termination costs related to the reorganization of the Company of $2,598 and contract settlement and facility closing costs of $147 related to the closing of the Clifton Park, New York office and vendor settlements related to the reorganization. Included in the employee termination costs are $2,397 related to the settlement of separation agreements as described below. On March 26, 2008 and March 30, 2008, the Company reached negotiated settlements with Robert Petty and Robin Smyth, respectively, restructuring their respective employment agreements, each of which involved one-time cash severance payments. In exchange for entering into new, “at will” employment agreements, Messrs. Petty and Smyth received upfront cash settlements of $675 and $275 respectively, as well as an aggregate of 7 million and 1.65 million fully vested warrants respectively to purchase the Company's common stock, at a strike price equal to the 3-day weighted average of closing price of the Company's common stock prior to the effective date. These warrants have been valued under the BSM method at $1,038. These warrants will become exercisable in 1/12 increments on a monthly basis starting six months from the effective date. Also, Mr. Smyth is to receive additional lump-sum payments of $200, less applicable tax withholding and deductions. Mr. Smyth's restructured employment agreement involved certain warrant-based incentives. Included in the $2,397 are cash payments of $1,150, $1,088 related to the valuation of the warrants and $209 in legal fees paid on behalf of Mr. Petty, which was part of Mr. Petty’s separation agreement.

(9) Other Non-Recurring Charges

In the quarter ended March 31, 2009, we have recorded other non-recurring charges of $244 in the three months ended March 31, 2009. This amount is related to the redundancy in staff and consultants during reorganization for the transition of technology infrastructure due to the centralizing of resources in our Toronto and Prague offices.

In the quarter ended March 31, 2008, we have recorded other non-recurring charges of $135 related to (a) the redundancy in staff and consultants during reorganization due to the centralizing of resources in Toronto and (b) corporate rebranding related to the reorganization.

(10) Impairment of Property and Equipment

In March 2008, we decided to downsize our office in London and move to another location to reduce costs. This included removing and abandoning the leasehold improvements and furniture and fixtures in the former London office. Due to this office relocation, we recorded an impairment charge for certain property and equipment, which totaled $229 during the year ended December 31, 2008. This amount was recorded as a loss on impairment of property and equipment in the Statement of Operations.

(11) Segment Reporting

We derive our revenue from two operating segments. These operating segments are presented on a worldwide basis and include: Digital Media Solutions and Professional Services.

Digital Media Solutions includes the comprehensive delivery of IP video software solutions, including SaaS fees, enterprise license fees, software usage fees, storage, set-up/support services, hardware components, content delivery, content syndication, and advertising-based monetization. Our IP digital asset management platform, branded as “VX,” allows for management of IP video assets for consumption on the computer browser, mobile devices and the IPTV set-top box enabled television set. Our software is generally hosted in

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KIT DIGITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

(11) Segment Reporting – (continued)

our facilities, and delivered as a service, but we occasionally sell upfront enterprise licenses which allow for hosting and deployment of our VX software suite at the customer site.

Professional Services is designed to support and complement the Digital Media Solutions segment of our business, and includes technical integration services, interface design, branding, strategic planning, creative production, sponsorships, online marketing, media planning, data management and analytics.

The emphasis of our business is the Digital Media Solutions segment. As our operations continue to evolve, the Company will continue to regularly review the business to determine if there is a need to make changes to these reported segments.

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the following table provides revenue and segment income (loss) from operations for each of the segments. Segment income (loss) from operations, as shown below, is the performance measure used by management to assess segment performance and excludes the effects of: stock-based compensation, amortization of intangible assets and corporate expenses. Corporate expenses consist of those costs not directly attributable to a segment, and include: salaries and benefits for our corporate executives, corporate governance costs, fees for professional service providers including audit, legal, tax, insurance, and other corporate expenses.

	Three Months ended March 31, 2009 (unaudited)	Three Months ended March 31, 2008 (unaudited)
Revenue:		
Digital Media Solutions	$ 8,828	$ 2,373
Professional Services	796	1,129
Total revenue	$ 9,624	$ 3,502
Operating income (loss):		
Digital Media Solutions	$ 572	$ (3,379)
Professional Services	(117)	13
Corporate	(1,961)	(7,445)
Total operating loss	$ (1,506)	$ (10,811)

	March 31, 2009 (unaudited)	December 31, 2008 (unaudited)
Assets:		
Digital Media Solutions	$ 15,985	$ 15,901
Professional Services	872	836
Corporate	24,182	24,572
Total assets	$ 41,039	$ 41,309

KIT DIGITAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

(12) Subsequent Events

On April 8, 2009, we acquired 100% of the operating assets and assumed current liabilities of Narrowstep, Inc. (“Narrowstep”) in exchange for 25,000 shares of restricted common stock, 5,000 of which have been escrowed against indemnities entered into in connection with the Narrowstep asset purchase. Concurrently with the closing of the Narrowstep asset purchase, Granahan McCourt Capital, LLC, a shareholder of Narrowstep, lent $350 to us in the form of an interest-free convertible note, which has been used to cover technical and operational restructuring charges incurred in the asset purchase, and is convertible at our election into a future equity financing (“Convertible Note”). The Narrowstep assets did not have a material impact on our operations; the revenues from former Narrowstep customers represented less than 3% of our average monthly revenue as of May 13, 2009. In May and June 2009, in order to support our strategic initiative, KIT Media made available to us advances of $2,500 convertible into future common stock offering, at terms identical to those of outside investors.

EXHIBIT I - KIT DIGITAL'S PROSPECTUS

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Each trademark, trade name or service mark appearing above belongs to its respective holder.

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3,960,000 Shares

Common Stock

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PROSPECTUS

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Roth Capital Partners

Merriman Curhan Ford & Co.

Maxim Group LLC

August 12, 2009

EXHIBIT II

**REGISTRATION STATEMENT ON FORM S-3 FILED BY KIT DIGITAL, INC.
WITH THE SEC ON OCTOBER 5, 2009**

EXHIBIT II - REGISTRATION STATEMENT ON FORM S-3

As filed with the Securities and Exchange Commission on October 5, 2009

Registration Statement No. 333-______

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

KIT digital, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**11-3447894**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

168 Fifth Avenue, Suite 301
New York, New York 10010
+1 (212) 661-4111
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Kaleil Isaza Tuzman
Chairman and Chief Executive Officer
KIT digital, Inc.
168 Fifth Avenue, Suite 301
New York, New York 10010
+1 (646) 502-7484
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:
Spencer G. Feldman, Esq.
Greenberg Traurig, LLP
MetLife Building
200 Park Avenue – 15th Floor
New York, New York 10166
Tel: +1 (212) 801-9200; Fax: +1 (212) 801-6400

Approximate date of commencement of proposed sale to public: From time to time after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ☐

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ☒

EXHIBIT II - REGISTRATION STATEMENT ON FORM S-3

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ☐

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ☐

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee (3)
Common Stock, $0.0001 par value		(2)	(2)	
Warrants		(2)	(2)	
Units (4)		(2)	(2)	
Total	$ 30,000,000		$ 30,000,000	$ 1,674

(1) There are being registered under this registration statement such indeterminate number of shares of common stock; such indeterminate number of warrants to purchase common stock; and such indeterminate number of units as may be sold by the registrant from time to time, which together shall have an aggregate initial offering price not to exceed $30,000,000. Any securities registered hereunder may be sold separately or as units with other securities registered hereunder. The securities registered hereunder also include such indeterminate number of shares of common stock and warrants as may be issued upon exercise of warrants; or pursuant to the anti-dilution provisions of any such securities. In addition, pursuant to Rule 416 under the Securities Act of 1933, as amended (the "Securities Act"), the shares being registered hereunder include such indeterminate number of shares of common stock as may be issuable with respect to the shares being registered hereunder as a result of stock splits, stock dividends or similar transactions.

(2) Not required to be included in accordance with General Instruction II.D. of Form S-3.

(3) Calculated pursuant to Rule 457(o) under the Securities Act.

(4) Each unit will represent an interest in other securities registered hereunder, which may or may not be separable from one another.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), shall determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated October 5, 2009

PROSPECTUS

$30,000,000

Common Stock
Warrants
Units

This prospectus relates to common stock, warrants and units that we may sell from time to time in one or more offerings up to a total dollar amount of $30,000,000 on terms to be determined at the time of sale. We will provide specific terms of these securities in supplements to this prospectus. You should read this prospectus and any supplement carefully before you invest. This prospectus may not be used to offer and sell securities unless accompanied by a prospectus supplement for those securities.

Our common stock is traded on the Nasdaq Global Market under the symbol KITD. On October 2, 2009, the last reported sale price for the common stock was $10.29 per share. We have not offered any securities during the past 12 months pursuant to General Instruction I.B.6. of Form S-3.

These securities may be sold directly by us, through dealers or agents designated from time to time, to or through underwriters or through a combination of these methods. See “Plan of Distribution” in this prospectus. We may also describe the plan of distribution for any particular offering of these securities in any applicable prospectus supplement. If any agents, underwriters or dealers are involved in the sale of any securities in respect of which this prospectus is being delivered, we will disclose their names and the nature of our arrangements with them in a prospectus supplement. The net proceeds we expect to receive from any such sale will also be included in a prospectus supplement.

Investing in our securities involves a high degree of risk. See "Risk Factors" beginning on page 2.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is ___________, 2009

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Important Notice about the Information Presented in this Prospectus

You should rely only on the information contained or incorporated by reference in this prospectus or any applicable prospectus supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. For further information, see the section of this prospectus entitled “Where You Can Find More Information.” We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

You should not assume that the information appearing in this prospectus or any applicable prospectus supplement is accurate as of any date other than the date on the front cover of this prospectus or the applicable prospectus supplement, or that the information contained in any document incorporated by reference is accurate as of any date other than the date of the document incorporated by reference, regardless of the time of delivery of this prospectus or any prospectus supplement or any sale of a security. Our business, financial condition, results of operations and prospects may have changed since such dates.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or the SEC, using a "shelf" registration process. Under this shelf process, we may sell any combination of the securities described in this prospectus in one or more offerings up to a total dollar amount of $30,000,000. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the securities being offered and the terms of that offering. The prospectus supplement may also add to, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with the additional information described under the heading "Where You Can Find More Information" carefully before making an investment decision.

All references to "we," "us," the "company" and "KIT digital" mean KIT digital, Inc., including subsidiaries, except where it is clear that the term refers only to KIT digital, Inc.

ABOUT KIT DIGITAL

KIT digital is a leading provider of on-demand content management solutions for managing Internet Protocol (IP)-based video assets. Our comprehensive software platform, called "KIT VX" or "VX," enables large corporate customers to acquire, manage and distribute their video assets across the three screens of the computer Internet browser, the mobile device and the set-top box enabled Internet Protocol Television (IPTV). We deliver our software platform over the Internet as a subscription service using a software-as-a-service or on-demand model, while occasionally installing our software onsite for clients as part of an enterprise license. Our software serves corporate customers across a wide variety of industries, including media & entertainment, telecommunications, retail, consumer/packaged goods, automotive and financial services. Our clients' use of the VX platform ranges from end-consumer focused video distribution to internal corporate deployments, including corporate communications, human resources, training, security and surveillance. As of July 22, 2009, our customer base consisted of more than 470 enterprise customers from over 30 countries, including The Associated Press, Disney-ABC Television, Google Inc., IMG Worldwide Inc., Kmart, Nasdaq Stock Market, News Corp., RCS, Sensis Corp., Telefónica SA and Verizon Communications. Our clients usually enter into long-term contracts, and our average contract length is approximately 24 months.

We were organized as a corporation under the laws of the State of Delaware in August 1998, and commenced operations in our current line of business in December 2003. Our principal executive offices are located at 168 Fifth Avenue, Suite 301, New York, New York 10010, and our telephone number is +1 (212) 661-4111. We maintain a corporate website at www.kitd.com and an electronic brochure of our product offerings can be downloaded at www.kitd.com/brochure.pdf. Neither the contents of our website nor our brochure is part of this prospectus and should not be relied upon with respect to this offering.

RISK FACTORS

Investing in our securities involves significant risks. Please see the risk factors under the heading "Risk Factors" in our most recent Annual Report on Form 10-K, as revised or supplemented by our Quarterly Reports on Form 10-Q filed with the SEC since the filing of our most recent Annual Report on Form 10-K, each of which are on file with the SEC and are incorporated by reference in this prospectus. Before making an investment decision, you should carefully consider these risks as well as other information we include or incorporate by reference in this prospectus and any prospectus supplement. The risks and uncertainties we have described are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations.

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This prospectus includes and incorporates forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the United States Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included or incorporated in this prospectus regarding our strategy, future operations, financial position, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. There are a number of important factors that could cause our actual results to differ materially from those indicated by these forward-looking statements. These important factors include the factors that we identify in the documents we incorporate by reference in this prospectus, as well as other information we include or incorporate by reference in this prospectus and any prospectus supplement. See "Risk Factors." You should read these factors and other cautionary statements made in this prospectus and any accompanying prospectus supplement, and in the documents we incorporate by reference as being applicable to all related forward-looking statements wherever they appear in the prospectus and any accompanying prospectus supplement, and in the documents incorporated by reference. We do not assume any obligation to update any forward-looking statements made by us, except to the extent required by federal securities laws.

USE OF PROCEEDS

We currently intend to use the estimated net proceeds from the sale of these securities for working capital and other general corporate purposes, including, without limitation, for the funding of potential acquisitions of other businesses. Working capital and other general corporate purposes may include redeeming outstanding warrants from certain warrant holders, settling certain future earn-out payments relating to previously acquired companies, making capital expenditures, funding general and administrative expenses and any other purpose that we may specify in any prospectus supplement. We have not yet determined the amount of net proceeds to be used specifically for any of the foregoing purposes. Accordingly, our management will have significant discretion and flexibility in applying the net proceeds from the sale of these securities. Pending any use, as described above, we intend to invest the net proceeds in high-quality, short-term, interest-bearing securities. Our plans to use the estimated net proceeds from the sale of these securities may change, and if they do, we will update this information in a prospectus supplement.

THE SECURITIES WE MAY OFFER

The descriptions of the securities contained in this prospectus, together with the applicable prospectus supplements, summarize the material terms and provisions of the various types of securities that we may offer. We will describe in the applicable prospectus supplement relating to any securities the particular terms of the securities offered by that prospectus supplement. If we so indicate in the applicable prospectus supplement, the terms of the securities may differ from the terms we have summarized below. We will also include in the prospectus supplement information, where applicable, about material United States federal income tax considerations relating to the securities, and the securities exchange, if any, on which the securities will be listed.

We may sell from time to time, in one or more offerings:

- common stock;
- warrants to purchase common stock or units;
- units comprised of common stock and warrants in any combination.

In this prospectus, we refer to the common stock, warrants and units collectively as “securities.” The total dollar amount of all securities that we may issue will not exceed $30,000,000.

This prospectus may not be used to consummate a sale of securities unless it is accompanied by a prospectus supplement.

DESCRIPTION OF COMMON STOCK

The following is a description of the material terms and provisions of our common stock. It may not contain all the information that is important to you. You can access complete information by referring to our restated certificate of incorporation and bylaws, each as amended to date, which we refer to as our “certificate of incorporation” and “bylaws.”

General

We are a Delaware corporation. Under our certificate of incorporation, we have authority to issue 30,000,000 shares of common stock, par value $0.0001 per share. We do not have any authorized preferred stock.

As of September 29, 2009, there were issued and outstanding:

- 8,879,459 shares of common stock;
- stock options to purchase 914,426 shares of common stock at an average weighted price of $7.10 per share; and
- warrants to purchase 5,516,553 shares of common stock (for which cash would need to be remitted to us for exercise), at an average exercise price of $11.56 per share.

Voting; Dividends; Other Rights

Holders of common stock are entitled to one vote for each share held of record on each matter submitted to a vote of stockholders. There is no cumulative voting for election of directors. Accordingly, the holders of a majority of our outstanding shares of common stock entitled to vote in any election of directors can elect all of the directors standing for election, if they should so choose. Holders of common stock are entitled to receive dividends ratably when, as, and if declared by the board of directors out of funds legally available therefor and, upon our liquidation, dissolution or winding up are entitled to share ratably in all assets remaining after payment of liabilities. Holders of common stock have no preemptive rights and have no rights to convert their common stock into any other securities. There are no redemption or sinking fund provisions applicable to our common stock. The outstanding shares of common stock are, and the shares of common stock being sold in this offering will be, when issued, validly authorized and issued, fully paid and nonassessable.

Transfer Agent

The transfer agent and registrar for our common stock is Continental Stock Transfer & Trust Company and its address is 17 Battery Place, New York, New York, 10004, telephone number +1 (212) 509-4000.

Listing

Our common stock is listed on the Nasdaq Global Market under the symbol KITD.

DESCRIPTION OF WARRANTS

We may issue warrants for the purchase of common stock or units. Warrants may be issued independently or together with common stock or units, and the warrants may be attached to or separate from such securities. We may issue warrants directly or under a warrant agreement to be entered into between us and a warrant agent. We will name any warrant agent in the applicable prospectus supplement. Any warrant agent will act solely as our agent in connection with the warrants of a particular series and will not assume any obligation or relationship of agency or trust for or with any holders or beneficial owners of warrants.

The following is a description of the general terms and provisions of any warrants we may issue and may not contain all the information that is important to you. You can access complete information by referring to the applicable prospectus supplement. In the applicable prospectus supplement, we will describe the terms of the warrants and any applicable warrant agreement, including, where applicable, the following:

- the offering price and aggregate number of warrants offered;
- the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each such security;
- the date on and after which the warrants and the related securities will be separately transferable;
- the number of shares of common stock or units, as the case may be, purchasable upon the exercise of one warrant and the price at which these securities may be purchased upon such exercise;
- the effect of any merger, consolidation, sale or other disposition of our business on the warrant agreement and the warrants;
- the terms of any rights to redeem or call the warrants;
- any provisions for changes to or adjustments in the exercise price or number of securities issuable upon exercise of the warrants;
- the dates on which the right to exercise the warrants will commence and expire;
- the manner in which the warrant agreement and warrants may be modified;
- a discussion of any material U.S. federal income tax considerations of holding or exercising the warrants;
- the terms of the securities issuable upon exercise of the warrants; and
- any other specific terms, preferences, rights or limitations of or restrictions on the warrants.

DESCRIPTION OF UNITS

The following description, together with the additional information we include in any applicable prospectus supplement, summarizes the material terms and provisions of the units that we may offer under this prospectus. Units may be offered independently or together with common stock and/or warrants offered by any prospectus supplement, and may be attached to or separate from those securities.

While the terms we have summarized below will generally apply to any future units that we may offer under this prospectus, we will describe the particular terms of any series of units that we may offer in more detail in the applicable prospectus supplement. The terms of any units offered under a prospectus supplement may differ from the terms described below.

We will incorporate by reference into the registration statement of which this prospectus is a part the form of unit agreement, including a form of unit certificate, if any, that describes the terms of the series of units we are offering before the issuance of the related series of units. The following summaries of material provisions of the units and the unit agreements are subject to, and qualified in their entirety by reference to, all the provisions of the unit agreement applicable to a particular series of units. We urge you to read the applicable prospectus supplements related to the units that we sell under this prospectus, as well as the complete unit agreements that contain the terms of the units.

General

We may issue units consisting of common stock, warrants, or any combination thereof. Each unit will be issued so that the holder of the unit is also the holder of each security included in the unit. Thus, the holder of a unit will have the rights and obligations of a holder of each included security. The unit agreement under which a unit is issued may provide that the securities included in the unit may not be held or transferred separately, at any time, or at any time before a specified date.

We will describe in the applicable prospectus supplement the terms of the series of units, including the following:

- the designation and terms of the units and of the securities comprising the units, including whether and under what circumstances those securities may be held or transferred separately;
- any provisions of the governing unit agreement that differ from those described below; and
- any provisions for the issuance, payment, settlement, transfer, or exchange of the units or of the securities comprising the units.

The provisions described in this section, as well as those described under “Description of Common Stock,” “Description of Warrants” and “Description of Units” will apply to each unit and to any common stock or warrant included in each unit, respectively.

Issuance in Series

We may issue units in such amounts and in such numerous distinct series as we determine.

Enforceability of Rights by Holders of Units

Each unit agent will act solely as our agent under the applicable unit agreement and will not assume any obligation or relationship of agency or trust with any holder of any unit. A single bank or trust company may act as unit agent for more than one series of units. A unit agent will have no duty or responsibility in case of any default by us under the applicable unit agreement or unit, including any duty or responsibility to initiate any proceedings at law or otherwise, or to make any demand upon us. Any holder of a unit, without the consent of the related unit agent or the holder of any other unit, may enforce by appropriate legal action its rights as holder under any security included in the unit.

Title

We, the unit agent, and any of their agents may treat the registered holder of any unit certificate as an absolute owner of the units evidenced by that certificate for any purposes and as the person entitled to exercise the rights attaching to the units so requested, despite any notice to the contrary.

ANTI-TAKEOVER LAW, LIMITATIONS OF LIABILITY AND INDEMNIFICATION

Delaware Anti-Takeover Law

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

- the transaction in which the stockholder became an interested stockholder is approved by the board of directors prior to the date the interested stockholder attained that status;

- upon consummation of the transaction that resulted in the stockholder's becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction was commenced, excluding those shares owned by persons who are directors and also officers; or

- on or subsequent to that date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

This statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us.

Limited Liability and Indemnification

Our certificate of incorporation eliminates the personal liability of our directors for monetary damages arising from a breach of their fiduciary duty as directors to the fullest extent permitted by Delaware law. This limitation does not affect the availability of equitable remedies, such as injunctive relief or rescission. Our certificate of incorporation requires us to indemnify our directors and officers to the fullest extent permitted by Delaware law, including in circumstances in which indemnification is otherwise discretionary under Delaware law.

Under Delaware law, we may indemnify our directors or officers or other persons who were, are or are threatened to be made a named defendant or respondent in a proceeding because the person is or was our director, officer, employee or agent, if we determine that the person:

- conducted himself or herself in good faith;
- reasonably believed, in the case of conduct in his or her official capacity as our director or officer, that his or her conduct was in our best interests, and, in all other cases, that his or her conduct was at least not opposed to our best interests; and
- in the case of any criminal proceeding, had no reasonable cause to believe that his or her conduct was unlawful.

These persons may be indemnified against expenses, including attorneys fees, judgments, fines, including excise taxes, and amounts paid in settlement, actually and reasonably incurred, by the person in connection with the proceeding. If the person is found liable to the corporation, no indemnification shall be made unless the court in which the action was brought determines that the person is fairly and reasonably entitled to indemnity in an amount that the court will establish.

Disclosure of the SEC's Position on Indemnification for Securities Act Liabilities

Insofar as indemnification for liabilities under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the above provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment of expenses incurred or paid by a director, officer or controlling person in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

PLAN OF DISTRIBUTION

We may sell the securities being offered hereby in one or more of the following ways from time to time:

- through agents to the public or to investors;
- to one or more underwriters or dealers for resale to the public or to investors;
- in "at the market offerings," within the meaning of Rule 415(a)(4) of the Securities Act of 1933, as amended, to or through a market maker or into an existing trading market, or an exchange or otherwise;
- directly to investors in privately negotiated transactions; or
- through a combination of these methods of sale.

The securities that we distribute by any of these methods may be sold, in one or more transactions, at:

- a fixed price or prices, which may be changed;
- market prices prevailing at the time of sale;
- prices related to prevailing market prices; or
- negotiated prices.

We will set forth in a prospectus supplement the terms of the offering of our securities, including:

- the name or names of any agents or underwriters;
- the purchase price of our securities being offered and the proceeds we will receive from the sale;
- any over-allotment options under which underwriters may purchase additional securities from us;
- any agency fees or underwriting discounts and commissions and other items constituting agents' or underwriters' compensation;
- the public offering price;
- any discounts or concessions allowed or reallowed or paid to dealers; and
- any securities exchanges on which such common stock may be listed.

Underwriters

Underwriters, dealers and agents that participate in the distribution of the securities may be underwriters as defined in the Securities Act and any discounts or commissions they receive from us and any profit on their resale of the securities may be treated as underwriting discounts and commissions under the Securities Act. We will identify in the applicable prospectus supplement any underwriters, dealers or agents and will describe their compensation. We may have agreements with the underwriters, dealers and agents to indemnify them against specified civil liabilities, including liabilities under the Securities Act. Underwriters, dealers and agents may engage in transactions with or perform services for us or our subsidiaries in the ordinary course of their businesses.

If we use underwriters for a sale of securities, the underwriters will acquire the securities for their own account. The underwriters may resell the securities in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters to purchase the securities will be subject to the conditions set forth in the applicable underwriting agreement. The underwriters will be obligated to purchase all the securities offered if they purchase any of the securities offered. We may change from time to time any initial public offering price and any discounts or concessions the underwriters allow or reallow or pay to dealers. We may use underwriters with whom we have a material relationship. We will describe in the prospectus supplement naming the underwriters the nature of any such relationship.

If indicated in the applicable prospectus supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by particular institutions to purchase securities from us at the public offering price set forth in such prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on the date or dates stated in such prospectus supplement. Each delayed delivery contract will be for an amount no less than, and the aggregate principal amounts of securities sold under delayed delivery contracts shall be not less nor more than, the respective amounts stated in the applicable prospectus supplement. Institutions with which such contracts, when authorized, may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but will in all cases be subject to our approval. The obligations of any purchaser under any such contract will be subject to the conditions that (a) the purchase of the securities shall not at the time of delivery be prohibited under the laws of any jurisdiction in the United States to which the purchaser is subject, and (b) if the securities are being sold to underwriters, we shall have sold to the underwriters the total principal amount of the securities less the principal amount thereof covered by the contracts. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts.

Agents

We may designate agents who agree to use their reasonable efforts to solicit purchases for the period of their appointment or to sell securities on a continuing basis.

Direct Sales

We may also sell securities directly to one or more purchasers without using underwriters or agents.

Trading Markets and Listing of Securities

Unless otherwise specified in the applicable prospectus supplement, each class or series of securities will be a new issue with no established trading market, other than our common stock, which is traded on the Nasdaq Global Market. We may elect to list any other class or series of securities on any exchange, but we are not obligated to do so. It is possible that one or more underwriters may make a market in a class or series of securities, but the underwriters will not be obligated to do so and may discontinue any market making at any time without notice. We cannot give any assurance as to the liquidity of the trading market for any of the securities.

Stabilization Activities

In connection with an offering, an underwriter may purchase and sell securities in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Shorts sales involve the sale by the underwriters of a greater number of securities than they are required to purchase in the offering. “Covered” short sales are sales made in an amount not greater than the underwriters’ option to purchase additional securities from us, if any, in the offering. If the underwriters have an over-allotment option to purchase additional securities from us, the underwriters may close out any covered short position by either exercising their over-allotment option or purchasing securities in the open market. In determining the source of securities to close out the covered short position, the underwriters may consider, among other things, the price of securities available for purchase in the open market as compared to the price at which they may purchase securities through the over-allotment option. “Naked” short sales are any sales in excess of such option or where the underwriters do not have an over-allotment option. The underwriters must close out any naked short position by purchasing securities in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the securities in the open market after pricing that could adversely affect investors who purchase in the offering.

Accordingly, to cover these short sales positions or to otherwise stabilize or maintain the price of the securities, the underwriters may bid for or purchase securities in the open market and may impose penalty bids. If penalty bids are imposed, selling concessions allowed to syndicate members or other broker-dealers participating in the offering are reclaimed if securities previously distributed in the offering are repurchased, whether in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of the securities at a level above that which might otherwise prevail in the open market. The impositions of a penalty bid may also effect the price of the securities to the extent that it discourages resale of the securities. The magnitude or effect of any stabilization or other transactions is uncertain. These transactions may be effected on the Nasdaq Global Market or otherwise and, if commenced, may be discontinued at any time.

EXPERTS

The consolidated financial statements of KIT digital, Inc. included in our annual report on Form 10-K for the fiscal year ended December 31, 2008, have been audited by MSPC, independent registered public accountants, as set forth in their reports thereon, included therein, and incorporated herein by reference in this prospectus and elsewhere in the registration statement. Such consolidated financial statements are incorporated herein by reference in reliance upon such reports given on the authority of said firm as experts in accounting and auditing.

LEGAL MATTERS

Greenberg Traurig, LLP, New York, New York, as our counsel, will pass upon certain legal matters, including the legality of the securities offered by this prospectus and any prospectus supplement. If the securities are distributed in an underwritten offering, certain legal matters will be passed upon for the underwriters by counsel identified in the applicable prospectus supplement.

WHERE YOU CAN FIND MORE INFORMATION

We file reports, proxy statements and other documents with the SEC. You may read and copy any document we file at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, DC 20549. You should call 1-800-SEC-0330 for more information on the operation of the public reference room. Our SEC filings are also available to you on the SEC's Internet site at http://www.sec.gov . The SEC's Internet site contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

This prospectus is part of a registration statement that we filed with the SEC. The registration statement contains more information than this prospectus regarding us and our common stock, including certain exhibits and schedules. You can obtain a copy of the registration statement from the SEC at the address listed above or from the SEC's Internet site.

Our Internet address is www.kitd.com. The information on our Internet website is not incorporated by reference in this prospectus.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to "incorporate" into this prospectus information that we file with the SEC in other documents. This means that we can disclose important information to you by referring to other documents that contain that information. Any information that we incorporate by reference is considered part of this prospectus. The documents and reports that we list below are incorporated by reference into this prospectus. In addition, all documents and reports which we file pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus are incorporated by reference in this prospectus as of the respective filing dates of these documents and reports. Statements contained in documents that we file with the SEC and that are incorporated by reference in this prospectus will automatically update and supersede information contained in this prospectus, including information in previously filed documents or reports that have been incorporated by reference in this prospectus, to the extent the new information differs from or is inconsistent with the old information.

We have filed the following documents with the SEC. These documents are incorporated herein by reference as of their respective dates of filing:

(1) Our Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2008;

(2) Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2009 and June 30, 2009;

(3) Our Current Reports on Form 8-K, filed with the SEC on January 14, 2009, March 16, 2009, June 1, 2009, July 22, 2009, July 22, 2009 and September 2, 2009;

(4) Our Preliminary Information Statement on Schedule 14C filed with the SEC on February 4, 2009;

(5) Our Definitive Information Statement on Schedule 14C filed with the SEC on February 12, 2009;

(6) Our Definitive Revised Information Statement on Schedule 14C filed with the SEC on February 12, 2009;

(7) All of our filings pursuant to the Exchange Act after the date of filing the initial registration statement and prior to the effectiveness of the registration statement; and

(8) The description of our common stock contained in our Registration Statement on Form 8-A filed on August 11, 2009, and any amendments or reports filed for the purpose of updating that description.

You may request a copy of these documents, which will be provided to you at no cost, by contacting:

KIT digital, Inc.
168 Fifth Avenue, Suite 301
New York, New York 10010
Attention: Mr. Kaleil Isaza Tuzman
Chairman and Chief Executive Officer
+1 (212) 661-4111

You should rely only on the information contained in this prospectus, including information incorporated by reference as described above, or any prospectus supplement that we have specifically referred you to. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of those documents or that any document incorporated by reference is accurate as of any date other than its filing date. You should not consider this prospectus to be an offer or solicitation relating to the securities in any jurisdiction in which such an offer or solicitation relating to the securities is not authorized. Furthermore, you should not consider this prospectus to be an offer or solicitation relating to the securities if the person making the offer or solicitation is not qualified to do so, or if it is unlawful for you to receive such an offer or solicitation.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

The expenses in connection with the issuance and distribution of the securities being registered are set forth in the following table (all amounts except the registration fee are estimated):

SEC registration fee	$	1,674
Legal fees and expenses	$	25,000
Accounting fees and expenses	$	2,500
Printing fees and expenses	$	1,500
Transfer agent fees and expenses	$	1,000
Miscellaneous expenses	$	3,326
Total expenses	$	35,000

Item 15. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law (“DGCL”) empowers a Delaware corporation to indemnify any persons who are, or are threatened to be made, parties to any threatened, pending or completed legal action, suit or proceeding, whether civil, criminal, administrative, or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person was an officer or director of such corporation, or is or was serving at the request of such corporation as a director, officer, employee, or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys’ fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit, or proceeding, provided that such officer or director acted in good faith and in a manner he reasonably believed to be in or not opposed to the corporation’s best interests, and, for criminal proceedings, had no reasonable cause to believe his conduct was illegal. A Delaware corporation may indemnify officers and directors in an action by or in the right of the corporation under the same conditions, except that no indemnification is permitted without judicial approval if the officer or director is adjudged to be liable to the corporation in the performance of his duty. Where an officer or director is successful on the merits or otherwise in the defense of any action referred to above, the corporation must indemnify him against the expenses which such officer or director actually and reasonably incurred.

Our certificate of incorporation and bylaws provide that we will indemnify, to the fullest extent permitted by the DGCL, each director or officer of our company, whom we refer to as an “Indemnitee.” Such indemnification includes payment by us, in advance of the final disposition of a civil or criminal action, suit, or proceeding, of expenses incurred by a director or officer in defending such action, suit, or proceeding upon receipt of any undertaking by or on behalf of such director or officer to repay such payment if it is ultimately determined that he or she is not entitled to be indemnified by us.

Under Delaware law, to the extent that an Indemnitee is successful on the merits in defense of a suit or proceeding brought against him or her by reason of the fact that he or she is or was a director, officer, or agent of our company, or serves or served any other enterprise or organization at the request of our company, we shall indemnify him or her against expenses (including attorneys’ fees) actually and reasonably incurred in connection with such action.

If unsuccessful in defense of a third-party civil suit or a criminal suit, or if such a suit is settled, an Indemnitee may be indemnified under Delaware law against both (i) expenses, including attorney's fees, and (ii) judgments, fines, and amounts paid in settlement if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of our company, and, with respect to any criminal action, had no reasonable cause to believe his or her conduct was unlawful.

If unsuccessful in defense of a suit brought by or in the right of our company, where the suit is settled, an Indemnitee may be indemnified under Delaware law only against expenses (including attorneys' fees) actually and reasonably incurred in the defense or settlement of the suit if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of our company except that if the Indemnitee is adjudged to be liable for negligence or misconduct in the performance of his or her duty to our company, he or she cannot be made whole even for expenses unless a court determines that he or she is fully and reasonably entitled to indemnification for such expenses.

Also under Delaware law, expenses incurred by an officer or director in defending a civil or criminal action, suit, or proceeding may be paid by our company in advance of the final disposition of the suit, action, or proceeding upon receipt of an undertaking by or on behalf of the officer or director to repay such amount if it is ultimately determined that he or she is not entitled to be indemnified by our company. We may also advance expenses incurred by other employees and agents of our company upon such terms and conditions, if any, that our board of directors of the registrant deems appropriate.

Reference is made to "Undertakings," below, for the registrant's undertakings in this registration statement with respect to indemnification of liabilities arising under the Securities Act of 1933, as amended.

Item 16. Exhibits.

The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed as part of this Registration Statement on Form S-3.

Item 17. Undertakings.

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act");

(ii) To reflect in the prospectus any facts or events arising after the effective date of this Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this Registration Statement. Notwithstanding the foregoing, any increase or decrease in the volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective Registration Statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in this Registration Statement or any material change to such information in this Registration Statement;

provided, however , that paragraphs (1)(i), (1)(ii) and (1)(iii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are incorporated by reference in this Registration Statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the Registration Statement.

(2) That, for the purposes of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act to any purchaser:

(i) If the Registrant is relying on Rule 430B:

(A) Each prospectus filed by the Registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof. *Provided, however* , that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date; or

(ii) If the Registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(5) That, for the purpose of determining liability of the Registrant under the Securities Act to any purchaser in the initial distribution of the securities:

The undersigned Registrant undertakes that in a primary offering of securities of such undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, such undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned Registrant or used or referred to by the undersigned Registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.

The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant’s annual report pursuant to Section 13(a) or 15(d) of the Exchange Act that is incorporated by reference in this Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the indemnification provisions described herein, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on this 2nd day of October 2009.

KIT DIGITAL, INC.

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

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

We, the undersigned officers and directors of KIT digital, Inc., hereby severally constitute and appoint Kaleil Isaza Tuzman and Robin Smyth and each of them singly, our true and lawful attorneys with full power to any of them, and to each of them singly, to sign for us and in our names in the capacities indicated below the Registration Statement on Form S-3 filed herewith and any and all pre-effective and post-effective amendments to said Registration Statement and generally to do all such things in our name and behalf in our capacities as officers and directors to enable KIT digital, Inc. to comply with the provisions of the Securities Act of 1933, as amended, and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to said Registration Statement and any and all amendments thereto.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Kaleil Isaza Tuzman Kaleil Isaza Tuzman	Chairman and Chief Executive Officer (Principal Executive Officer)	October 2, 2009
/s/ Gavin Campion Gavin Campion	President and Director	October 1, 2009
/s/ Robin Smyth Robin Smyth	Chief Financial Officer and Director (Principal Financial Officer)	October 2, 2009
/s/ Kamal El-Tayara Kamal El-Tayara	Director	October 1, 2009

/s/ Steven G. Felsher Steven G. Felsher	Director	October 2, 2009
/s/ Daniel W. Hart Daniel W. Hart	Director	October 2, 2009
/s/ Lars Kroijer Lars Kroijer	Director	October 1, 2009
/s/ Wayne Walker Wayne Walker	Director	October 1, 2009

EXHIBIT II - REGISTRATION STATEMENT ON FORM S-3

EXHIBIT INDEX

EXHIBIT NUMBER	**DESCRIPTION**
[...]	

EXHIBIT III

QUARTERLY REPORT ON FORM 10-Q FILED BY KIT DIGITAL, INC. WITH THE SEC ON NOVEMBER 20, 2009

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

Form 10-Q

(Mark One)

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2009

OR

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission file number 000-25659

KIT digital, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	11-3447894 (I.R.S. Employer Identification No.)
168 Fifth Avenue, Suite 301, New York, New York (Address of Principal Executive Offices)	**10010** (Zip Code)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 ☐ (not required)

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

Large Accelerated Filer ☐	Accelerated Filer ☐
Non-accelerated Filer ☐	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 November 18, 2009, there were 10,719,934 shares of the registrant's common stock outstanding.

KIT digital, Inc.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2009 (Unaudited)	December 31, 2008 (A)
Assets:		
Current assets:		
Cash and cash equivalents	$ 13,451	$ 5,878
Investments	215	-
Receivable from FeedRoom	4,636	-
Accounts receivable, net	18,602	8,331
Inventory, net	1,300	2,130
Other current assets	1,698	1,539
Total current assets	39,902	17,878
Property and equipment, net	2,791	2,928
Deferred tax assets	81	64
Software, net	3,097	2,265
Customer list, net	2,597	2,988
Domain names, net	11	19
Goodwill	16,559	15,167
Total assets	$ 65,038	$ 41,309
Liabilities and Stockholders' Equity:		
Current liabilities:		
Bank overdraft	$ 717	$ 1,456
Capital lease and other obligations	263	395
Secured notes payable	1,603	966
Senior secured notes payable, net of debt discount	-	950
Accounts payable	5,739	5,775
Accrued expenses	7,246	2,240
Income tax payable	193	160
Acquisition liability - Kamera	2,583	3,000
Acquisition liability - Visual	1,075	2,218
Derivative liability	13,503	-
Other current liabilities	2,274	3,818
Total current liabilities	35,196	20,978
Capital lease and other obligations, net of current	398	949
Secured notes payable, net of current	-	236
Acquisition liability - Visual, net of current	-	1,075
Total liabilities	35,594	23,238
Equity:		
Stockholders' equity:		
Common stock, $0.0001 par value: authorized 30,000,000 shares; issued and outstanding 8,891,623 and 4,183,280, respectively	1	-
Additional paid-in capital	108,145	101,057
Accumulated deficit	(78,351)	(82,499)
Accumulated other comprehensive (loss) income	(351)	(250)
Total stockholders' equity	29,444	18,308

Non-controlling interest		(237)
Total equity	29,444	18,071
Total liabilities and equity	$ 65,038	$ 41,309

(A) - Reference is made to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the U.S. Securities and Exchange Commission on April 15, 2009.

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 September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Revenue	$ 11,036	$ 5,381	$ 31,154	$ 14,368
Variable and direct third party costs:				
Cost of goods and services	4,550	-	11,662	
Hosting, delivery and reporting	331	499	1,027	1,601
Content costs	287	866	1,105	1,685
Direct third party creative production costs	583	759	2,541	2,732
Total variable and direct third party costs	5,751	2,124	16,335	6,018
Gross profit	5,285	3,257	14,819	8,350
General and administrative expenses:				
Compensation, travel and associated costs (including non-cash stock-based compensation of $536, $188, $1,088 and $4,262, respectively)	3,846	3,889	11,020	16,370
Legal, accounting, audit and other professional service fees	154	291	584	905
Office, marketing and other corporate costs	894	834	2,507	2,600
Merger and acquisition and investor relations expenses	522	-	1,251	-
Depreciation and amortization	977	434	2,570	1,033
Restructuring charges	340	162	654	3,053
Other non-recurring charges	641	200	1,632	845
Impairment of property and equipment	-	-	-	228
Total general and administrative expenses	7,374	5,810	20,218	25,034
Loss from operations	(2,089)	(2,553)	(5,399)	(16,684)
Interest income	27	37	31	127
Interest expense	(124)	(31)	(441)	(85)
Amortization of deferred financing costs and debt discount	(562)	-	(1,175)	-
Derivative (expense) income	(8,449)	-	2,233	-
Other expense	65	8	405	140
Net loss before income taxes	(11,132)	(2,539)	(4,346)	(16,502)
Income tax expense	(2)	(1)	(4)	(2)
Net loss	(11,134)	(2,540)	(4,350)	(16,504)
Plus: Net income attributable to the non-controlling interest	-	(15)	-	(8)
Net loss available to common shareholders	$ (11,134)	$ (2,555)	$ (4,350)	$ (16,512)
Basic and diluted net loss per common share	$ (1.65)	$ (0.78)	$ (0.82)	$ (7.33)
Basic and diluted weighted average common shares outstanding	6,739,934	3,273,079	5,278,472	2,254,159
Comprehensive loss:				
Net loss	$ (11,134)	$ (2,555)	$ (4,350)	$ (16,512)
Foreign currency translation	(530)	(219)	(116)	(240)

Change in unrealized gain on investments, net	15	-	15	-
Comprehensive loss	$ (11,649)	$ (2,774)	$ (4,451)	$ (16,752)

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

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

	Common Stock	Common Stock Par Value	Additional Paid-in Capital
Balance – December 31, 2008	4,183,280	$ —	$ 101,057
Cumulative adjustment for derivative liabilities	—	—	(24,235)
Balance – January 1, 2009	4,183,280	—	76,822
Issue of stock in public offering	4,004,000	1	26,089
Issue of stock for repayment of loans	34,733	—	278
Issue of stock for exercise of stock options	9,568	—	27
Issue of stock for cashless exercise of warrants	8,960	—	—
Issue of stock for acquisitions	641,847	—	4,363
Acquisition of non-controlling interest	—	—	(867)
Debt discount on notes	—	—	517
Issue of stock for services	9,235	—	89
Stock-based compensation	—	—	827
Foreign currency translation adjustment	—	—	—
Fair market value adjustment for available for sale securities	—	—	—
Net loss	—	—	—
Balance – September 30, 2009	8,891,623	$ 1	$ 108,145

	Accumulated (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance – December 31, 2008	$ (82,499)	$ (250)	$ 18,308
Cumulative adjustment for derivative liabilities	8,498	—	(15,737)
Balance – January 1, 2009	(74,001)	(250)	2,571
Issue of stock in public offering	—	—	26,090
Issue of stock for repayment of loans			278
Issue of stock for exercise of stock options	—	—	27
Issue of stock for exercise of warrants	—	—	—
Issue of stock for acquisitions	—	—	4,363
Acquisition of non-controlling interest	—	—	(867)
Debt discount on notes	—	—	517
Issue of stock for services	—	—	89
Stock-based compensation	—	—	827
Foreign currency translation adjustment	—	(116)	(116)
Fair market value adjustment for available for sale securities	—	15	15
Net loss	(4,350)	—	(4,350)
Balance – September 30, 2009	$ (78,351)	$ (351)	$ 29,444

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)

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Operating Activities:		
Net loss	$ (4,350)	$ (16,512)
Adjustments to reconcile net loss to net cash used by operating activities:		
Provision for doubtful accounts	205	95
Depreciation	951	393
Amortization of intangible assets	1,619	641
Amortization of deferred financing costs	108	-
Amortization of debt discount	1,067	-
Loss on impairment of property and equipment	-	228
Derivative income	(2,235)	-
Non-cash stock based compensation	1,088	4,262
Non-cash warrants for settlement of separation agreements	-	1,038
Non-cash stock for services	89	-
Gain on bargain purchase	(26)	-
Non-controlling interest	-	8
Changes in assets and liabilities:		
Accounts receivable	(10,175)	(559)
Inventories	830	-
Other assets	(177)	(84)
Accounts payable	(843)	(1,273)
Accrued expenses	5,008	921
Income tax payable	-	6
Other liabilities	(1,667)	(253)
Total adjustments	(4,156)	5,423
Net cash used by operating activities - forward	(8,506)	(11,089)
Investing Activities:		
Relaease of restricted cash	-	100
Cash paid into investment	(200)	-
Cash paid in advance of Feedroom merger	(4,636)	-
Cash received in acquisition of Narrowstep	279	-
Cash paid for completion of acquisition of Sputnik	-	(4,563)
Cash paid in acquisition of Visual	(480)	-
Cash paid in acquisition of Kamera	-	(4,229)
Cash paid in acquisition of Morpheum	-	(649)
Cash paid in acquisition of Juzou	(150)	-
Purchase of software	(1,500)	-
Proceeds from sale of equipment	-	33
Purchase of equipment	(153)	(774)
Net cash used by investing activities - forward	$ (6,840)	$ (10,082)

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

	Nine months ended September 30,	
	2009	**2008**
Net cash used by operating activities - forwarded	$ (8,506)	$ (11,089)
Net cash used by investing activities - forward	(6,840)	(10,082)
Financing Activities:		
Proceeds from public offering, net	26,090	-
Proceeds from private placement, net	-	14,710
Proceeds from exercise of stock options	27	21
Bank overdraft and other obligations	(739)	58
Proceeds from issuance of Secured Notes	849	-
Payments of Secured Notes	(557)	-
Payments of Senior Secured Note	(1,500)	-
Proceeds from issuance of Convertible Notes Payable	3,700	-
Repayments of Convertible Notes Payable	(3,700)	-
Liability to KIT Media, Ltd.	-	2,500
Payment on capital leases	(778)	(94)
Net cash provided by financing activities	23,392	17,195
Effect of exchange rate changes on cash and cash equivalents	(473)	(144)
Net increase (decrease) in cash and cash equivalents	7,573	(4,120)
Cash and cash equivalents - beginning of period	5,878	10,189
Cash and cash equivalents - end of period	$ 13,451	$ 6,069
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 441	$ 84

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

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

(1) Basis of Presentation

KIT digital, Inc. ("we," "us," "our," the "Company" or "KIT digital"), through our operating subsidiaries, provides enterprise clients an end-to-end technology platform for managing Internet Protocol ("IP")-based video assets across the browser, mobile device and IPTV set-top box-enabled television set. We offer creative interface design, branding, strategic planning and technical integration services to complement our "VX"-branded software platform. Our business is divided into two segments: Digital Media Solutions and Professional Services (formerly "Agency Services"). Digital Media Solutions includes the delivery of IP video software solutions, including software-as-a-service ("SaaS") fees, enterprise license fees, software usage fees, set-up/support services, storage, hardware components, content delivery, content syndication, and advertising-based monetization. Professional Services include technical integration services, interface design, branding, strategic planning, creative production, online marketing, media planning and analytics.

On March 6, 2009, we filed a certificate of amendment of our certificate of incorporation to (i) effect a 1-for-35 reverse stock split of our common stock; (ii) decrease the total number of shares of common stock authorized to be issued from 500,000,000 shares to 30,000,000 shares; and (iii) eliminate the authorization of a class of preferred stock. The changes made by the certificate of amendment were effective on March 9, 2009, and per share amounts in the accompanying financial statements have been adjusted for the reverse stock split. On August 13, 2009, our common stock began trading on the NASDAQ Global Market exchange under the ticker symbol "KITD." Previously, our ticker symbol was "KDGL", as quoted on the OTC Bulletin Board.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all information and footnotes required by general accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary in order to make the interim financial statements not misleading have been included. The consolidated results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto of the Company and management's discussion and analysis of financial condition and results of operations included in the our annual report on Form 10-K for the year ended December 31, 2008.

During the third quarter ended September 30, 2009, we identified certain errors in the fair valuation of derivative liabilities and accounting for acquisition of noncontrolling interests related to prior interim periods in fiscal year 2009. We have adjusted the opening balances to correct these errors and present correct amounts for the three months and nine months ended September 30, 2009. See Note 6 "Derivative liabilities" and Note. 13, "Correction of errors" for further details. These errors have no impact on the consolidated balance sheet and statement of operations and comprehensive income (loss) for the year ended December 31, 2008.

We evaluated events or transactions which occurred subsequent to the balance sheet date but prior to November 19, 2009, the issuance date of the financial statements, for recognition or disclosure.

(2) Summary of Significant Accounting Policies

Principles of Consolidation - Our consolidated financial statements include the accounts of KIT digital, Inc., and all its wholly-owned and majority-owned subsidiaries.

Management Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Certain amounts included in the financial statements are estimated based on currently available information and management's judgment as to the outcome of future conditions and circumstances. Changes in the status of certain facts or circumstances could result in material changes to the estimates used in the preparation of financial statements and actual results could differ from the estimates and assumptions. Management makes estimates and assumptions on the following major items; allowance for doubtful accounts, revenue recognition, fair value of derivative liabilities and impairment of tangible and intangible assets.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

Foreign Currency Translation - Assets and liabilities of KIT digital's foreign subsidiaries are translated at current exchange rates and related revenues and expenses are translated at average exchange rates in effect during the periods. Resulting translation adjustments are recorded as a component of accumulated other comprehensive income (loss) in stockholders' equity.

Fair Value of Financial Instruments - On January 1, 2008, we adopted the standard that defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. This standard defines fair value as the amount that would be received upon sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy which prioritizes the types of inputs to valuation techniques that companies may use to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1). The next highest priority is given to inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2). The lowest priority is given to unobservable inputs in which there is little or no market data available and which require the reporting entity to develop its own assumptions (Level 3).

The assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy are Investments and Derivative Liabilities. Investments are measured using active quoted market prices (Level 1). See Note 6 for fair value hierarchy on the Derivative Liabilities.

Risk Concentrations - Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. From time to time, we obtain collateral for our cash and cash equivalent accounts where we deem prudent and is feasible. We believe no significant concentration of credit risk exists with respect to these investments. The amount of cash beyond insured amounts as of September 30, 2009 was $13,201.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the nature of our customers who are dispersed across many industries and geographic regions. The allowance for doubtful accounts as of September 30, 2009 was $892. As of September 30, 2009, three customers accounted for approximately 43% of our trade accounts receivable. We routinely assess the financial strength of customers and, based upon factors concerning credit risk, we establish an allowance for doubtful accounts. Management believes that accounts receivable credit risk exposure beyond such allowance is limited.

Impairment of Long-Lived Assets - We review our long-lived assets and identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such factors and circumstances exist, we compare the projected undiscounted future cash flows associated with the future use and disposal of the related asset or group of assets to their respective carrying amounts. Impairment, if any, is measured as the excess of the carrying amount over the fair value based on market value (when available) or discounted expected cash flows of those assets, and is recorded in the period in which the determination is made.

Cash and Cash Equivalents - We consider all highly liquid investments with original maturities of ninety days or less when purchased to be cash and cash equivalents. As of September 30, 2009, we had $2,023 of cash equivalents in an account that pays interest at LIBOR plus 150 basis points. This account is guaranteed and backed by liquid collateral instruments, and can be redeemed with 14 days written notice.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

Investments – Investments include an investment in a limited partnership fund which invests, on a hedged basis, primarily in the U.S. equity markets. This investment was made in March 2009 and is recorded at a fair value of $215.

Property and Equipment - Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided for using the straight-line and declining balance methods of accounting over the estimated useful lives of the assets which range from one year to twenty years.

Routine maintenance and repair costs are charged to expense as incurred and renewals and improvements that extend the useful life of the assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is reported in the statement of operations.

Income Taxes - Income tax expense (or benefit) for the year is the sum of deferred tax expense (or benefit) and income taxes currently payable (or refundable). Deferred tax expense (or benefit) is the change during the year in a company's deferred tax liabilities and assets. Deferred tax liabilities and assets are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Intangible Assets - Amortizable intangible assets of the Company are recorded at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of the assets, with periods of up to five years. Goodwill is reviewed for impairment at least annually and all other intangible assets are reviewed for impairment if events or circumstances indicate that carrying amounts may not be recoverable.

Inventory - Inventories are valued at the lower of cost (first-in, first-out method) or market and are comprised of finished goods. On a quarterly basis, we review inventory quantities on hand and analyze the provision for excess and obsolete inventory based primarily on product age in inventory and our estimated sales forecast, which is based on sales history and anticipated future demand. Our estimates of future product demand may not be accurate and we may understate or overstate the provision required for excess and obsolete inventory. Accordingly, any significant unanticipated changes in demand could have a significant impact on the value of our inventory and results of operations. As of September 30, 2009 and December 31, 2008, our reserves for excess and obsolete inventory were $145 and $157, respectively.

Derivative Financial Instruments - Upon the adoption of a new standard effective January 1, 2009, certain of our financial instruments with “down-round” protection features are no longer considered indexed to our Company’s stock for purposes of determining whether they meet the first part of the scope exception. As such, these instruments no longer meet the conditions to obtain equity classification and are required to be carried as derivative liabilities, at fair value with changes in fair value reflected as income (expense). The fair value of the warrants issued was $15,736 and $13,503 on January 1, 2009 and September 30, 2009, respectively. See Note 6, “Derivative Liabilities” and Note 13 “Correction of errors ” , for further information.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

Research and Development - Costs incurred in research and development are expensed as incurred. Software development costs are required to be capitalized when a product's technological feasibility has been established through the date the product is available for general release to customers. We do not capitalize any software development costs, as technological feasibility is generally not established until a working model is completed, at which time substantially all development is complete.

Revenue Recognition - We recognize revenue in accordance with the accounting standard, which requires that four basic criteria be met before revenue can be recognized: (i) persuasive evidence that an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) product delivery has occurred or services have been rendered. We recognize revenue, net of sales taxes assessed by any governmental authority. Revenues are derived principally from the delivery of digital media solutions and professional services. Our revenues include fees charged for software-as-a-service ("SaaS"), enterprise licenses, software usage, storage, software set-up/support services, hardware components, content delivery, content syndication fees, advertising-based monetization and professional services. Revenue is recognized when the product and/or service has been provided to the customer. We may enter into agreements whereby we guarantee a minimum service level, or a minimum number of impressions, click-throughs or other criteria on our software platform's points of distribution for a specified period. To the extent these guarantees are not met, we may defer recognition of the corresponding revenue until guaranteed delivery levels are achieved.

Stock-Based Compensation - We record compensation expense for share-based awards issued to employees and directors in exchange for services provided. The amount of the compensation expense is based on the estimated fair value of the awards on their grant dates and is recognized over the required service periods. Our share-based awards include stock options, warrants and restricted stock awards.

We adopted the accounting standard using the modified prospective transition method, which requires the application of the accounting standard to all share-based awards issued on or after January 1, 2006 and any outstanding share-based awards that were issued but not vested as of January 1, 2006. For the nine months ended September 30, 2009 and 2008, we recognized $1,088 and $4,262, respectively, of stock-based compensation expense in the consolidated statements of operations. Included in the 2009 amount is $261 for employees who have agreed to be issued stock in lieu of compensation and is included in accrued expenses as of September 30, 2009.

The estimated fair value underlying our calculation of compensation expense for stock options is based on the Black-Scholes-Merton pricing model. This accounting standard requires forfeitures of share-based awards to be estimated at the time of grant and revised, if necessary, in subsequent periods if estimates change based on the actual amount of forfeitures experienced.

On March 17, 2008, the Board of Directors adopted an incentive compensation plan (the "2008 Incentive Stock Plan"). The 2008 Incentive Stock Plan currently has reserved 857,143 shares of common stock for issuance. Under the 2008 Incentive Stock Plan, options may be granted which are intended to qualify as Incentive Stock Options under Section 422 of the Internal Revenue Code of 1986 or which are not intended to qualify as Incentive Stock Options thereunder. In addition, direct grants of stock or restricted stock may be awarded.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

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

	Nine Months Ended September 30, 2009
Expected life (in years)	5.00
Risk-free interest rate	2.83%
Volatility	77.55%
Dividend yield	0

A summary of the status of stock option awards and changes during nine months ended September 30, 2009 are presented below:

	Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (Years)**	**Intrinsic Value**
Outstanding at January 1, 2009	501,613	$ 5.25		
Granted	465,584	7.53		
Exercised	(9,566)	2.80		
Cancelled, expired, or forfeited	(100,772)	7.59		
Outstanding at September 30, 2009	856,859	7.11	4.26	$ 2,398
Exercisable at September 30, 2009	305,422	6.52	3.94	$ 1,036

The weighted-average grant-date fair value of option awards granted during the nine months ended September 30, 2009 was $4.43.

Also included in non-cash 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 36 months from the issue date. During the nine months ended September 30, 2009, a total of 8,571 warrants vested with 17,143 warrants unvested as of September 30, 2009.The intrinsic value of the outstanding warrants and exercisable warrants are $180 and $90, respectively.

Net Income (Loss) Per Share - We compute net income (loss) per common share under the provisions of the accounting standard which establishes standards for computing and presenting earnings per share. It requires us to report both basic net (loss) income per share, which is based on the weighted average number of common shares outstanding during the period, and diluted net (loss) income per share, which is based on the weighted average number of common shares outstanding plus all potentially dilutive common shares outstanding. All equivalent shares underlying options and warrants were excluded from the calculation of diluted loss per share because we had net losses for all periods presented and therefore equivalent shares would have an anti-dilutive effect.

Reclassification - Certain prior period amounts have been reclassified to conform to the current presentation.

Recent Accounting Pronouncements – In December 2007, the FASB issued a new accounting standard, which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this standard requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. We adopted the provisions of this new accounting standard on January 1, 2009. We implemented these changes, which led to changes in the presentation of prior period results.

In April 2009, the FASB issued new requirements for interim disclosures about fair value of financial instruments, which increase the frequency of fair value disclosures to a quarterly basis instead of annually. The requirements relate to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet at fair value. Prior to these changes, fair values for these assets and liabilities were only disclosed annually. We adopted the provisions of these accounting standards on June 30, 2009. The newly required interim disclosures, which we included in Note 2, had no impact on our consolidated financial position or results of operations.

In April 2009, the FASB issued new guidance on the recognition and presentation of other-than-temporary impairments, which segregate credit and noncredit components of impaired debt securities that are not expected to be sold. Impairments will still have to be measured at fair value in other comprehensive income. These accounting standards also require some additional disclosures regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. We adopted the new guidance on June 30, 2009; the adoption of which had no impact on our consolidated financial position or results of operations

In May 2009, the FASB issued a new accounting standard on subsequent events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This accounting standard establishes: 1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; 2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and 3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This accounting standard also requires disclosure of the date through which an entity has evaluated subsequent events. We adopted the provisions of this accounting standard on June 30, 2009. In connection with the adoption of this accounting standard, we have included disclosure in Note 1 to address the date through which we evaluated subsequent events.

In June 2009, the FASB issued the accounting standard "The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162", which establishes the FASB Accounting Standards CodificationTM ("Codification") as the source of authoritative U.S. Generally Accepted Accounting Principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. We adopted the provisions of this accounting standard for the interim period ended September 30, 2009. The implementation of this accounting standard did not have any impact on our consolidated financial position and results of operations upon adoption.

In April 2009, the FASB also issued new guidelines on the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination which provides that an acquirer shall recognize an asset acquired or a liability assumed in a business combination that arises from a contingency at fair value, at the acquisition date, if the acquisition-date fair value of that asset or liability can be determined during the measurement period. New guidance is also provided in the event that the fair value of an asset acquired or liability assumed cannot be determined during the measurement period. An acquirer shall also develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies and also provides for the disclosure requirements. We adopted the provisions of the new accounting standards on business combinations on January 1, 2009; acquisitions after this are accounted for using this standard.

In October 2009, the FASB issued Accounting Standards Update on Multiple-Deliverable Revenue Arrangements, which addresses the accounting for multiple-deliverable arrangements and requires that the overall arrangement consideration be allocated to each deliverable in a revenue arrangement based on an estimated selling price when vendor specific objective evidence or third-party evidence of fair value is not available. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated to all deliverables using the relative selling price method. This update is effective for fiscal years beginning on or after June 15, 2010 and early adoption is permitted. The Company is currently evaluating the impact of adoption of this update.

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

In October 2009, the FASB issued Accounting Standards Update on Certain Revenue Arrangements That Include Software Elements, which changes the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing both software and non-software components that function together to deliver the product's essential functionality will no longer be within the scope of Software Revenue Recognition. This update is effective for fiscal years beginning on or after June 15, 2010 and early adoption is permitted. We are currently assessing the impact of adoption of this update.

(3) Notes Payable

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

On April 8, 2009, we received gross proceeds of $350 related to the issuance of a convertible note to Granahan McCourt Capital, LLC. The note was interest free. The principal was due at maturity. A debt discount of $75 was recorded related to this debt and was amortized through June 30, 2009. As of August 18, 2009, these notes were repaid from the proceeds of the public offering.

In November 2008, we received $1,500 in gross proceeds from the issuance of a non-convertible note to Genesis Merchant Partners, LP. Interest is payable monthly in arrears at 14.5% and matures on December 31, 2009. The principal is repayable in monthly installments of $75 beginning in May 2009, with the remainder of the principal due at maturity. The note is secured by the company's property, including accounts receivable and inventory, but excludes any security interests in Visual and Reality Group or assets of these subsidiaries. In conjunction with the borrowing, we issued to Genesis Merchant Partners, LP a warrant entitling it to purchase, for $11.90 per share, 139,286 shares of our common stock through October 31, 2013. A debt discount of $642 was recorded related to this debt and is being amortized over fourteen months which is the life of the note. On August 18, 2009, we repaid the entire principal balance of the non-convertible note of $1,275 owed to Genesis Merchant Partners, LP and wrote off the unamortized amount of debt discount as of that date.

(4) Acquisitions

On March 6, 2009, we acquired the remaining 49% outstanding share capital that we did not previously own in subsidiary Reality Group Pty. Ltd., in consideration of issuing the sellers 90,073 shares of our common stock for a total purchase price of $631 which is recorded as a reduction to additional paid-in capital. The remaining balance of the non-controlling interest of $236 is recorded as part of the acquisition and recorded as additional paid-in capital. The total of $867 was originally recorded as goodwill, see Note 13 "Correction of Errors." Reality Group's activities are part of the Professional Services segment of our business.

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

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

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

A gain on bargain purchase of $26 was recorded to other income in the three months ended June 30, 2009.

In November 2008, we purchased specified assets of Extreme Mobile Services Limited (also known as Juzou), a company formed under the laws of the United Kingdom. Juzou's business involves content management and web services with live streaming capabilities. Under an Asset Purchase Agreement, dated November 15, 2008, we acquired the Juzou trademark and system and ongoing client and other operating contracts. The total purchase price of the assets was $800, payable in shares of our common stock based on meeting specified financial and operating targets over the ensuing two-year period, which has subsequently been amended in August 2009 to $570. At closing, we issued 13,715 shares of our common stock to Juzou valued at $120 against the total purchase price of which $104 was recorded as software. In September 2009, we paid $150 in cash and issued 10,559 shares valued at $90, which was recorded as software. We have not recorded the contingent liability of $210 in consideration that is payable 12, 18 and 24 months from closing as it is not certain that the performance criteria will be met.

(5) Acquisition Liabilities

On March 9, 2009, we issued 300,539 shares of our common stock in satisfaction of a $1,500 acquisition liability incurred in connection with the acquisition of Kamera Content AB ("Kamera") in 2008, which is included in goodwill. In September 2009, we recorded an additional liability of $1,083 as a result of an amendment to the underling share purchase agreement for full and final settlement of all future/potential earn-out payments. This has been recorded as additional goodwill in the consolidated balance sheet as of September 30, 2009. The liability included in the consolidated balance sheet in "Acquisition liability - Kamera" is $2,583 as of September 30, 2009. In October 2009, we paid $1,700 and 110,805 shares valued at $883 to settle this liability.

In January 2009, we paid $180 in cash to the former shareholders of Visual Connection a.s. ("Visual"), pursuant to the Visual Share Purchase Agreement dated October 5, 2008 ("Visual SPA"). In March 2009, we issued 163,044 shares of our common stock to the former shareholders of Visual, pursuant to the Visual SPA, in satisfaction of a $1,500 earn out liablility, which is included in goodwill. In September 2009, we issued 52,632 shares valued at $430 and $300 in cash to the former shareholders of Visual pursuant to an amendment to the Visual SPA and in satisfaction of the earn-out 12 months after closing and is included in goodwill. The liability included in the consolidated balance sheet in "Acquisition liability – Visual" is $1,075 as of September 30, 2009. We have not recorded the contingent liability of $1,075 in consideration that is payable 18 and 24 months from closing as it is not certain that the performance criteria will be met.

(6) Derivative Liabilities

In June 2008, the Financial Accounting Standards Board issued a new accounting standard. Under this standard, instruments which contain full ratchet anti-dilution provisions will no longer be considered indexed to a company's own stock for purposes of determining whether it meets the first part of the scope exception. The adoption required us to (1) evaluate our instrument's contingent exercise provisions and (2) evaluate the instrument's settlement provisions. Based upon applying this approach to instruments within the scope of the consensus, we have determined that certain of our warrants which were classified in stockholders' equity on December 31, 2008, no longer meet the definition of Indexed to a Company's Own Stock provided in the Consensus. Accordingly, effective on January 1, 2009, we were required to reclassify those warrants, at their fair value, into liabilities. The accounting standard requires that the fair value of these liabilities be re-measured at the end of every reporting period with the change in value over the period reported in the statement of operations. The difference between the amount the warrants were originally recorded in the financial statements and the fair value of the instruments on January 1, 2009 was considered a cumulative effect of a change in accounting principle and required an adjustment to the opening balance of retained earnings and a reduction in additional paid-in capital in the amount of $8,498 and $24,235, respectively. The derivative liability as of January 1, 2009 was $15,736. These amounts have been adjusted for the errors noted in fair value computations. See Note 13 "Correction of errors " for further details . The common shares indexed to the derivative financial instruments used in the calculation of the fair value and recorded as liabilities at January 1, 2009 and September 30, 2009 were 5,806,230 and 4,906,265, 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 increased from 2,886,038 to 4,906,265.

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

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-Merton ("BSM") option valuation technique, 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 BSM) 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 application of the new accounting standard resulted in a non-cash derivative expense of $8,449 in the third quarter of 2009. The application of the new accounting standard adjustment resulted in an offsetting $10,176 and $506 of derivative income in the first and second quarters of 2009, respectively, which will be reported in the 2009 annual financial reports. Taking into account the aggregate amounts that would have been recorded in the first and second quarters of 2009 for this adjustment, the company had an accumulated amount of $2,233 in non-cash derivative income for the nine months ending September 30, 2009. See Note 13 ("Correction of errors") for further details.

The following tables summarize the components of derivative liabilities as of September 30, 2009 and the re-measurement date, January 1, 2009:

	September 30, 2009	Re-measurement date January 1, 2009
Fair value of warrants with anti-dilution provisions	$ (13,503)	$ (15,736)
Significant assumptions (or ranges):		
Trading market values (1)	$ 9.91	$ 5.25
Term (years)	3.61 to 4.25	4.35 to 5.00
Volatility (1)	42.23%	101.98%
Risk-free rate (2)	1.45 to 2.31%	1.55%
Effective Exercise price (3)	$ 7.00	$ 5.92

Fair value hierarchy:

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

The effects on our income (expense) associated with changes in the fair values of our derivative financial instruments for the three and nine months ended September 30, 2009 was $(8,449) and $2,233, respectively.

See Note 13 "Correction of errors " , for a description the correction of an error related to the derivative liability.

(7) Stock Issuances

During the quarter ended March 31, 2009, we issued 562,476 shares of common stock. Of this amount we issued 8,820 shares from the exercise of stock options and received $25 in gross proceeds. In addition, we issued 90,073 shares for the acquisition of Reality, 300,539 shares for the acquisition of Kamera and 163,044 shares for the acquisition of Visual.

During the quarter ended June 30, 2009, we issued 65,623 shares of common stock. Of this amount, we issued 748 shares from the exercise of stock options and received $2 in gross proceeds. In addition, we issued 25,000 shares for the asset purchase agreement with Narrowstep, 34,733 shares for the repayment of loans and 5,142 shares for services.

During the quarter ended September 30, 2009, we issued 4,080,244 shares of common stock. Of this amount, we issued 4,004,000 shares in the public offering in August 2009, 52,632 shares for the acquisition of Visual, 10,559 shares for the assets acquired from Juzou, 8,960 shares for exercise of warrants and 4,093 shares for services.

In August 2009, we completed the sale of 4,554,000 shares of our common stock at a price of $7.00 per share in a public offering, 4,004,000 shares were sold by us and 550,000 shares were sold by certain existing, unaffiliated stockholders. The gross proceeds of the common stock sold by us were $28,028. We did not receive any proceeds from the sale of shares by the selling stockholders. We issued to the underwriters 44,067 warrants to purchase shares of common stock with an exercise price of $8.40 per share exercisable for a period of five years and were valued under the Black-Scholes-Merton method as $181. In connection with the public offering, we received net cash proceeds of approximately $26,090 after underwriting discounts, commissions and fees, legal fees and expenses, and other fees.

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

(8) Restructuring Charges

The Company recorded restructuring charges of $654 in the nine months ended September 30, 2009. This amount is comprised of employee termination costs related to the reorganization of the Company of $271 and facility closing costs of $382 related to the closing of one of the Melbourne, Australia offices and one of the Dubai, UAE offices.

The Company recorded restructuring charges of $3,053 in the nine months ended September 30, 2008. This amount is comprised of employee termination costs related to the reorganization of the Company of $2,716, contract settlement and facility closing costs of $337 related to the closing of the Clifton Park, New York office and the closing of one of the Melbourne, Australia offices, and vendor settlements related to the reorganization. Included in the employee termination costs are $2,397 related to the settlement of separation agreements.

(9) Other Non-Recurring Charges

The Company has recorded other non-recurring charges of $1,632 in the nine months ended September 30, 2009 related to the redundancy in staff and consultants during reorganization, corporate rebranding related to the reorganization, integration of acquired companies and assets, and legal and consulting fees related to potential fund raising.

The Company has recorded other non-recurring charges of $845 in the nine months ended September 30, 2008 related to the redundancy in staff and consultants for the transition of technology infrastructure during reorganization due to the centralizing of resources in Toronto, recruiting costs for the centralizing of resources in Toronto, legal fees for the acquisitions of Kamera and Sputnik, and corporate rebranding related to the reorganization.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

(10) Impairment of Property and Equipment

In March 2008, we decided to downsize our office in London and move to another location to reduce costs. This included removing and abandoning the leasehold improvements and furniture and fixtures in the former London office. Due to this office relocation, we recorded an impairment charge for certain property and equipment, which totaled $228, during the nine months ended September 30, 2008. This amount was recorded as a loss on impairment of property and equipment in the Statement of Operations.

(11) Segment Reporting

We have presented the operating segments for revenue, operating loss or income and assets and geographical location for revenue and assets below. We derive our revenue from two operating segments. These operating segments are presented on a worldwide basis and include: Digital Media Solutions and Professional Services.

Digital Media Solutions includes the comprehensive delivery of IP video software solutions, including SaaS fees, enterprise license fees, software usage fees, storage, set-up/support services, hardware components, content delivery, content syndication, and advertising-based monetization. Our IP digital asset management platform, branded as “VX”, allows for management of IP video assets for consumption on the computer browser, mobile devices and the IPTV set-top box enabled television set. Our software is generally hosted in our facilities, and delivered as a service, but we occasionally sell upfront enterprise licenses which allow for hosting and deployment of our VX suite at the client site.

Professional Services is designed to support and complement the Digital Media Solutions segment of our business, and includes technical integration services, interface design, branding, strategic planning, creative production, sponsorships, online marketing, media planning, data management and analytics.

The emphasis of our business is the Digital Media Solutions segment. As our operations continue to evolve, the Company will continue to regularly review the business to determine if there is a need to make changes to these reported segments.

The following table provides revenue and segment income (loss) from operations for each of the segments. Segment income (loss) from operations, as shown below, is the performance measure used by management to assess segment performance and excludes the effects of: stock-based compensation, amortization of intangible assets and corporate expenses. Corporate expenses consist of those costs not directly attributable to a segment, and include: salaries and benefits for our corporate executives, corporate governance costs, fees for professional service providers including audit, legal, tax, insurance, and other corporate expenses.

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Revenue:				
Digital Media Solutions	$ 10,180	$ 3,977	$ 27,954	$ 9,830
Professional Services	856	1,404	3,200	4,538
Total revenue	$ 11,036	$ 5,381	$ 31,154	$ 14,368
Operating (loss) income:				
Digital Media Solutions	$ 551	$ (1,440)	$ (637)	$ (7,046)
Professional Services	(39)	63	(92)	252
Corporate	(2,601)	(1,176)	(4,670)	(9,890)
Total operating (loss) income	$ (2,089)	$ (2,553)	$ (5,399)	$ (16,684)

	September 30, 2009	December 31, 2008
Assets:		
Digital Media Solutions	$ 25,202	$ 15,901
Professional Services	1,121	836
Corporate	38,715	24,572
Total assets	$ 65,038	$ 41,309

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

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Revenue:				
EMEA	$ 7,802	$ 1,917	$ 21,411	$ 4,156
AsiaPac	2,626	2,740	8,052	8,695
Americas	608	724	1,691	1,517
Total revenue	$ 11,036	$ 5,381	$ 31,154	$ 14,368

	September 30, 2009	December 31, 2008
Assets:		
EMEA	$ 19,887	$ 9,831
AsiaPac	3,793	2,786
Americas	2,643	4,120
Corporate	38,715	24,572
Total assets	$ 65,038	$ 41,309

KIT DIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(Unaudited)

(12) Software license agreement

In the first quarter of 2009, we sold a non-exclusive, perpetual, non-transferable, non-assignable and non-sublicenseable, worldwide license to use our technology for the sole purpose of providing online video services to this non-related party's customers for a license fee of $1,500. We also are charging an annual maintenance fee of 18% of the license fee. The license fee was recorded in the income statement as "Revenue" in the first quarter of 2009 and the maintenance fee is being recognized in revenue on a monthly basis. In the first quarter of 2009, we purchased a non-exclusive, perpetual, non-transferable, non-assignable and non-sublicenseable, license to use the software from this same non-related party to power search and related videos within our VX Application and player of our owned and licensed video content or our customer's video content for a license fee of $1,500 and an annual support and maintenance fee of $270. The license fee was recorded in the balance sheet in "Software, net" and is being amortized over two years. The annual support and maintenance fee is being recorded in the income statement as expense on a monthly basis.

(13) Correction of Errors

Our previously issued financial statements have been corrected for the following;

The acquisition of the remaining 49% non-controlling interest in March 2009 was accounted for using purchase method and $867 was recorded as goodwill as of March 31, 2009 and June 30, 2009. The acquisition of the non-controlling interest should have been recorded as an equity transaction as a reduction in additional paid in capital which has now been corrected as of September 30, 2009 in the consolidated balance sheets.

An adjustment has been made on September 30, 2009 for an increase in the common shares indexed to the financial instruments for both warrants that were mistakenly not included and for a change in the calculation of the fair value for the anti-dilution provision that increases the common shares indexed to the financial instruments. As of January 1, 2009, the effect of the correction increased the derivative liability by $10,066 to $15,736, decreased retained earnings by $6,082 and decreased additional paid-in capital by $3,984. As of March 31, 2009, the effect of the correction decreased the derivative liability by $8,226 and increased the derivative income by $8,226, in addition to the corrections above as of January 1, 2009 to the consolidated balance sheet. As of March 31, 2009, the corrected consolidated balance sheet has derivative liability of $5,560 and total liabilities of $26,050. In the three months ended March 31, 2009, the corrected consolidated statement of operations has a derivative income of $10,176 and the net income available to common shareholders of $8,394, with a basic net income per common share of $1.96 and diluted net income per common share of $1.88. As of June 30, 2009, the correction increased the derivative liability by $1,120 and increased the derivative expense by $1,120, in addition to the corrections above as of January 1, 2009 and March 31, 2009 to the consolidated balance sheets. As of June 30, 2009, the corrected consolidated balance sheet has derivative liability of $5,054 and total liabilities of $30,892. In the three months ended June 30, 2009, the corrected consolidated statement of operations has a derivative income of $506 and the net loss available to common shareholders of $1,610, with a basic and diluted net loss per common share of $(0.37). In the six months ended June 30, 2009, the corrected consolidated statement of operations has a derivative income of $10,682 and the net income available to common shareholders of $6,784, with a basic and diluted net income per common share of $1.50. Taking into account the aggregate derivative income (loss) adjustments that would have been recorded in the three months ended March 31, 2009 and June 30, 2009, the derivative income for the nine months ended September 30, 2009 is $2,233.

The derivative income (expense) for the three and nine months ended September 30, 2009 is based on changes in the fair values, adjusted for the correction of above mentioned errors. Management believes these correction of errors are not material to the financial position for the nine months ended September 30, 2009.

(14) Related Party Transactions

In December 2007, we entered into an agreement with KIT Capital, a company beneficially controlled and led by Kaleil Isaza Tuzman, our Chairman and Chief Executive Officer, under which KIT Capital has provided us managerial services. The total amount paid to KIT Capital and included in our results of operations in the nine months ended September 30, 2009 and 2008 were $390 and $438, respectively.

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

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

(15) Subsequent Events

On September 30, 2009, KIT digital, KIT Acquisition Corporation, a Delaware corporation and wholly-owned subsidiary of KIT digital, The FeedRoom, Inc., a Delaware corporation (“FeedRoom”) and certain stockholders of FeedRoom, entered into a definitive Agreement and Plan of Merger (the “Merger Agreement”). Under the Merger Agreement, KIT Acquisition Corporation merged with and into FeedRoom and as a result of such merger KIT digital became the sole stockholder of FeedRoom as of the effective date of October 1, 2009. FeedRoom stockholders received in exchange for their capital stock in FeedRoom 1,312,000 shares of KIT digital common stock (the “Merger Shares”), which reflects 948,636 shares of KIT digital common stock issued for the acquisition of FeedRoom and an additional 363,636 shares of KIT digital common stock issued in exchange for a $4,000 indirect investment in KIT digital through the purchase of FeedRoom Series F Preferred Stock by certain stockholders of FeedRoom immediately prior to the closing of the merger. The KIT digital common stock was sold to such stockholders at an effective price of $11.00 per share. In accordance with the Merger Agreement, the Merger Shares were delivered as follows: (i) 937,398 shares of KIT common stock delivered to the stockholders of FeedRoom; and (ii) a “holdback amount” of 374,602 shares of KIT common stock, which will be used by KIT digital to satisfy any indemnity claims in accordance with the Merger Agreement, the balance of which will be payable by KIT digital one year after the closing. Included in “Receivable from FeedRoom” in the consolidated balance sheet is $4,736 which represents the payment of FeedRoom’s debt in advance of the closing.

On October 5, 2009, KIT digital and International Management Group GmbH (“IMG”), a company organized under the laws of Germany, entered into a definitive Share Purchase Agreement (the “Share Purchase Agreement”). Under the Share Purchase Agreement, at the closing on October 9, 2009, KIT digital acquired all of the issued and outstanding shares of capital stock of Nunet AG, a stock corporation organized under the laws of Germany, for an aggregate purchase price of EUR 7,647, consisting of: a cash payment of EUR 5,400 paid at closing; a convertible promissory note of EUR 1,663 due March 31, 2011; and another convertible promissory note of EUR 584 due June 30, 2010. These convertible promissory notes have since been converted into 339,540 shares of common stock and purchased by an independent investor. An additional EUR 300 was paid to IMG at closing to cover brokers, introducing parties, management incentives and other transaction-related costs.

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 devices and IPTV networks. Our core digital asset management software suite, marketed under the "KIT VX" brand, includes online and mobile video players, ingestion and trans-coding video content for Internet and mobile devices, IPTV set-top box development, IPTV recording and editing suite deployment, video content localization and syndication, digital rights management, hosting, storage, content delivery and content syndication. We currently provide IP video solutions internationally through our offices in Dubai, Melbourne (Australia), Prague, Toronto, Stockholm, New York, London, Cairo, Singapore, Buenos Aires and Bogotá. To support IPTV enablement, we provide technical integration and integrated marketing solutions, including interface design services, branding, online marketing, data management and analytics.

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 nine months ended September 30, 2009 and 2008. The following discussion should be read in conjunction with the information set forth in the consolidated financial statements and the related notes thereto appearing elsewhere in this report.

As a component of our management's review of the financial statements, our management recently reviewed and modified the categorization of costs in the Consolidated Statements of Operations. Management believes these changes in classifications present additional information to the readers of the financial statements and previously reported amounts were re-categorized to conform to the current presentation.

Results of Operations - Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008

Revenue . Consolidated revenue increased by $5,655 from $5,381 for the three months ended September 30, 2008 to $11,036 for the three months ended September 30, 2009, an increase of 105%.

Digital Media Solutions segment revenue increased by $6,203 from $3,977 for the three months ended September 30, 2008 to $10,180 for the three months ended September 30, 2009, an increase of 156%. The increase was principally due to an increase in customers, increased spending by existing customers and revenue from the acquired companies not included in prior period results.

Professional Services segment revenue decreased by $548 from $1,404 for the three months ended September 30, 2008 to $856 for the three months ended September 30, 2009, a decrease of 39%. The decrease was primarily due to a greater emphasis on the growth in the Digital Media Solutions segment and a decrease in spending by existing clients.

Variable and Direct Third Party Costs

Cost of Goods and Services . Cost of goods and services of $4,550 represents the costs for the supply of IPTV solutions, services and components; no expenses were classified as such prior to the acquisition of Visual in October 2008.

Hosting, Delivery and Reporting . These costs decreased by $168 from $499 for the three months ended September 30, 2008 to $331 for the three months ended September 30, 2009, a decrease of 34%. These costs decreased primarily due to a decrease in the cost of delivering content.

Content Costs . Content costs decreased by $579 from $866 for the three months ended September 30, 2008 to $287 for the three months ended September 30, 2009, a decrease of 67%. The decrease is primarily due to the elimination of monthly minimum guarantees with many content providers and the reduction in content providers.

Direct Third Party Creative Production Costs . Direct third party creative production costs decreased by $176 from $759 for the three months ended September 30, 2008 to $583 for the three months ended September 30, 2009, a decrease of 23% attributable to lower costs in the Professional Services segment associated with the decrease in the revenue of that segment.

General and Administrative Expenses

Compensation, Travel and Associated Costs (Exclusive of Non-Cash Stock-Based Compensation) . These costs decreased by $391 from $3,701 for the three months ended September 30, 2008 to $3,310 for the three months ended September 30, 2009, a decrease of 11%. The decrease was primarily due to the broad cost cutting measures that have been implemented during 2008 and 2009 which included a reduction in headcount and salary levels offset in part by increases due to our business acquisitions.

Non-Cash Stock-Based Compensation . Non-cash stock-based compensation expense increased 185% by $348, from $188 for the three months ended September 30, 2008 to $536 for the three months ended September 30, 2009. This increase is due to more options being issued subsequent to September 2008.

Legal, Accounting, Audit and Other Professional Services Fees . These expenses decreased by $137 from $291 for the three months ended September 30, 2008 to $154 for the three months ended September 30, 2009, a decrease of 47%, primarily due to lower legal fees.

Office, Marketing and Other Corporate Costs . These expenses increased by $60 from $834 for the three months ended September 30, 2008 to $894 for the three months ended September 30, 2009, a increase of 7%. The increase was primarily due to the increases related to the acquisition of Visual in October 2008.

Merger and Acquisition and Investor Relation Expenses . Merger and acquisition and certain investor relation expenses were $522 for the three months ended September 30, 2009 and there were no such expenses in the three months ended September 30, 2008, which is primarily due to the new accounting pronouncement.

Depreciation and Amortization . Depreciation and amortization expense increased 125% by $543 from $434 for the three months ended September 30, 2008 to $977 for the three months ended September 30, 2009. The increase is primarily attributed to the amortization of intangible assets and depreciation of long lived assets acquired as part of the acquisitions of Kamera in May 2008 and Visual in October 2008.

Restructuring Charges . Restructuring charges increased 110% by $178, from $162 for the three months ended September 30, 2008 to $340 for the three months ended September 30, 2009. These charges increased primarily due to the increase in facility closing costs and contract settlements.

Other Non-Recurring Charges . Other non-recurring charges increased 221% by $441 from $200 for the three months ended September 30, 2008 to $641 for the three months ended September 30, 2009. These charges have increased primarily due to the inclusion of costs for the integration of systems and operations in 2009.

Interest Income . Interest income decreased by $10 from $37 for the three months ended September 30, 2008 to $27 for the three months ended September 30, 2009, a decrease of 27%.

Interest Expense . Interest expense increased by $93 from $31 for the three months ended September 30, 2008 to $124 for the three months ended September 30, 2009. This increase was primarily due to the issuance of a $1,500 senior secured note in November 2008 and the addition of debt and capital lease obligations acquired in the acquisition of Visual in October 2008

Amortization of Deferred Financing Costs and Debt Discount . Amortization of deferred financing costs and debt discount were $562 for the three months ended September 30, 2009. These costs resulted from the issuance of $1,500 of a senior secured note in November 2008 and interim convertible promissory notes payable of $3,350 to KIT Media Ltd. and $350 to Granahan McCourt Capital, LLC during the quarters ended June 30, 2009 and September 30, 2009. The convertible promissory notes were repaid from the proceeds of the public offering in August 2009 and hence any remaining deferred financing costs or debt discount was written off.

Derivative expense . Derivative expense was $8,449 for the three months ended September 30, 2009. The company recorded an increase in the fair value of warrants containing reset provisions in the three months ended September 30, 2009.

Other Income/(Expense) . Other income decreased by $57. Other income was $8 for the three months ended September 30, 2008 as compared to other income of $65 for the three months ended September 30, 2009. This increase was primarily due to foreign currency gain.

Net Loss Available to Common Shareholders . As a result of the factors described above, we reported net loss available to common shareholders of $11,134 for the three months ended September 30, 2009 compared to net loss of $2,555 for the three months ended September 30, 2008, an increase in net loss of $8,579, or 336%. The increase was primarily due to the effect of the derivative expense which was not in the September 30, 2008 amounts.

Results of Operations - Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

Revenue . Consolidated revenue increased by $16,786 from $14,368 for the nine months ended September 30, 2008 to $31,154 for the nine months ended September 30, 2009, an increase of 117%.

Digital Media Solutions segment revenue increased by $18,124 from $9,830 for the nine months ended September 30, 2008 to $27,954 for the nine months ended September 30, 2009, an increase of 184%. The increase was principally due to an increase in customers, increased spending by existing customers, and revenue from the acquired companies not included in prior period results.

Professional Services segment revenue decreased by $1,338 from $4,538 for the nine months ended September 30, 2008 to $3,200 for the nine months ended September 30, 2009, a decrease of 29%. The decrease was primarily due to a greater emphasis on the growth in the Digital Media Solutions segment and a decrease in spending by existing clients.

Variable and Direct Third Party Costs

Cost of Goods and Services . Cost of goods and services of $11,662 represents the costs for the supply of IPTV solutions, services and components; no expenses were classified as such prior to the acquisition of Visual in October 2008.

Hosting, Delivery and Reporting . These costs decreased by $574 from $1,601 for the nine months ended September 30, 2008 to $1,027 for the nine months ended September 30, 2009, a decrease of 36%. These costs decreased primarily due to a decrease in the cost of delivering content and the establishment of an internal datacenter which reduced our reliance on third party suppliers.

Content Costs . Content costs decreased by $580 from $1,685 for the three months ended September 30, 2008 to $1,105 for the three months ended September 30, 2009, a decrease of 34%. The decrease is primarily due to the elimination of monthly minimum guarantees with many content providers and the reduction in content providers.

Direct Third Party Creative Production Costs . Direct third party creative production costs decreased by $191 from $2,732 for the nine months ended September 30, 2008 to $2,541 for the nine months ended September 30, 2009, a decrease of 7% attributable to lower costs in the Professional Services segment associated with the decrease in the revenue of that segment.

General and Administrative Expenses

Compensation, Travel and Associated Costs (Exclusive of Non-Cash Stock-Based Compensation) . These costs decreased by $2,176 from $12,108 for the nine months ended September 30, 2008 to $9,932 for the nine months ended September 30, 2009, a decrease of 18%. The decrease was primarily due to the broad cost cutting measures that have been implemented during 2008 and 2009 which included a reduction in headcount and salary levels offset in part by increases due to our business acquisitions.

Non-Cash Stock-Based Compensation . Non-cash stock-based compensation expense decreased 74% by $3,174, from $4,262 for the nine months ended September 30, 2008 to $1,088 for the nine months ended September 30, 2009.

Legal, Accounting, Audit and Other Professional Services Fees . These expenses decreased by $321 from $905 for the nine months ended September 30, 2008 to $584 for the nine months ended September 30, 2009, a decrease of 35%, primarily due to lower legal fees.

Office, Marketing and Other Corporate Costs . These expenses decreased by $93 from $2,600 for the nine months ended September 30, 2008 to $2,507 for the nine months ended September 30, 2009, a decrease of 4%. The decrease was primarily due to the broad cost cutting measures begun in the first quarter of 2008 and includes a reduction in marketing related expenses.

Merger and Acquisition and Investor Relation Expenses . Merger and acquisition and certain investor relation expenses were $1,251 for the nine months ended September 30, 2009 and there were no such expenses in the nine months ended September 30, 2008, primarily due to the new accounting pronouncement.

Depreciation and Amortization . Depreciation and amortization expense increased 149% by $1,537 from $1,033 for the nine months ended September 30, 2008 to $2,570 for the nine months ended September 30, 2009. These costs have increased primarily due to the increases related to the assets acquired in the acquisitions of Kamera in May 2008 and Visual in October 2008.

Restructuring Charges . Restructuring charges decreased 79% by $2,399, from $3,053 for the nine months ended September 30, 2008 to $654 for the nine months ended September 30, 2009. The decrease is primarily due to the termination costs of $2,397 related to the settlement of separation agreements in 2008.

Other Non-Recurring Charges . Other non-recurring charges increased 93% by $787 from $845 for the nine months ended September 30, 2008 to $1,632 for the nine months ended September 30, 2009. These charges have increased primarily due to the inclusion of costs for the integration of systems and operations in 2009.

Impairment of Property and Equipment . Impairment of property and equipment was $228 for the nine months ended September 30, 2008. In 2008, the impairment related to the abandonment of assets due to the downsizing of our London office.

Interest Income . Interest income decreased by $96 from $127 for the nine months ended September 30, 2008 to $31 for the nine months ended September 30, 2009, a decrease of 76%. This decrease was primarily due to the average level of cash and cash equivalents and lower interest rates.

Interest Expense . Interest expense increased by $356 from $85 for the nine months ended September 30, 2008 to $441 for the nine months ended September 30, 2009. This increase was primarily due to the issuance of a $1,500 senior secured note in November 2008 and the addition of debt and capital lease obligations acquired in the acquisition of Visual in October 2008

Amortization of Deferred Financing Costs and Debt Discount . Amortization of deferred financing costs and debt discount were $1,175 for the nine months ended September 30, 2009. These costs result from the issuance of $1,500 of a senior secured note in November 2008 and interim convertible promissory notes payable of $3,350 to KIT Media Ltd. and $350 to Granahan McCourt Capital, LLC during the quarters ended June 30, 2009 and September 30, 2009. The convertible promissory notes were repaid from the proceeds of the public offering in August 2009 and hence any remaining deferred financing costs or debt discount was written off.

Derivative income . Derivative income was $2,233 for the nine months ended September 30, 2009. The company recorded an increase in the fair value of warrants containing reset provisions in the nine months ended September 30, 2009.

Other Income/(Expense) . Other income increased by $265. Other income was $140 for the nine months ended September 30, 2008 as compared to other income of $405 for the nine months ended September 30, 2009. This increase was primarily due to the gain on settlement of a non-operating liability and a gain on the bargain purchase of Narrowstep.

Net Loss Available to Common Shareholders . As a result of the factors described above, we reported net loss available to common shareholders of $4,350 for the nine months ended September 30, 2009 compared to net loss of $16,512 for the nine months ended September 30, 2008, an improvement of $12,162, or 74%.

Liquidity and Capital Resources

As of September 30, 2009, we had cash and cash equivalents of $13,451 and a working capital of approximately $4,706, which if adjusted for the derivative liability which has a non-cash valuation of $13,503, becomes working capital of $18,209. Management anticipates that going-forward, KIT digital will generate sufficient cash flows from its operating activities to meet its capital requirements. In August 2009, we received net proceeds of approximately $26,090 from a public offering of 4,004,000 shares of common stock and will use these proceeds primarily to finance acquisitions, with a limited portion allocated to repay certain outstanding debts and for general corporate purposes. We believe that we have sufficient liquidity to finance our operational and acquisition plan for the next twelve months.

Net cash used by operating activities was $8,506 for the nine months ended September 30, 2009, compared to $11,089 for the nine months ended September 30, 2008, a decrease of $2,583, or 23%. The decrease in net cash used in operating activities is primarily related to an increase in revenues from clients, and the reduction in general and administrative costs due to the broad cost cutting measures that have been implemented during 2008 and 2009 which included a reduction in headcount and salary levels offset in part by increases due to our business acquisitions.

Net cash used by investing activities was $6,840 for the nine months ended September 30, 2009, compared to $10,082 for the nine months ended September 30, 2008, a decrease in net cash used in investing activities of $3,242. In 2009, this primarily consisted of cash paid in advance of Feedroom merger of $4,636, cash paid into an investment of $200, cash paid in acquisition of Visual of $480, purchase of software of $1,500 and purchase of property and equipment of $153. In 2008, this primarily consisted of the release of restricted cash of $100, cash paid for the completion of acquisition of Sputnik of $4,563, cash paid in acquisition of Kamera of $4,500 less cash received of $271, cash paid in acquisition of Morpheum of $790 less cash received of $141, and purchase of property and equipment of $774.

Net cash provided by financing activities was $23,392 for the nine months ended September 30, 2009, compared to net cash provided by financing activities of $17,195 for the nine months ended September 30, 2008. In 2009, this primarily consisted of proceeds from the public offering in August 2009 of $26,090, proceeds from issuance of secured notes of $849 less cash used in bank overdraft of $739, payments of senior secured note of $1,500, payments of senior secured notes of $557 and payments on capital leases of $778. In 2008, this primarily consisted of proceeds from the May 2008 private placement of $14,710, proceeds from liability to KIT Media, Ltd. of $2,500, cash provided by bank overdraft of $58, and payment of capital leases of $94.

Off-Balance Sheet Arrangements

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

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for the three and nine months ended September 30, 2009 and 2008. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

Critical Accounting Policies and Estimates

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make judgments and estimates. The basis for our estimates are historical experience and various assumptions that are believed to be reasonable under the circumstances, given the available information at the time of the estimate, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from the amounts estimated and recorded in our financial statements.

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

Revenue Recognition . We recognize revenue in accordance with the accounting standard which requires that four basic criteria be met before revenue can be recognized: (i) persuasive evidence that an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) product delivery has occurred or services have been rendered. We recognize revenue, net of sales taxes assessed by any governmental authority. Revenues are derived principally from the delivery of digital media solutions and professional services. Our revenues include fees charged for software-as-a-service ("SaaS"), enterprise licenses, software usage, storage, software set-up/support services, hardware components, content delivery, content syndication fees, advertising-based monetization and professional services. Revenue is recognized when the product and/or service has been provided to the customer. We may enter into agreements whereby we guarantee a minimum service level, or a minimum number of impressions, click-throughs or other criteria on our software platform's points of distribution for a specified period. To the extent these guarantees are not met, we may defer recognition of the corresponding revenue until guaranteed delivery levels are achieved.

Inventories . We value inventories at the lower of cost (first-in, first-out method) or market and are comprised of finished goods. On a quarterly basis, we review inventory quantities on hand and analyze the provision for excess and obsolete inventory based primarily on product age in inventory and our estimated sales forecast, which is based on sales history and anticipated future demand. Our estimates of future product demand may not be accurate and we may understate or overstate the provision required for excess and obsolete inventory. Accordingly, any significant unanticipated changes in demand could have a significant impact on the value of our inventory and results of operations. As of September 30, 2009, our reserve for excess and obsolete inventory was $145.

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. 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 feasible. We believe that no significant concentration of credit risk exists with respect to these investments.

Allowance for Doubtful Accounts . We maintain an allowance for doubtful accounts for estimated losses resulting from our customers not making their required payments. Based on historical information, we believe that our allowance is adequate. Changes in general economic, business and market conditions could result in an impairment in the ability of our customers to make their required payments, which would have an adverse effect on cash flows and our results of operations. The allowance for doubtful accounts is reviewed monthly and changes to the allowance are updated based on actual collection experience. We use a combination of the specific identification method and analysis of the aging of accounts receivable to establish an allowance for losses on accounts receivable. The allowance for doubtful accounts as of September 30, 2009 was $892.

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

Fair Value of Financial Instruments . On January 1, 2008, we adopted the standard that defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. This standard defines fair value as the amount that would be received upon sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy which prioritizes the types of inputs to valuation techniques that companies may use to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level1). The next highest priority is given to inputs other than quoted prices included 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.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

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

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

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

ITEM 4T. 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. There was no change to our internal controls or in other factors that could affect these controls during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

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.

None

ITEM 1A. RISK FACTORS.

There are no material changes in the risk factors previously disclosed in our annual report on Form 10-K for the year ended December 31, 2008.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

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

None

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS.

Exhibit No.	Description
31.1	Certification by Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
31.2	Certification by Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
32.1	Certification by Chief Executive Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2	Certification by Chief Financial Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KIT DIGITAL, INC.

Dated: November 19, 2009	By:	/s/ Kaleil Isaza Tuzman
		Kaleil Isaza Tuzman Chairman and Chief Executive Officer (principal executive officer)
Dated: November 19, 2009	By:	/s/ Robin Smyth
		Robin Smyth Chief Financial Officer (principal financial and accounting officer)

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL 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: November 19, 2009

/s/ Kaleil Isaza Tuzman

Kaleil Isaza Tuzman
Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL ACCOUNTING 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: November 19, 2009

/s/ Robin Smyth
Robin Smyth
Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION 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 September 30, 2009, 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: November 19, 2009

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

EXHIBIT 32.2

CERTIFICATION 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 September 30, 2009, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jonathan Hirst, 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: November 19, 2009

/s/ Robin Smyth
Robin Smyth
Chief Financial Officer

EXHIBIT IV

CURRENT REPORT ON FORM 8-K FILED BY KIT DIGITAL, INC. WITH THE SEC ON SEPTEMBER 11, 2009

EXHIBIT IV - FORM 8-K FILED ON SEPTEMBER 11, 2009

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 10, 2009

KIT DIGITAL, INC.
(Exact Name of Registrant as Specified in Charter)

Delaware	000-25659	11-3447894
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

168 Fifth Avenue, Suite 301 New York, New York	10010
(Address of principal executive offices)	(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4 (c) under the Exchange Act (17 CFR240.13e-4(c))

CURRENT REPORT ON FORM 8-K

KIT digital, Inc.

September 10, 2009

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

(b), (c) We announced on September 10, 2009, that Robin Smyth, a member of our board of directors since December 2003 and our chief financial officer, at times, from December 2003 through April 2009, will return to the position of chief financial officer effective September 28, 2009. Mr. Smyth will reassume the position currently held by Jonathan Hirst. For biographical information concerning Mr. Smyth, please see the section titled "Management" in our Final Prospectus dated August 12, 2009, filed with the U.S. Securities and Exchange Commission on August 13, 2009.

The information contained in our press release, dated September 10, 2009, a copy of which is attached hereto as Exhibit 99.1, is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits .

Exhibit No.	Description
99.1	Press release issued by KIT digital, Inc. on September 10, 2009.

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 hereunto duly authorized.

KIT DIGITAL, INC.

Date: September 11, 2009

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

E info@kitd.com W www.kitd.com

EXHIBIT 99.1

FOR IMMEDIATE RELEASE

KIT digital Moves Operational Headquarters to Prague; Makes Several New Executive Appointments

Prague, Czech Republic and Dubai, United Arab Emirates – September 10, 2009 – KIT digital, Inc. (NASDAQ: KITD), a leading global provider of Internet Protocol (IP) based video management technologies , has made several additions to its executive management team to coincide with the consolidation of administrative functions and the move of its global headquarters from Dubai, UAE to its current European head office and technical operations hub in Prague, Czech Republic.

A number of compelling factors contributed to the company's decision to consolidate its management operations in a centralized European location. The European zone now represents in excess of 50% of the company's revenue stream and Prague is already the company' s global technical operations and delivery hub—with over 50 technical development and operations professionals. Central Europe also affords a more practical location and time zone for expanding the company's global business, particularly in the western hemisphere—where IPTV systems and 3G/4G mobile networks are expanding rapidly.

The company's Dubai office will continue to operate as an important regional sales center covering the Middle East, Africa, and South Asia, as well as a center for management of certain global strategic partnerships and reselling agreements. While being based in Prague, KIT digital chairman and CEO Kaleil Isaza Tuzman will continue to spend significant time in Dubai on business and corporate development activities.

"In addition to the logistical considerations leading to our centralization of management functions in Prague, we see a long-term boom in mobile and online video in the Eurozone, and see this as an opportunity to further consolidate our clear market share leadership in the region," commented Gavin Campion, president of KIT digital. "Many global corporations have chosen Prague as their European IT hub in recent years, and for good reason. We believe it has the deepest pool of human talent in the audiovisual technology arena globally—at a very effective cost."

KIT digital executive management will begin working from the new headquarters by September 28, 2009, overseeing the company's main technical operations, sales and marketing activities, as well as corporate development and finance.

The move will build upon efforts to bolster and integrate the company's technical infrastructure in Prague, which have been ongoing since KIT digital's acquisition of Prague-based Visual Connection, a.s. in October 2008. Software development, video ingestion and signal capture, client deployment, technical support and integration services will now all be managed globally out of the new headquarters. KIT digital will maintain a team in Toronto, Canada for certain client support and research and development activities, and the company's Asia-Pacific hub in Melbourne, Australia will continue to provide creative and interface design services.

In conjunction with the relocation of its global headquarters to Europe, KIT digital has made several new appointments to its senior management team. Board member and company veteran Robin Smyth will return to the position of chief financial officer, effective September 28. Smyth will reassume the position currently held by Jonathan Hirst, who had stepped into the role when Smyth took a personal leave from the organization in April of this year. Smyth has held several key roles within KIT digital over the years. He was CFO from 2003 to 2006 and then spent 10 months establishing the UK operations before returning to the CFO position from 2007 until early 2009. Smyth has served on the board of directors of the company since 2003.

Kaleil Isaza Tuzman, KIT digital's CEO and chairman, commented: "We are delighted to welcome Robin back to the CFO position. He has contributed in ways large and small to the repositioning and growth of KIT digital's business in recent years. We are also grateful to Jonathan Hirst for shepherding us through a period of intensive integration and consolidation of operations, public offering of stock, and a NASDAQ listing—a period which marked an exciting turning point for our company. We know Jonathan will remain a friend of KIT digital, and we wish him great success in his next endeavor."

The company announced four other executive team member appointments, each of whom represent internal promotions and will be based in Prague. Additional professional biography information for these individuals is available at www.kit-digital.com/#whoweare.html .

Andy Steward has been appointed chief technology officer. Steward joined KIT digital in November 2008 and was previously head of EMEA (Europe, Middle East & Africa) operations for the company. As CTO, he will focus on developing and leading the global product development, technical services and client support teams. Steward brings more than 20 years of experience in delivery of enterprise class technology solutions and was most recently CEO and founder of online video broadcaster Juzou. The CTO function was formerly known as the chief operating officer position, which was held by Sean Coutts, who is leaving the company to remain with his family in Canada.

Barak Bar-Cohen has been appointed executive vice president of global business development, and will lead the company's sales and marketing efforts. Bar-Cohen joined the company in July 2008, and has been a key leader of KIT digital's sales team, with a focus on the company's IPTV set-top box product line and North American sales initiatives. Bar-Cohen has over 15 years of managerial and sales experience and was previously president of IP video company Narrowstep Inc. (the assets of which were acquired by KIT digital in April 2009). The EVP of business development position replaces the former chief marketing officer position, while including expanded client sales responsibilities.

Tomas Petru has been appointed head of the company's EMEA operations, assuming the position vacated by Steward. Petru joined the company in October 2008, when Visual Connection, of which he was CEO, was acquired by KIT digital. Petru is widely respected as a pioneer in digital video, having been active in the industry since 1994 and built Visual Connection to a leading market share position in Central Europe. Petru will apply his considerable experience in the region to drive KIT digital's expansion in EMEA, including the company's Dubai operations.

Daniel Goodfellow has been appointed to vice president of marketing and communications. Goodfellow joined the company in 2005, and has held a variety of client-facing and managerial positions on the marketing teams in both Melbourne and New York. Goodfellow was most recently director of marketing services for the North American region. Goodfellow has been working with major global brands to develop innovative marketing strategies throughout his career and will continue to apply this experience to KIT digital. He will work closely with Bar-Cohen on lead generation, branding and public relations activities.

Campion, continued: "We set out to assemble the best team of IP video specialists in the world and believe we have accomplished it with this new line up. The executive appointments of these proven leaders—and the fact that we will all be working together in our new headquarters—will serve to strengthen and focus our operations, positioning us to deliver the revenue growth and global market share expansion we are expecting in the months and years ahead."

About KIT digital

KIT digital (NASDAQ: KITD) is a leading, global provider of on-demand Internet Protocol (IP)-based video asset management solutions. Through its end-to-end software platform, "KIT VX," KIT digital enables enterprise clients to acquire, manage and distribute their video assets across the three screens of the computer Internet browser, mobile device and television via an IPTV set-top box. KIT digital clients' use of the VX platform ranges from end-consumer focused video distribution to internal corporate deployments, including corporate communications, human resources, training, security and surveillance. The KIT digital client base includes over 470 enterprise customers across 30 countries, including The Associated Press, Disney-ABC, Google, IMG Worldwide, Kmart, NASDAQ, News Corp, RCS, Sensis, Telefonica, and Verizon. KIT digital has principal offices in Prague, Melbourne (Australia), New York, Toronto, London and Dubai. For additional information, please visit www.kitd.com .

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EXHIBIT V

**CURRENT REPORT ON FORM 8-K FILED BY KIT DIGITAL, INC.
WITH THE SEC ON OCTOBER 2, 2009**

EXHIBIT V - FORM 8-K FILED ON OCTOBER 2, 2009

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 21, 2009

KIT DIGITAL, INC.
(Exact Name of Registrant as Specified in Charter)

Delaware	000-25659	11-3447894
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

168 Fifth Avenue, Suite 301 New York, New York	10010
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: +1 (212) 661-4111

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4 (c) under the Exchange Act (17 CFR240.13e-4(c))

CURRENT REPORT ON FORM 8-K

KIT digital, Inc.

September 21, 2009

Item 4.01. Changes in Registrant's Certifying Accountant.

(a) On September 21, 2009, MSPC, Certified Public Accountants and Advisors, A Professional Corporation ("MSPC"), was dismissed as the independent registered public accounting firm engaged to audit the financial statements of KIT digital, Inc. and subsidiaries (the "Company"). The Audit Committee of the Board of Directors of the Company approved the change. MSPC performed the audit of the Company's financial statements for the fiscal years ended December 31, 2007 and December 31, 2008. During these periods and the subsequent interim period prior to its dismissal, there were no disagreements with MSPC on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to MSPC's satisfaction, would have caused MSPC to make reference to the subject matter of the disagreements in connection with MSPC's reports, nor were there any "reportable events," as such term is defined in Item 304(a)(1)(v) of Regulation S-K, promulgated under the Securities Exchange Act of 1934, as amended ("Regulation S-K"), except that the audit reports for the fiscal years ended December 31, 2007 and 2008, contained an explanatory paragraph that stated: "The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company has suffered recurring losses and negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also discussed in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty."

The audit reports of MSPC for the Company's fiscal years ended December 31, 2007 and December 31, 2008, did not contain an adverse opinion, or a disclaimer of opinion, or qualification or modification as to uncertainty, audit scope or accounting principles.

The Company has provided MSPC with a copy of this Current Report on Form 8-K and requested MSPC to furnish it with a letter addressed to the U.S. Securities and Exchange Commission stating whether it agrees with the statements made above by the Company. A copy of such letter, dated September 21, 2009, is filed as Exhibit 16.1 to this Form 8-K.

(b) On October 2, 2009, the Company engaged Grant Thornton LLP as its independent registered public accounting firm to audit the Company's financial statements. During the two most recent fiscal years and through October 2, 2009, the Company had not consulted with Grant Thornton LLP with respect to: (i) the application of accounting principles to a specified transaction, either completed or proposed; (ii) the type of audit opinion that might be rendered on the Company's financial statements; or (iii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(v) of Regulation S-K) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K). The engagement of Grant Thornton LLP was recommended and approved by the Audit Committee of the Company's Board of Directors.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits .

Exhibit No.	Description
16.1	Letter of MSPC to the U.S. Securities and Exchange Commission, dated September 21, 2009, regarding change in certifying accountant.

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 hereunto duly authorized.

KIT DIGITAL, INC.

Date: October 2, 2009

By: /s/ Kaleil Isaza Tuzman

Kaleil Isaza Tuzman
Chairman and Chief Executive Officer

EXHIBIT 16.1

September 21, 2009

U.S. Securities and Exchange Commission
100 F Street N.E.
Washington, D.C. 20549

We have been furnished with a copy of the response to Item 4.01 of Form 8-K for the event that occurred on September 21, 2009, to be filed by our former client, KIT digital, Inc. We agree with the statements made in response to that Item insofar as they relate to our Firm.

Very truly yours,

MSPC

MSPC
Certified Public Accountants and Advisors,
A Professional Corporation

cc: Mr. Steven G. Felsher, Audit Committee Chair

EXHIBIT VI

CURRENT REPORT ON FORM 8-K FILED BY KIT DIGITAL, INC.
WITH THE SEC ON OCTOBER 6, 2009

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 30, 2009

KIT DIGITAL, INC.

(Exact Name of Registrant as Specified in Charter)

Delaware	000-25659	11-3447894
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

168 Fifth Avenue, Suite 301 New York, New York	10010
(Address of principal executive offices)	(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4 (c) under the Exchange Act (17 CFR240.13e-4(c))

CURRENT REPORT ON FORM 8-K

KIT digital, Inc.

September 30, 2009

Item 2.01. Completion of Acquisition or Disposition of Assets.

Item 3.02. Unregistered Sales of Equity Securities.

On September 30, 2009, KIT digital, Inc., a Delaware corporation ("KIT digital"), KIT Acquisition Corporation, a Delaware corporation and wholly-owned subsidiary of KIT digital, The FeedRoom, Inc., a Delaware corporation ("FeedRoom") and certain stockholders of FeedRoom, entered into a definitive Agreement and Plan of Merger (the "Merger Agreement"). Under the Merger Agreement, at the closing of the transactions contemplated thereby, KIT Acquisition Corporation merged with and into FeedRoom and as a result of such merger KIT digital became the sole stockholder of FeedRoom. FeedRoom stockholders are entitled to receive in exchange for their capital stock in FeedRoom 1,312,000 shares of KIT digital common stock (the "Merger Shares"), which reflects 948,636 shares of KIT digital common stock to be issued for the acquisition of FeedRoom and an additional 363,636 shares of KIT digital common stock to be issued in exchange for a $4,000,000 indirect investment in KIT digital through the purchase of FeedRoom Series F Preferred Stock by certain stockholders of FeedRoom immediately prior to the closing of the merger. The KIT digital common stock was sold to such stockholders at an effective price of $11.00 per share. In accordance with the Merger Agreement, the Merger Shares are deliverable as follows: (i) 937,398 shares of KIT common stock will be delivered to the stockholders of FeedRoom not later than October 15, 2009; and (ii) a "holdback amount" of 374,602 shares of KIT common stock, which will be used by KIT digital to satisfy any indemnity claims in accordance with the Merger Agreement, the balance of which will be payable by KIT digital one year after the closing.

In connection with the merger, stockholders of FeedRoom receiving Merger Shares entered into a Stockholders Agreement (the "Stockholders Agreement") with KIT digital and Kaleil Isaza Tuzman, KIT digital's Chairman and Chief Executive Officer, pursuant to which all Merger Shares will be subject to resale restrictions for a period of up to 18 months following the closing. Mr. Isaza Tuzman agreed pursuant to this agreement to cause KIT Media Ltd. to restrict the resale of a number of shares of KIT common stock equal to the number of Merger Shares restricted from resale pursuant to the Merger Agreement.

FeedRoom, headquartered in New York, New York, is engaged in the business of offering online video solutions for corporations, government agencies, and media companies; services, such as broadband video distribution for Web, search engines, and podcasting; broadband video encoding, management, and delivery; broadband video application design and development; performance reporting; media advertising services; subscription and registration tools.

The purchase price was determined as a result of arm's-length negotiations between the parties. The foregoing description of the Merger does not purport to be complete and is qualified in its entirety by reference to the full text of both the Merger Agreement and the Stockholders Agreement, a copy of each of which is attached hereto as Exhibit 2.1 and Exhibit 4.1, respectively, and each of which is incorporated herein in its entirety by reference. The securities offered in the Merger have not been registered under the Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

KIT digital had no previous relationship or association with FeedRoom. There are presently no significant changes anticipated in the business or product lines of either KIT digital or FeedRoom.

KIT digital announced the closing of the acquisition in a press release issued on October 5, 2009, a copy of which is attached hereto as Exhibit 99.1 and is incorporated in its entirety by reference.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired . In accordance with Item 9.01(a), the financial statements of The FeedRoom, Inc. shall be provided not later than December 16, 2009.

(b) Pro Forma Financial Information . In accordance with Item 9.01(b), the pro forma financial information shall be provided not later than December 16, 2009.

(d) Exhibits . The exhibits listed in the following Exhibit Index are filed as part of this current report.

Exhibit No.	Description
[…]	
99.1	Press release issued by KIT digital, Inc. on October 5, 2009, announcing the acquisition of The FeedRoom, Inc. and other matters.

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 hereunto duly authorized.

KIT DIGITAL, INC.

Date: October 6, 2009

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

EXHIBIT 99.1

FOR IMMEDIATE RELEASE

KIT digital Expands Leadership in Enterprise IP Video Management with Acquisitions of Nunet and The FeedRoom

Management to Host Press Conference Today at 15:30 CET at the MIPCOM Conference in Cannes, France, and Host Investor Conference Call on Tuesday, October 6 at 10:00 a.m. ET

PRAGUE, Czech Republic – October 5, 2009 – KIT digital, Inc. (NASDAQ: KITD), a leading global provider of on-demand software solutions for managing and monetizing Internet Protocol (IP)-based video assets, has executed separate definitive agreements to acquire two of its leading competitors, Nunet AG of Cologne, Germany and The FeedRoom, Inc., based in New York City.

Nunet was acquired from IMG Worldwide, Inc. and is considered a premier global provider in the management and delivery of video on mobile devices, while The FeedRoom is a venture capital-backed, privately-held market leader in live video and digital asset management for corporations.

"Nunet and The FeedRoom complement and substantially expand our client base, core capabilities and our commitment to serving video to the 'three screens' of the mobile device, browser and television through an IP set-top-box," said KIT digital's chairman and CEO, Kaleil Isaza Tuzman. "We expect these acquisitions to be immediately accretive to our financial results and provide substantial synergies in terms of business development, platform technology, geographical footprint and overall growth potential."

The acquisition of Nunet adds a number of major international clients to the KIT digital roster. A wide range of global mobile network operators use its MobileTV digital asset management system, including Mobilkom, Proximus, SFR, Vodacom and Vodafone Group. Nunet also works with major broadcasters and content producers like Discovery Channel, Eurosport International, Fashion TV, IMG Worldwide and MTV Networks.

The FeedRoom dramatically expands KIT digital's presence in North America through the addition of more than 80 enterprise customers, including Barnes & Noble, Best Buy, Bristol-Myers Squibb, BusinessWeek, General Motors, Herbalife, Hewlett Packard, Honeywell, Intel, Metlife and the U.S. Department of Defense.

The FeedRoom acquisition enhances KIT digital's VX IP video management platform through the integration of key features of The FeedRoom's 'Studio' software, including an advanced management, reporting, and analytics console. In turn, The FeedRoom clients will gain access to the advanced software features of VX, including delivery of IP video to mobile devices and IP-enabled TV set-top-boxes, as well as enhanced geographical targeting and search engine optimization tools.

"We see a great opportunity for cross-marketing Nunet's MobileTV asset management capabilities as part of an expanded 'VX2' IP video management offering to our newly combined customer base," notes Gavin Campion, president of KIT digital. "This customer base includes many brands which use IP video as part of their external marketing and merchandising programs, human resources function, corporate communications, and business operations — all 'back-end' corporate verticals we view as significant growth opportunities in the quarters and years ahead."

Initially, the two acquisitions are expected to add $17.5 million of current, annualized revenues from core IP video-based services, and more than $4.5 million in annualized EBITDA to KIT digital. Over 75% of the newly acquired revenues are recurring and subject to long-term contracts. In January 2009, KIT digital's management said they expected to generate at least $40 million in revenue with approximately 10% operating margin for the year. This guidance was reflective of KIT digital's core business at the time and does not take into account the effect of the acquisitions of Nunet and The FeedRoom.

The acquisitions also involved the appointment of several Nunet and FeedRoom executives to KIT digital's senior management team. Nunet has 56 employees, who will remain based in Cologne under the new ownership. Many of The FeedRoom's 53 employees will join KIT digital's operations in New York City, while The FeedRoom's offices in Seattle and Boston will be added to the KIT digital network.

Isaza Tuzman added: "During our recent registered public stock offering and NASDAQ listing process we made it clear that the net proceeds of the offering would be used for accretive acquisitions that would expand our geographical and customer reach, and further establish our leadership position in IP video management for the enterprise. We fulfilled our promise by completing these acquisitions quickly and efficiently, and have already identified operational synergies, a combined leadership team, and immediate plans for platform technology integration. All of this forms the basis for strong growth, while delivering an enhanced IP video experience to our customers and their end-users."

Aggregate Acquisition Terms
(All figures indicated in this release are in U.S. dollars. An exchange rate of 1.457 EUR/USD was used when converting from Euros.)

The aggregate consideration paid for Nunet and The FeedRoom was approximately $20.9 million (based on the closing market price of KIT digital common stock on Friday, October 2, 2009), of which $9.8 million was paid in stock, $7.9 million was paid in cash and $3.3 million of debt was assumed in the form of a convertible promissory note.

In total, KIT digital will issue 1,312,000 shares as a result of the two transactions, comprised of 948,636 shares issued for 100% of the outstanding shares of The FeedRoom, and 363,364 shares issued in exchange for $4.0 million of cash invested in KIT digital common stock by The FeedRoom's controlling shareholders, at an implied price of $11 per share. All of the shares issued in connection with The FeedRoom transaction will be subject to an agreement restricting the sale of those shares for 18 months.

KIT digital chairman and CEO Kaleil Isaza Tuzman also agreed to an 18-month lock-up for 1,312,000 of his current beneficially owned shares in connection with The FeedRoom transaction, and acted as a personal financial guarantor to the convertible promissory note in the Nunet transaction.

Simultaneous with the acquisitions of Nunet and The FeedRoom, KIT digital reached separate agreements to extinguish all past and future contingent earn-out obligations related to the May 2008 acquisition of Kamera Content AB and the October 2008 acquisition of Visual Connection, a.s., comprising a total cash payment of $1.7 million and the issuance of 163,437 restricted shares to the former shareholders of Kamera and Visual Connection. Neither the Nunet nor The FeedRoom acquisitions involve any earn-out or contingent liabilities.

Following these acquisitions and the settlement of earn-out payments, management estimates that KIT digital will have approximately 10.3 million common shares outstanding and approximately $7.0 million of cash. This includes payment of all deal-related expenses and the incurrence of restructuring and severance charges related to the two acquisitions.

In light of these acquisitions expanding KIT digital's global footprint, the company identified the need for an international auditing firm with local practice capabilities in all its core markets, and on October 2, 2009 it appointed Grant Thornton LLP as its new independent public auditor, replacing MSPC. The company also filed a Form S-3 shelf registration today to provide flexibility in future strategic development activity.

Robin Smyth, chief financial officer of KIT digital, commented, "In addition to completing the Nunet and FeedRoom acquisitions, we have used this post-funding and NASDAQ listing period to fulfill our promise to eliminate contingent earn-out liabilities and select an international auditing firm which can grow along with our global business. We have a strong balance sheet and highly capable administrative supports, providing us the foundation to take the company to the next level of growth."

Nunet Acquisition Terms
KIT digital acquired Nunet from IMG Worldwide for approximately $11.1 million, comprised of $7.9 million in cash and $3.3 million in the assumption of a convertible promissory note issued by KIT digital. At the sole election of KIT digital, the promissory note may be converted into stock or paid in cash installments over 18 months starting in January 2010 at a 6.5% interest rate. Isaza Tuzman acted as a personal guarantor of the promissory note.

The acquisition of Nunet is expected to be immediately accretive based on an annualized recurring revenue stream of approximately $11.5 million and over $2.3 million of annualized EBITDA (prior to merger-related synergies).

As part of the acquisition, IMG Worldwide and KIT digital will enter into a long-term commercial contract, under which KIT digital will continue to provide IMG digital media services.

"Although IMG is focused on its core competencies and shedding assets that don't fit with our overall strategy, selling Nunet was a difficult decision," said Carmi Zlotnik, head of IMG media operations. "We believe in the Nunet team and its future prospects, and are happy to have found a great home for Nunet with market leader KIT digital—and look forward to working with the merged entity in the future."

"KIT digital's global presence and commitment to enterprise IP video management made this acquisition superior in our view to other purchase offers and the previously considered management buy-out of Nunet," said Arnd Froehlich, Nunet co-founder and CEO. "We are excited to be teaming up with the clear leader in the industry, and feel very confident about working together to serve our valued customers."

Nunet has invested an estimated $22 million in its technology platform since its inception in 1997.

The FeedRoom Acquisition Terms
KIT digital acquired The FeedRoom for approximately 948,636 shares of KIT digital common stock, valued at approximately $9.8 million using the closing market price on Friday, October 2, 2009.

The FeedRoom's annualized revenue is estimated at more than $6 million. The acquisition is cash-flow positive to KIT digital due to synergies in G&A expenses realized immediately prior to and upon closing, with projected annual EBITDA of more than $2.2 million.

As part of the transaction, The FeedRoom's controlling shareholders — NewSpring Ventures, BEV Capital and Velocity Equity Partners — invested $4.0 million in KIT digital common shares, at a price of $11 per share, through the conversion of The FeedRoom Series F Preferred Shares purchased at closing.

"KIT digital and The FeedRoom share a common vision to be the provider of choice for the large corporate or government client employing IP video," said Marc R. Lederman, general partner of NewSpring Capital and director of The FeedRoom. "From a strategic perspective, KIT digital's coordinated acquisition of The FeedRoom and Nunet assets is a coup. This combination underscores the first truly global, '3-screen' IP video platform company. We see significant upside for our investors as the KIT management team continues to execute on the strategy embarked upon when they took over the enterprise in January 2008, which led us to re-invest in the business at closing."

The FeedRoom has invested an estimated $35 million in its technology platform since its inception in 1999.

Merriman Curhan Ford & Co. acted as strategic advisor to KIT digital on its acquisition of The FeedRoom.

Press Conference
KIT digital chairman and CEO Kaleil Isaza Tuzman and president Gavin Campion will host a press conference at MIPCOM in Cannes, France today to provide further details of the acquisitions.

When:	Monday, October 5, 2009 from 15:30-16:30 CET
Who:	Kaleil Isaza Tuzman, chairman and CEO of KIT digital Gavin Campion, president of KIT digital
Where:	Palais de Festivale, Cannes, France, in Auditorium G. Cocktails and appetizers will be served.
Contact:	Sharron Silvers, KCSA Public Relations Tel +1-212-896-1282 or +1-646-287-0433 ssilvers@kcsa.com

Investor Conference Call
Further details of the transaction will be also presented in an investor conference call hosted by the management of KIT digital at 10:00 a.m. Eastern time tomorrow:

When:	Tuesday, October 6, 2009 at 10:00 a.m. Eastern Standard Time (USA)
Who:	Kaleil Isaza Tuzman, chairman and CEO of KIT digital Gavin Campion, president of KIT digital Robin Smyth, chief financial officer of KIT digital
Details:	Dial-in number (North America): +1-800-895-0198 Dial-in number (outside of North America): +1-785-424-1053 Conference ID: 7KITDIGITAL
Contact:	Matt Glover, Liolios Group, Inc. Tel 1+949-574-3860 info@liolios.com

Please call the conference telephone number at least 5-10 minutes before the scheduled start to allow for processing time. If there is any difficulty connecting with the conference call, please contact the Liolios Group at +1-949-574-3860.

The conference call will be broadcast simultaneously and available for replay via the Investor Relations section of the company's website at www.kitd.com.

A replay of the call will be available after 2:30 p.m. Eastern time on the same day and until November 06, 2009.

Toll-free replay # (North America): + 1-800-283-8217
International replay # (outside of North America): + 1-402-220-0868
(No passcode required)

About Nunet AG
Established in 1997 in Cologne, Germany, Nunet is a global leader in video management for broadband, mobile and IPTV. Key clients include Mobilkom, Proximus, SFR, Vodacom and Vodafone Group, along with leading broadcasters and content producers, including Discovery Channel, Eurosport International, Fashion TV, IMG Worldwide and MTV Networks.. In 2004, Nunet developed Mobile TV, launching the first six channels for in November that year. In 2005, Nunet rolled out Mobile TV across multiple international markets. Today, Nunet runs more than 300 Mobile TV channels in 20 territories. IMG took 100% ownership of Nunet on January 1, 2007. For additional information, go to www.nunet.de .

About The FeedRoom
Established in 1999 in New York City, The FeedRoom is a pioneer in online video communications, and a market leader in live video and digital asset management. With an unparalleled commitment to customer service, The FeedRoom provides flexible online solutions that optimize business and marketing communications for the enterprise, government and media. Industry-leading organizations like Autodesk, Barnes & Noble, Boeing, Bristol-Myers Squibb, Hewlett-Packard, Metlife and The Pentagon rely on The FeedRoom’s expertise to help engage audiences, build brands, monetize content and manage digital media assets more efficiently. For additional information, go to www.feedroom.com .

About KIT digital, Inc.
KIT digital (NASDAQ: KITD) is a leading, global provider of on-demand Internet Protocol (IP)-based video asset management solutions. Through its end-to-end software platform, "KIT VX," KIT digital enables enterprise clients to acquire, manage and distribute their video assets across the three screens of the computer Internet browser, mobile device and television via an IPTV set-top box. KIT digital clients' use of the VX platform ranges from end-consumer focused video distribution to internal corporate deployments, including corporate communications, human resources, training, security and surveillance. The KIT digital client base includes over 470 enterprise customers across 30+ countries, including The Associated Press, Disney-ABC, Google, IMG Worldwide, Kmart, NASDAQ, News Corp, RCS, Sensis, Telefonica, and Verizon. KIT digital has principal offices in Prague, Melbourne (Australia), New York, Toronto, London and Dubai. For additional information, please visit www.kitd.com .

KIT digital Forward-Looking Statement
This press release contains certain "forward-looking statements" related to the businesses of KIT digital, Inc. which can be identified by the use of forward-looking terminology such as “anticipates”, "believes", “estimates”, "expects" or similar expressions. Such forward-looking statements involve known and unknown risks and uncertainties, including uncertainties relating to product development and commercialization, the ability to obtain or maintain patent and other proprietary intellectual property protection, market acceptance, future capital requirements, regulatory actions or delays, competition in general and other factors that may cause actual results to be materially different from those described herein as anticipated, believed, estimated or expected. Certain of these risks and uncertainties are or will be described in greater detail in our public filings with the U.S. Securities and Exchange Commission. KIT digital is not under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

The securities offered in the acquisitions described in this press release have not been registered under the U.S. Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

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EXHIBIT VII

**CURRENT REPORT ON FORM 8-K FILED BY KIT DIGITAL, INC.
WITH THE SEC ON OCTOBER 9, 2009**

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 5, 2009

KIT DIGITAL, INC.

(Exact Name of Registrant as Specified in Charter)

Delaware	000-25659	11-3447894
(State or other jurisdiction Of incorporation)	(Commission File Number) Identification No.)	(IRS Employer

168 Fifth Avenue, Suite 301 New York, New York	10010
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: +1 (646) 502-7484

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4 (c) under the Exchange Act (17 CFR 240.13e-4(c))

CURRENT REPORT ON FORM 8-K

KIT digital, Inc.

October 5, 2009

Item 1.01. Entry into a Material Definitive Agreement.

Item 2.01. Completion of Acquisition or Disposition of Assets.

Item 3.02. Unregistered Sales of Equity Securities.

On October 5, 2009, KIT digital, Inc., a Delaware corporation ("KIT digital"), and International Management Group GmbH, a company organized under the laws of Germany, entered into a definitive Share Purchase Agreement (the "Share Purchase Agreement"). Under the Share Purchase Agreement, at the closing on October 9, 2009, KIT digital acquired all of the issued and outstanding shares of capital stock of Nunet AG, a stock corporation organized under the laws of Germany ("Nunet"), for an aggregate purchase price of EUR 7,646,750, consisting of:

- a cash payment of EUR 5,400,000 payable by KIT digital at closing (which includes EUR 400,000 in a payment by KIT digital to achieve a neutral working capital level at closing);
- a convertible promissory note in the principal amount of EUR 1,662,500, due March 31, 2011; and
- another convertible promissory note in the principal amount of EUR 584,250, due June 30, 2010, which will be used by KIT digital to satisfy any indemnity claims in accordance with the Share Purchase Agreement.

An additional EUR 300,000 was paid by KIT digital at closing to cover brokers, introducing parties, management incentives and other transaction-related costs.

Kaleil Isaza Tuzman, KIT digital's Chairman and Chief Executive Officer, personally guaranteed the payment obligations under the convertible promissory notes.

Nunet, located in Cologne, Germany, is considered a premier global provider in the management and delivery of video on mobile devices.

The purchase price was determined as a result of arm's-length negotiations between the parties. The foregoing description of the acquisition does not purport to be complete and is qualified in its entirety by reference to the full text of both the Share Purchase Agreement and the convertible promissory notes, a copy of each of which is attached hereto as Exhibit 2.1 and Exhibits 10.1 and 10.2, respectively, and each of which is incorporated herein in its entirety by reference. The securities offered in the acquisition have not been registered under the Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

The cash portion of the acquisition was funded from the net proceeds of KIT digital's August 2009 public offering and cash reserves.

KIT digital had no previous relationship or association with Nunet. There are presently no significant changes anticipated in the business or product lines of either KIT digital or Nunet.

KIT digital announced the Nunet acquisition in a press release issued on October 5, 2009, a copy of which is attached hereto as Exhibit 99.1 and is incorporated in its entirety by reference.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired . In accordance with Item 9.01(a), the financial statements of Nunet AG shall be provided not later than December 28, 2009.

(b) Pro Forma Financial Information . In accordance with Item 9.01(b), the pro forma financial information shall be provided not later than December 28, 2009.

(d) Exhibits . The exhibits listed in the following Exhibit Index are filed as part of this current report.

Exhibit No.	Description

[…]

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 hereunto duly authorized.

KIT DIGITAL, INC.

Date: October 9, 2009

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

EXHIBIT VIII

PRESS RELEASE ISSUED BY KIT DIGITAL, INC. ON NOVEMBER 19, 2009

FOR IMMEDIATE RELEASE

KIT digital Reports Record Operating Results and New Client Contracts in Third Quarter 2009

Revenue Up 104% Year-Over-Year to $11 Million, Operating EBITDA of $927,000, or $0.14 per Share

NEW YORK and PRAGUE, Czech Republic – November 19, 2009 – KIT digital, Inc. (NASDAQ: KITD), a leading global provider of on-demand software solutions for managing and monetizing Internet Protocol (IP)-based video assets, reported record financial results and new client contracts for the third quarter ended September 30, 2009. (Financial results are quoted in U.S. dollars, although a material portion of the company's revenue is earned in other currencies.)

Revenue in the third quarter of 2009 increased 5% to a record $11.0 million from $10.5 million in the previous quarter, and increased 104% from $5.4 million in the same quarter a year ago. The company's revenues are primarily comprised of software license and maintenance fees, software set-up fees, and technical integration and creative service charges.

After recognizing the non-cash accounting impact of accounting standard ASC 815-40, net loss for the third quarter of 2009 was $11.1 million or $(1.65) per basic and diluted share, compared to an adjusted net loss in the previous quarter of $1.6 million or $(0.37) per basic and diluted share, and a net loss in the third quarter of 2008 of $2.6 million or $(0.78) per basic and diluted share (please see the important discussion about the new accounting standard in the section, "About New Accounting Standard," below). Net loss for the third quarter 2009 included a non-cash derivative expense of $8.4 million resulting from the application of the new accounting standard, $1.5 million in non-cash charges (including $536,000 in stock-based compensation); $981,000 in restructuring and non-recurring charges primarily related to employee termination, acquisition-related facility closing costs, and other costs related to the reorganization and integration of acquired companies; and $522,000 in merger and acquisitions and investor relation related expenses. It is important to note that the application of the new accounting standard resulted in adjusted non-cash derivative income of $10.2 million in the first quarter of 2009, which will be recognized in the company's full-year 2009 reporting.

Operating EBITDA, a non-GAAP term, increased 38% in the third quarter of 2009 to a record $927,000 or $0.14 per basic and diluted share from $671,000 or $0.16 per basic and diluted share in the previous quarter, and improved from an operating EBITDA loss of $1.6 million or ($0.48) per basic and diluted share in the third quarter of 2008. The company defines operating EBITDA as earnings before non-cash derivative income/loss; non-cash stock based compensation; acquisition-related restructuring costs and other non-recurring charges; impairment of property and equipment; merger and acquisition expenses; and depreciation and amortization (see important discussion of operating EBITDA in "About the Presentation of Operating EBITDA," below).

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

Simultaneous with the acquisitions of Nunet and The FeedRoom, KIT digital reached an agreement to extinguish past and future contingent earn-out obligations related to the May 2008 acquisitions of Kamera

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

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

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

Q3 2009 Selected Client Wins, By Region

Europe, Middle East & Africa (EMEA):

- MSN, Microsoft's global Internet portal, renewed its IP video contracts with KIT digital in Turkey, Greece and Finland for an additional 12 months.
- Vodafone selected the company to implement and operate its fully converged movie rental store in an additional eight countries, including Spain, UK and Italy.
- Sweden's largest newspaper, Dagens Nyheter, engaged KIT digital for the management and delivery of IP video content.
- Czech TV, the government-owned broadcaster in the Czech Republic, appointed KIT digital to complete a high-definition enhancement of their IP video playout system, using KIT VX capabilities.
- TV Prima, a leading Central European broadcaster, contracted KIT digital to implement an IP-based broadcast archiving system utilizing KIT VX capabilities.

Asia-Pacific:

- Mercedes-Benz engaged KIT digital and its VX system for marketing its vans and trucks divisions.
- Sky Racing engaged KIT digital to deploy a live digital video and audio broadcasting platform.
- Johnson & Johnson, one of the world's leading consumer goods and pharmaceutical companies, appointed KIT digital to develop online campaigns for their Daktarin brand.
- Fox Sports together with IMG, one of the world's largest sports licensing organizations, engaged the company to provision live, English Premier League video-on-demand content for the Australian marketplace, using KIT VX.
- A leading global pharmaceutical company selected KIT VX for the development of an online, video-based environment for recipients of a major vaccine.

The Americas:

- Verizon expanded its relationship with KIT digital by deploying additional features of VX across their network of consumer-facing websites.

- Johnson & Johnson appointed the company in the U.S. to support high-quality video, as well as publishing workflow, security, community building and viewer interaction for "InsightsOut," a robust support platform for Johnson & Johnson companies' global marketing professionals.
- Tyco International contracted the company to implement a corporate communications solution that allows Tyco to utilize IP video to communicate with staff and stakeholders globally.
- The National High School Coaches Association selected KIT digital to form the backbone of an online video portal for delivery of high school sports content.
- Hilti, a global leader of value-added products for professional customers in the construction and building maintenance industries, engaged the company to implement a global IP video corporate communications solution.

Management Commentary

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

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

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

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

Conference Call

Management will hold a conference call to discuss results for the third quarter ended September 30, 2009 today at 10:30 a.m. Eastern time.

Date: Thursday, November 19, 2009
Time: 10:30 a.m. Eastern time (7:30 a.m. Pacific time)
Dial-in # (North America): +1-800-862-9098
Dial-in # (outside North America): +1-785-424-1051
Conference ID: 7KITDIGITAL

The conference call will be broadcast simultaneously and available for replay via the Investor Relations section of the company's website at www.kitd.com.

Please call the conference telephone number at least 5-10 minutes before the scheduled start to allow for processing time. If there is any difficulty connecting with the conference call, please contact the Liolios Group at +1-949-574-3860.

A replay of the call will be available after 1:30 p.m. Eastern time on the same day and until December 19, 2009:

Toll-free replay # (North America): +1-800-723-2156
International replay # (outside of North America): +1-402-220-2660
(No passcode required)

About the Presentation of Operating EBITDA
Management uses operating EBITDA for forecasting and budgeting, and as a proxy for operating cash flow. Operating EBITDA is not a financial measure calculated in accordance with U.S. generally accepted accounting principles (GAAP) and should not be considered in isolation, or as an alternative to net income, operating income or other financial measures reported under GAAP. The company defines operating EBITDA as earnings before: non-cash derivative income/loss, non-cash stock based compensation; acquisition-related restructuring costs and other non-recurring charges; impairment of property and equipment; merger and acquisition expenses; and depreciation and amortization. Other companies (including the company's competitors) may define operating EBITDA differently. The company presents operating EBITDA because it believes it to be an important supplemental measure of performance that is commonly used by securities analysts, investors and other interested parties in the evaluation of companies in a similar industry. Management also uses this information internally for forecasting, budgeting and performance-based executive compensation. It may not be indicative of the historical operating results of KIT digital nor is it intended to be predictive of potential future results. See "GAAP to non-GAAP Reconciliation" table below for further information about this non-GAAP measure and reconciliation of operating EBITDA to net loss for the periods indicated. Shares used in the calculation of GAAP diluted earnings per share are the same as the shares used in the calculation of diluted adjusted operating income/(loss) per share except when the company reports a GAAP loss.

EXHIBIT VIII - PRESS RELEASE ISSUED ON NOVEMBER 19, 2009

GAAP to non-GAAP Reconciliation (amounts in thousands)	Three months ended September 30, 2009	2008
Consolidated Statement of Operations Reconciliation		
Net loss on a GAAP basis	$ (11,134)	$ (2,555)
Non-cash stock-based compensation	536	188
Merger and acquisition and investor relations expenses	522	-
Depreciation and amortization	977	434
Restructuring charges	340	162
Other non-recurring charges	641	200
Impairment of property and equipment	-	-
Interest income	(27)	(37)
Interest expense	124	31
Amortization of deferred financing costs	562	-
Derivative expense (income)	8,449	-
Other income	(65)	(8)
Registration rights liquidated damages	-	-
Income tax expense	2	1
Minority interest	-	15
Operating EBITDA (loss)	$ 927	$ (1,569)
Consolidated Statement of Operations Reconciliation per Share		
Net income (loss) per share on a GAAP basis	$ (1.65)	$ (0.78)
Non-cash stock-based compensation	0.08	0.06
Merger and acquisition and investor relations expenses	0.08	-
Depreciation and amortization	0.14	0.13
Restructuring charges	0.05	0.05
Other non-recurring charges	0.10	0.06
Impairment of property and equipment	-	-
Interest income	-	(0.01)
Interest expense	0.02	0.01
Amortization of deferred financing costs	0.08	-
Derivative expense (income)	1.25	-
Other income	(0.01)	-
Registration rights liquidated damages	-	-
Income tax benefit (expense)	-	-
Minority interest	-	-
Operating EBITDA (loss) per share	$ 0.14	$ (0.48)
Weighted average common shares outstanding	6,739,934	3,273,079

About New Accounting Standard

The new accounting standard ASC 815-40 was implemented at the beginning of 2009 and requires companies to calculate the fair value of warrants containing reset provisions and classify them as derivative liabilities. Therefore, under the terms of the 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.

Due primarily to an increase in the company's stock price from $7.37 at June 30, 2009 to $9.91 at September 30, 2009, net loss for the third quarter of 2009 included a non-cash derivative expense of $8.4 million. The valuation was adjusted to take into account an increased number of shares as at January 1, 2009 for warrants that should have been included in the original valuation as well as the anti-dilution effect based on a lower share price than the strike price of the warrants as of that date. It is important to note that the application of the new accounting standard adjustment resulted in $10.2 million of derivative income in the first quarter of 2009. Taking into account the aggregate amounts that would have been recorded in Q1 and Q2 for this adjustment, the company had an accumulated amount of $2.2 million in non-cash derivative income for the nine months ending September 30, 2009.

About KIT digital

KIT digital (NASDAQ: KITD) is a leading, global provider of on-demand, Internet Protocol (IP)-based video asset management solutions. KIT VX, the company's end-to-end software platform, enables enterprise clients to acquire, manage and distribute video assets across the three screens of today's world: the personal computer, mobile device, and IPTV-enabled television set. The application of VX ranges from commercial video distribution to internal corporate deployments, including corporate communications, human resources, training, security and surveillance. KIT digital's client base includes more than 600 enterprise customers across 30+ countries, including The Associated Press, Best Buy, Bristol-Myers Squibb, Disney-ABC, General Motors, Google, IMG Worldwide, Intel, McDonald's, News Corp, Telefonica, the U.S. Department of Defense, Verizon and Vodafone. KIT digital maintains principal offices in Prague, Cologne, Dubai, London, Melbourne (Australia), New York, Stockholm and Toronto. For additional information, please visit www.kitd.com.

KIT digital Forward-Looking Statement

This press release contains certain "forward-looking statements" related to the businesses of KIT digital, Inc., which can be identified by the use of forward-looking terminology such as "believes," "expects" or similar expressions. Such forward-looking statements involve known and unknown risks and uncertainties, including uncertainties relating to product development and commercialization, the ability to obtain or maintain patent and other proprietary intellectual property protection, market acceptance, future capital requirements, regulatory actions or delays, competition in general and other factors that may cause actual results to be materially different from those described herein as anticipated, believed, estimated or expected. Certain of these risks and uncertainties are or will be described in greater detail in our public filings with the U.S. Securities and Exchange Commission. KIT digital is not under obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

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KIT digital Investor Relations Contact:

Matt Glover

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

	September 30, 2009 (Unaudited)	December 31, 2008
Assets:		
Current assets:		
Cash and cash equivalents	$ 13,451	$ 5,878
Investments	215	-
Receivable from FeedRoom	4,636	-
Accounts receivable, net	18,602	8,331
Inventory, net	1,300	2,130
Other current assets	1,698	1,539
Total current assets	39,902	17,878
Property and equipment, net	2,791	2,928
Deferred tax assets	81	64
Software, net	3,097	2,265
Customer list, net	2,597	2,988
Domain names, net	11	19
Goodwill	16,559	15,167
Total assets	$ 65,038	$ 41,309
Liabilities and Stockholders' Equity:		
Current liabilities:		
Bank overdraft	$ 717	$ 1,456
Capital lease and other obligations	263	395
Secured notes payable	1,603	966
Senior secured notes payable, net of debt discount	-	950
Accounts payable	5,739	5,775
Accrued expenses	7,246	2,240
Income tax payable	193	160
Acquisition liability - Kamera	2,583	3,000
Acquisition liability - Visual	1,075	2,218
Derivative liability	13,503	-
Other current liabilities	2,274	3,818
Total current liabilities	35,196	20,978
Capital lease and other obligations, net of current	398	949
Secured notes payable, net of current	-	236
Acquisition liability - Visual, net of current	-	1,075
Total liabilities	35,594	23,238
Equity:		
Stockholders' equity:		
Common stock, $0.0001 par value: authorized 30,000,000 shares; issued and outstanding 8,891,623 and 4,183,280, respectively	1	-
Additional paid-in capital	108,145	101,057
Accumulated deficit	(78,351)	(82,499)
Accumulated other comprehensive (loss) income	(351)	(250)
Total stockholders' equity	29,444	18,308
Non-controlling interest		(237)
Total equity	29,444	18,071
Total liabilities and equity	$ 65,038	$ 41,309

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 September 30, 2009	Three months ended September 30, 2008
Revenue	$ 11,036	$ 5,381
Variable and direct third party costs:		
Cost of goods and services	4,550	-
Hosting, delivery and reporting	331	499
Content costs	287	866
Direct third party creative production costs	583	759
Total variable and direct third party costs	5,751	2,124
Gross profit	5,285	3,257
General and administrative expenses:		
Compensation, travel and associated costs (exclusive of non-cash stock-based compensation)	3,310	3,701
Non-cash stock-based compensation	536	188
Legal, accounting, audit and other professional service fees	154	291
Office, marketing and other corporate costs	894	834
Merger and acquisition and investor relations expenses	522	-
Depreciation and amortization	977	434
Restructuring charges	340	162
Other non-recurring charges	641	200
Impairment of property and equipment	-	-
Total general and administrative expenses	7,374	5,810
Loss from operations	(2,089)	(2,553)
Interest income	27	37
Interest expense	(124)	(31)
Amortization of deferred financing costs and debt discount	(562)	-
Derivative (expense) income	(8,449)	-
Other income	65	8
Net loss before income taxes	(11,132)	(2,539)
Income tax expense	(2)	(1)
Net loss	(11,134)	(2,540)
Plus: Net income attributable to the non-controlling interest	-	(15)
Net loss available to common shareholders	$ (11,134)	$ (2,555)
Basic and diluted net loss per common share	$ (1.65)	$ (0.78)
Basic and diluted weighted average common shares outstanding	6,739,934	3,273,079
Comprehensive loss:		
Net loss	$ (11,134)	$ (2,555)
Foreign currency translation	(530)	(219)
Change in unrealized gain on investments, net	15	-
Comprehensive loss	$ (11,649)	$ (2,774)

EXHIBIT IX

EXCERPTS FROM PRESS RELEASE ISSUED BY KIT DIGITAL, INC. ON DECEMBER 7, 2009

Exhibit 99.1

FOR IMMEDIATE RELEASE

KIT digital Reports on Integration of Recent Acquisitions and Strategic Outlook for 2010

Company Expects to Exceed 2009 Guidance, with Revenue of Approx. $46 Million, and Operating EBITDA Margins Over 10%

NEW YORK and PRAGUE, Czech Republic – December 4, 2009 – KIT digital, Inc. (NASDAQ: KITD), a leading global provider of on-demand software solutions for managing and monetizing Internet Protocol (IP) based video assets, reports on 2009 expectations and recent operational milestones, and sets out strategic objectives for 2010.

"Over the last two months since the acquisitions of Nunet and The FeedRoom, we have established a strong foundation for continued expansion across both our regional P&Ls and our industry verticals," said Gavin Campion, president of KIT digital. "Our processes and corporate systems are now integrated and prepared to meet the opportunities ahead. We see tremendous potential for '3-screen' IP video platform deployments with mobile operators as well as MSOs globally, and see particularly strong growth in the BRIC countries. Expansion into these markets and the launch of our next-generation 'VX2' platform will be areas of major strategic focus in 2010."

Integration of Nunet and The FeedRoom
As part of the integration of Nunet and The FeedRoom, KIT digital will officially retire both brands next week, with all marketing activity now fully integrated under the KIT digital name. The complementary features of the acquired IP video software platforms are being systematically added to KIT VX, the company's end-to-end software platform that enables enterprise clients to acquire, manage and distribute video assets. These enhanced features will be progressively rolled out to new and existing clients during the first and second quarter of 2010 as a significantly enhanced platform known as 'VX2' is introduced, with a superset of functionality. The company intends to fully deploy VX2 across its global client set by the third quarter of 2010.

The integration of Nunet and The FeedRoom was conducted in support of KIT digital's head office and global operations hub in Prague, Czech Republic. Human resources, payroll, finance, internal communications, IT support, technical operations and R&D functions are now consolidated and reporting into the relevant executive in Prague. The company's new and existing regional sales offices have also been better integrated, including the company's two New York City locations, which have been consolidated into The FeedRoom's original location at 205 Hudson Street under the leadership of Dan Rosen, head of the Americas group for KIT digital. Nunet's original location in Cologne, Germany will continue to be an important regional sales office and technical development center under the leadership of Markus Schloesser, vice president of business development and head of KIT digital Germany. Former Nunet CEO Arnd Froehlich has joined the executive team of KIT digital as global head of mobile services and innovation, and will divide his time between the company's Cologne and Prague offices.

In November, to support the integration of the global sales force, more than 55 members of the combined company's sales and marketing teams completed a 4-day summit in Cairo, Egypt. The event focused on growing KIT digital's international reach with the marketing and technological capabilities contributed by Nunet and FeedRoom. The agenda included global coordination around sales outreach relating to 10 prospective enterprise platform deals with mobile operators in the U.S., Spain, Australia, Brazil and China. Since the acquisitions, global new business leads have increased by 25%.

"Though there have been tough decisions along the way," continued Campion, "we are very pleased with the integration of Nunet and The FeedRoom assets thus far. We have materially enhanced our management and technical development teams, and are now poised to take advantage of the cross-selling and up-selling opportunities that emerge from these types of combinations. After a strong third quarter with a record 19 new client wins on a stand-alone basis (plus another seven by Nunet and FeedRoom on a pro forma basis) we see strong new client and cash flow growth in Q4 as we continue to realize synergies in our global operations as a result of the acquisitions—a process we expect to continue through the first quarter of 2010."

EXHIBIT IX - EXCERPTS FROM PRESS RELEASE ISSUED ON DECEMBER 7, 2009

Corporate Outlook for Q4 2009 and Strategic Priorities for 2010
"This was a great year for us on a number of fronts," commented Kaleil Isaza Tuzman, chairman and chief executive officer of KIT digital. "We achieved the operational results targets we set out for ourselves for the second consecutive year (despite the 'Great Recession'), crossed over to free cash flow-positive status, lifted our monthly ARPU materially, listed on the NASDAQ Global Market, and substantially built out our technical capabilities. But we are not yet satisfied and are even more excited about 2010."

KIT digital expects 2009 revenue of approximately $46 million […]. On a stand-alone basis (prior to any financial impact from its Q4 acquisitions of Nunet and The FeedRoom), management believes the company will have clearly achieved original 2009 guidance of more than $40 million in revenue […].

"Since we have been experiencing virtually no client attrition and more than 75% of our revenue is derived from long-term contracts, we have fairly high visibility into our forward performance […]," said Isaza Tuzman.

"Given our former executive presence in Dubai (we completed our headquarters move to Prague in August), we have received a number of inquiries about the Dubai World debt default," said Isaza Tuzman. "Our operations and sales have been completely unaffected by the financial events recently occurring in the UAE. Less than 5% of our staff is based in the MENA (Middle East and North Africa) region, mostly in Cairo, and less than 0.3% of our revenues are generated by our UAE-based clients. That said, we are bullish on future business prospects in MENA, and will continue to staff up in the region over time."

The KIT digital board and senior management team have defined four strategic priorities for 2010. These are: i) complete the technical and sales integration of Nunet and The FeedRoom; ii) roll out enhanced VX2 platform functionality across client deployments globally; iii) expand in the BRIC markets (Brazil, Russia, India, and China) via onshore office openings, commercial partnerships, joint ventures or selected acquisitions; and iv) improve corporate marketing and visibility globally as the true leader in the enterprise-class IP video asset management industry.

About KIT digital
KIT digital (NASDAQ: KITD) is a leading, global provider of on-demand, Internet Protocol (IP) based video asset management solutions. KIT VX, the company's end-to-end software platform, enables enterprise clients to acquire, manage and distribute video assets across the three screens of today's world: the personal computer, mobile device, and IPTV-enabled television set. The application of VX ranges from commercial video distribution to internal corporate deployments, including corporate communications, human resources, training, security and surveillance. KIT digital's client base includes more than 600 enterprise customers across 30+ countries, including The Associated Press, Best Buy, Bristol-Myers Squibb, Disney-ABC, General Motors, Google, IMG Worldwide, Intel, McDonald's, News Corp, Telefonica, the U.S. Department of Defense, Verizon and Vodafone. KIT digital maintains principal offices in Prague, Cologne, Dubai, London, Melbourne (Australia), New York, Stockholm and Toronto. For additional information, please visit www.kitd.com .

[…].

EXHIBIT IX - EXCERPTS FROM PRESS RELEASE ISSUED ON DECEMBER 7, 2009

KIT digital Forward-Looking Statement

This press release contains certain "forward-looking statements" related to the businesses of KIT digital, Inc., which can be identified by the use of forward-looking terminology such as "believes," "expects" or similar expressions. Such forward-looking statements involve known and unknown risks and uncertainties, including uncertainties relating to product development and commercialization, the ability to obtain or maintain patent and other proprietary intellectual property protection, market acceptance, future capital requirements, regulatory actions or delays, competition in general and other factors that may cause actual results to be materially different from those described herein as anticipated, believed, estimated or expected. Certain of these risks and uncertainties are or will be described in greater detail in our public filings with the U.S. Securities and Exchange Commission. KIT digital is not under obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

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EXHIBIT X

**CURRENT REPORT ON FORM 8-K/A FILED BY KIT DIGITAL, INC.
WITH THE SEC ON DECEMBER 22, 2009**

Grant Thornton

Independent Accountant's Report

The Board of Directors and Stockholders
KIT digital, Inc.:

We have reviewed the pro forma adjustments reflecting the acquisition of The FeedRoom, Inc. ("FeedRoom") (herein referred to as "transaction") and the application of those adjustments to the historical amounts in the pro forma condensed balance sheet of KIT digital, Inc ("KIT" or the "Company") as of September 30, 2009, and the pro forma condensed statement of operations for the nine months then ended and explanatory notes thereto, set out in Exhibit 99.3 of Exhibit X (Current Report on Form 8-K/A Filed by KIT digital, Inc. with the U.S. Securities and Exchange Commission on December 22, 2009) of the prospectus of KIT digital filed with the Czech National Bank (*Česká národní banka*) (the "CNB"). These historical condensed financial statements are derived from the historical unaudited financial statements of KIT, which were reviewed by us, and of FeedRoom, which were reviewed by other accountants. The Company's management is responsible for the pro forma financial information.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's assumptions, the pro forma adjustments and the application of those adjustments to historical financial information. Accordingly, we do not express such an opinion.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the transaction occurred at an earlier date. However, the pro forma condensed financial statements are not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the above-mentioned transaction actually occurred earlier.

Based on our review, nothing came to our attention that caused us to believe that management's assumptions do not provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction, that the related pro forma adjustments do not give appropriate effect to those assumptions, or that the pro forma column does not reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma condensed balance sheet as of September 30, 2009, and the pro forma condensed statement of income for the nine months then ended.

Grant Thornton LLP

New York, New York
January 19, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)
September 30, 2009

KIT digital, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**001-34437**	**11-3447894**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

168 Fifth Avenue, Suite 301, New York, NY 10010
(Address of principal executive offices) (Zip Code)

(212) 661-4111
(Registrant's telephone number, including area code)

Copy to:
Spencer G. Feldman, Esq.
Greenberg Traurig, LLP
MetLife Building
200 Park Avenue – 15th Floor
New York, New York 10166
Tel: +1 (212) 801-9200; Fax: +1 (212) 801-6400

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

EXPLANATORY NOTE

On October 6, 2009, KIT digital, Inc., a Delaware corporation ("KIT digital" or the "Company"), filed a Current Report on Form 8-K (the "October 8-K") to report that the Company entered into a definitive Agreement and Plan of Merger (the "Merger Agreement") on September 30, 2009 with KIT Acquisition Corporation, a Delaware corporation and wholly-owned subsidiary of KIT digital, The FeedRoom, Inc., a Delaware corporation ("FeedRoom") and certain stockholders of FeedRoom. Under the Merger Agreement, KIT Acquisition Corporation merged with and into FeedRoom, and as a result of such merger, KIT digital became the sole stockholder of FeedRoom as of the effective merger date of October 1, 2009.

This amendment is being filed to amend and supplement Item 9.01 of the October 8-K to include the financial statements and pro forma financial information required by parts (a) and (b) of Item 9.01 of Form 8-K.

Item 2.01 Completion of Acquisition or Disposition of Assets

Pursuant to the terms of the Merger Agreement, the certificate of merger was filed with the Secretary of State of the State of Delaware effective October 1, 2009.

Item 9.01 Financial Statements and Exhibits.

(a.) *Financial Statements of Businesses Acquired.*

The following financial statements (and accompanying notes) of FeedRoom are filed as Exhibits 99.1 and 99.2 to this amendment and are incorporated in their entirety herein by reference:

Exhibit 99.1

Independent auditors' report;
Balance sheets as of December 31, 2008 and 2007;
Statements of operations for the years ended December 31, 2008 and 2007;
Statements of cash flows for the years ended December 31, 2008 and 2007; and
Notes to the financial statements.

Exhibit 99.2

Unaudited balance sheet as of September 30, 2009;
Unaudited statement of operations for the nine months ended September 30, 2009;
Unaudited statement of cash flows for the nine months ended September 30, 2009; and
Notes to the unaudited financial statements.

The attached financial statements of FeedRoom have been prepared in accordance with generally accepted accounting principles in the United States.

(b.) *Pro Forma Financial Information.*

The following unaudited pro forma financial statements (and accompanying notes) are furnished as Exhibit 99.3:

Exhibit 99.3

Unaudited pro forma condensed combined balance sheet as of September 30, 2009;
Unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2009;
Unaudited pro forma condensed combined statement of operations for the year ended December 31, 2008; and
Notes to unaudited pro forma condensed combined financial statements.

(d .) *Exhibits.*

Exhibit No.	**Description**
99.1	Audited financial statements of FeedRoom as of and for the years ended December 31, 2008 and 2007, and accompanying notes.
99.2	Unaudited financial statements of FeedRoom as of and for the nine months ended September 30, 2009.
99.3	Unaudited condensed combined pro forma financial statements as of September 30, 2009 and for the nine months ended September 30, 2009 and the year ended December 31, 2008, for KIT digital and FeedRoom combined.

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 hereunto duly authorized.

KIT DIGITAL, INC.

By: /s/ Robin Smyth
Robin Smyth
Chief Financial Officer

Date: December 22, 2009

Exhibit 99.1

Financial Statements

December 31, 2008 and 2007

With Independent Auditors' Report

The FeedRoom, Inc.
Table of Contents
December 31, 2008 and 2007

WithumSmith+Brown, PC
A Professional Corporation
Certified Public Accountants and Consultants

One Spring Street
New Brunswick, NJ 08901
732.828.1614 fax 732.828.5156

www.withum.com

Additional Offices in New Jersey, New York,
Pennsylvania, Maryland, Colorado and Florida

Independent Auditors' Report

To the Board of Directors and Stockholders, The FeedRoom, Inc.:

We have audited the accompanying balance sheets of The FeedRoom, Inc. as of December 31, 2008 and 2007, and the related statements of operations, stockholders' equity (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The FeedRoom, Inc. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's significant operating losses raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

WithumSmith+Brown, PC

July 14, 2009

The FeedRoom, Inc.
Balance Sheets
December 31, 2008 and 2007

	2008	2007
Assets		
Current assets		
Cash and cash equivalents	$ 5,479,182	$ 1,412,007
Accounts receivable	1,030,244	2,134,880
Unbilled receivables	4,825	76,958
Current portion of loan receivable - related party	—	29,827
Prepaid expenses and other current assets	440,832	378,706
Total current assets	6,955,083	4,032,378
Property and equipment, net	1,907,199	1,452,655
Intangible assets, net	427,319	—
	$ 9,289,601	$ 5,485,033
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable and accrued expenses	$ 1,332,543	$ 1,329,436
Current portion of loans payable	1,823,251	905,464
Current portion of obligations under capital lease	223,754	183,414
Deferred revenue	489,833	315,581
Total current liabilities	3,869,381	2,733,895
Loans payable, net of current portion and debt discount in the amounts of $4,686 in 2008 and $15,008 in 2007	1,217,124	4,001,315
Obligations under capital lease, net of current portion	—	137,775
Stockholders' equity (deficit)		
Series F convertible preferred stock; $0.001 par value; 7,778,374 shares authorized, issued and outstanding (liquidation preference of $35,446,400)	7,778	—
Series E convertible preferred stock; $0.001 par value; 3,454,522 shares authorized; 3,279,522 shares issued and outstanding (liquidation preference of $7,356,283)	3,280	3,280
Series D convertible preferred stock; $0.001 par value; 3,997,545 shares authorized, issued and outstanding (liquidation preference of $5,246,640)	3,998	3,998
Series C convertible preferred stock; $0.001 par value; 1,391,826 shares authorized, issued and outstanding (liquidation preference of $1,929,743)	1,392	1,392
Common stock; $1.00 par value; 25,000,000 shares authorized; 64,215 and 9,772 shares issued and outstanding for 2008 and 2007	64,215	9,772
Additional paid-in capital	62,141,532	50,429,374
Accumulated deficit	(58,019,099)	(51,835,768)
Total stockholders' equity (deficit)	4,203,096	(1,387,952)
	$ 9,289,601	$ 5,485,033

The Notes to Financial Statements are an integral part of these statements.

The FeedRoom, Inc.
Statements of Operations
Years Ended December 31, 2008 and 2007

	2008	2007
Sales		
Application and hosting	$ 5,850,575	$ 5,448,812
Broadcasting	3,070,850	2,027,638
Website builds and professional services	1,153,932	1,845,465
Subscriptions	42,571	211,681
	10,117,928	9,533,596
Cost of sales	5,294,379	4,018,864
Gross profit	4,823,549	5,514,732
Selling, general and administrative	10,649,330	9,877,226
Loss from operations	(5,825,781)	(4,362,494)
Other income (expense)		
Currency exchange	40,781	(13,050)
Interest expense	(410,952)	(215,213)
Interest income	27,771	13,377
	(342,400)	(214,886)
Loss before income taxes	(6,168,181)	(4,577,380)
Provision for state income taxes	15,150	9,937
Net loss	$ (6,183,331)	$ (4,587,317)

The Notes to Financial Statements are an integral part of these statements.

The FeedRoom, Inc.
Statements of Stockholder Equity (Deficit)
Years Ended December 31, 2008 and 2007

	Series C Convertible Preferred Stock		Series D Convertible Preferred Stock		Series E Convertible Preferred Stock		Series F Convertible Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	(Deficit)
December 31, 2006	1,391,826	$ 1,392	3,997,545	$ 3,998	3,279,522	$ 3,280	—	$ —	4,643	$ 4,643	$ 50,284,599	$ (47,248,451)	$ 3,049,461
Repurchase of shares	—	—	—	—	—	—	—	—	(1,514)	(1,514)	1,514	—	—
Exercise of stock option	—	—	—	—	—	—	—	—	6,643	6,643	(5,647)	—	996
Issuance of stock options to employees	—	—	—	—	—	—	—	—	—	—	133,900	—	133,900
Issuance of warrants in connection with debt financing	—	—	—	—	—	—	—	—	—	—	15,008	—	15,008
Net loss	—	—	—	—	—	—	—	—	—	—	—	(4,587,317)	(4,587,317)
	1,391,826	$ 1,392	3,997,545	$ 3,998	3,279,522	$ 3,280	—	—	9,772	$ 9,772	$ 50,429,374	$ (51,835,768)	$ (1,387,952)
December 31, 2007													
Exercise of stock option	—	—	—	—	—	—	—		54,443	54,443	(46,289)	—	8,154
Issuance of stock options to employees	—	—	—	—	—	—	—	—	—	—	264,465	—	264,465
Issuance of Series F Convertible											(158,240)	—	(158,240)
Preferred Stock (less $158,240 issuance costs)	—	—	—	—	—	—	7,778,374	7,778	—	—	11,652,222	—	11,660,000
Net loss	—	—	—	—	—	—	—	—	—	—	—	(6,183,331)	(6,183,331)
December 31, 2008	1,391,826	$ 1,392	3,997,545	$ 3,998	3,279,522	$ 3,280	7,778,374	$ 7,778	64,215	$ 64,215	$ 62,141,532	$ (58,019,099)	$ 4,203,096

The Notes to Financial Statements are an integral part of these statements.

The FeedRoom, Inc.
Statements of Cash Flows
Years Ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Net loss	$ (6,183,331)	$ (4,587,317)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation and amortization	574,151	448,761
Noncash expense for issuance of stock options	264,465	133,900
Forgiveness of related party loan for services rendered	29,827	33,811
Bad debt expense	19,244	27,200
Amortization of debt discount	10,322	—
Changes in operating assets and liabilities		
Accounts receivable	1,159,253	(345,075)
Unbilled receivables	72,133	(59,852)
Prepaid expenses and other current assets	55,385	(230,601)
Accounts payable and accrued expenses	(238,632)	556,519
Deferred revenue	(312,083)	135,289
Net cash used by operating activities	(4,549,266)	(3,887,365)
Cash flows from investing activities		
Purchases of property and equipment	(436,929)	(498,531)
Cash paid for the acquisition of Company	(200,000)	—
Net cash used by investing activities	(636,929)	(498,531)
Cash flows from financing activities		
Repayments of loans payable	(1,876,726)	(63,205)
Repayments of capital lease obligations	(379,818)	(181,350)
Proceeds from the issuance of Series F preferred stock, net	11,501,760	—
Proceeds from debt financing	—	4,984,992
Proceeds from the issuance of common stock	8,154	996
Net cash provided by financing activities	9,253,370	4,741,433
Net increase in cash and cash equivalents	4,067,175	355,537
Cash and cash equivalents		
Beginning of year	1,412,007	1,056,470
End of year	$ 5,479,182	$ 1,412,007
Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest	$ 400,630	$ 215,213
State income taxes	$ —	$ —
Supplemental schedule of noncash investing and financing activities		
Equipment acquired through capital lease obligation	$ 282,283	$ 88,486
Warrants issued in connection with debt financing	$ —	$ 15,008
Acquisition of Company, assets and liabilities acquired (see Note 11 for details), net	$ 200,000	$ —

The Notes to Financial Statements are an integral part of these statements.

The FeedRoom, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

1. Summary of Significant Accounting Policies

Organization
The FeedRoom, Inc. (the "Company") was incorporated as a Delaware corporation in September 1999 and is based in New York, New York. The Company also conducts operations in California, Massachusetts and Washington. The Company provides video and digital asset management services, technology and professional services on an outsourced and hosted basis to a variety of customers in the corporate, government and media sectors throughout the United States and other countries.

Going Concern
The Company has sustained recurring losses and negative cash flows from operations. Over the past year, the Company's growth has been funded through a combination of private equity and debt financing. As of December 31, 2008, the Company had cash on hand of $5,479,182. The Company raised approximately $11 million dollars during 2008 in private equity to continue to fund operations through 2009. However, the Company has experienced and continues to experience negative operating margins and negative cash flow from operations, as well as an ongoing requirement for substantial additional capital to accomplish its business plan over the next several years for which, management continues to search for ongoing financing. There can be no assurance as to the availability or terms upon which financing or additional private equity might be available.

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

Cash and Cash Equivalents
The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Revenue Recognition

Website Builds and Professional Services
Revenue derived from website build and professional services are recognized in the month the services are performed.

Application and Hosting
Application and hosting fees are billed in accordance with the terms of the customer contract. Revenues are recognized in the month the services are provided.

Broadcasting
Revenue generated from broadcasting is recognized in the month the services are provided.

Subscriptions
Subscription revenues are recognized in the month the fees are earned.

Accounts Receivable
Accounts receivable represent unsecured, non-interest bearing obligations from customers. Credit is extended to customers based on an evaluation of a customer's financial condition. Accounts receivable are due within 30 days. The Company evaluates its accounts receivable for collectability and establishes an allowance for doubtful accounts as needed when accounts receivable becomes uncollectible. Management has determined that an allowance for doubtful accounts would be insignificant.

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Advertising
The Company expenses advertising costs as they are incurred. Advertising expenses amounted to $132,206 and $111,468 in 2008 and 2007, respectively.

Property and Equipment
Property and equipment are recorded at cost and are depreciated using the straight-line method over their estimated useful lives, generally three to five years for computer equipment, three years for computer software, three years for office equipment, five years for furniture and fixtures and five years for other property. Leasehold improvements are amortized over the shorter of the term of lease or useful life. Expenditures for maintenance and repairs, which do not improve or extend the useful lives of the respective assets, are expensed as incurred.

Intangibles with Finite Lives
The Company is amortizing software costs on the straight-line basis as follows:

Description	**Amortization Period (Life) Years**
Software costs	3

Long-Lived Assets
In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company's policy is to review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management does not believe that there has been any impairment of the carrying value of any long-lived assets as of December 31, 2008 and 2007.

Stock-Based Compensation
Effective January 1, 2006, the Company adopted the requirements of Statement of Financial Accounting Standards ("SFAS") No. 123(R), "*Share -Based Payment",* for employees and directors. Under SFAS No. 123(R), each option granted is fair valued on the date of grant using a Black-Scholes option pricing model. The Company estimates expected forfeiture rates at the grant date and recognizes compensation cost only for those awards expected to vest.

The fair value of each option grant to employees was estimated on the date of grant using the black scholes method with the following weighted average assumptions:

Risk free interest rate	5.0%
Expected dividend yield	0%
Expected life	10 Years
Volatility percentage	85%

Income Taxes
The Company utilizes the liability method of accounting for deferred income taxes, as set forth in Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("SFAS 109"). Under this method, deferred tax liabilities and assets are recognized for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. A valuation allowance is established against net deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the net deferred tax assets will not be realized. Deferred income taxes result primarily from net operating losses and have been offset by a valuation allowance for the same amount.

The Company, in accordance with Financial Accounting Standards Board ("FASB") Financial Staff Position FIN 48-3, had deferred the application of FIN 48, "Accounting for Uncertainty in Income Taxes" until its first fiscal year beginning after December 31, 2008. The Company's accounting policy is to evaluate uncertain tax positions in accordance with FASB No. 5 "Accounting for Contingencies".

Concentration of Credit Risk

The Company's two largest customers accounted for 53 percent of accounts receivable at December 31, 2008. The Company's largest customer accounted for 50 percent of accounts receivable at December 31, 2007. A loss of the revenue from these customers or the failure of them to pay their balances could have a significant impact on the financial position, results of operations and cash flows of the Company.

For the years ended December 31, 2008 and 2007, sales to one major customer amounted to approximately 30 and 22 percent of total sales, respectively. A loss of this customer could adversely affect the operating results of the Company.

Financial instruments which potentially expose the Company to concentration of credit risk consist primarily of cash and cash equivalents. The Company places its cash and cash equivalents in high quality financial institutions and at times during the year, the amount on deposit may exceed the Federal Deposit Insurance Corporation's insured limit. The Company has not incurred any losses from credit risk during the years ended December 31, 2008 and 2007.

In 2009, the Company lost a customer that comprised 43 percent of 2008 revenue.

2. Property and Equipment, Net

Property and equipment consisted of the following at December 31:

	2008	2007
Computer equipment	$ 4,703,521	$ 4,092,123
Computer software	1,663,011	1,511,472
Office equipment	54,745	52,502
Furniture and fixtures	106,325	94,073
Leasehold improvements	1,248,179	1,022,178
Other property	239,653	239,653
	8,015,434	7,012,001
Less: Accumulated depreciation and amortization	(6,108,235)	(5,559,346)
Property and equipment - net	$ 1,907,199	$ 1,452,655

Depreciation and amortization expense charged to operations amounted to $549,015 and $448,761 in 2008 and 2007, respectively.

3. Intangible Assets, Net

Intangible assets consist of the following at December 31:

	2008	2007
Intangible assets subject to amortization		
Software costs	$ 452,455	$ —
Less: Accumulated amortization	(25,136)	—
Software costs	$ 427,319	$ —

Amortization expense amounted to $25,136 for the year ended December 31, 2008 and $-0- for the year ended December 31, 2007.

Aggregate future amortization expense for the next four years relating to the above amortizable intangible assets is estimated to be as follows:

Year	Amount
2009	$ 150,818
2010	150,818
2011	125,683
2012 and thereafter	—
	$ 427,319

4. Obligation Under Capital Lease

The Company is the lessee of computer equipment under capital leases expiring through December 2009. The assets and liabilities under capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over the lower of their related lease terms or their estimated productive lives.

Obligations under capital lease consist of the following at December 31:

	2008	2007
Computer equipment lease – interest ranging from 6.15 percent to 18.35 percent per annum, payable monthly, secured by computer equipment, final payments due from April 2009 through December 2009	$ 223,754	$ 321,189
Less: Current portion	(223,754)	(183,414)
Obligations under capital lease, net of current portion	$ —	$ 137,775

A summary of property held under capital leases and included in Note 2, is as follows at December 31:

	2008	2007
Computer equipment	$ 593,098	$ 1,193,780
Less: Accumulated amortization	(236,989)	(636,236)
Property held under capital lease, net	$ 356,109	$ 557,544

Amortization on assets held under capital leases charged to expense in 2008 and 2007 was $74,923 and $129,645, respectively.

Minimum future lease payments under capital lease as of December 31, 2008 for the year and in the aggregate are:

Year	Amount
2009	$ 238,686
Less: Imputed interest	(14,932)
Present value of minimum lease payments	$ 223,754

5. Loans Payable

	2008	2007
Term loans – interest at 11.75 percent, payable monthly, secured by the assets of the Company, final payment due June 2012. See Note 12 for refinancing of debt in January 2009. (A)	$ 2,045,061	$ 2,921,867
Revolving loans – interest at 8.0 percent, payable monthly, secured by the assets of the Company, final payments due November 2008	—	1,000,000
Revolving loans – interest at prime plus 1.75 percent, payable monthly, secured by the assets of the Company, final payments due December 2009. See Note 12 for refinancing of debt in January 2009(A)	1,000,000	1,000,000
.	3,045,061	4,921,867
Less: Debt discount	4,686	15,088
Subtotal	3,040,375	4,906,779
Less: Current portion	1,823,251	905,464
Loans payable – net of current portion	$ 1,217,124	$ 4,001,315

(A) See Note 12 for refinancing of debt in January 2009.

In connection with the promissory notes, the Company issued warrants to purchase 175,000 shares of Series E Preferred at an initial exercise price of $1.00 per share in 2007. These warrants were exercisable upon issuance and have a ten-year term expiring May 2017. The fair value of the warrants of $15,008, as determined through the application of the Black-Scholes Model, was recorded as a debt discount against the capital expenditure line and will be amortized over the life of the note.

Future maturities of loans payable based on outstanding debt at December 31, 2008 and repayment terms included in the January 2009 refinance are as follows:

Year	Amount
2009	$ 1,823,251
2010	1,221,810
2011	—
Total minimum lease payments	3,045,061
Less: Debt discount	(4,686)
Present value of minimum lease payments	$ 3,040,375

At December 31, 2008 and 2007, prime interest rate was 3.25 and 7.50 percent, respectively.

6. Common Stock and Convertible Preferred Stock

In July 2008, the Company executed the Seventh Amended and Restated Certificate of Incorporation whereby the Company authorized the issuance of Series F Convertible Preferred shares, amended its authorized shares of common stock to 25,000,000 shares and authorized the issuance of 16,622,267 of preferred stock as detailed below.

Common Stock
The Company is authorized to issue 25,000,000 shares of common stock having a par value of $1.00.

Series C Convertible Preferred
At December 31, 2008 and 2007, the Company has issued and outstanding 1,391,826 shares of Series C Convertible Preferred Stock. The Company is authorized to issue 1,391,826 shares of Series C Convertible Preferred Stock with the following terms:

Voting Rights - Each holder of shares of Series C Convertible Preferred Stock shall be entitled to the number of votes equal to the number of whole shares of Common Stock into which such shares of Convertible Preferred Stock are convertible.

Dividends - The holders of Series C Convertible Preferred Stock shall be entitled to receive a cumulative cash dividend equal to six percent (6%) per annum of the Series C Original Issue Price, respectively (appropriately adjusted to reflect stock splits, stock dividends, stock combinations and the like), compounded annually. Such dividends shall accrue daily and shall be cumulative from the date of issuance of each share Series C Convertible Preferred Stock, as applicable, whether or not declared. Cumulative undeclared dividends at December 31, 2008 and 2007 were $537,917 and $454,408, respectively.

Liquidation Preference – In the event of liquidation, dissolution or winding up of the affairs of the Company, the holders of outstanding Series C Convertible Preferred Stock, after payment of the preferential amounts to Series F Convertible Preferred Stock, Series E Convertible Preferred Stock and Series D Convertible Preferred Stock (see below) has been made in full, or funds necessary for such payment shall have been set aside by the Company in trust for the account of such holders so as to be available for such payment, the holders of the Series C Convertible Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any available funds and assets of the Company to the holders of the Common Stock or any other series or class of capital stock of the Company by reason of their ownership thereof, an amount equal to the sum of the Series C Convertible Original Issue Price per share (as adjusted for stock splits, stock dividends, stock combinations and the like) plus any declared but unpaid dividends thereon and any accrued but unpaid dividends.

Conversion – Each outstanding shares of Series C Convertible Preferred Stock are convertible into a number of fully paid shares of Common Stock at a rate of the effective times conversion ratio as defined in the agreement. Conversion is automatic upon the closing of an initial public offering, as defined.

Antidilution – Series C Convertible Preferred Stock has weighted average antidilution provisions, as defined.

Series D Convertible Preferred
At December 31, 2008 and 2007, the Company has issued and outstanding 3,997,545 shares of Series D Convertible Preferred Stock. The Company is authorized to issue 3,997,545 shares of Series D Convertible Preferred Stock with the following terms:

Voting Rights - Each holder of shares of Series D Convertible Preferred Stock shall be entitled to the number of votes equal to the number of whole shares of Common Stock into which such shares of Convertible Preferred Stock are convertible.

Dividends - The holders of Series D Preferred Stock shall be entitled to receive a cumulative cash dividend equal to six percent (6%) per annum of the Series D Original Issue Price, respectively (appropriately adjusted to reflect stock splits, stock dividends, stock combinations and the like), compounded annually. Such dividends shall accrue daily and shall be cumulative from the date of issuance of each share of Series D Preferred Stock, as applicable, whether or not declared. Cumulative undeclared dividends at December 31, 2008 and 2007 were $1,249,096 and $1,009,243, respectively.

Liquidation Preference - After payment of the preferential amounts to Series F convertible preferred stock and the Series E Preferred Stockholders has been made in full, or funds necessary for such payment shall have been set aside by the Company in trust for the account of such holders so as to be available for such payment, the holders of the Series D Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any available funds and assets of the Company to the holders of the common stock or the Series C Preferred Stock or any other series or class of capital stock of the Company by reason of their ownership thereof, an amount equal to the sum of the Series D Original Issue Price per share (as adjusted for stock splits, stock dividends, stock combinations and the like) plus any declared but unpaid dividends thereon and any accrued but unpaid dividends.

Conversion – Each outstanding shares of Series D Preferred Stock are convertible into a number of fully paid shares of Common Stock at a rate of the effective times conversion ratio as defined in the agreement. Conversion is automatic upon the closing of an initial public offering, as defined.

Redemption – At any time after the date upon which the last shares of Series F Preferred Stock and Series E Preferred Stock have been redeemed by the Company, the Company shall redeem the Series D Preferred Stock upon the request of the Requisite Series D Holders. On the applicable Subsequent Redemption Date, the Company shall redeem from each holder of Series D Preferred Stock all of the shares of Series D Preferred Stock held by such holder at a price per share of Series D Preferred Stock equal to (1) the Series D Preferred Stock Original Issue Price plus (2) any accrued (whether or not declared), but unpaid, dividends on such share.
Antidilution – Series D Preferred Stock has weighted average antidilution provisions, as defined.

Series E Convertible Preferred
At December 31, 2008 and 2007, the Company has issued and outstanding 3,279,522 shares of Series E Convertible Preferred Stock. The Company is authorized to issue 3,454,522 shares of Series E Convertible Preferred Stock with the following terms:

Voting Rights - Each holder of shares of Series E Convertible Preferred Stock shall be entitled to the number of votes equal to the number of whole shares of Common Stock into which such shares of Convertible Preferred Stock are convertible.

Dividends - The holders of Series F convertible preferred stock and Series E Preferred Stock shall be entitled to receive a cumulative cash dividend equal to eight percent (8%) per annum of the Series E Original Issue Price (appropriately adjusted to reflect stock splits, stock dividends, stock combinations and the like), compounded annually. Such dividends shall accrue daily and shall be cumulative from the date of issuance of each share of Series E Preferred Stock, as applicable, whether or not declared. Cumulative undeclared dividends at December 31, 2008 and 2007 were $633,262 and $370,900, respectively.

Liquidation Preference – After payment of the preferential amounts to the Series F preferred stockholders, the holders of the Series E Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any available funds and assets of the Company to the holders of the Series D Preferred Stock, Series C Preferred Stock or the Common Stock an amount equal to the sum of (A) one and three-tenths multiplied by the Series E Original Issue Price per share (as adjusted for stock splits, stock dividends, stock combinations and the like), plus (B) any declared but unpaid dividends thereon, plus (C) any accrued but unpaid dividends thereon; provided that, if the Available Funds and Assets to be distributed among the holders of the Series E Preferred Stock shall be insufficient to permit the payment to the holders of Series E Preferred Stock of the full aforesaid preferential amounts, then all of the Available Funds and Assets shall be distributed among the holders of Series E Preferred Stock on a pro rata basis according to the number of shares of Series E Preferred Stock held.

Conversion – Each outstanding shares of Series E Preferred Stock are convertible into a number of fully paid shares of Common Stock at a rate of the effective times conversion ratio as defined in the agreement. Conversion is automatic upon the closing of an initial public offering, as defined.

Redemption – At any time after the date upon which the last shares of Series F Preferred Stock has been redeemed by the Company, the Company shall redeem the shares of Series E Preferred Stock then outstanding upon the request of the Requisite Series E Holders. On the applicable Subsequent Redemption Date, the Company shall redeem from each holder of Series E Preferred Stock all of the shares of Series E Preferred Stock held by such holder at a price per share of Series E Preferred Stock equal to (1) the Series E Preferred Stock Original Issue Price plus (2) any accrued (whether or not declared), but unpaid, dividends on such share.

Antidilution – Series E Preferred Stock has weighted average antidilution provisions, as defined.

Series F Convertible Preferred
In July 2008, the Company issued 7,778,374 shares in exchange for net proceeds in the amount of $11,660,000 net of issuance costs of $158,240. As a result of the above transactions, the Company had 7,778,374 shares of Series F Convertible Preferred Stock issued and outstanding as of December 31, 2008.

Voting Rights - Each holder of shares of Series F Convertible Preferred Stock shall be entitled to the number of votes equal to the number of whole shares of Common Stock into which such shares of Convertible Preferred Stock are convertible.

Dividends - The holders of Series F Preferred Stock shall be entitled to receive a cumulative cash dividend equal to eight percent (8%) per annum of the Series F Original Issue Price (appropriately adjusted to reflect stock splits, stock dividends, stock combinations and the like), compounded annually. Such dividends shall accrue daily and shall be cumulative from the date of issuance of each share of

Liquidation Preference – Each shares of Series F Preferred Stock shall entitle the holder of such share to receive, prior and in preference to any distribution of any Available Funds and Assets in respect of any share of the Series E Preferred Stock, Series D Preferred Stock, Series C Preferred Stock or the Common Stock or any other series or class of capital stock of the Company, an amount equal to the sum of (A) the Series F Original Issue Price, plus (B) any accrued (whether or not declared), but unpaid dividends thereon; provided that, if the Available Funds and Assets to be distributed amount the holders of the Series F Preferred Stock shall be insufficient to permit the payment of the full aforesaid preferential amount, then all of the Available Funds and Assets shall be distributed among the holders of Series F Preferred Stock on a pro rata basis according to the number of shares of Series F Preferred Stock held.

After payments of preferential amounts of Series C Preferred Stockholders, Series E Preferred Stockholders , Series D Preferred Stockholders and Series F Preferred Stockholders have been made in full, or funds necessary for such payment shall have been aside by the Company in trust for the account of such holders so as to the available for such payment, the remaining Available Funds and Assets shall be distributed amount the holders of Series F Preferred stock and Common Stock, pro rate in accordance with their relative holdings of Common Stock, (treating for this purpose all shares of Series F Preferred Stock as having been converted to Common Stock), based on the number of then issued and outstanding Shares (not including Shares issuable upon conversion of then outstanding Series E Preferred Stock, Series D Preferred Stock or Series C Preferred Stock). Notwithstanding the foregoing, shares of Series F Preferred Stock shall only entitle the holders thereof to receive distributions of Available Funds and Assets until such time as the Company has paid in respect of each such share an amount equal to the product of 3 multiplied by the Series F Original Issue Price.

Conversion – Each outstanding shares of Series F Preferred Stock are convertible into a number of fully paid shares of Common Stock at a rate of the effective times conversion ratio as defined in the agreement. Conversion is automatic upon the closing of an initial public offering, as defined.

Redemption – The Company shall redeem the shares of Series F Preferred Stock then outstanding at any time on or after the fifth anniversary upon the request of the Requisite Series F Holders. On the Initial Redemption Date, the Company shall redeem from each holder of Series F Preferred Stock all of the shares of Series F Preferred Stock held by such holder at a price per share of Series F Preferred Stock equal to (1) the Series F Preferred Stock Original Issue Price plus (2) any accrued (whether or not declared), but unpaid, dividends on such share.
Antidilution – Series F Preferred Stock has weighted average antidilution provisions, as defined.

Warrants
In October 2002, the Company issued warrants to purchase 2,468,400 shares of Series C Preferred Stock at a then exercise price of $.06021813 per share. These warrants were issued in connection with an ongoing business relationship of the Company. Upon issuance of the Series D Preferred Stock, the effect of anitdilution protection and a simultaneous 10,000-to-1 reverse split, the number of shares exercisable in this warrant was modified to 127,470 with an exercise price of $1 per share. These warrants expired on October 29, 2007.

In May 2003, the Company issued warrants to purchase 1,660,629 shares of Series C Preferred Stock at a then exercise price of $.06021813 per share. Upon issuance of the Series D Preferred Stock, the effect of antidilution protection and a simultaneous 1,000-to-1 reverse split, the number of shares exercisable in this warrant was modified to 85,756 with an exercise price of $1 per share. These warrants were issued in connection with the conclusion of the Series C financing and these warrants expired on May 30, 2008. These warrants were issued to a related party, Sarett Consulting LLC (Note 8).

In November 2003, the Company issued warrants to purchase 101 shares of Common Stock at an exercise price of $1 per share. These warrants were issued in connection with the conclusion of the Series D financing. These warrants expired on November 13, 2008.

See Note 5 for other warrant issued.
Stock Option Plan
In February 2004, the Company created and adopted the 2004 Stock Option and Stock Award Plan under which 1,659,772 shares of the Company's Common Stock have been reserved for issuance to employees, directors, consultants and advisors. Options granted under this Plan may be incentive stock options, non-qualified stock options or restricted stock options. Incentive stock options may only be granted to employees. Options generally vest ratably over four years for new employees or advisers. Certain options vested on the date of grant.

In 2006, the Company's investors consented to change the total number of shares available under the stock option plan to 1,853,939. In 2007, the Company's investors consented to change the total number of shares available under the stock option plan to 2,766,898. In 2008, the Company has reserved on aggregate of 4,769,655 shares of Common Stock for issuance under the 2004 Stock Option and Stock Award Plan.

During 2008 and 2007, the Company issued 1,809,985 and 1,724,011 options to various employees which resulted in compensation expense of $264,465 and $133,900, respectively which is included in selling, general and administrative expenses. These options granted are exercisable over a ten-year period, vest over a period up to four years. 168,069 options have a strike price of $9.81 per share; 1,597,085 options have a strike price of $0.27 per share and the remaining options having an exercise price of $0.15 per share with a weighted average remaining life of nine and one half years.

The following table summarizes the Company's stock option plan as of December 31:

	Options	Weighted Average Exercise Price
Outstanding at December 31, 2006	1,282,078	$ 0.15
Granted	1,724,011	1.09
Exercised	(1,360)	0.15
Cancelled	(482,957)	0.15
Outstanding at December 31, 2007	2,521,772	$ 0.77
Granted	1,809,985	0.26
Exercised	(54,443)	0.15
Cancelled	(645,641)	0.15
Outstanding at December 31, 2008	3,631,673	$ 0.65
Options exercisable at December 31, 2008	984,827	$ 0.70
Options exercisable at December 31, 2007	885,121	$ 0.30
Weighted average fair value of options granted during 2008 and 2007		$ 0.18

The remaining weighted average contractual life of options outstanding in 2008 and 2007 was 9.1 and 9.3 years, respectively.

The following table summarizes the Company's non-vested stock options outstanding as of December 31:

	Options	Weighted Average Exercise Price
Non-vested at January 1, 2008	1,636,651	$ 1.14
Granted	1,809,985	$ 0.26
Vested	(99,606)	$ 0.15
Exercised	(54,543)	$ 0.15
Cancelled	(645,641)	$ 0.15
Non-vested at December 31, 2008	2,646,846	$ 0.83

At December 31, 2008 approximately $301,000 and $168,000 of unrecognized compensation costs related to stock options is expected to be recognized over the next 3 and 4 years, respectively.

The following table summarizes the Company's options outstanding at December 31, 2008 under the fixed share-based payment plan:

Exercise Price Range	Number Outstanding	Weighted Average Remaining Contractual Life - All Outstanding Options	Weighted Average Exercise Price	Number Currently Exercisable	Weighted Average Exercise Price
$0.15-$9.81	3,631,673	9.07	$ 0.65	984,827	$ 0.70

At December 31, 2008 and 2007, the intrinsic value of options outstanding and currently exercisable amount to $0.

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7. Income Taxes

At December 31, 2008, the Company had approximately $53.5 million of Federal and State net operating loss carryforwards available to offset future taxable income. The ability to fully utilize these losses in the future is dependent upon the Company's ability to generate taxable income and could be limited due to ownership changes, as defined under the provisions of Section 382 of the Internal Revenue Code. These net operating loss carryforwards expire 2019 through 2028. The Company has not made a determination as to whether an ownership change has occurred for purposes of Section 382 that would limit the usage of net operating loss carryforwards. If a Section 382 ownership change had occurred, the utilization of the net operating losses would be limited and could expire with the Company receiving no benefit from those losses.

As of December 31, 2008 and 2007, the Company had gross deferred tax assets of approximately $17 million and $14 million, respectively, related primarily to net operating loss carryforwards and accrued expenses that are not currently deductible for income tax purposes. A valuation allowance has been recognized to fully offset the net deferred tax assets at December 31, 2008 and 2007 because management has concluded it is currently more likely than not that the deferred tax assets will not be realized.

8. Commitments

The Company leases office and certain equipment under noncancelable operating leases. In addition to base rent, the facility leases generally provide for additional rent based on increases in real estate taxes and other costs. Leases expire at various dates through 2012, and some may be extended at the Company's option.

Future minimum rental payments, excluding additional rent due for common area charges, under noncancelable operating leases are as follows:

Year	**Amount**	
2009	$	804,259
2010		453,756
2011		81,969
2012		2,585
2013		—
Total	$	1,342,569

Rent expense for the year ended December 31, 2008 and 2007 were $605,968 and $463,377, respectively.

9. Related Party Transactions

During the year ended December 31, 2007, the Company incurred fees of $190,623 in connection with the consulting services rendered by Sarett Consulting LLC ("Sarett"), a company owned by the former Senior Vice President and Chief Financial Officer.

At December 31, 2007, the Company had a note receivable of $29,827, which includes interest in the amount of $4,827 due from the Company's former Chief Executive Officer, in connection with a loan granted by the Company in April 2002. The original amount of the note was $100,000 and interest accrues at 5 percent per annum. Interest accrued during 2007 amounted to $1,435. The principal amount of the notes and interest were due through January 2008. During 2008 and 2007, the Company forgave $29,827 and $33,811 of this note, respectively.

10. Employee Benefit Plan

The Company has a voluntary savings plan covering substantially all employees. Eligible employees may elect to contribute up to 15 percent, on a pre-tax basis, of their salaries to an investment trust. The Company does not make any contributions on behalf of employees. During the years ended December 31, 2008 and 2007, the Company made no contributions to the plan.

11. Acquisition

During 2008, the Company purchased certain assets and assumed liabilities of a business for a purchase price of $200,000 paid in cash.

The values of the major classes of assets and liabilities acquired were as follows:

Assets		
Accounts receivable	$	73,861
Prepaid expenses and other current assets		117,511
Property and equipment		284,247
Intangible assets		452,455
Total assets		928,074
Liabilities		
Accounts payable and accrued expenses	$	241,739
Deferred revenue		486,335
Total liabilities		728,074
Total purchase price	$	200,000

12. Subsequent Event

In January 2009, the Company refinanced its loans payable. The maximum borrowings on the term loans went from $3,000,000 to $4,500,000 and the revolving loan went from $1,000,000 to $500,000. The repayments will be interest only for the first 3 months commencing on March 1, 2009 and on June 1, 2009 the remaining 33 payments of principal and interest. All other terms will remain the same. Also in connection with this agreement, the lender received a warrant to purchase 66,709 shares of preferred series F stock at a purchase price of $1 .499 per share.

13. Contingencies

During 2008 and prior, the Company has received notice from various parties on patent and technology matters, which could potentially result in litigation against the Company. As of the date of these financial statements no actual litigation has been commenced against the Company related to these matters.

In addition, in January 2002, one of the Company's customers filed for bankruptcy. It is possible that the Company could potentially be required to repay collections from the customer, although, no communication has been received since 2004.

14. Acquisition (unaudited)

Effective October 1, 2009, the Company was acquired by KIT Digital, Inc. for consideration of $13,645,000.

Exhibit 99.2

The FeedRoom

Financial Statements

September 30, 2009

The FeedRoom, Inc.

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The FeedRoom, Inc.
Balance Sheet (unaudited)
September 30, 2009

Assets	
Current assets	
Cash and cash equivalents	$ 5,649,759
Accounts receivable	607,179
Prepaid expenses and other current assets	211,329
Total current assets	6,468,267
Property and equipment, net	1,591,790
Intangible assets, net	314,207
	$ 8,374,264
Liabilities and Stockholders' Equity	
Current liabilities	
Accounts payable and accrued expenses	$ 1,565,623
Due to KIT digital	4,636,207
Deferred revenue	661,825
Total current liabilities	6,863,655
Stockholders' equity (deficit)	
Series F convertible preferred stock; $0.001 par value; 10,446,770 shares authorized, issued and outstanding (liquidation preference of $35,446,400)	10,446
Series E convertible preferred stock; $0.001 par value; 3,454,522 shares authorized; 3,279,522 shares issued and outstanding (liquidation preference of $7,356,283)	3,280
Series D convertible preferred stock; $0.001 par value; 3,997,545 shares authorized, issued and outstanding (liquidation preference of $5,246,640)	3,998
Series C convertible preferred stock; $0.001 par value; 1,391,826 shares authorized, issued and outstanding (liquidation preference of $1,929,743)	1,392
Common stock; $1.00 par value; 25,000,000 shares authorized; 64,215 and 9,772 shares issued and outstanding for 2008 and 2007	64,215
Additional paid-in capital	66,138,863
Accumulated deficit	(64,711,585)
Total stockholders' equity	1,510,609
	$ 8,374,264

The FeedRoom, Inc.
Statement of Operations (unaudited)
Nine Months Ended September 30, 2009

Sales	
Application and hosting	$ 4,057,120
Broadcasting	400,175
Website builds and professional services	1,014,539
	5,471,834
Cost of sales	2,280,713
Gross profit	3,191,121
Selling, general and administrative	9,392,341
Loss from operations	(6,201,220)
Other income (expense)	
Currency exchange	45,511
Interest expense	(540,983)
Interest income	4,206
	(491,266)
Loss before income taxes	(6,692,486)
Provision for state income taxes	—
Net loss	$ (6,692,486)

The FeedRoom, Inc.
Statement of Cash Flows (unaudited)
Nine Months Ended September 30, 2009

Cash flows from operating activities	
Net loss	$ (6,692,486)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation and amortization	648,457
Bad debt expense	246,215
Changes in operating assets and liabilities	
Accounts receivable	181,675
Prepaid expenses and other current assets	217,889
Accounts payable and accrued expenses	213,782
Deferred revenue	171,992
Net cash used by operating activities	(5,012,476)
Cash flows from investing activities	
Purchases of property and equipment	(219,936)
Cash received in advance of KIT merger	4,636,207
Net cash provided by investing activities	4,416,271
Cash flows from financing activities	
Repayments of loans payable	(5,000,000)
Repayments of capital lease obligations	(188,157)
Proceeds from the issuance of Series F preferred stock, net	4,000,000
Proceeds from debt financing	1,954,939
Net cash provided by financing activities	766,782
Net increase in cash and cash equivalents	170,576
Cash and cash equivalents	
Beginning of year	5,479,182
End of year	$ 5,649,759
Supplemental disclosure of cash flow information	
Cash paid during the year for	
Interest	$ 565,626
State income taxes	$ —

The FeedRoom, Inc.
Notes to Unaudited Financial Statements

1. Summary of Significant Accounting Policies

Organization

The FeedRoom, Inc. ("we," "us," "our," the "Company" or "FeedRoom") was incorporated as a Delaware corporation in September 1999 and is based in New York, New York. The Company also conducts operations in California, Massachusetts and Washington. The Company provides video and digital asset management services, technology and professional services on an outsourced and hosted basis to a variety of customers in the corporate, government and media sectors throughout the United States and other countries.

On September 30, 2009, KIT digital, Inc. ("KIT digital"), KIT Acquisition Corporation, a Delaware corporation and wholly-owned subsidiary of KIT digital, FeedRoom and certain stockholders of FeedRoom, entered into a definitive Agreement and Plan of Merger (the "Merger Agreement"). Under the Merger Agreement, KIT Acquisition Corporation merged with and into FeedRoom and as a result of such merger KIT digital became the sole stockholder of FeedRoom as of the effective date of October 1, 2009. See Note 3 Subsequent events for further details.

Going Concern

The Company has sustained recurring losses and negative cash flows from operations. Over the past year, the Company's growth has been funded through a combination of private equity and debt financing. As of September 31, 2009, the Company had cash on hand of $5,649,759. The Company received $4 million dollars in September 2009 in private equity in conjunction with the merger with KIT digital. However, the Company has experienced and continues to experience negative operating margins and negative cash flow from operations, as well as an ongoing requirement for substantial additional capital to accomplish its business plan over the next several years.

Use of Estimates

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Revenue Recognition

Website Builds and Professional Services

Revenue derived from website build and professional services are recognized in the month the services are performed.

Application and Hosting

Application and hosting fees are billed in accordance with the terms of the customer contract. Revenues are recognized in the month the services are provided.

Broadcasting

Revenue generated from broadcasting is recognized in the month the services are provided.

Subscriptions

Subscription revenues are recognized in the month the fees are earned.

Accounts Receivable

Accounts receivable represent unsecured, non-interest bearing obligations from customers. Credit is extended to customers based on an evaluation of a customer's financial condition. Accounts receivable are due within 30 days. The Company evaluates its accounts receivable for collectability and establishes an allowance for doubtful accounts as needed when accounts receivable become uncollectible.

Advertising

The Company expenses advertising costs as they are incurred. Advertising expenses amounted to $23,869 in the nine months ended September 30, 2009.

Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method over their estimated useful lives, generally three to five years for computer equipment, three years for computer software, three years for office equipment, five years for furniture and fixtures and five years for other property. Leasehold improvements are amortized over the shorter of the term of lease or useful life. Expenditures for maintenance and repairs, which do not improve or extend the useful lives of the respective assets, are expensed as incurred.

Intangibles with Finite Lives

The Company is amortizing software costs on the straight-line basis as follows:

Description	Amortization Period (Life) Years
Software costs	3

Concentration of Credit Risk

Financial instruments which potentially expose the Company to concentration of credit risk consist primarily of cash and cash equivalents. The Company places its cash and cash equivalents in high quality financial institutions and at times during the year, the amount on deposit may exceed the Federal Deposit Insurance Corporation's insured limit. The Company has not incurred any losses from credit risk during the nine months ended September 30, 2009.

In 2009, the Company lost a customer that comprised 43 percent of 2008 revenue.

2. Loans Payable

In January 2009, the Company refinanced its loans payable. The maximum borrowings on the term loans went from $3,000,000 to $4,500,000 and the revolving loan went from $1,000,000 to $500,000. The repayments will be interest only for the first 3 months commencing on March 1, 2009 and on June 1, 2009 the remaining 33 payments of principal and interest. All other terms will remain the same. Also in connection with this agreement, the lender received a warrant to purchase 66,709 shares of preferred series F stock at a purchase price of $1 .499 per share.

At the end of September 2009, all of the remaining debt was repaid.

The FeedRoom, Inc.
Notes to Unaudited Financial Statements

3. Subsequent events

On September 30, 2009, KIT digital, Inc. (“KIT digital”), KIT Acquisition Corporation, a Delaware corporation and wholly-owned subsidiary of KIT digital, FeedRoom and certain stockholders of FeedRoom, entered into a definitive Agreement and Plan of Merger (the “Merger Agreement”). Under the Merger Agreement, KIT Acquisition Corporation merged with and into FeedRoom and as a result of such merger KIT digital became the sole stockholder of FeedRoom as of the effective date of October 1, 2009. FeedRoom stockholders received in exchange for their capital stock in FeedRoom 1,312,000 shares of KIT digital common stock (the “Merger Shares”), which reflects 948,636 shares of KIT digital common stock issued for the acquisition of FeedRoom and an additional 363,636 shares of KIT digital common stock issued in exchange for a $4,000,000 indirect investment in KIT digital through the purchase of FeedRoom Series F Preferred Stock by certain stockholders of FeedRoom immediately prior to the closing of the merger. The KIT digital common stock was sold to such stockholders at an effective price of $11.00 per share. In accordance with the Merger Agreement, the Merger Shares were delivered as follows: (i) 937,398 shares of KIT common stock delivered to the stockholders of FeedRoom; and (ii) a “holdback amount” of 374,602 shares of KIT common stock, which will be used by KIT digital to satisfy any indemnity claims in accordance with the Merger Agreement, the balance of which will be payable by KIT digital one year after the closing. Included in “Due to KIT digital” in the balance sheet is $4,636,207 which represents the payment of FeedRoom’s debt in advance of the closing by KIT digital.

Subject to the Merger Agreement, each outstanding share of Series F Convertible Preferred Stock was cancelled and extinguished, and automatically converted into the right to receive upon surrender of the stock representing such share of Series F Preferred Stock 0.12559010 KIT digital common shares. As the Merger Shares are insufficient to discharge the payments required to be made under the Restated Certificate to the holders of Series F Convertible Preferred Stock, no distributions of Merger Shares will be made to the holders of the common stock or any other series of preferred stock of the Company and such common stock and all preferred stock other than the Series F Convertible Preferred Stock will be cancelled and extinguished as of the effective date for no consideration as a result of the merger.

Per the Merger Agreement, no Company Options (whether vested or unvested) shall be assumed by the surviving corporation. The Second Amended 2004 Stock Option and Restricted Stock Award Plan dated July 7, 2008 (including any sub-plans thereof) will be terminated at the closing.

Per the Merger Agreement, no outstanding warrants or other rights to acquire shares of company capital stock or any other shares or securities of the Company (whether or not exercisable or vested) (“Company Warrants”) shall be assumed by the surviving corporation, and each such Company Warrant shall be canceled or terminated prior to the closing.

Exhibit 99.3

KIT DIGITAL, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

On October 6, 2009, KIT digital, Inc., a Delaware corporation ("KIT digital" or the "Company"), filed a Current Report on Form 8-K (the "October 8-K") to report the company entered into a definitive Agreement and Plan of Merger (the "Merger Agreement") on September 30, 2009 with KIT Acquisition Corporation, a Delaware Corporation and wholly-owned subsidiary of KIT digital, The FeedRoom, Inc., a Delaware corporation ("FeedRoom") and certain stockholders of FeedRoom. Under the Merger Agreement, KIT Acquisition Corporation merged with and into FeedRoom and as a result of such merger KIT digital became the sole stockholder of FeedRoom as of the effective date of October 1, 2009.

On September 30, 2009, KIT digital, KIT Acquisition Corporation, FeedRoom and certain stockholders of FeedRoom, entered into the Merger Agreement. Under the Merger Agreement, KIT Acquisition Corporation merged with and into FeedRoom and as a result of such merger KIT digital became the sole stockholder of FeedRoom as of the effective date of October 1, 2009. FeedRoom stockholders received in exchange for their capital stock in FeedRoom 1,312,000 shares of KIT digital common stock (the "Merger Shares"), which reflects 948,636 shares of KIT digital common stock issued for the acquisition of FeedRoom and an additional 363,636 shares of KIT digital common stock issued in exchange for a $4,000,000 indirect investment in KIT digital through the purchase of FeedRoom Series F Preferred Stock by certain stockholders of FeedRoom immediately prior to the closing of the merger. The KIT digital common stock was sold to such stockholders at an effective price of $11.00 per share. The gross consideration paid by KIT digital for the acquisition of FeedRoom was $13.6 million which represents 1,312,000 total shares with the primary consideration of 948,364 shares at $10.17 per share or $9,645,000 and the secondary consideration of 363,636 shares at $11 per share or $4,000,000.

The unaudited pro forma condensed combined balance sheet was prepared by combining the condensed balance sheet of KIT digital and the condensed balance sheet of FeedRoom as of September 30, 2009. The unaudited pro forma condensed combined balance sheet reflects the gross consideration paid by KIT digital for the acquisition of FeedRoom of $13.6 million assuming the transaction had been completed on September 30, 2009.

The unaudited pro forma condensed combined statement of operations was prepared by combining the condensed statement of operations of KIT digital and the condensed statement of operations of FeedRoom for the nine months ended September 30, 2009 and the year ended December 31, 2008 as if the acquisition was effective January 1, 2008.

The pro forma condensed combined financial statements should be read in conjunction with the separate financial statements and related notes thereto of KIT digital, as filed with the Securities and Exchange Commission (SEC) in its Annual Report on Form10-K filed April 15, 2009 and in its Quarterly Report on Form 10-Q filed November 19, 2009 and in conjunction with the separate financial statements and related notes thereto of FeedRoom included as Exhibit 99.1 and 99.2 to this Form 8-K/A.

These pro forma condensed combined financial statements are not necessarily indicative of the combined results of operations that would have occurred had the acquisition actually taken place at the beginning of the period indicated above or the future results of operations. In the opinion of KIT's management, all significant adjustments necessary to reflect the effects of the acquisition that can be factually supported within SEC regulations covering the preparation of pro forma financial statements have been made. The pro forma adjustments as presented are based on estimates and certain information that is currently available to KIT's management. Such pro forma adjustments could change as additional information becomes available, as estimates are refined or as additional events occur.

UNAUDITED PRO FORMA CONDENSED COMBINED
BALANCE SHEET
As of September 30, 2009
(in thousands of USD)

	Historical		Pro Forma		Pro Forma
	KIT digital September 30, 2009	**FeedRoom September 30, 2009**	**Adjustments**		**Combined September 30, 2009**
ASSETS					
Cash and cash equivalents	$ 13,451	$ 5,650	$		$ 19,101
Other current assets	26,451	818	(4,636)	**F**	22,633
Total current assets	39,902	6,468	(4,636)		41,734
Intangible assets, net	5,705	314	1,700	**B**	
			(314)	**E**	7,405
Goodwill	16,559		11,340	**C**	27,899
Other non-current assets	2,872	1,592	(591)	**D**	3,873
Total assets	**$ 65,038**	**$ 8,374**	**$ 7,499**		**$ 80,911**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities	$ 35,196	$ 6,864	$ (4,636)	**F**	$ 37,424
Non-current liabilities	398				398
Total liabilities	35,594	6,864	(4,636)		37,822
Minority interest					0
Stockholders' equity	29,444	1,510	13,645	**A**	
			(1,510)	**G**	43,089
Total liabilities and stockholders' equity	**$ 65,038**	**$ 8,374**	**$ 7,499**		**$ 80,911**

See accompanying notes to unaudited pro forma condensed combined financial statements

UNAUDITED PRO FORMA CONDENSED COMBINED
STATEMENT OF OPERATIONS
For the Nine Months Ended September 30, 2009
(in thousands of USD, except per share data)

	Historical		Pro Forma		Pro Forma
	KIT digital Nine months ended September 30, 2009	FeedRoom Nine months ended September 30, 2009	Adjustments		Combined Nine months ended September 30, 2009
Revenue	$ 31,154	$ 5,472	$		$ 36,626
Operating expenses	36,553	11,673	245	**H**	
			(113)	**I**	48,358
(Loss) from operations	(5,399)	(6,201)	(132)		(11,732)
Interest and other income	436	50			486
Interest and other expense	(441)	(541)			(982)
Amortization of deferred financing costs and debt discount	(1,175)				(1,175)
Derivative (expense) income	2,233				2,233
Net (loss) before income taxes	(4,346)	(6,692)	(132)		(11,170)
Income tax expense	(4)				(4)
Net (loss) available to common shareholders	**$ (4,350)**	**$ (6,692)**	**$ (132)**		**$ (11,174)**
Basic and diluted net (loss) per common share	**$ (0.82)**				**$ (1.70)**
Weighted average common shares outstanding, basic and diluted	5,278,472				6,590,472

See accompanying notes to unaudited pro forma condensed combined financial statements

UNAUDITED PRO FORMA CONDENSED COMBINED
STATEMENT OF OPERATIONS
For the Year Ended December 31, 2008
(in thousands of USD, except per share data)

	Historical		Pro Forma		Pro Forma
	KIT digital Year ended December 31, 2008	FeedRoom Year ended December 31, 2008	Adjustments		Combined Year ended December 31, 2008
Revenue	$ 23,401	$ 10,118	$		$ 33,519
Operating expenses	42,107	15,944	260	H	
			(25)	I	58,286
(Loss) from operations	(18,706)	(5,826)	(235)		(24,767)
Interest and other income	195	69			264
Interest and other expense	(345)	(411)			(756)
Amortization of deferred financing costs and debt discount	(110)				(110)
Derivative (expense) income					0
Net (loss) before income taxes	(18,966)	(6,168)	(235)		(25,369)
Income tax expense	(116)				(116)
Net (loss) before minority interest	(19,082)	(6,168)	(235)		(25,485)
Minority interest	107	(15)			92
Net (loss) available to common shareholders	**$ (18,975)**	**$ (6,183)**	**$ (235)**		**$ (25,393)**
Basic and diluted net (loss) per common share	**$ (7.55)**				**$ (6.64)**
Weighted average common shares outstanding, basic and diluted	2,512,415				3,824,415

See accompanying notes to unaudited pro forma condensed combined financial statements

KIT DIGITAL, INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Preliminary Purchase Price to Acquire FeedRoom

The aggregate cost of the acquisition of FeedRoom was approximately $13.6 million. We have allocated the aggregate cost of the acquisition to FeedRoom’s net tangible and identifiable intangible assets based on their estimated fair values. The excess of the aggregate cost of the acquisition over the net estimated fair value of the tangible and identifiable intangible assets and liabilities assumed was recorded to goodwill. Below is a summary of the preliminary allocation of the aggregate cost of the acquisition. The final purchase price allocation will depend upon the final valuation of the assets acquired and the liabilities assumed. Consequently, the actual allocation of the purchase price could differ from that presented herein.

		Aggregate Cost of the Acquisition ($ in thousands)
Intangible assets—developed technology	$	300
Intangible assets—customer relationships		1,400
Acquired assets and liabilities, net		605
Goodwill		11,340
Total	$	**13,645**

Unaudited Pro Forma Condensed Combined Balance Sheet

The pro forma adjustments on the attached unaudited pro forma condensed combined balance sheets include the following:

A.) Represents the gross consideration paid by KIT digital for the acquisition of FeedRoom was $13.6 million which represents 1,312,000 total shares with the primary consideration of 948,364 shares at $10.17 per share or $9,645,000 and the secondary consideration of 363,636 shares at $11 per share or $4,000,000.

B.) Represents the estimated fair value of intangible assets separately identifiable from goodwill as of the acquisition of $1.7 million.

C.) Represents goodwill, which is the excess of the purchase price over the net estimated fair value of the tangible and identifiable intangible assets acquired and liabilities assumed, of $11,340,000.

D.) Represents the adjustment for the fair value of the property and equipment upon acquisition.

E.) Represents the elimination entry to writeoff the intangibles of $314,000 on the books of FeedRoom upon acquisition.

F.) Represents the elimination of the receivable on KIT's books of $4,636,000, which occurred prior to the closing of the FeedRoom acquisition.

G.) Represents the elimination of FeedRoom’s historical equity accounts.

Unaudited Pro Forma Condensed Combined Statements of Operations

The pro forma adjustments on the attached unaudited pro forma condensed combined statements of operations include the following:

H.) Represents the increase in amortization of intangible assets based on the estimated fair value of acquired intangible assets. We preliminarily identified approximately $1.4 million of amortizable intangible assets for customer relationships with an estimated useful life of approximately 7 years and $300,000 of developed technology with an estimated useful life of approximately 5 years. Amortization of these assets will be recorded to operating expenses depending on the type of asset. The purchase price allocation for FeedRoom is preliminary and will be finalized upon receipt of a final valuation report.

I.) Represents a reversal in amortization of intangible assets on the books of FeedRoom which will be written off upon the acquisition.

EXHIBIT XI

EXCERPTS FROM 10-KSB FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006, FILED BY ROO GROUP, INC. (CURRENTLY KIT DIGITAL, INC.) WITH THE SEC ON APRIL 2, 2007

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

BACKGROUND

ROO Group, Inc. was incorporated on August 11, 1998 under the laws of the State of Delaware as Virilitec Industries, Inc. We were formed to license and distribute a line of bioengineered virility nutritional supplements designed to enhance human male sperm count and potency. We were not successful in implementing our business plan, and after looking at other possible products to expand our product line, our management determined that it was in the best interests of our shareholders to attempt to acquire an operating company. As a result, we terminated all of our existing contracts and were inactive until we acquired ROO Media Corporation, a Delaware corporation.

ACQUISITION OF ROO MEDIA CORPORATION

On December 2, 2003, Virilitec Industries, VRLT Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of Virilitec Industries, ROO Media, Jacob Roth and Bella Roth, entered into an Agreement and Plan of Merger. Upon the terms and subject to the conditions set forth in the Agreement and Plan of Merger, VRLT Acquisition Corp. was merged with and into ROO Media. As a result of the merger, Virilitec Industries, through VRLT Acquisition Corp., acquired 100% of the capital stock of ROO Media. All of the issued and outstanding shares of capital stock of ROO Media held by the stockholders of ROO Media were cancelled and converted into the right to receive an aggregate of 2,960,000 shares of common stock of Virilitec Industries. The separate corporate existence of VRLT Acquisition Corp. ceased, and ROO Media continued as the surviving corporation in the merger, as a wholly owned subsidiary of Virilitec Industries.

In connection with the merger, we agreed to cause the resignation of all of the members of our Board of Directors and appoint new Directors as designated by the Chairman of the Board of Directors of ROO Media. As additional consideration for the 2,960,000 shares of common stock of Virilitec Industries, (1) ROO Media paid to Virilitec Industries $37,500 cash prior to the execution of the Agreement and Plan of Merger, (2) ROO Media paid an aggregate of $100,000 of Virilitec Industries' total $162,500 of liabilities as reflected on Virilitec Industries' balance sheet on the closing date of the merger, and (3) ROO Media paid Virilitec Industries' $62,500 debt to Jacob Roth, Virilitec Industries' former Chief Executive Officer. In connection with the $62,500 payment to Mr. Roth, ROO Media entered into an agreement to pay such debt within 90 days after the effective date of the merger, which was December 3, 2003. The $62,500 debt to Jacob Roth was paid during the first quarter of 2004.

OTHER ACQUISITIONS: REALITY GROUP PTY LTD., UNDERCOVER MEDIA PTY LTD. BICKHAMS MEDIA, INC., FACTORY 212 PTY LTD., AND MYVIDEODAILY.

REALITY GROUP PTY LTD.

On April 30, 2004, we purchased 80 shares of the common stock of Reality Group Pty Ltd ("Reality Group") which represented 80% of the issued and outstanding common stock of Reality Group, a corporation formed under the laws of Australia, from the shareholders of Reality Group. The consideration for the Reality Group common shares was the issuance of an aggregate of 167,200 shares of our common stock. As additional consideration for the Reality Group shares, we paid an aggregate of 200,000 Australian Dollars to the Reality Group shareholders. Further, the Reality Group shareholders agreed to cause Reality Group to increase the number of directors on its Board of Directors to allow us to appoint up to four nominees to its Board.

The Reality Group shareholders also agreed to grant us an option to purchase the remaining 20 shares of the issued and outstanding common stock of Reality Group over the next two years. The terms of the option shall be negotiated in good faith. Notwithstanding this, the option is exercisable by us on July 30, 2004, January 30, 2005, July 30, 2005 and January 30, 2006, and shall expire on March 5, 2006. On October 28, 2005 the terms of the Purchase Agreement were amended as further described on page 3 of this report.

Pursuant to the purchase agreement, we guaranteed that the Reality Group shareholders will be able to sell the shares of our common stock that they received, subject to the requirements of Rule 144, for greater than or equal to $15.00 per share for a period of twelve months after the Reality Group shareholders have satisfied the Rule 144 requirements. The foregoing guarantee was predicated upon the assumption that the Reality Group shareholders will be able to sell the greater of (a) 1/4 of their respective exchange shares per quarter of the guarantee period or (b) such maximum number of exchange shares permissible under Rule 144 per quarter of the guarantee period. If the Reality Group shareholders do not sell their quarterly allotment during any one quarter of the guarantee period, the guarantee shall not be effective for the number of shares not sold during that quarter.

During the guarantee period, the Reality Group shareholders have the option to buy back an aggregate of 29 Reality Group shares, or such number of shares as shall decrease our ownership percentage in Reality Group to 51%. The consideration for such buy-back shares shall be 2,280 shares of our common stock for each share of Reality Group common stock. The earliest date for exercising this buy-back provision is September 1, 2004. On October 28, 2005 the terms of the Purchase Agreement were amended as further described on page 3 of this report.

In the event that the Reality Group shareholders are not able to sell their shares of our common stock for greater than or equal to $15.00 per share during the guarantee period, a share variance shall be determined based on the difference between (a) the number of exchange shares to be sold multiplied by $15.00 per share and (b) the number of exchange shares to be sold multiplied by the closing sale price of the exchange shares on the trading day immediately prior to the day that a Reality Group shareholder notifies us of its enforcement of the guarantee. In the event that a Reality Group shareholder enforces the guarantee, we, in our sole discretion, may pay the share variance to the Reality Group shareholder in one of the following ways: (1) in cash; (2) we shall authorize the escrow agent (as defined in the purchase agreement) to return to the Reality Group shareholders on a pro rata basis that amount of shares, based on a share valuation of $20,900 per Reality Group ordinary share, that shall constitute the share variance; or (3) if mutually agreeable to the Reality Group shareholders, in shares of our common stock based on the average closing sale price of shares of our common stock during the previous 15 trading days. To ensure the guarantee, we agreed to not offer or negotiate, either in writing or orally, the sale of the Reality Group shares or any Reality Group option shares acquired by us with any other party during the guarantee period.

If during the guarantee period: (a) we undergo a voluntary or involuntary dissolution, liquidation or winding up; (b) our shares of common stock cease trading for more than 15 business days; or (c) the quotation of our common stock is removed or suspended from the Over-the-Counter Bulletin Board for a continuous period of greater than 30 days (other than as a consequence of the quotation of our securities on an internationally recognized stock exchange), then the following shall occur: (1) the Reality Group shares shall revert back to the Reality Group shareholders; (2) the shares of our common stock exchanged for 80% of the Reality Group shares shall revert back to us; (3) the option shall be revoked; and (4) our nominees to the Reality Group's Board of Directors shall immediately resign.

Pursuant to the terms of the purchase agreement, each Reality Group shareholder agreed to not, unless permitted by our Board of Directors, sell more than 25% of their exchange shares during any three-month period for a period of two years after the effective date of the purchase agreement. Furthermore, each Reality Group shareholder granted to us a right of first refusal with respect to the purchase of the Reality Group shareholders' exchange shares for a period of one year after the first date on which the exchange shares are eligible for sale by the Reality Group shareholders in accordance with Rule 144 or any other applicable legislation, regulation or listing rule. If we elect to purchase the shares, such shares shall be purchased at the highest closing sale price for the period commencing on the trading day immediately prior to our receipt of notice of intent to sell from the Reality Group shareholders until the trading day immediately prior to the date on which we give notice to the selling Reality Group shareholder of its election to purchase.

Reality Group provides integrated communication solutions, including direct marketing, Internet advertising and sales promotion. Reality Group was formed as a result of the change in direction of marketing with the advent of the Internet and a need for more accountable, integrated advertising. Reality Group believes that it is a pioneer of integrated communication, with an emphasis on web-based solutions and customer relationship management systems built to manage the inquiries generated through their web based campaigns. Its clients include Saab Automobile Australia, BP Australia, Bob Jane T-Marts, Tontine, Dennis Family Corporation, Tabaret, Superannuantion Trust of Australia, Federal Hotels & Resorts, and CityLink.

To help identify the most effective way to communicate with each client's audience, Reality Group created a proprietary management tool that provides specific costs per response for each media channel. The management tool allows Reality Group to focus on effective media channels and eliminate the rest by identifying the parts of a client's budget that are working.

AMENDMENT TO REALITY GROUP PURCHASE AGREEMENT

On October 28, 2005, we entered into an amendment (the "Amendment") to the Stock Purchase Agreement (the "Reality Purchase Agreement") dated as of March 11, 2004 among the Company and the shareholders of Reality Group Pty Ltd. ("Reality Group"). Pursuant to the Amendment, the Reality Group shareholders agreed to exercise their buyback option effective January 1, 2006 at which date the Company returned 29% of the shares in Reality Group to Reality Group shareholders reducing the Company's ownership of Reality Group to 51% in exchange for 66,200 shares of the common stock of the Company (the “exchange shares”). The Reality Group shareholders further agreed that the Share Variance (as defined in the Reality Purchase Agreement and as described in a Form 8-K filed by the Company on May 17, 2004) shall be calculated based upon a closing sale price of $2.50 and the Share Variance equals $1,263,500.

We paid $200,000 of the $1,263,500 Share Variance in cash and issued 425,400 shares (the "Variance Shares") of common stock as payment of the remaining $1,063,500 based on a stock price of $2.50 per share. We guaranteed (the "Variance Guarantee") the Reality Group shareholders that they will be able to sell their Exchange Shares (as defined in the Reality Purchase Agreement and as described in a Form 8-K filed by the Company on May 17, 2004) and Variance Shares for a price equal to or greater than $2.50 per share for a period of 14 days after the earliest date that the Reality Group shareholders can publicly sell their shares of our common stock (the "Variance Guarantee Period"). In the event the Reality Group shareholders are unable to sell any of the Exchange Shares or the Variance Shares for a price equal to or greater than $2.50 per share during the Variance Guarantee Period, then we must issue them such number of shares of common stock equal to: (x) the applicable number of Variance and/or Exchange Shares multiplied by $2.50, less (y) the applicable number of Variance and/or Exchange Shares multiplied by the average closing sale price of our common stock on the OTC Bulletin Board during the Variance Guarantee Period, divided by (z) the average closing sale price of our common stock on the OTC Bulletin Board during the Variance Guarantee Period. Notwithstanding the above agreements, if at any time during the Variance Guarantee Period an offer is presented to a Reality Group shareholder to purchase their Variance Shares for a price equal to or greater than $2.50 per share and such shareholder does not accept the offer, then our obligations pursuant to the Variance Guarantee shall be automatically terminated with respect to such shareholder. We agreed to prepare and file a registration statement providing for the resale of 359,280 of the Variance Shares by November 27, 2005. The variance guarantee in the amendment to the Reality Group Purchase Agreement has been satisfied.

ACQUISITION OF COOEE MELBOURNE PTY LTD.

On October 1, 2006, Reality Group and the shareholders of Cooee Melbourne Pty Ltd. (“Cooee”) entered into an agreement, pursuant to which Reality Group acquired the business and assets of Cooee. Cooee is a provider of integrated communication solutions, including direct marketing, internet advertising and sales promotion. As consideration for the business and assets of Cooee, Reality Group will make a cash payment monthly for a period of 21 months to the shareholders of Cooee, subject to adjustment as follows. For the first six months, a payment of approximately $20,000 will be paid to Cooee at the conclusion of the month. After every six months, the amount due and payable to Cooee will be reconciled against revenue earned and paid from Cooee’s clients. At the end of each six month period, a reconciliation statement will be prepared and provided by Reality Group to Cooee. In the event that revenue from the six month period exceeds $394,000 (based on the pro rata expectation of a $788,000 annualized revenue) or is less than $394,000, the variance percentage between the expected $394,000 revenue shall be either adjusted by way of deduction or an increase in respect of the fee paid in the following six month period in equal installments.

UNDERCOVER MEDIA PTY LTD.

On May 26, 2004, we entered into an asset purchase agreement to purchase the business and business assets of Undercover Media Pty Ltd. ("Undercover"), a Victorian, Australia corporation. The purchase price for Undercover's assets consisted of 20,000 shares of our common stock. We also agreed to issue additional shares of our common stock upon Undercover attaining performance milestones as follows: (a) upon the commercial launch of a broadband music portal suitable for operation as a stand alone site that is capable of worldwide syndication, the issuance of that number of shares of common stock that is equal to the quotient of (x) $75,000 divided by (y) the average closing sale price of the shares of common stock for the five trading days prior to such commercial launch; (b) upon the execution of an agreement for the supply and worldwide syndication of music videos with an aggregate of four mutually acceptable major music labels, the issuance of that number of shares of common stock that is equal to the quotient of (x) $75,000 divided by (y) the closing sale price prior to the execution of the last of the four of such agreements; (c) upon the generation of at least $30,000 per month in revenues for three consecutive months attributable to the company's music subdivision, the issuance of that number of shares of common stock that is equal to the quotient of (x) $75,000 divided by (y) the closing sale price prior to the determination that such revenues have been achieved; and (d) upon obtaining an aggregate of thirty video interviews with mutually acceptable recognized artists; the issuance of that number of shares of common stock that is equal to the quotient of (x) $75,000 divided by (y) the closing sale price prior to the last of the thirty interviews. On November 21, 2006, we issued 100,000 shares of common stock in full and final settlement of the milestones detailed in the Undercover Purchase Agreement. The shares were valued at $260,000, based on the closing trading value of the shares on the previous day.

Included in the purchase is the www.undercover.com.au web site, which at time of purchase served over 500,000 visitors per month with 55% from the United States, 18% from Europe, 7% from Asia and 20% from other countries throughout the world. The Undercover website, through its relationship with HMV, clearly displays the link between music content and the sale of music; the user reads the article or interview and can then click through to purchase the artist's CD from HMV's web site.

At the time of the acquisition, Undercover features included original music content ranging from raw interview footage to propriety editorial content combined with industry released footage. Undercover has served both the music industry and music community with daily music news, reviews and editorial bulletins. Undercover's clients included Telstra Corporation, AAP and Coca Cola, and its distribution partners include Google, VH1, Nova, Artist Direct and News Now. In addition, Undercover had a strategic online partnership with HMV for online music sales.

BICKHAMS MEDIA, INC.

On September 10, 2004, we entered into an agreement to purchase all of the outstanding shares of common stock of Bickhams Media, Inc. ("Bickhams") from Avenue Group, Inc. pursuant to a Stock Purchase Agreement dated September 10, 2004. The only business of Bickhams is its ownership interest in VideoDome.com Networks, Inc. ("VideoDome"), a California corporation. In consideration for the purchase, we agreed to: (1) pay Avenue Group $300,000 cash; (2) issue Avenue Group 80,000 shares of our common stock; and (3) guaranty all of the obligations of VideoDome under a promissory note of VideoDome that was issued to Avenue Group in October 2003 in the principal amount of $290,000. In addition, we agreed to issue Avenue Group 60,000 shares of our common stock in consideration for a termination letter which shall serve to terminate a Registration Rights Agreement dated as of November 28, 2003.

As of November 1, 2004, we entered into an agreement with Bickhams and Daniel and Vardit Aharonoff for Bickhams to purchase 50% of the outstanding common stock of VideoDome. Prior to November 1, 2004, Bickhams already owned the other 50% of the outstanding common stock of VideoDome. As a result of this transaction, Bickhams now owns 100% of the outstanding common stock of VideoDome. Under the agreement, we agreed to: (1) issue 100,000 shares of our common stock to Daniel Aharonoff on the closing date; (2) issue an additional 60,000 shares of our common stock to Daniel Aharonoff upon meeting jointly agreed milestones; and (3) pay up to $220,000 in cash to Daniel Aharonoff upon meeting jointly agreed milestones.

The jointly agreed milestones are as follows: (1) upon the commercial launch of VideoDome's embedded player and music player, we agreed to pay Mr. Aharonoff $100,000 cash and issue Mr. Aharonoff 20,000 shares of our common stock; (2) upon the commercial launch of a combined ROO Media and VideoDome Media Manager platform, we agreed to pay Mr. Aharonoff $100,000 cash and issue Mr. Aharonoff 40,000 shares of our common stock; and (3) after the combined platform has delivered a minimum of 50,000,000 video views for two consecutive months excluding mini player views, we agreed to pay Mr. Aharonoff $20,000 cash. On December 21, 2004 the first milestone was reached and we issued 20,000 shares of common stock and $100,000 in cash to Mr. Aharonoff. On May 9, 2005 the requirements of the second milestone was reached and we issued 40,000 shares of common stock and $100,000 in cash to Mr. Aharonoff. On April 11, 2006, the third and final milestone payment of $20,000 in cash was paid to Mr. Aharonoff

In connection with the agreement, Mr. Aharonoff agreed not to directly or indirectly agree or offer to sell, grant an option for the purchase or sale of, transfer, pledge, assign, hypothecate, distribute or otherwise encumber or dispose of the shares of our common stock acquired by him under the agreement until the earlier of: (a) two years from the respective issuance(s) of such shares; or (b) the date that holders (the "Holders") of certain Callable Secured Convertible Notes (the "Notes") and Stock Purchase Warrants (the "Warrants"), issued by us on September 10, 2004, no longer hold the Notes and the Warrants and no longer beneficially own any shares of our common stock issuable upon conversion or exercise of the Notes or the Warrants, without the prior written consent of such Holders of the Notes and the Warrants. The Holders agreed to waive any adjustment that otherwise would have been required to the conversion and exercise prices of the Notes and the Warrants due to the issuance of shares of common stock to Mr. Aharonoff.

VideoDome was a Los Angeles based company that provides a range of Media Management solutions through its flagship 5th generation ASP application, VideoDome Media Manager(R). VideoDome customers had direct access to their individual accounts, media inventory, customized media delivery method and style, as well as the ability to add, edit, delete, schedule and track streaming media from any Internet enabled browser. Some of VideoDome's clients included Kenneth Cole, L'Oreal Cosmetics, Redken, and Stanley Tools. VideoDome provided its media management application to these customers which allowed them the ability to manage and publish video on their web sites. The VideoDome Publishing Platform was a database driven, web-based application that allowed clients to upload, organize and publish streaming media through unified interface.

The most current version of VideoDome Media Manager \was Media Manager 4.0, which offered VideoDome customers direct access to their individual accounts, media inventory, customized media delivery method and style, as well as the ability to add, edit, delete, schedule & track streaming media from any Internet enabled browser.

The features of Media Manager 4.0 included:

- VideoDome Tracker(R) - Generate colorful user reports/statistics and find out what your viewing audience is experiencing.

- VideoDome Scheduler(R) - Schedule when you would like certain media to be available on your web site.
- VideoDome AutoSense(R) - AutoSense technology automatically takes the guess work out of the equation by detecting installed media player & available bandwidth across all media formats.
- VideoDome Skin Wizard(R) - Create a compelling branded media player or video portal within minutes using our skin wizard system.
- VideoDome Syndication Manager(R) - Powerful syndication module allows you to replicate then syndicate streaming content to your partners in a completely controlled environment.

Since the acquisition of Videodome, we have made significant enhancements to the original Videodome software which has included the integration of ROO's technology and the combined platform is now the primary video platform for ROO.

FACTORY 212 PTY LTD.

On October 28, 2005, we entered into an agreement with ROO Broadcasting Limited ("ROO Broadcasting"), a wholly owned subsidiary of the Company, and the shareholders of Factory 212 Pty Ltd. ("Factory212"), pursuant to which ROO Broadcasting acquired 51% of the outstanding ordinary shares of Factory212. Factory212 is an Australian based interactive marketing agency.
As consideration for the ordinary shares of Factory212, we issued 10,000 shares (the "Initial Shares") of common stock to the Factory212 shareholders. Subject to the conditions described below, we may issue additional shares ("Additional Shares") of common stock to the Factory212 shareholders, issuable after December 31, 2007, calculated as follows:

$$\frac{51\% \text{ of } [(1 * \text{Factory212 Revenue}) + (4 * \text{Factory212 Earnings})]}{\text{Average ROO Share Price}}$$

where: "Factory212 Revenue" means the billings less all media and third party supplier costs of Factory212 for the twelve month period ending December 31, 2007; "Factory212 Earnings" means the earnings of Factory212 before tax and after deduction of interest and all other expenses for the twelve month period ending December 31, 2007; and "Average ROO Share Price" means the average price of our common stock during the final five trading days of December 2007.

If we do not issue the maximum number of Additional Shares, ROO Broadcasting's 51% ownership of Factory212 will be reduced on a pro rata basis by the difference between the maximum number of Additional Shares and the actual number of Additional Shares issued. If we do not issue any Additional Shares, ROO Broadcasting will relinquish all of its 51% ownership of Factory212. However, if the Factory212 Earnings are greater than 15% of the Factory212 Revenue and the number of Additional Shares to be issued are less than 4.9% of the then current outstanding shares of our common, we must proceed with issuing the maximum number of Additional Shares in accordance with the above formula.

The acquisition of Factory212 was conditioned upon the parties entering into the Amendment described above under "Amendment to Reality Group Purchase Agreement." If we fail to meet our material obligations under the terms of the Amendment, then the Company and ROO Broadcasting agreed that the Factory212 shareholders may in their sole discretion require ROO Broadcasting to relinquish all of its ownership of Factory212. In such event, we agreed that the Factory212 shareholders shall be entitled to retain ownership of their Initial Shares.

ACQUISITION OF SPUTNIK AGENCY PTY LTD.

On October 1, 2006, Factory 212 Pty Ltd. ("Factory212"), our 51% owned subsidiary, and the shareholders of Sputnik Agency Pty Ltd. ("Sputnik") entered into an agreement, pursuant to which Factory212 acquired the business and assets of Sputnik. Sputnik is an Australian based interactive marketing agency. As consideration for the business and assets of Sputnik, Factory212 issued shares representing 24.5% of the issued shares in Factory212 to the shareholders of Sputnik. These shares shall be issued through the reduction in the shareholding of all shareholders other than ROO Broadcasting, our wholly owned subsidiary. Also, a cash amount of $250,000 is payable by ROO Broadcasting to the shareholders of Sputnik. In addition to this amount, 50% of any further payment of Additional Shares, as described in the agreement between Factory212 and ROO Broadcasting, will be made to the shareholders of Sputnik less the cash amount of $250,000. Factory212 acknowledges and agree to such payment and that accordingly, they will receive 50% less than originally provided in Additional Shares. The cash payment of $250,000 was made in December 2006.

MYVIDEODAILY

On January 22, 2007, we entered into an Asset Purchase Agreement with RJM Price & Company, Inc. ("RJM") and Robertson Price. Pursuant to the Agreement, we acquired all of the properties, rights and assets constituting the business of RJM, which operates under the name MyVideoDaily ("MVD"). The Agreement provides for a consideration of up to an aggregate of $1,350,000 payable as follows: (i) $250,000 paid upon the execution of the Agreement, (ii) $1,000,000 in shares of our common stock will be paid to Mr. Price in equal quarterly installments upon the achievement of certain milestones at a price per share which will be equal to equal to the average closing price of our common stock over the final 20 trading days of the quarterly period in which the milestone is achieved; (iii) $100,000 payable upon the second anniversary of the closing of the acquisition. The milestones include: (i) the full integration of MVD's keyword generation and search marketing engine into our operations; (ii) Robertson Price utilizing his best efforts to increase organic traffic to our properties by 50%; (iii) Robertson Price use of MVD in our best interests, which determination shall be made by us; (iv) Robertson Price leading and delivering product development initiative to provide the most profitable customer /consumer traffic driven feature for our 2007 product offering, including community and user generated content modules; (v) Robertson Price assisting in traffic driving recommendations initiatives for key clients leading to increased revenues over and above original customer projections ; (vi) continued employment of Robertson Price for a full year; provided that if his employment is terminated by (a) Robertson Price due to a breach by us of the APA or the employment agreement, which breach is not cured within the permitted cure-period, or (b) us for any reason other than for "Cause" (as defined in the Employment Agreement), then Robertson Price will, as of the date of termination, automatically be deemed to have been employed for a full year.

Pursuant to the terms of the Agreement, the Company has entered into an Employment Agreement with Robertson Price, a principal of RJM pursuant to which Mr. Price will be retained by ROO Media Corporation as Senior Vice President of Product & Network Management.

STRATEGIC RELATIONSHIPS

NEWS CORPORATION

On January 25, 2007, we entered into an agreement with News Corporation ("News Corp"). The Agreement provides for the issuance of 2,000,000 shares of our common stock upon execution of the Agreement, which shall be held in escrow and released to News Corp. on January 1, 2008, upon the achievement of certain milestones. The Agreement provides that if the milestones are not met, we shall issue to News Corp warrants to purchase 2,000,000 shares of our common stock which shall be exercisable for a term of two years at a price of $3.00 per share or such lesser price per share that is the closing price per share of our common stock on any date that is within ten days prior to the date of the Agreement. The Agreement provides for the release of the shares to News Corp upon a change of control as defined in the Agreement, if certain conditions exist.

We also agreed to issue an additional 2,000,000 shares of its common stock to News Corp upon the achievement of certain milestones. Further, we agreed that if the milestones are not timely achieved, we shall issue to News Corp warrants to purchase 2,000,000 shares of our common stock which shall be exercisable for a term of two years at a price of $3.00 per share or such lesser price per share that is the closing per share of our common stock on any date that is within ten days prior to the date of the Agreement.

We have granted News Corp piggy back registration rights in connection with shares issuable to News Corp pursuant to the Agreement.

OVERVIEW OF OUR BUSINESS

We, through our operating subsidiaries, are a digital media company in the business of providing products and solutions that enable the broadcast of topical video content from our customers' Internet websites. This includes providing the technology and content required for video to be played on computers via the Internet as well as emerging broadcasting platforms such as set top boxes and wireless devices (i.e., mobile phones and PDAs). Our core activities include the aggregation of video content, media management, traditional and online advertising, hosting, and content delivery. We also operate a global network of individual destination portals under the brand ROO TV that enables end users in different regions around the world to view video content over the Internet that is topical, informative, up to date, and specific to the region in which they live. In conjunction with our subsidiaries, we currently provide the video solution for over 150 web sites in the United States, United Kingdom, and Australia. Comscore, an independent research company that tracks the video streams sent to users per month placed us as the 9th largest broadcaster of video in the world in it's most recent Deccember 2006 report.

HISTORY OF THE DEVELOPMENT OF OUR BUSINESS

Our consolidated financial statements include the accounts of ROO Group, Inc., its wholly owned subsidiary ROO Media Corporation, its wholly owned subsidiary Bickhams and its 51% owned subsidiary Reality Group. Included in the consolidation with ROO Media Corporation are ROO Media Corporation's wholly owned subsidiary ROO Media (Australia) Pty Ltd. and ROO Media (Australia) Pty Ltd.'s wholly owned subsidiary Undercover, its 100%-owned subsidiary ROO Media Europe Pty Ltd, its wholly owned subsidiary ROO Broadcasting Limited, its 51% owned subsidiary Factory212 and its wholly owned subsidiary ROO TV Pty Ltd. Included in the consolidation with Bickhams is Bickhams' wholly owned subsidiary VideoDome. ROO Media Europe Pty Ltd. was 76% owned by ROO Media Corporation until January 27, 2006 when ROO Media Corporation purchased the remaining 24% of ROO Media Europe Pty Ltd. for $90,000. We provide topical video content, including news, business, entertainment, fashion, video games, movies, music, sport and travel video, and associated services for broadcasting video over the Internet to a global base of clients. ROO Media's delivery platform supports worldwide syndication and television-style advertising. During 2001 and 2002, ROO Media focused on developing and refining its products and solutions, and commenced the commercial selling of its solutions in late 2003. ROO Media developed a technology platform specifically designed to provide a cost effective, robust, and scaleable solution to manage and syndicate video content over the Internet.

Our media operations management and updating functions are partially based in Australia and partially in the United States and United Kingdom. The time differences between the eastern and western hemispheres allow daily media content to be processed during the evening in the United States and the United Kingdom and during the daytime in Australia. As a result, we believe we have a strategic cost benefit over our competitors.

Our business plan is to develop a worldwide network of websites that utilize our technology and content to broadcast video from individual websites. The network of websites includes third party websites that license our technology and content as well as our own network of websites, which are branded as ROO TV. The network is designed to be similar to traditional satellite or cable networks that distribute content throughout the world, with the difference being it is broadcasted over the Internet rather than via television. Our technology platform allows access to over 20,000 videos that can be viewed on a daily basis by computer users. The video content available for viewing includes topical content such as news, business, entertainment, fashion, music, movies and travel. We update the video content and distribute the content to websites receiving our services on a daily basis. We generate revenue from fees paid by the websites for our content and technology services and, like traditional media companies, from TV style ads which play before the topical videos across our network of websites. We also generate revenue through the sale of online and traditional advertising.

OPERATIONS STRATEGY

Our operations strategy for the next twelve months is broken into the following core areas:

- Expanding content database and developing new products based on our existing pool of video content for emerging technologies such as wireless and IPTV;
- Increase market deployment of the ROO VX Platform among large enterprise clients in the United States, Europe, Asia and Australia;
- Expanding the network of websites in which we provide content and technology by expanding the ROO branded network of websites to more countries, and activating new customers to our content solutions using our direct sales force and resellers of our products and services in markets in the United States, Australia, United Kingdom, Continental Europe and Asia;
- Increase revenue through the sale and rental of movies, TV shows and music online;
- Acquiring commercially viable companies or businesses that have the potential for accelerating or enhancing our business model;
- Investing in research and development of products, platform and technology to offer a wider range of video content and improved user experience for users viewing videos from our platform; and
- Developing awareness and relationships with advertising agencies and advertisers of the benefits of advertising on our network of websites for traditional and creative online solutions.

The implementation of our operational strategies will depend on our capital and we cannot be sure that such operational strategies will be achieved. See "Item 6. Management's Discussion and Analysis or Plan of Operation" beginning on page 14 of this report.

SALES AND MARKETING

Our products and services are sold by our direct sales force and appointed resellers. Our syndication and video solutions products are sold by our direct sales force based in the United States, Asia Pacific Australia and Europe, our online and traditional advertising is sold by our direct sales force and through appointed interactive online advertising agencies.

Our direct sales force targets the following market segments for our content syndication products: (1) media and newspaper chains; (2) Internet service providers; and (3) dedicated vertical websites such as entertainment websites that are potential purchasers of entertainment video content. Through our direct sales force and third party advertising agencies, we target potential advertisers to advertise on our network of websites. We manage our sales database through a customer relationship management system, which allows for access and tracking from any ROO Media sales staff connected to the Internet. Marketing of our products and services is done through traditional public relations, print media and web-based marketing.

TECHNOLOGY

Our proprietary technology platform and infrastructure is largely based in the United States and is designed to be accessed and maintained from satellite offices anywhere in the world via a Virtual Private Network (VPN) over the Internet. The technology platform has been specifically designed to provide a robust, scaleable solution to manage and syndicate video content over the Internet. The platform architecture allows for the flexible use of third party software, hardware and internally developed applications. Components forming the platform are housed with various third party service providers located within the United States, Europe and Australia.

The key features of our technology platform include:

- Full screen video viewing;
- Viewing of all content via either a narrowband (Dial up) or broadband connection;
- Platform supporting Microsoft Windows Media, Flash and Real Networks formats;
- Global delivery and hosting allowing for video viewing throughout the world by anyone connected to the Internet;
- Ability to program video commercials to be played before selected videos on selected web sites;
- Secure storage and protection of media files;
- Full reporting on videos viewed by type, date, country, web site, etc.;
- The ability to present the videos in players and templates which match the branding of the multiple web sites on which the content is syndicated; and
- Central technology platform allowing videos to be automatically updated across the multiple web sites in which they are displayed.

INTELLECTUAL PROPERTY

We have obtained a service mark of the name "ROO" (Reg. No. 3095622) from the U.S. Patent and Trademark Office. We have applied for a trademark of the name "ROO" in both the European Union (European Community Application No. 004758488) and in Australia (Australian Trademark Application Serial No. 1110843). Both applications are pending.

We depend on a portion of technology licensed to us by third parties and a portion owned and developed by us. We license technology from third parties, including software that is integrated with internally developed software and used in our products to perform key functions. We anticipate that we will continue to license technology from third parties in the future. Although we do not believe that we are substantially dependent on any individual licensed technology, some of the software that we license from third parties could be difficult for us to replace. The effective implementation of our products depends upon the successful operation of third-party licensed products in conjunction with our products, and therefore any undetected errors in these licensed products could prevent the implementation of our products, impair the functionality of our products, delay new product introductions, and/or damage our reputation.

OUR PRODUCTS

Our products and services, including those of our subsidiaries, are broken into the following core areas:

ROO VIDEO SOLUTIONS. We utilize our expertise in video broadcasting over the Internet to build customized video solutions for specific customers or industry segments. Our platform has been designed to be flexible in accommodating various opportunities for activating video for broadcast over the Internet and accommodating emerging technologies such as wireless devices (i.e., mobile phones and PDAs) and IPTV. The same platform, or components thereof, used by us to run our network of websites can be adapted to suit the individual needs of clients with specific objectives in mind. As our profile within the market segment increases, organizations have increasingly approached us to aid them in addressing a variety of individual Internet broadcasting requirements. An example is The Street, an online provider of financial markets information at www.thestreet.com. We generally get paid a per stream fee when we provide the video enabling technology.

ROO SYNDICATION OF LICENSED VIDEO CONTENT. We provide a turnkey solution for customers located throughout the world to activate licensed topical video content on their web sites. ROO Media supplies our wholesale clients with a cost-effective turnkey solution whereby the client receives the licensed video content it selects, such as news, business, music, fashion, entertainment, travel, etc., the technology to integrate the video into its website, daily management and updating of the content, and regular reporting on which content is being viewed. We generally receive a fee based on the number of times the syndicated video has been streamed month from the client. An example of a website that streams ROO syndicated content is www.thesun.co.uk , a newspaper in the United Kingdom owned by News Corp..

ROO'S ONLINE ADVERTISING NETWORK. Through our clients, we have developed a network of web sites across which we can sell advertising inventory. Specifically, we have developed and implemented an advertising platform specifically designed to provide advertisers with a targeted demographic The advertising solutions we provide include traditional banner ads and television-style 15 second and 30 second commercials, which can be programmed to play before and after topical video clips that are most likely to be viewed by the advertisers' chosen demographic. The platform has also been designed to allow for two to three minute advertorials to be included on a wholesale client's website, or as a standalone clip within certain content categories of our content bank. Advertising inventory across our network of web sites is sold by our direct sales force and through appointed interactive online advertising agents. Revenue is generated for us every time an advertising clip is streamed. Our clients can receive a percentage of the advertising revenue generated on their websites by our online advertising.

Our platform provides the ability to:

- Program an advertisement to run only on selected web sites in selected countries;
- Program a commercial to run a specific amount of times or between a selected range of dates;
- Program a commercial to run within a selected content category; and
- Provide reports on how many times the advertisement was viewed.

Recent advertisers over our network of websites utilizing our in-stream advertising have included General Motors, Ford, Nikon, Discovery Channel, Showtime and Sony.

Through our partially owned subsidiaries Reality Group and Factory212 based in Australia, we also offer a range of specialized online and offline marketing solutions.

INDUSTRY

We focus on providing technology and content solutions to the emerging and growing segment of broadcasting video over the Internet and emerging broadcasting platforms such as wireless and IPTV. Through technology advancements and the expansion of broadband services worldwide, the Internet now enables the viewing of video from a computer connected to the Internet. This creates a fundamental change in the way people can view media and transforms the Internet into a broadcasting platform similar to television and radio platforms. Internet access and audio and video steaming over the Internet have grown substantially over the past twelve months as residential broadband access expands.

COMPETITION

The provisioning and streaming of digital media content over the Internet is rapidly becoming a competitive industry. The key barriers to new firms to enter and compete against existing companies within the digital media segment are (1) the timeframe and costs to develop a commercially robust, feature rich media delivery platform, and (2) the time involved to build a digital media data base of licensed videos. While there are only a few industry participants similar to us that provide a full suite of associated products and services, there are a number of traditional content syndicators who have entered the industry by providing their own content for streaming over their own portals. For example, Disney, Time Warner and CNN all provide access to their own content in digital format over their own destination Internet portals. There are also a number of smaller operations that provide wholesale syndication services such as The FeedRoom (www.feedroom.com), as well as Maven Networks (www.maven.net) and Brightcove (www.brightcove.com), which provide a range of online broadcasting solutions. Other competitors on select products of ROO Media include: Real Networks, Inc., a global provider of network-delivered digital media service and the technology that enables digital media creation, distribution and consumption; and Loudeye Corporation, a service provider facilitating the use of digital media for live and on-demand applications for enterprise communication, marketing and entertainment. We believe that as the market segment continues to grow, new competitors will enter the market and compete directly with us. We compete with these firms and emerging competitors by offering competitive pricing, unique products, flexible business models for our customers to generate revenue, and continually developing and adding new functionality to our media management platform. We also compete by continuing to expand our media database and the amount of content categories and videos available.

GOVERNMENT REGULATION

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

There is uncertainty regarding how existing laws governing issues such as illegal or obscene content and retransmission of media apply to the Internet. The vast majority of such laws were adopted before the advent of the Internet and related technologies and do not address the unique issues associated with the Internet and related technologies. Most of the laws that relate to the Internet have not yet been interpreted. In addition to potential legislation from local, state and federal governments, labor guild agreements and other laws and regulations that impose fees, royalties or unanticipated payments regarding the distribution of media over the Internet may directly or indirectly affect our business. While we and our customers may be directly affected by such agreements, we are not a party to such agreements and have little ability to influence the degree such agreements favor or disfavor Internet distribution or our business models.

The Child Online Protection Act and the Child Online Privacy Protection Act impose civil and criminal penalties on persons distributing material harmful to minors (e.g., obscene material) over the Internet to persons under the age of 17, or collecting personal information from children under the age of 13. We do not knowingly distribute harmful materials to minors or collect personal information from children under the age of 13. The manner in which these Acts may be interpreted and enforced cannot be fully determined, and future legislation similar to these Acts could subject us to potential liability if we were deemed to be non-compliant with such rules and regulations, which in turn could harm our business.

RESEARCH AND DEVELOPMENT

We continue to pursue opportunities to improve and expand our products and services and have dedicated resources which continue to review and enhance our technology platform and the products and solutions we offer. Currently, research and development is conducted internally as well as through outsourcing agreements. We plan to consider opportunities to expand our current content categories to offer specific lifestyle, children's content, sport, science and educational content. We also plan to explore opportunities to further enhance our distribution and technological infrastructures to maintain our competitive position. We cannot assure you, however, that we will achieve our research and development goals.

EMPLOYEES

As of January 31, 2007, we had 140 full time employees based in Australia, Europe and the United States. We consider our relations with our employees to be good.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

FORWARD-LOOKING STATEMENTS

The information in this report contains forward-looking statements. All statements other than statements of historical fact made in this report are forward looking. In particular, the statements herein regarding industry prospects and future results of operations or financial position are forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Our actual results may differ significantly from management's expectations.

The following discussion and analysis should be read in conjunction with the consolidated financial statements of ROO Group, Inc., included herewith. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment of our management.

GENERAL

We operate as a digital media company in the business of providing products and solutions that enable the broadcast of topical video content from our customers' Internet websites. We specialize in providing the technology and content required for video to be played on computers via the Internet as well as emerging broadcasting platforms such as set top boxes and wireless devices (i.e., mobile phones and PDAs). Our core activities include the aggregation of video content, media management, traditional and online advertising, hosting, and content delivery.

Set forth below is a discussion of the financial condition and results of operations of ROO Group, Inc. and its consolidated subsidiaries (the "Company," "we," "us," or "our") for the twelve months ended December 31, 2006 and 2005. The consolidated financial statements include the accounts of ROO Group, Inc., its wholly owned subsidiary ROO Media Corporation, its wholly owned subsidiary Bickhams and its 51% owned subsidiary Reality Group. Included in the consolidation with ROO Media Corporation are ROO Media Corporation's wholly owned subsidiary ROO Media (Australia) Pty Ltd. and ROO Media (Australia) Pty Ltd.'s wholly owned subsidiary Undercover, its wholly owned subsidiary ROO Media Europe Pty Ltd, its wholly owned subsidiary ROO Broadcasting Limited, its 51% owned subsidiary Factory212 Pty. Ltd. and its wholly owned subsidiary ROO TV Pty Ltd. Included in the consolidation with Bickhams is Bickhams' wholly owned subsidiary VideoDome.com Networks, Inc. ROO Media Europe Pty Ltd. was 76% owned by ROO Media Corporation until January 27, 2006 when ROO Media Corporation purchased the remaining 24% of ROO Media Europe Pty Ltd. for $90,000. 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 annual report.

RESULTS OF OPERATIONS - YEAR ENDED DECEMBER 31, 2006 COMPARED TO THE YEAR ENDED DECEMBER 31, 2005

NET REVENUE

Total revenue increased by $3,149,000 from $6,619,000 for the year ended December 31, 2005 to $9,768,000 for the year ended December 31, 2006, an increase of 48%. The increase is principally from the increasing sales revenue from operations and the inclusion of revenue of acquisitions not included for the full prior year financial results.

EXPENSES

OPERATIONS . Operating expenses increased by $4,065,000 from $4,465,000 for the year ended December 31, 2005 to $8,530,000 for the year December 31, 2006, an increase of 91%. The increases were due to the increasing costs associated with increased revenue generation. These costs include content costs, salaries, web hosting and content delivery.

RESEARCH AND DEVELOPMENT . Research and development expenses consist primarily of salaries and related personnel costs, and consulting fees associated with product development. Research and development expenses increased by $1,539,000 from $601,000 for the year ended December 31, 2005 to $2,140,000 for the year ended December 31, 2006, an increase of 256%. The increases were due primarily to the increase in development activities associated with enhancements to our technology platform.

SALES AND MARKETING. Sales and marketing expenses consist primarily of expenses for sales and marketing personnel, expenditures for advertising, and promotional activities and expenses to bring our products to market. These expenses increased by $3,101,000 from $2,217,000 for the year ended December 31, 2005 to $5,318,000 for the year ended December 31, 2006, an increase of 140%. These increases were primarily due to an increase in sales and marketing personnel.

We believe that additional sales and marketing personnel and programs are required to remain competitive. Therefore, we expect that our sales and marketing expenses will continue to increase for the foreseeable future.

GENERAL AND ADMINISTRATIVE . General and administrative expenses consist primarily of expenses for management, finance and administrative personnel, legal, accounting, consulting fees, and facilities costs. These expenses increased by $3,344,000 from $5,351,000 for the year ended December 31, 2005 to $8,695,000 for the year December 31, 2006, an increase of 62%. The increase of $3,344,000 was due to the increase in non-cash costs of $686,000, which consists of stock based compensation expense on stock options of $2,404,000 less a decrease in the valuation on stock and warrants for services of $832,000 and a decrease in the valuation of preferred stock of $886,000, plus $2,658,000 that is primarily due to an increase in salaries for administrative support related to our increased operations.

REDEMPTION PREMIUM ON CONVERTIBLE NOTE. On May 19, 2005, we applied $200,000 of the $600,000 gross proceeds from a loan from Mr. Petty to redeem $143,000 principal amount of the Company's outstanding $3,000,000 principal amount of callable secured convertible notes. The difference between the amount paid and the principal amount redeemed of $57,000 was expensed as a redemption premium on the callable secured convertible notes. On August 23, 2005 the Company repaid all outstanding amounts due pursuant to the callable secured convertible notes. As part of the payment to the noteholders $744,000 was paid as a redemption premium. The total amount of redemption premium paid for the year ended December 31, 2005 was $801,000.

INTEREST INCOME . Interest income increased by $159,000 from $7 for the year ended December 31, 2005 to $166,000 for the year ended December 31, 2006. This increase was primarily due to an increase in our cash and cash equivalents.

INTEREST EXPENSE, RELATED PARTY. Interest expense, related party, includes interest charges on our indebtedness to Robert Petty, our Chairman and Chief Executive Officer. The expense decreased from $143,000 for the year ended December 31, 2005 to $0 for the year ended December 31, 2006. The outstanding balance from loans from Mr. Petty as of December 31, 2005 was $0.

INTEREST EXPENSE, OTHER. Interest expense, other, decreased by $110,000 from $188,000 for the year ended December 31, 2005 to $78,000 for the year ended December 31, 2006. Interest expense, other, primarily included the interest payable to callable secured convertible note holders in 2005. On August 23, 2005 we repaid all outstanding amounts due pursuant to the callable secured convertible notes.

NET LOSS . As a result of the factors described above, we reported a net loss of $14,625,000 for the year ended December 31, 2006, compared to $8,957,000 for the year ended December 31, 2005, an increase of $5,668,000 or 63%.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2006, we had working capital of approximately $11,793,000 with a cash balance of $11,937,000. Management believes that there will be an increase in overall expenses to expand the Company's operations on a global basis during 2007. Although revenues are expected to increase, it is unclear whether additional cash resources will be required during the next twelve months. We may undertake additional debt or equity financings if needed to better enable us to grow and meet our future operating and capital requirements. However, we cannot guarantee that any additional equity or debt financing will be available in sufficient amounts or on acceptable terms when needed. If such financing is not available in sufficient amounts or on acceptable terms, our results of operations and financial condition may be adversely affected. In addition, equity financing may result in dilution to existing stockholders and may involve securities that have rights, preferences, or privileges that are senior to our common stock, and any debt financing obtained must be repaid regardless of whether or not we generate profits or cash flows from our business activities.

Net cash used in operating activities was 12,426,000 for the year ended December 31, 2006, compared to $4,917,000 for the year ended December 31, 2005, an increase of $7,509,000 or 153%. The increase in net cash used in operating activities is primarily the result of our net loss.

Net cash used in investing activities was $822,000 for the year ended December 31, 2006, compared to net cash used in investing activities for the year ended December 31, 2005 of $714,000, an increase of $108,000 or 15%. The net cash used in investing activities increased primarily due to the investment in ROO Media Europe of approximately $90,000, the investment in Factory 212 of 197,000, and a $119,000 increase in equipment purchased, offset by the decrease in investment in Bickhams/VideoDome of $80,000 and Reality of $200,000. On January 27, 2006 ROO Media Corporation purchased 24% of ROO Media Europe Limited for $90,000. ROO Media Europe is now a wholly owned subsidiary of ROO Media Corporation.

Net cash provided by financing activities was $19,903,000 for the year ended December 31, 2006 compared to net cash provided by financing activities of $10,597,000 for the year ended December 30, 2005, an increase in net cash provided by financing activities of $9,306,000 or 88%.

Below is a description of significant financings we completed during the fiscal year ended December 31, 2006.

AUGUST 2006 FINANCING

On August 18, 2006, we entered into a Common Stock Purchase Agreement pursuant to which we sold an aggregate of 4,420,000 of shares of common stock and 2,210,000 warrants to purchase shares of common stock to 28 accredited investors (the "August 2006 Financing"). The shares of common stock were sold at a price of $1.25 per share or an aggregate of $5,525,000. Each investor was issued warrants to purchase a number of shares of common stock equal to 50% of the number of shares of common stock purchased. The warrants have an exercise price of $2.00 per share and a term of five years.

The Company agreed to prepare and file a registration statement with the Securities and Exchange Commission registering the resale of the shares of common stock sold in the private placement on or prior to 30 days following the closing date. If the registration statement is not filed within such time or if the registration statement is not declared effective within 120 days following the closing date, the Company must pay liquidated damages to the investors equal to 1% of the dollar amount of their investment for each calendar month or portion thereof that the registration statement is not filed or declared effective. The Company failed to fulfill its obligations to timely file the Registration Statement and owes approximately $166,000 in liquidated damages to the investors. The Registration Statement was declared effective on December 27, 2006.

Savvian LLC (“Savvian”), Burnham Hill Partners, a division of Pali Capital, Inc. ("Burnham Hill") and Brimberg & Co. financial advisors ("Brimberg"), registered broker-dealers, acted as placement agents for the sale of the Company’s common stock. In connection with the closing, the Company paid the placement agents a cash fee equal to 6% of the gross proceeds. In addition, the Company issued to the placement agents 801,369 warrants to purchase shares of our common stock with an exercise price of $1.25 per share exercisable for a period of five years. In connection with the August 2006 Financing, we received net proceeds of $4,985,000 after payment of placement agent fees of $461,000, legal fees of $74,000 and escrow agent fees of $5,000. None of the investors are affiliates of the Company.

NOVEMBER 2006 FINANCING

On November 14, 2006, we entered into a Securities Purchase Agreement pursuant to which we sold an aggregate of 8,378,377 shares of common stock and warrants to purchase 2,513,513 shares of common stock to 20 accredited investors (the “November 2006 Financing”). The offering closed on November 16, 2006. The shares of common stock were sold at a price of $1.85 per share or an aggregate of $15,500,000. Each investor was issued warrants to purchase a number of shares of common stock equal to 30% of the number of shares of common stock purchased . The warrants have an exercise price of $3.00 per share and a term of five years.

The Company agreed to prepare and file a registration statement with the Securities and Exchange Commission registering the resale of the shares of common stock sold in the private placement on or prior to 30 days following the closing date. If the registration statement is not filed within such time, the Company must pay liquidated damages to the investors equal to 1% of the dollar amount of their investment for each calendar month or portion thereof that the registration statement is not filed, up to a maximum of 10%. Also, if the registration statement is not declared effective within 120 days following the closing date, the Company must pay liquidated damages to the investors equal to 1% of the dollar amount of their investment for each calendar month or portion thereof that the registration statement is declared effective, up to a maximum of 10%. The Company failed to fulfill its obligations to timely file the Registration Statement and owe approximately $16,000 in liquidated damages to the investors. The Registration Statement was declared effective on December 27, 2006

Merriman Curhan Ford & Co. and Brimberg & Co., financial advisors and registered broker-dealers, acted as placement agents for the sale of the Company's common stock. In connection with the closing we paid the placement agents a cash fee of an aggregate $930,000. In addition, the Company issued to the placement agents 326,757 warrants to purchase shares of our common stock with an exercise price of $3.00 per share exercisable for a period of five years.

In connection with the November 2006 Financing, we received net proceeds of $14,493,000 after payment of placement agent fees of $930,000, legal fees and expenses of $72,000, and escrow agent fees of $5,000.

MARKET RISKS

We conduct our operations in primary functional currencies: the United States dollar, the British pound and the Australian dollar. Historically, neither fluctuations in foreign exchange rates nor changes in foreign economic conditions have had a significant impact on our financial condition or results of operations. We currently do not hedge any of our foreign currency exposures and are therefore subject to the risk of exchange rate fluctuations. We invoice our international customers primarily in U.S. dollars, except in the United Kingdom and Australia, where we invoice our customers primarily in British pounds and Australian dollars, respectively. In the future we anticipate billing certain European customers in Euros, though we have not done so to date.

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. Foreign exchange rate fluctuations did not have a material impact on our financial results in the years ended December 31, 2006 and 2005.

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. We believe no significant concentration of credit risk exists with respect to these investments.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the wide variety of customers who are dispersed across many geographic regions. As of December 31, 2006, one customer accounted for approximately 11% of our trade accounts receivable portfolio. We routinely assess the financial strength of customers and, based upon factors concerning credit risk, we establish an allowance for uncollectible accounts. Management believes that accounts receivable credit risk exposure beyond such allowance is limited.

GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Since ROO Group's inception, we have incurred losses, had an accumulated deficit, and have experienced negative cash flows from operations. We expect this trend to continue. The expansion and development of our business will likely require additional capital. This condition raises substantial doubt about our ability to continue as a going concern. We expect cash flows from operating activities to improve, primarily as a result of an increase in revenues, although there can be no assurance thereof. The accompanying consolidated financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern. If we fail to generate positive cash flows or obtain additional financing when required, we may have to modify, delay or abandon some or all of our business and expansion plans.

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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make judgments and estimates. On an on-going basis, we evaluate our estimates, the most significant of which include establishing allowances for doubtful accounts and determining the recoverability of our long-lived assets. The basis for our estimates are historical experience and various assumptions that are believed to be reasonable under the circumstances, given the available information at the time of the estimate, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from the amounts estimated and recorded in our financial statements.

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

Revenue Recognition: Revenues are derived principally from professional services, digital media management and advertising. Revenue is recognized when service has been provided. We may enter into agreements whereby we guarantee a minimum number of advertising impressions, click-throughs or other criteria on our websites or products for a specified period. To the extent these guarantees are not met, we may defer recognition of the corresponding revenue until guaranteed delivery levels are achieved.

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

Goodwill and Intangible Asset Impairment: In assessing the recoverability of our goodwill and other intangibles we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. This impairment test requires the determination of the fair value of the intangible asset. If the fair value of the intangible asset is less than its carrying value, an impairment loss will be recognized in an amount equal to the difference. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets. We adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," (FAS 142) effective January 1, 2002, and are required to analyze goodwill and indefinite lived intangible assets for impairment on at least an annual basis.

RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2006, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position EITF 00-19-2 ("FSP ETF 00-19-2") that addresses an issuer's accounting for registration payment arrangements. EITF 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, *"Accounting for Contingencies"*. The guidance in EITF 00-19-2 amends FASB Statements No. 133, *"Accounting for Derivative Instruments and Hedging Activities* , No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity,* and FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* to include scope exceptions for registration payment arrangements. This pronouncement further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable generally accepted accounting principles (GAAP) without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. Under FSP 00-19-2, the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement shall be recognized and measured separately in accordance with Statement 5 and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss* . FSP EITF 00-19-2 is effective immediately for registration payment arrangements entered into after December 21, 2006 and for financial statements issued for fiscal years beginning after December 15, 2006, and interim periods within those fiscal years.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements” (“SAB 108”), which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 is effective for us as of December 31, 2007. We have not completed our evaluation of the possible impact on our financial position, if any, related to implementation of SAB 108.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measures” (“SFAS 157”). FAS 157 defines fair value and establishes a framework for measuring fair value in accordance with generally accepted accounting principles. This Statement also applies to other accounting pronouncements that require or permit a fair value measure. As defined by this Statement, the fair value of an Asset or Liability would be based on an “exit price” basis rather than an “entry price” basis. Additionally, the fair value should be market-based and not an entity-based measurement. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The implementation of SFAS 157 is not expected to have a material impact on our consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109” (“FIN 48”), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Specifically, FIN 48 requires the recognition in financial statements of the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. Additionally, FIN 48 provides guidance on the de-recognition of previously recognized deferred tax items, classification, accounting for interest and penalties, and accounting in interim periods related to uncertain tax positions, as well as, requires expanded disclosures. FIN 48 is effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We have not completed our evaluation of adopting FIN 48.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140" ("SFAS 156"). This Statement amends FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," with respect to accounting for separately recognized servicing assets and servicing liabilities. This Statement clarifies when servicing rights should be separately accounted for, requires companies to account for separately recognized servicing rights initially at fair value, and gives companies the option of subsequently accounting for those servicing rights at either fair value or under the amortization method. SFAS 156 is effective for fiscal years beginning after September 15, 2006. The implementation of SFAS 156 is not expected to have a material impact on our consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments - an amendment to FASB Statements No. 133 and 140" ("SFAS 155"). SFAS155 simplifies the accounting for certain hybrid financial instruments containing embedded derivatives. SFAS 155 allows fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation under SFAS 133. In addition, it amends SFAS 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired, issued, or subject to a re-measurement (new basis) event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The implementation of SFAS 155 is not expected to have a material impact on our consolidated financial statements.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

LOANS FROM OUR CHIEF EXECUTIVE OFFICER/DIRECTOR

On January 7, 2003, ROO Media entered into a new loan agreement with Mr. Petty to replace the loan agreement entered into with Mr. Petty dated July 29, 2001. The interest on the loan is 10% per annum and the outstanding balance as of December 31, 2003 was $514,164. Mr. Petty has agreed that no demand for payment will be made to the company over the following 12 months and any principle repayment during any month above $20,000 will require board approval. The loan is secured by all of the assets of ROO Media. Our management believes that this loan is on terms at least as favorable as could have been obtained from an unrelated third party.

We have periodically received cash advances from Mr. Petty. These amounts are recorded as a loan payable. The interest on the loan is 10% per annum and the outstanding balance as of December 31, 2005 was $0. Interest expense for this loan amounts to $81 and $51 for the twelve months ended December 31, 2005 and 2004, respectively.

On May 18, 2005, we entered into a note purchase agreement with Mr. Petty. As consideration for a loan of $600,000, we incurred a debt payable to Mr. Petty in the amount of $600,000. In connection with this loan, we paid transaction fees totaling $92,500, which includes a $60,000 placement agent fee in connection with the sale by Mr. Petty of $600,000 principal amount of secured convertible promissory notes (described below) and $32,500 in legal fees in connection with such transaction. As evidence of the $600,000 debt and a prior existing $500,000 debt payable to Mr. Petty, we issued Mr. Petty a promissory note in the principal amount of $1,100,000. The principal sum of $1,100,000 plus interest at the rate of 10% per annum calculated beginning June 1, 2005 was due to be repaid on December 31, 2005. Our obligations under the promissory note were secured by a subordinated security interest in all of our assets. In October 2005, Mr. Petty converted $600,000 of the $1,100,000 principal amount promissory note into shares of our common stock at a price of $1.50 per share.

In connection with the May 18, 2005 loan from Mr. Petty, Mr. Petty personally sold an aggregate of $600,000 principal amount of secured convertible promissory notes to certain investors. The secured convertible promissory notes were convertible into common stock held by Mr. Petty at a price of $1.25 per share, as adjusted. Mr. Petty's obligations under the secured convertible promissory notes were secured by a security interest in the $1,100,000 principal amount promissory note payable by us to Mr. Petty. The secured convertible promissory notes bear interest at a rate of 8% per annum.

As partial consideration for the loan from Mr. Petty, we entered into a registration rights agreement, pursuant to which we agreed to prepare and file a registration statement providing for the resale of the shares of common stock issuable upon conversion of the secured convertible promissory notes, including shares of common stock that may be issued as interest payments under the secured convertible promissory notes.

In connection with Mr. Petty's sale of the $600,000 principal amount secured convertible promissory notes Mr. Petty was personally obligated to issue warrants exercisable into shares of ROO Group, Inc. common stock owned by Mr. Petty to placement agents. On August 23, 2005 we assumed the liability for such warrants. This resulted in the issuance by us of warrants to purchase 48,000 shares of our common stock exercisable for five years with an exercise price of $1.25 per share.

ROO MEDIA

Pursuant to the terms of an Agreement and Plan of Merger, dated December 2, 2003, between Virilitec, VRLT Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of Virilitec, ROO Media, and Jacob Roth and Bella Roth, each an individual, ROO Media entered into an agreement to pay within 90 days after December 3, 2003, the effective date of the Merger, Virilitec's $62,500 debt to Jacob Roth, Virilitec's former Chief Executive Officer. The obligation to pay such debt is secured by the pledge of the 72,000,000 shares of the Virilitec Common Stock issued to Robert Petty, the Chief Executive Officer of ROO Media, after the merger. Our management believes that this agreement was on terms at least as favorable as could have been obtained from an unrelated third party. The final payment on this debt was made on May 10, 2004.

BICKHAMS MEDIA, INC.

On September 10, 2004, we entered into an agreement to purchase all of the outstanding shares of common stock of Bickhams Media, Inc. from Avenue Group, Inc. Avenue Group is a founding shareholder of ROO Group, Inc. and as of September 10, 2004 owned over 20% of our outstanding common stock. Also, in connection with the purchase of Bickhams, we agreed to guaranty all of the obligations of VideoDome under a promissory note of VideoDome that was issued to Avenue Group in October 2003 in the principal amount of $290,000. Our management believes that the terms of this transaction were at least as favorable as could have been obtained from an unrelated third party.

SERIES A PREFERRED STOCK

On March 17, 2005, we issued 6,000,000 shares of Series A Preferred Stock to our Chief Executive Officer and director, Robert Petty, and 1,500,000 shares of Series A Preferred Stock to our Chief Financial Officer and director, Robin Smyth. These shares have a combined valuation of $750,000. These shares were issued as a performance bonus to Messrs. Petty and Smyth for, among other things, their role in helping expand and grow our business operations.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
ROO Group, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of ROO Group, Inc. and Subsidiaries as of December 31, 2006, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the two years in the period then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ROO Group, Inc. and Subsidiaries as of December 31, 2006, and the results of their operations and their cash flows for each of the two years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company has suffered recurring losses and negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also discussed in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (R), *"Share-Based Payment."*

MOORE STEPHENS, P. C.
Certified Public Accountants.

New York, New York
March 26, 2007

ROO GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2006
(Amounts in Thousands, Except Share and Per Share Data)

Assets:	
Current assets:	
Cash and cash equivalents	$11,937
Accounts receivable, net	3,408
Other current assets	1,151
Total current assets	16,496
Property and equipment, net	948
Deferred tax assets	193
Content, net	438
Software, net	770
Customer list, net	601
Domain names, net	41
Goodwill	1,123
Total assets	$20,610
Liabilities and Stockholders' Equity:	
Current liabilities:	
Bank overdraft and other obligations	$634
Accounts payable	1,773
Accrued expenses	947
Income tax payable	102
Other current liabilities	1,247
Total current liabilities	4,703
Capital lease obligations	206
Total liabilities	4,909
Commitments	--
Minority interest	(89)
Stockholders' Equity:	
Series A preferred shares, $0.0001 par value: authorized 10,000,000 shares; issued and outstanding 10,000,000	1
Common stock, $0.0001 par value: authorized 500,000,000 shares; issued and outstanding 26,074,813	3
Additional paid-in capital	44,738
Accumulated deficit	(28,960)
Accumulated other comprehensive income	8
Total stockholders' equity	15,790
Total liabilities and stockholders' equity	$20,610

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

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

	Years ended December 31, 2006	Years ended December 31, 2005
Revenue	$ 9,768	$ 6,619
Expenses:		
Operations	8,530	4,465
Research and development	2,140	601
Sales and marketing	5,318	2,217
General and administrative (exclusive of non-cash compensation)	6,098	3,440
Non-cash compensation	2,597	1,911
Total expenses	24,683	12,634
(Loss) from operations	(14,915)	(6,015)
Commission on loan procurement	--	(60)
Cost of Omnibus Consent and Waiver agreement	--	(78)
Redemption premium on convertible notes	--	(801)
Interest income	166	7
Interest expense - related party	--	(81)
Non-cash interest expense - related party	--	(62)
Interest expense - other	(78)	(188)
Financing fees - convertible notes	--	(759)
Registration rights liquidated damages	(70)	(710)
Loss on sale of marketable securities	--	(18)
Net (loss) before income taxes	(14,897)	(8,765)
Income tax benefit (expense)	92	(124)
Net (loss) before minority interest	(14,805)	(8,889)
Minority interest	180	(68)
Deduct: Preferred shares dividend	--	--
Net (loss) available to common shareholders	$ (14,625)	$ (8,957)
Basic and diluted net (loss) per common share	$ (0.92)	$ (1.40)
Weighted average common shares outstanding	15,901,049	6,403,458
Comprehensive (loss):		
Net (loss)	$ (14,625)	$ (8,957)
Foreign currency translation	42	(38)
Fair market value adjustment for available for sale securities	--	10
Comprehensive (loss)	$ (14,583)	$ (8,985)

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

ROO GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in Thousands, Except Share and Per Share Data)

	Series A Preferred Shares	Preferred Shares Par Value	Common Stock	Common Stock Par Value
Balance January 1, 2005	--	--	3,911,683	$ --
Issue of stock in private placements	--	--	7,034,834	1
Issue of stock for registration rights liquidated damages	--	--	236,667	--
Issue of Series A Preferred shares for services	2,000,000	--	--	--
Issue of Series A Preferred shares as Performance Bonuses	7,500,000	1	--	--
Issue of stock for services	--	--	5,818	--
Issue of stock for share price guarantee related to Reality Group	--	--	359,280	--
Issue of stock for achievement of milestones related to Videodome	--	--	40,000	--
Issue of stock for the acquisition of Factory212	--	--	10,000	--
Issue of options for services	--	--	--	--
Computed discount on convertible debt	--	--	--	--
Beneficial conversion feature of convertible debt	--	--	--	--
Issue of stock on conversion of convertible debt	--	--	1,178,154	--
Issue of warrants on conversion of convertible debt	--	--	--	--
Issue of warrants for Omnibus Consent and Waiver agreement	--	--	--	--
Issue of stock upon conversion of stockholder loan payable	--	--	400,000	--
Issue of warrants for stockholder funding	--	--	--	--
Issue of warrants for services	--	--	--	--
Foreign currency translation adjustment	--	--	--	--
Fair market value adjustment for available for sale securities	--	--	--	--
Net (loss)	--	--	--	--
Balance - December 31, 2005	9,500,000	$ 1	13,176,436	$ 1
Issue of stock in private placements	--	--	12,798,377	2
Stock-based compensation	--	--	--	--
Issue of Series A Preferred shares as Performance Bonuses	500,000	--	--	--
Buyback of stock for share price guarantee related to Reality Group	--	--	--	--
Issue of stock for achievement of milestones related to Undercover	--	--	100,000	--
Issue of warrants for services	--	--	--	--
Foreign currency translation adjustment	--	--	--	--
Net (loss)	--	--	--	--
Balance - December 31, 2006	10,000,000	$ 1	26,074,813	$ 3

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

ROO GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY [DEFICIT]
(Amounts in Thousands, Except Share and Per Share Data)

	Other Additional Paid-in Capital	Accumulated (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance January 1, 2005	$ 6,930	$ (5,378)	(7)	$ 1,545
Issue of stock in private placements	11,900	--	--	11,901
Issue of stock for registration rights liquidated damages	710	--	--	710
Issue of Series A Preferred shares for services	200	--	--	200
Issue of Series A Preferred shares as Performance Bonuses	749	--	--	750
Issue of stock for services	19	--	--	19
Issue of stock for share price guarantee related to Reality Group	(200)	--	--	(200)
Issue of stock for achievement of milestones related to Videodome	44	--	--	44
Issue of stock for the acquisition of Factory212	25	--	--	25
Issue of options for services	849	--	--	849
Computed discount on convertible debt	32	--	--	32
Beneficial conversion feature of convertible debt	351	--	--	351
Issue of stock on conversion of convertible debt	807	--	--	807
Issue of warrants on conversion of convertible debt	117	--	--	117
Issue of warrants for Omnibus Consent and Waiver agreement	78	--	--	78
Issue of stock upon conversion of stockholder loan payable	600	--	--	600
Issue of warrants for stockholder funding	62	--	--	62
Issue of warrants for services	93	--	--	93
Foreign currency translation adjustment	--	--	(38)	(38)
Fair market value adjustment for available for sale securities	--	--	10	10
Net (loss)	--	(8,957)	--	(8,957)
Balance - December 31, 2005	$ 23,366	$ (14,335)	$ (35)	$ 8,998
Issue of stock in private placements	19,476	--	--	19,478
Stock-based compensation	2,404	--	--	2,404
Issue of Series A Preferred shares as Performance Bonuses	64	--	--	64
Issue of stock for share price guarantee related to Reality Group	(961)	--	--	(961)
Issue of stock for achievement of milestones related to Undercover	260	--	--	260
Issue of warrants for services	129	--	--	129
Foreign currency translation adjustment	--	--	43	43
Net (loss)	--	(14,625)	--	(14,625)
Balance - December 31, 2006	$ 44,738	$ (28,960)	$ 8	$ 15,790

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

ROO GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years ended December 31, 2006	2005
Operating Activities:		
Net (loss)	$ (14,625)	$ (8,957)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:		
Provision for doubtful accounts	225	31
Depreciation	173	147
Amortization of intangible assets	674	581
Non cash cost of Omnibus Consent and Waiver agreement	--	78
Non cash stock based compensation	2,404	--
Non cash warrants and options for services	129	961
Non cash preferred stock for consulting services	--	200
Non cash preferred stock issued as performance bonuses	64	750
Non cash interest expense related party	--	62
Non cash stock for registration rights liquidated damages	--	710
Non cash interest on convertible note	--	759
Loss on sale of marketable securities	--	18
Minority interest in subsidiaries	(183)	68
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(2,134)	(449)
Other assets	(767)	1
Increase (decrease) in:		
Accounts payable	673	381
Accrued expenses	297	(96)
Income tax payable	(198)	54
Other liabilities	842	(217)
Total adjustments	2,199	4,040
Net Cash (Used) By Operating Activities - Forward	(12,426)	(4,917)
Investing Activities:		
Investment Bickhams/Videodome	(20)	(100)
Investment in Reality Group	--	(200)
Investment in ROO Media Europe	(90)	--
Cash paid in Sputnik acquisition	(197)	--
Net cash received in acquisition of Factory212	--	9
Proceeds from sale of marketable securities	--	7
Capitalization of content	(160)	(194)
Purchase of equipment	(355)	(236)
Net Cash (Used) By Investing Activities - Forward	$ (822)	$ (714)

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

ROO GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years ended December 31, 2006	2005
Net Cash (Used) By Operating Activities - Forwarded	$ (12,426)	$ (4,917)
Net Cash (Used) By Investing Activities - Forwarded	(822)	(714)
Financing Activities:		
Proceeds from private placements, net	19,478	11,901
Bank overdraft and other obligations	445	(260)
Increase in related party loans	--	225
(Decrease) in related party loans	--	(51)
Convertible note	--	1,465
Repayment of convertible note	--	(2,743)
Increase in stockholder loan	--	600
(Decrease) in stockholder loan	--	(500)
(Decrease) in capital leases	(20)	(40)
Net Cash Provided By Financing Activities	19,903	10,597
Effect of Exchange Rate Changes on Cash	8	(14)
Net Increase in Cash	6,663	4,952
Cash - Beginning of Year	5,274	322
Cash - End of Year	$ 11,937	$ 5,274
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the years for:		
Income taxes	$ 120	$ 72
Interest	$ 78	$ 279

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

During the year ended December 31, 2006, the Company acquired equipment under capital lease obligations of $211. During the year ended December 31, 2005 the Company issued 50,000 warrants at an exercise price of $3.00 to Brimberg & Co for investor relations services. These warrants were valued under the Black-Scholes method as $93. Also, during the year ended December 31, 2005, the Company issued 5,818 shares of common stock to a Company for investor relations services for a value of $19. The directors believe that all the non-cash financing and investing activities were for fair value.

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

ROO GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(1) Basis of Presentation

ROO Group, Inc. ("we," "us," "our," the "Company" or "ROO Group"), through our operating subsidiaries, is a digital media company in the business of providing products and solutions that enable the broadcast of topical video content from our customers' Internet websites. We specialize in providing the technology and content required for video to be played on computers via the Internet as well as emerging broadcasting platforms such as wireless devices (e.g., mobile phones and PDAs). Our core activities include the aggregation of video content, media management, traditional and online advertising, hosting, and content delivery. We currently service websites based in Europe, Australia and the United States. We also generate revenues through the operation of Reality Group Pty. Ltd ("Reality Group") and Factory 212 Pty Ltd. ("Factory212"), our 51% owned subsidiaries. Reality Group and Factory212 are providers of integrated communication solutions, including direct marketing, internet advertising and sales promotion. Reality Group and Factory212 generate revenue through traditional and online services to their clients including strategy, creative and media placement.

(2) Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements include the accounts of ROO Group, Inc., its wholly owned subsidiary ROO Media Corporation, its wholly owned subsidiary Bickhams Media, Inc. ("Bickhams") and its 51% owned subsidiary Reality Group. Included in the consolidation with ROO Media Corporation are ROO Media Corporation's wholly owned subsidiary ROO Media (Australia) Pty Ltd. and ROO Media (Australia) Pty Ltd.'s wholly owned subsidiary Undercover Media Pty Ltd. ("Undercover"), its wholly owned subsidiary ROO Media Europe Pty Ltd, its wholly owned subsidiary ROO Broadcasting Limited, its 51% owned subsidiary Factory212 (included since November 1, 2005) and its wholly owned subsidiary ROO TV Pty Ltd. Included in the consolidation with Bickhams is Bickhams' wholly owned subsidiary VideoDome.com Networks, Inc. ("VideoDome").

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Certain amounts included in the financial statements are estimated based on currently available information and management's judgment as to the outcome of future conditions and circumstances. Changes in the status of certain facts or circumstances could result in material changes to the estimates used in the preparation of financial statements and actual results could differ from the estimates and assumptions.

ROO GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

Foreign Currency Translation - Assets and liabilities of ROO Group's foreign subsidiaries are translated at current exchange rates and related revenues and expenses are translated at average exchange rates in effect during the periods. Resulting translation adjustments are recorded as a component of accumulated comprehensive income in stockholders' equity.

Fair value of Financial Instruments - SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. In assessing the fair value of our cash and cash equivalents, trade receivables, other current assets, accounts payables, and other current liabilities, management concluded that the carrying amount of these financial instruments approximates fair value because of their short maturities.

Risk Concentrations - Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. We place our cash and cash equivalents with high credit quality institutions to limit credit exposure. We believe no significant concentration of credit risk exists with respect to these investments. The amount of cash beyond insured amounts as of December 31, 2006, was $11,837.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the nature of our customers who are dispersed across many industries and geographic regions. The allowance for doubtful accounts as of December 31, 2006 was $243. As of December 31, 2006, one customer accounted for approximately 11% of our trade accounts receivable. We routinely assess the financial strength of customers and, based upon factors concerning credit risk, we establish an allowance for doubtful accounts. Management believes that accounts receivable credit risk exposure beyond such allowance is limited.

We generally do not require collateral for our financial instruments.

Impairment of Long-Lived Assets - We review our long-lived assets and identifiable intangibles for impairment at least annually whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such factors and circumstances exist, we compare the projected undiscounted future cash flows associated with the future use and disposal of the related asset or group of assets to their respective carrying amounts. Impairment, if any, is measured as the excess of the carrying amount over the fair value based on market value (when available) or discounted expected cash flows of those assets, and is recorded in the period in which the determination is made.

ROO GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

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. Such investments are valued at quoted market prices. Cash equivalents amounted to $11,017 as of December 31, 2006.

Property and Equipment - Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided for using the straight-line and declining balance methods of accounting over the estimated useful lives of the assets [See Note 6].

Routine maintenance and repair costs are charged to expense as incurred and renewals and improvements that extend the useful life of the assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is reported in the statement of operations.

Income Taxes - Pursuant to SFAS No. 109, "Accounting for Income Taxes," income tax expense [or benefit] for the year is the sum of deferred tax expense [or benefit] and income taxes currently payable [or refundable]. Deferred tax expense [or benefit] is the change during the year in a company's deferred tax liabilities and assets. Deferred tax liabilities and assets are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Intangible Assets - Intangible assets of the Company are recorded at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of the assets, with periods of up to five years. All intangible assets are reviewed for impairment annually or more frequently if deemed necessary and no impairment write-offs were recorded in 2005 and 2006 [See Note 8].

Research and Development - Costs incurred in research and development are expensed as incurred. Software development costs are required to be capitalized when a product's technological feasibility has been established through the date the product is available for general release to customers. The Company does not capitalize any software development costs, as technological feasibility is generally not established until a working model is completed, at which time substantially all development is complete.

Revenue Recognition - Revenues are derived principally from professional services, digital media management and advertising. Revenue is recognized when service has been provided.

ROO GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation - On January 1, 2006, we adopted SFAS No. 123R, " *Share-Based Payment* ," or SFAS 123R, which is a revision of SFAS No. 123 " *Accounting For Stock-Based Compensation* ," or SFAS 123, and supersedes APB No. 25, " *Accounting For Stock Issues To Employees,* " or APB 25. Among other items, SFAS 123R requires companies to record compensation expense for share-based awards issued to employees and directors in exchange for services provided. The amount of the compensation expense is based on the estimated fair value of the awards on their grant dates and is recognized over the required service periods. Our share-based awards include stock options and restricted stock awards. Prior to our adoption of SFAS 123R, we applied the intrinsic value method set forth in APB 25 to calculate the compensation expense for share-based awards. Historically, we have generally set the exercise price for our stock options equal to the market value on the grant date. As a result, the options generally had no intrinsic value on their grant dates, and we did not record any compensation expense unless the terms of the options were subsequently modified. For restricted stock awards, the calculation of compensation expense under APB 25 and SFAS 123R is the same.

We adopted SFAS 123R using the modified prospective transition method, which requires the application of the accounting standard to all share-based awards issued on or after January 1, 2006 and any outstanding share-based awards that were issued but not vested as of January 1, 2006. Accordingly, our consolidated financial statements for the years ended December 31, 2005 have not been restated to reflect the impact of SFAS 123R. For the year ended December 31, 2006, we recognized $2,597 of stock-based compensation expense in our consolidated financial statements. We recognized expense because we had (a) stock options granted prior to January 1, 2006 that had not yet vested as of January 1, 2006 and (b) stock options granted subsequent to January 1, 2006.

The estimated fair value underlying our calculation of compensation expense for stock options is based on the Black-Scholes pricing model. [See Note 12] SFAS 123R requires forfeitures of share-based awards to be estimated at the time of grant and revised, if necessary, in subsequent periods if our estimates change based on the actual amount of forfeitures we have experienced. In the pro-forma information required under SFAS 123 for periods prior to January 1, 2006, we accounted for forfeitures as they occurred.

SFAS 123R requires us to calculate the pool of excess tax benefits, or the APIC pool, available as of January 1, 2006, to absorb tax deficiencies recognized in subsequent periods, assuming we had applied the provisions of the standard in prior periods. Pursuant to the provisions of FASB Staff Position 123R-3, " *Transition Election Related To Accounting For The Tax Effects of Share-Based Payment Awards,"* we adopted the alternative method for determining the tax effects of share-based compensation, which, among other things, provides a simplified method for estimating the beginning APIC pool balance.

Financing Fees Convertible Notes - Financing Fees Convertible Notes reclassifies non cash expenses relating to the issuance of various convertible notes to investors in the Company. All such convertible securities were retired prior to December 31, 2005.

ROO GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

Net (Loss) Per Share - We compute net (loss) income per common share under the provisions of Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share," which establishes standards for computing and presenting earnings per share. SFAS No. 128 requires us to report both basic net (loss) income per share, which is based on the weighted average number of common shares outstanding during the period, and diluted net (loss) income per share, which is based on the weighted average number of common shares outstanding plus all potential dilutive common shares outstanding. All equivalent shares underlying options, warrants, and convertible Series A Preferred Stock were excluded from the calculation of diluted loss per share because the Company had net losses for all years presented and therefore equivalent shares would have an anti-dilutive effect.

Restatement of Shares - Effective October 3, 2005, the Company amended its Certificate of Incorporation to effect a one-for-50 reverse split of the Company's issued and outstanding shares of common stock. All references to numbers or values of the Company's shares have been adjusted to reflect this one-for-50 reverse split. All option amounts and exercise prices have been adjusted to reflect the stock split.

Reclassification - Certain prior period amounts have been reclassified to conform to the current presentation.

ROO GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements - In December 2006, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position EITF 00-19-2 ("FSP ETF 00-19-2") that addresses an issuer's accounting for registration payment arrangements. EITF 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, *"Accounting for Contingencies"*. The guidance in EITF 00-19-2 amends FASB Statements No. 133, *"Accounting for Derivative Instruments and Hedging Activities* , No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity,* and FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* to include scope exceptions for registration payment arrangements. This pronouncement further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable generally accepted accounting principles (GAAP) without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. Under FSP 00-19-2, the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement shall be recognized and measured separately in accordance with Statement 5 and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss* . FSP EITF 00-19-2 is effective immediately for registration payment arrangements entered into after December 21, 2006 and for financial statements issued for fiscal years beginning after December 15, 2006, and interim periods within those fiscal years.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements” (“SAB 108”), which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 is effective for us as of December 31, 2007. We have not completed our evaluation of the possible impact on our financial position, if any, related to implementation of SAB 108.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measures” (“SFAS 157”). FAS 157 defines fair value and establishes a framework for measuring fair value in accordance with generally accepted accounting principles. This Statement also applies to other accounting pronouncements that require or permit a fair value measure. As defined by this Statement, the fair value of an Asset or Liability would be based on an “exit price” basis rather than an “entry price” basis. Additionally, the fair value should be market-based and not an entity-based measurement. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The implementation of SFAS 157 is not expected to have a material impact on our consolidated financial statements.

ROO GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

In July 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109” (“FIN 48”), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Specifically, FIN 48 requires the recognition in financial statements of the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. Additionally, FIN 48 provides guidance on the de-recognition of previously recognized deferred tax items, classification, accounting for interest and penalties, and accounting in interim periods related to uncertain tax positions, as well as, requires expanded disclosures. FIN 48 is effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We have not completed our evaluation of adopting FIN 48.

In March 2006, the FASB issued SFAS No. 156, “Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140” (“SFAS 156”). This Statement amends FASB Statement No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” with respect to accounting for separately recognized servicing assets and servicing liabilities. This Statement clarifies when servicing rights should be separately accounted for, requires companies to account for separately recognized servicing rights initially at fair value, and gives companies the option of subsequently accounting for those servicing rights at either fair value or under the amortization method. SFAS 156 is effective for fiscal years beginning after September 15, 2006. The implementation of SFAS 156 is not expected to have a material impact on our consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments - an amendment to FASB Statements No. 133 and 140” (“SFAS 155”). SFAS155 simplifies the accounting for certain hybrid financial instruments containing embedded derivatives. SFAS 155 allows fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation under SFAS 133. In addition, it amends SFAS 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired, issued, or subject to a re-measurement (new basis) event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The implementation of SFAS 155 is not expected to have a material impact on our consolidated financial statements.

ROO GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

(3) Going Concern

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We have incurred substantial net operating losses and used substantial amounts of cash in our operating activities. Since ROO Group's inception, we have incurred losses, had an accumulated deficit, and have experienced negative cash flows from operations. We expect this trend to continue. The expansion and development of our business will likely require additional capital. This condition raises substantial doubt about our ability to continue as a going concern. We expect cash flows from operating activities to improve, primarily as a result of an increase in revenue, although there can be no assurance thereof. The accompanying consolidated financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern. If we fail to generate positive cash flows or obtain additional financing when required, we may have to modify, delay or abandon some or all of our business and expansion plans.

(4) Acquisitions

Under the agreement related to the purchase of VideoDome by Bickhams the following milestones have been satisfied. In December 2004 the first milestone was reached and we issued 20,000 shares of common stock and $100 in cash to Mr. Aharonoff. In May 2005 the requirements of the second milestone were reached and we issued 40,000 shares of common stock and $100 in cash to Mr. Aharonoff. In April 2006, the third and final milestone payment of $20 in cash was paid to Mr. Aharonoff.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (November 1, 2004) and is inclusive of milestone payments made subsequent to that date.

ROO GROUP, INC. AND SUBSIDIARIES
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(4) Acquisitions (Continued)

On October 28, 2005, ROO Broadcasting Limited ("ROO Broadcasting"), a wholly owned subsidiary of the Company, and the shareholders of Factory 212 Pty Ltd. ("Factory212") entered into an agreement, pursuant to which ROO Broadcasting acquired 51% of the outstanding ordinary shares of Factory212. Factory212 is an Australian based interactive marketing agency. As consideration for the ordinary shares of Factory212, the Company issued 10,000 shares (the "Initial Shares") of the Company's common stock to the Factory212 shareholders. Subject to the conditions described below, the Company may issue additional shares ("Additional Shares") of common stock to the Factory212 shareholders, issuable after December 31, 2007, calculated as follows:

51% of [(1 * Factory212 Revenue) + (4 * Factory212 Earnings)]

Average ROO Share Price

where: "Factory212 Revenue" means the billings less all media and third party supplier costs of Factory212 for the twelve month period ending December 31, 2007; "Factory212 Earnings" means the earnings of Factory212 before tax and after deduction of interest and all other expenses for the twelve month period ending December 31, 2007; and "Average ROO Share Price" means the average price of the Company's common stock during the final five trading days of December 2007.

If the Company does not issue the computed number of Additional Shares, ROO Broadcasting’s 51% ownership of Factory212 will be reduced on a pro rata basis by the difference between the computed number of Additional Shares and the actual number of Additional Shares issued. If the Company does not issue any Additional Shares, ROO Broadcasting will relinquish all of its 51% ownership of Factory212. However, if the Factory212 Earnings are greater than 15% of the Factory212 Revenue and the number of Additional Shares to be issued are less than 4.9% of the then current outstanding shares of common stock of the Company, the Company must proceed with issuing the maximum number of Additional Shares in accordance with the above formula.

The acquisition of Factory212 was conditioned upon the parties entering into the Amendment described above under "Amendment to Reality Group Purchase Agreement." If the Company fails to meet its material obligations under the terms of the Amendment, then the Company and ROO Broadcasting agreed that the Factory212 shareholders may in their sole discretion require that ROO Broadcasting relinquish all of its ownership of Factory212. In such event, the Company agreed that the Factory 212 shareholders shall be entitled to retain ownership of their Initial Shares.

The operations of Factory212 during the period from November 1, 2005 to December 31, 2006 have been included in the consolidated statements.

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(4) Acquisitions (Continued)

On January 27, 2006 ROO Media Corporation purchased 24% of ROO Media Europe Limited for $90. ROO Media Europe is now a wholly owned subsidiary of ROO Media Corporation.

On October 1, 2006, Factory 212 Pty Ltd. (“Factory212”), a 51% owned subsidiary of the Company, and the shareholders of Sputnik Agency Pty Ltd. (“Sputnik”) entered into an agreement, pursuant to which Factory212 acquired the business and assets of Sputnik. Sputnik is an Australian based interactive marketing agency. As consideration for the business and assets of Sputnik, Factory212 issued shares representing 24.5% of the issued shares in Factory212 to the shareholders of Sputnik. These shares shall be issued through the reduction in the shareholding of all shareholders other than ROO Broadcasting. Also, a cash amount of $250 is payable by ROO Broadcasting to the shareholders of Sputnik. In addition to this amount, 50% of any further payment of Additional Shares, as described in the agreement between Factory212 and ROO Broadcasting, will made to the shareholders of Sputnik less the cash amount of $250. Factory212 acknowledges and agrees to such payment and that accordingly, they will receive 50% less than originally provided in Additional Shares. The cash payment of $250 was made in December 2006.

The operations of Sputnik, which are included in the operations of Factory212, during the period from October 1, 2006 to December 31, 2006 have been included in the consolidated statements.

ROO GROUP, INC. AND SUBSIDIARIES
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(4) Acquisitions (Continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (October 1, 2006).

Current assets	$	43
Property, Plant and Equipment		55
Intangible Asset - Customer List		262
Total Assets Acquired		360
Current Liabilities		163
Total Liabilities Assumed		163
Net Assets Acquired	$	197

On October 1, 2006, The Reality Group Pty Ltd. ("Reality Group"), a 51% owned subsidiary of the Company, and the shareholders of Cooee Melbourne Pty Ltd. ("Cooee") entered into an agreement, pursuant to which Reality Group acquired the business and assets of Cooee. Cooee is a provider of integrated communication solutions, including direct marketing, internet advertising and sales promotion. As consideration for the business and assets of Cooee, Reality Group will make a cash payment monthly for a period of 21 months to the shareholders of Cooee, subject to adjustment as follows. For the first six months, a payment of approximately $20 will be paid to Cooee at the conclusion of the month. After every six months, the amount due and payable to Cooee will be reconciled against revenue earned and paid from Cooee's clients. At the end of each six month period, a reconciliation statement will be prepared and provided by Reality Group to Cooee. In the event that revenue from the six month period exceeds $394 (based on the pro rata expectation of a $788 annualized revenue) or is less than $394, the variance percentage between the expected $394 revenue shall be either adjusted by way of deduction or an increase in respect of the fee paid in the following six month period in equal installments.

The operations of Cooee, which are included in the operations of Reality Group, during the period from October 1, 2006 to December 31, 2006 have been included in the consolidated statements.

As of December 31, 2006, $179 has been recorded as Intangible Assets - Customer Lists.

On November 21, 2006, we issued 100,000 shares of common stock in full and final settlement of the milestones detailed in the Undercover Media Purchase Agreement. The shares were valued at $260, based on the closing trading value of the shares on the previous day of $2.60. The value of these shares have been recorded as an intangible asset on the balance sheet and included in "Content".

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(5) Commitments

Leases - The Company is a party to a number of non-cancelable lease agreements primarily involving office premises and computer equipment. Computer equipment leases are generally for three year periods. There are three leases of office premises. The first is in Australia and is for a five year period ending in July 2011. The second is in New York and is for three years and ten months ending in November 2008 with no renewal options. The third is in Australia and is for four years ending in September 2010.

The following is a schedule of future minimum payments under capital leases and operating leases and obligations under capital leases (present value of future minimum rentals) as of December 31, 2006.

Periods January to December unless stated otherwise	Capital	Operating Property	Total
2007	$ 79	$ 742	$ 821
2008	80	733	813
2009	45	463	508
2010	45	476	521
2011	74	309	383
Thereafter	--	109	109
Total Minimum Lease Payments	323	$ 2,832	$ 3,155
Less Amount Representing Interest	(47)		
Total Obligations Under Capital Leases	$ 277		

Short-term capital lease obligations of $71 is included in other current liabilities in the accompanying consolidated balance sheet.

Rent expense amounted to $743 and $336 for the years ended December 31, 2006 and 2005, respectively.

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(6) Property and Equipment

Property and equipment at December 31, 2006 consists of the following:

	Motor Vehicles	Motor Vehicles Capital Lease	Computer Software	Leasehold Improvements	Furniture and Fixtures	Office Equipment	Total
Cost	$ 8	$ 176	$ 114	$ 182	$ 304	$ 857	$ 1,641
Accumulated Depreciation	(6)	(108)	(68)	(26)	(24)	(461)	(693)
Net	$ 2	$ 68	$ 46	$ 156	$ 280	$ 396	$ 948
Estimated useful life	6 years	7 years	2 years	5 years	5 years	4 years	

Depreciation expense (including amortization of capital lease assets) amounts to $173 and $147 for the years ended December 31, 2006 and 2005, respectively.

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(7) Income Taxes

The (provision) benefit for income taxes consisted of the following:

	Years ended December 31, 2006	2005
Current:		
Australian Federal Tax Expense	$ 84	$ (105)
Non-Current:		
Australian Federal Tax Expense	8	(19)
Totals	$ 92	$ (124)

The reconciliation of reported income tax expense to the amount of income tax expense that would result from applying Australian federal tax rates to pretax income is as follows:

	2006	2005
Statutory Federal Income Tax	$ 138	$ (117)
Other (Non Allowable Deductions)	(46)	(7)
Totals	$ 92	$ (124)

The components of deferred tax assets and liabilities as of December 31, 2006 for Australian federal taxes, are as follows:

Deferred Tax Assets:	
Provision Accounts	$ 30
Depreciation	(7)
Other Liabilities	20
Tax Loss Carryforward	150
Total	$ 193

At December 31, 2006, we had substantial U.S. federal net operating tax loss carryforwards expiring at various dates through 2026. The Tax Reform Act of 1986 enacted a complex set of rules which limits a company's ability to utilize net operating loss carryforwards and tax credit carryforwards in periods following an ownership change. These rules define an ownership change as a greater than 50 percent point change in stock ownership within a defined testing period which is generally a three-year period. As a result of stock issued by us from time to time, including the stock issued related to the conversion of outstanding warrants, or the result of other changes in ownership of our outstanding stock, we may have experienced an ownership change and consequently our utilization of net operating loss carryforwards could be significantly limited. A 100% valuation allowance has been established due to the uncertainty about the realization of the deferred tax asset.

ROO GROUP, INC. AND SUBSIDIARIES
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(8) Goodwill and Intangible Assets

As of December 31, 2006, goodwill is $1,123 and it is comprised of $1,033, which represents the excess of acquisition costs over the fair value of net assets of the Reality Group acquisition at the date of acquisition of $1,990 less $957, which represents the buyback of shares which was recorded as a reduction of goodwill. Also included in goodwill is $90 related to the acquisition of the remaining 24% of ROO Media Europe Limited.

At December 31, 2006 intangible assets include the following:

	Customer List	Software	Content	Domain Name
Cost	$ 1,110	$ 1,300	$ 791	$ 54
Less Amortization	(509)	(530)	(353)	(13)
Totals	$ 601	$ 770	$ 438	$ 41

Estimated future annual amortization expense as of December 31, 2006 is as follows:

	Customer List	Software	Content	Domain Name
2007	$ 355	$ 265	$ 266	$ 11
2008	126	265	172	11
2009	71	226		11
2010	49	14		8
Totals	$ 601	$ 770	$ 438	$ 41

The customer lists were acquired as a component of the Reality Group, Factory212, Sputnik and Cooee acquisitions and are being amortized over a 4 year period on a straight line basis. The software is being amortized over a 5 year period on a straight line basis. Content is made up of digital videos, audio, and photographs and is capitalized at the cost of production. Content is amortized over a 2 year period on a straight line basis. The Company purchased the domain name www.roo.com in November 2005 and it is being amortized over a 5 year period on a straight line basis.

The Company's policy is to regularly review goodwill and intangible assets to determine if they have been permanently impaired by adverse conditions. As of December 31, 2006 management does not believe the goodwill or intangible assets to be impaired.

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(9) 2004 Callable Secured Convertible Notes and Related Statement of Operations Effects

On September 10, 2004, the Company entered into a securities purchase agreement for the sale of (i) $3,000 in callable secured convertible notes and (ii) warrants to purchase 3,000,000 shares of our common stock.

Upon placement of the $3,000 callable secured convertible notes and the issuance of the 3,000,000 detachable warrants we recorded the event under the guidance of the Emerging Issues Task Force (EITF) issue number 00-27 "Application of issue No. 98-5 to Certain Convertible Instruments".

We computed the value of a beneficial conversion feature related to the notes as $351 and expensed the amount as interest expense during the year ended December 31, 2005. We also recorded a discount of $32 for the detachable warrants issued in conjunction with the callable secured convertible notes.

On July 18, 2005, we entered into a securities purchase agreement for the sale of: (i) $2,500 in callable secured convertible notes; and (ii) warrants to purchase 100,000 shares of our common stock. The warrants were valued under the Black-Scholes method of $117.

On August 18, 2005, we entered into an omnibus consent and waiver agreement with the holders of the then outstanding callable secured convertible notes (the "Noteholders"). Under the agreement, the Noteholders consented to a private placement of up to 5,333,333 shares of the Company's common stock at a purchase price of $1.50 per share in one or more closings. Noteholders agreed to amend the amount of consideration required to prepay the then outstanding callable secured convertible notes in full to: (a) payment of $3,400 in cash within five business days of the date of the agreement; and (b) issuance of warrants entitling the Noteholders to purchase 60,000 shares of the Company's common stock with a fixed exercise price of $1.50 per share exercisable for a period of five years from the issue date. The warrants were valued under the Black-Scholes method at $78. In addition, the Noteholders waived certain notice and other requirements in order to facilitate prepayment of the outstanding callable secured convertible notes. The warrants were issued by the Company on October 11, 2005.

On August 23, 2005, the Company repaid the holders of the Company's then outstanding callable secured convertible notes.

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(10) Preferred Shares

On March 9, 2005, the Board of Directors of the Company amended the Company's Certificate of Incorporation to designate the rights of Series A Preferred Stock. The Certificate of Designation authorizes the Company to issue up to 10,000,000 shares of Series A Preferred Stock, par value $.0001 per share. The Series A Preferred Stock has a stated value of $.0001 and a liquidation preference over the Company's common stock and any other class or series of capital stock whose terms expressly provide that the holders of Series A Preferred Stock should receive preferential payment. Holders of Series A Preferred Stock are entitled to vote on all matters submitted to shareholders of the Company and are entitled to ten votes for each share of Series A Preferred Stock owned. Holders of shares of Series A Preferred Stock vote together with the holders of common stock on all matters and do not vote as a separate class.

Beginning two years from the date of issuance of the Series A Preferred Stock, each one share of Series A Preferred Stock is convertible, at the option of the holder, into two shares of the Company's common stock. However, holders cannot convert any share of Series A Preferred Stock if the market price of the Company's common stock is below $0.40 per share.

On March 17, 2005, ROO Group, Inc. (the "Company") issued 6,000,000 shares of Series A Preferred Stock to its Chief Executive Officer, Robert Petty, and 1,500,000 shares of Series A Preferred Stock to its Chief Financial Officer, Robin Smyth. These shares have been valued at the equivalent number (2:1) of common shares valued as at the issue date to a combined valuation of $750. These shares were issued as a performance bonus to Messrs. Petty and Smyth for, among other things, their role in helping expand and grow the Company's business operations.

Also on March 17, 2005, the Company issued an aggregate of 2,000,000 shares of Series A Preferred Stock to two accredited investors as consideration for investor relations services. These shares have been valued at the equivalent number (2:1) of common shares valued as at the issue date to a combined valuation of $200.

On September 30, 2005, the Company amended the terms of its Series A Preferred Stock to provide that: (1) the holders thereof may not convert shares of Series A Preferred Stock if the market price of the Common Stock is below $3.00 per share; and (2) removing the following restriction on the holders thereof from converting shares of Series A Preferred Stock immediately prior to a change in control of the Company:

"if at the time of a conversion under this Section 5.2 the market price of the Common Stock is below $0.40 per share, then each share of Series A Preferred Stock shall convert into such number of shares of Common Stock equal to (x) two (2), multiplied by (y) the closing price of the Common Stock on the date of the event triggering an automatic conversion under this Section 5.2 divided by $0.20."

(10) Preferred Shares (Continued)

On June 30, 2006, ROO Group, Inc. (the “Company”) issued 500,000 shares of Series A Preferred Stock to an employee. These shares were valued at the equivalent number (1:25) of common shares based upon the fair market value as at the issue date at $64. Such amount is included in "Non-Cash Compensation". These shares were issued as a performance bonus for, among other things, the employee’s role in helping expand and grow the Company’s business operations.

(11) Stock Issuances

On July 28, 2006, the Company issued 50,000 warrants at an exercise price of $2.00 to Highbridge International LLC for Investor Relations services. These warrants were valued under the Black-Scholes method as $129.

On August 18, 2006, the Company entered into a Common Stock Purchase Agreement pursuant to which the Company sold 4,420,000 shares of its common stock and 2,210,000 warrants to purchase shares of common stock to accredited investors, a number of which are existing shareholders of the Company. The offering closed on August 23, 2006. The warrants were valued under the Black-Scholes method as $2,658. The shares of common stock were sold at a price of $1.25 per share resulting in gross proceeds of $5,525. Each investor was issued warrants to purchase a number of shares of common stock equal to 50% of the number of shares of common stock purchased. The warrants have an exercise price of $2.00 per share and a term of five years.

The Company agreed to prepare and file a registration statement with the Securities and Exchange Commission registering the resale of the shares of common stock sold in the private placement on or prior to 30 days following the closing date. If the registration statement was not filed within such time or if the registration statement was not declared effective within 120 days following the closing date, the Company would be required to pay liquidated damages to the investors equal to 1% of the dollar amount of their investment for each calendar month or portion thereof that the registration statement is not filed or declared effective. The Company failed to fulfill its obligations to timely file the Registration Statement and owes approximately $166 in liquidated damages to the investors. Such amount is included in other current liabilities in the accompanying consolidated balance sheet. The Registration Statement was declared effective on December 27, 2006.

(11) Stock Issuances (Continued)

Savvian LLC, Burnham Hill Partners, a division of Pali Capital, Inc. and Brimberg & Co., registered broker-dealers, acted as placement agents for the sale of the Company's common stock. In connection with the closing, the Company paid the placement agents a cash fee of $461. In addition, the Company issued the placement agents 801,369 warrants to purchase shares of common stock with an exercise price of $1.25 per share for a period of five years and were valued under the Black-Scholes method as $1,057. The net proceeds of $4,985 were received after deducting placement agent fees of $461, legal fees of $74 and escrow agent fees of $5. The transaction was exempt from registration requirements pursuant to Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended.

On November 14, 2006, the Company entered into a securities purchase agreement pursuant to which the Company sold an aggregate of 8,378,377 shares of the Company’s common stock and warrants to purchase an additional 2,513,513 shares of the Company’s common stock to accredited investors resulting in gross proceeds of $15,500. The offering closed on November 16, 2006. The unit price of the common stock and corresponding warrant was $1.85. The warrants have an exercise price of $3.00 per share and a term of five years. The warrants were valued under the Black-Scholes method as $2,943. At any time at which the market price of the Company's Common Stock exceeds $5.00 for 10 trading days during any 20 consecutive trading days, the Company may elect to call the warrants, provided that, the shares underlying such warrants are registered pursuant to a registration statement.

The Company agreed to prepare and file a registration statement with the Securities and Exchange Commission registering the resale of the shares of common stock sold in the private placement on or prior to 30 days following the closing date. If the registration statement is not filed within such time, the Company must pay liquidated damages to the investors equal to 1% of the dollar amount of their investment for each calendar month or portion thereof that the registration statement is not filed, up to a maximum of 10%. Also, if the registration statement is not declared effective within 120 days following the closing date, the Company must pay liquidated damages to the investors equal to 1% of the dollar amount of their investment for each calendar month or portion thereof that the registration statement is declared effective, up to a maximum of 10%. The Company failed to fulfill its obligations to timely file the Registration Statement and owes approximately $16 in liquidated damages to the investors. Such amount is included in other current liabilities in the accompanying consolidated balance sheet. The Registration Statement was declared effective on December 27, 2006.

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(11) Stock Issuances (Continued)

Merriman Curhan Ford & Co. and Brimberg & Co., financial advisors and registered broker-dealers, acted as placement agents for the sale of the Company's common stock. In connection with the closing we paid the placement agents a cash fee of an aggregate $930. In addition, the Company issued to the placement agents 326,757 warrants to purchase shares of our common stock with an exercise price of $3.00 per share exercisable for a period of five years and were valued under the Black-Scholes method as $383. In connection with the November 2006 Financing, we received net proceeds of $14,493 after payment of placement agent fees of $930, legal fees and expenses of $72, and escrow agent fees of $5.

On November 21, 2006, we issued 100,000 shares of common stock in full and final settlement of the milestones detailed in the Undercover Media Purchase Agreement. The shares were valued at $260, based on the closing trading value of the shares on the previous day of $2.60. The value of these shares have been recorded as an intangible asset on the balance sheet and included in “Content”.

(12) Stock Option Plan

On August 23, 2005 the Board of Directors of ROO Group, Inc. increased the number of incentive stock options or non-qualified options to purchase an aggregate of 2,500,000 shares of common stock may be issued Stock Option Plan (the "Plan"). Pursuant to the Plan, which expires on April 1, 2014, incentive stock options or non-qualified options to purchase shares of common stock have been issued to officers, directors, employees and consultants of ROO Group.

The Board of Directors have also determined that the currently outstanding incentive stock options or non-qualified options be reissued on terms in line with the Company’s current position to reinstate the incentive nature of the Plan for officers, directors, employees and consultants. On August 23, 2005 the Board of Directors reissued the 277,000 outstanding stock options under the Plan for two years and at an exercise price of $2.00 per share.

On November 16, 2006 our Board of Directors of ROO Group, Inc. increased the number of shares which may be issued under the 2004 Stock Option Plan to an aggregate of 8,000,000 shares of common stock.

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(12) Stock Option Plan (Continued)

The Plan is administered by the Board of Directors of ROO Group (the "Board") or by a committee to which administration of the Plan, or of part of the Plan, may be delegated by the Board (in either case, the "Administrator"). Options granted under the Plan are not generally transferable by the optionee except by will, the laws of descent and distribution or pursuant to a qualified domestic relations order, and are exercisable during the lifetime of the optionee only by such optionee. Options granted under the Plan vest in such increments as is determined by the Administrator. To the extent that options are vested, they must be exercised within a maximum of three months of the end of optionee's status as an employee, director or consultant, or within a maximum of 12 months after such optionee's termination by death or disability, but in no event later than the expiration of the option term. The exercise price of all stock options granted under the Plan shall be determined by the Administrator. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of ROO Group's outstanding capital stock, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date.

If the compensation cost for the stock-based employee compensation plans had been determined based on fair values of awards on the grant date, estimated using the Black-Scholes option pricing model, which would be consistent with the method described in SFAS No. 123(R), the Company's reported net (loss) and (loss) per share would have been reduced to the pro forma amounts shown below:

		Year Ended December 31, 2005
Net (Loss) as reported	$	(8,957)
Deduct: Amount by which stock-based employee compensation as determined under fair value based method for all awards exceeds the compensation as determined under the intrinsic value method		(357)
Pro Forma Net (Loss)	$	(9,314)
Basic and Diluted (Loss) Per Share as Reported	$	(1.40)
Pro Forma Basic and Diluted (Loss) Per Share	$	(1.45)

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(12) Stock Option Plan (Continued)

Under SFAS No. 123(R) the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31, 2006	Year Ended December 31, 2005
Expected life (in years)	2.77	2.00
Risk-free interest rate	4.74%	4.75%
Volatility	96%	351%
Dividend yield	0%	0%

A summary of the status of stock option awards as of December 31, 2006 and changes during the year then ended is presented below:

	Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (Years)**	**Intrinsic Value**
Outstanding at December 31, 2005	1,783,050	$ 2.00		
Granted	4,284,500	2.36		
Exercised	--	--		
Cancelled or expired	(419,695)	2.23		
Outstanding at December 31, 2006	5,647,855	2.25	2.90	$ 4,518
Exercisable at December 31, 2006	1,825,967	2.15	1.35	1,643

The weighted-average grant-date fair value of option awards granted during the years ended December 31, 2006 and 2005 was $1.39 and $1.31, respectively. There have been no options exercised from inception to December 31, 2006.

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(13) Subsequent Events

On January 22, 2007, we entered into an Asset Purchase Agreement with RJM Price & Company, Inc. (“RJM”) and Robertson Price. Pursuant to the Agreement, we acquired all of the properties, rights and assets constituting the business of RJM, which operates under the name MyVideoDaily (“MVD”). The Agreement provides for a consideration of up to an aggregate of $1,350 payable as follows: (i) $250 paid upon the execution of the Agreement, (ii) $1,000 in shares of our common stock will be paid to Mr. Price in equal quarterly installments upon the achievement of certain milestones at a price per share which will be equal to equal to the average closing price of our common stock over the final 20 trading days of the quarterly period in which the milestone is achieved; (iii) $100 payable upon the second anniversary of the closing of the acquisition. The milestones include: (i) the full integration of MVD’s keyword generation and search marketing engine into our operations; (ii) Robertson Price utilizing his best efforts to increase organic traffic to our properties by 50%; (iii) Robertson Price use of MVD in our best interests, which determination shall be made by us; (iv) Robertson Price leading and delivering product development initiative to provide the most profitable customer /consumer traffic driven feature for our 2007 product offering, including community and user generated content modules; (v) Robertson Price assisting in traffic driving recommendations initiatives for key clients leading to increased revenues over and above original customer projections; (vi) continued employment of Robertson Price for a full year; provided that if his employment is terminated by (a) Robertson Price due to a breach by us of the APA or the employment agreement, which breach is not cured within the permitted cure-period, or (b) us for any reason other than for “Cause” (as defined in the Employment Agreement), then Robertson Price will, as of the date of termination, automatically be deemed to have been employed for a full year.

Pursuant to the terms of the Agreement, the Company has entered into an Employment Agreement with Robertson Price, a principal of RJM pursuant to which Mr. Price will be retained by ROO Media Corporation as Senior Vice President of Product & Network Management..

On January 25, 2007, ROO Group, Inc. (the “Company”) entered into an agreement with News Corporation (“News Corp”). The Agreement provides for the issuance of 2,000,000 shares of the Company’s common stock upon execution of the Agreement, which shall be held in escrow and released to News Corp. on January 1, 2008, upon the achievement of certain milestones. The Agreement provides that if the milestones are not met as set forth in the Agreement, the Company shall issue to News Corp warrants to purchase 2,000,000 shares of the Company’s common stock which shall be exercisable for a term of two years at a price of $3.00 per share or such lesser price per share that is the closing per share of the Company’s common stock on any date that is within ten days prior to the date of the Agreement. The Agreement provides for the release of the shares to News Corp upon a change of control as defined in the Agreement, if certain conditions exist.

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(13) Subsequent Events (Continued)

The Company also agreed to issue an additional 2,000,000 shares of its common stock to News Corp upon the achievement of certain milestones. Further, the Company agreed that if the milestones are not timely achieved, the Company shall issue to News Corp warrants to purchase 2,000,000 shares of the Company's common stock which shall be exercisable for a term of two years at a price of $3.00 per share or such lesser price per share that is the closing per share of the Company's common stock on any date that is within ten days prior to the date of the Agreement.

The Company has granted News Corp piggy back registration rights in connection with shares issuable to News Corp pursuant to the Agreement. The Company will rely upon an exemption from securities registration afforded by Section 4(2) the Securities Act of 1933, as amended and/or Regulation D promulgated thereunder in connection with the issuance of the shares.

On February 16, 2007, Wurld Media, Inc. issued a promissory note to the Company in the principal amount of $1,500,000. Pursuant to the promissory note the Company advanced to Wurld Media the sum of $800,000, and in its sole discretion may make additional advances of up to, but not exceeding $1,500,000. The promissory note accrues interest at the rate of 8% and in the event of a default will accrue interest at the rate of 10%. The promissory note is secured by all of the assets of Wurld Media. The promissory note is due and payable upon the earlier of (i) the closing of the acquisition of the assets of Wurld Media, in which event, the loan amount will be credited against the purchase price of the assets or (ii) November 26, 2007.

The Company has entered into a Letter of Intent for the acquisition of the assets of Wurld Media and is currently conducting due diligence. In addition, pursuant to the letter of intent Wurld Media agreed to grant to the Company a perpetual worldwide, royalty-free license for all components of the Peer Impact store front and P2P platform which it owns and developed.

On March 6, 2007, Reality Group Pty. Ltd. issued a promissory note to the Company in the principal amount of $380,000. Pursuant to the promissory note the Company advanced to Reality Group the sum of $190,000, and in its sole discretion may make additional advances of up to, but not exceeding $380,000. Interest on the promissory note accrues at the rate of 8% per annum. The promissory note is due on June 30, 2008 and is secured by all the assets of Reality Group. In addition, Grant Lee and Mike Bollan agreed to pledge 20% of the ordinary shares of Reality Group which they own as security for Reality Group's obligations under the promissory note.

EXHIBIT XII

SUBSIDIARIES OF KIT DIGITAL, INC.

EXHIBIT XII – SUBSIDIARIES OF KIT DIGITAL, INC.

SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiary	Name of Parent Company	Percentage Owned	State of Incorporation	Principal Executive Offices
KIT Media Corporation	KIT digital, Inc.	100%	Delaware	205 Hudson Street, 8th Floor, New York, NY 10013, U.S.A.
Bickhams Media, Inc.	KIT digital, Inc.	100%	Delaware	205 Hudson Street, 8th Floor, New York, NY 10013, U.S.A.
Reality Group Pty. Ltd	KIT digital, Inc.	100%	Australia	Level 1, 116-122 Chapel Street, Windsor, Victoria 3181 Australia
Kamera Content AB	KIT digital, Inc.	100%	Sweden	Drottninggatan 92-94, SE-111 36 Stockholm, Sweden
KIT digital FZ LLC	KIT digital, Inc.	100%	Dubai, UAE	Dubai Media City, Business Central Towers, Suite 902, Dubai UAE
KIT HD, Inc.	KIT digital, Inc.	100%	New York	205 Hudson Street, 8th Floor, New York, NY 10013, U.S.A.
KIT digital Pty. Ltd.	KIT Media Corporation	100%	Australia	Level 1, 116-122 Chapel Street, Windsor, Victoria 3181 Australia
Undercover Media Pty. Ltd.	KIT digital Pty. Ltd.	100%	Australia	Level 1, 116-122 Chapel Street, Windsor, Victoria 3181 Australia
KIT digital Limited	KIT Media Corporation	100%	United Kingdom	Battersea Studios, 80 Silverthorne Road, London SW8 3HE UK
KIT Broadcasting Limited	KIT Media Corporation	100%	Australia	Level 1, 116-122 Chapel Street, Windsor, Victoria 3181 Australia
Sputnik Agency Pty. Ltd.	KIT Media Corporation	100%	Australia	Level 1, 116-122 Chapel Street, Windsor, Victoria 3181 Australia
KIT TV Pty Ltd.	KIT Media Corporation	100%	Australia	Level 1, 116-122 Chapel Street, Windsor, Victoria 3181 Australia
Morpheum Internet Services Pty Ltd.	KIT Media Corporation	100%	Australia	Level 1, 116-122 Chapel Street, Windsor, Victoria 3181 Australia
VideoDome.com Networks, Inc.	Bickhams Media, Inc.	100%	California	205 Hudson Street, 8th Floor, New York, NY 10013, U.S.A.
Kamera (S) PTE Ltd	Kamera Content AB	95%	Singapore	10 Anson Road, #32-11 International Plaza, Singapore 079903
Swegypt Company for Telecommunications (S.A.E)	Kamera Content AB	55%	Egypt	1121 Corniche El Nile St., Maspero, Cairo, Egypt 11221
Visual Connection, a.s.	KIT digital FZ LLC	100%	Czech Republic	Slezská 2526/113, 130 00 Prague 3, Czech Republic
KIT digital Slovakia s. r.o.	KIT digital, Inc.	100%	Slovak Republic	Seberíniho 4/B 821 03 Bratislava, Slovak Republic
The FeedRoom, Inc.	KIT digital, Inc.	100%	Delaware	205 Hudson Street, 8th Floor, New York, NY 10013, U.S.A.
Nunet AG	KIT digital, Inc.	100%	Germany	Carlswerkstraße 13d, D-51063 Cologne, Germany
KIT digital Czech a.s.	KIT digital, Inc.	100%	Czech Republic	Slezská 2526/113, 130 00 Prague 3, Czech Republic
KIT digital Canada Inc.	KIT digital, Inc.	100%	Canada	2585 Skymark Avenue, Mississauga, Ontario, Canada L4W 4L5