

KIT digital Reports First Quarter 2010 Results

Revenue up 80% to Record \$17.4 Million, Driving Operating EBITDA of \$3.0 Million or \$0.21 per Share

PRAGUE, CZECH REPUBLIC, May 17, 2010 (MARKETWIRE via COMTEX) --KIT digital, Inc. (NASDAQ: KITD), the leading global provider of on-demand software solutions for managing and monetizing Internet Protocol (IP)-based video assets, reported financial results for the first quarter ended March 31, 2010.

Revenue in the first quarter of 2010 increased 8% to a record \$17.4 million from \$16.1 million in the previous quarter, and increased 80% from \$9.6 million in the same quarter a year ago. The company's revenues are primarily comprised of software license and maintenance fees, software set-up fees, and technical integration and creative service charges.

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

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

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

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

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

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

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

Q1 2010 Selected Client Wins, By Region

Europe, Middle East & Africa (EMEA):

-- Rosemary Conley, the leading UK health and fitness experts, selected KIT digital to build its unique rosemaryconely.tv platform, which included videos about healthy eating, fitness and weight loss, and provides a forum for members to discuss and rate content.

-- MGT, the leading UK provider of payment and billing service for global telecommunications, media, technology, entertainment and retail markets, entered into a strategic partnership with KIT digital to provide IPTV platform services as a value added service to MGT clients.

Asia-Pacific:

-- Yellow Pages, Australia's number one provider of directories and local

search services, selected KIT digital to deliver a complete online video solution for its premium listings services.

- Credit Union of Australia, one of the region's leading member-owned financial institutions, selected KIT digital to design and implement an overall digital strategy and online channel planning.

The Americas:

- Telecom Argentina, Argentina's largest telecommunications carrier, chose KIT digital's VX-one to support the first and most advanced online video-on-demand store in the country. Telecom Argentina will be first to stream long-format Hollywood and Latin American movies over-the-top to its broadband user base, and will use next generation adaptive streaming technologies directly through IPTV-capable set-top boxes, Web browsers, game consoles and internet enabled TV sets throughout its network.
- Tribeca Film Festival, one of the world's leading film festivals, chose VX-one to implement Tribeca Film Festival Virtual, a state-of-the-art platform that features a year round virtual and interactive full-length movie experience online, as well as offers premium content and live events that occurred during the festival.
- Amnesty International, a grassroots activist organization with more than 1.8 million members worldwide, selected KIT digital to integrate a donation system with its video players over a secure server, which represented an important innovation in the sector.
- YUM! Brands, the world's largest restaurant company, built upon its long-term relationship with KIT digital by utilizing VX-one its investor relations activities with video-based communications.
- Habitat for Humanity, an international non-profit housing organization, is now leveraging VX-one and the power of video to increase donations for people in need.

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

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

"It's also important to note that our strong Q1 financial performance bucked the usual Q1 negative seasonality caused by reduced digital media consumption

industry-wide relative to the holiday season and the last quarter of each year. Our operating cash-flow margin dipped slightly on a sequential quarter basis, but substantially less than would be normally expected in Q1 given the higher-than-normal proportion of high-margin usage fees in Q4. This superlative performance was a result of our continued aggressive focus on revenue growth, coupled with cost control discipline."

"As we stand nearly halfway through the year," continued Isaza Tuzman, "we appear well on track to exceed our financial targets for fiscal 2010, on both a revenue and operating margin basis. We are also making important strides in rationalizing our operations and consolidating our technology platform, VX-one."

Gavin Champion, president of KIT digital, commented: "We realized strong new contract growth in Q1, including many upsells and are continuing to see this in our current quarter -- particularly with large mobile and fixed-line network operators. We are also taking advantage of cross-selling opportunities to the client bases of previously acquired companies--as we will continue to do with Singapore-based Benchmark, the acquisition of which we announced earlier this morning. In answer to a couple of investors' questions, we have not seen any slow-down in IP video-related expenditures in Europe as a result of the Greek fiscal crisis."

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

Conference Call KIT digital's executive management team will host an online video presentation to discuss these first quarter 2010 results today at 10:30 a.m. Eastern Time. The presentation will be followed by a live question and answer period.

A video and audio-only broadcast of the conference call will be simultaneously streamed online via a link provided in the Investor Relations section of the company's website at <http://ir.kitd.com> or by clicking here.

For participants who wish to ask a question during the Q&A period or access the call via telephone only, please call the conference telephone number, below, at least 5-10 minutes prior to the scheduled start time:

Call Start Time: 10:30 a.m. Eastern time (4:30 p.m. Central Europeantime)

Dial-in # North America toll-free: +1-800-862-9098 Dial-in # outside of North America: +1-785-424-1051 Please provide the operator the Conference ID: 7KITDIGITAL

If you have any difficulty connecting with the conference call, please contact the Liolios Group at +1-949-574-3860.

The video presentation will be available for replay via the company's website following the call. A replay via telephone will be available after 1:30 p.m. Eastern time and until April 30, 2010:

Toll-free replay # (North America): +1-800-839-3736 International replay # (outside of North America): +1-402-220-2978 (No passcode required)

About ASC 815-40 Accounting Standard The accounting standard ASC 815-40 was implemented at the beginning of fiscal 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 recognition 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 recognition of non-cash derivative income.

Due primarily to an increase in the company's stock price from \$11.00 at December 31, 2009 to \$12.88 at March 31, 2010, net loss for the first quarter of 2010 included a derivative expense of \$11.4 million or \$(0.82) per basic and diluted share. Due primarily to the introduction of the accounting standard during the quarter ending March 31, 2009, net gain for the first quarter of 2009 included a derivative gain of \$10.2 million, or \$2.37 per basic share.

About KIT digital, Inc. KIT digital (NASDAQ: KITD) is a leading, global provider of on-demand, Internet Protocol (IP)-based video asset management systems (VAMS). KIT VX-one, 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 1,000 customers across 30+ countries, including The Associated Press, Best Buy, Bristol-Myers Squibb, Disney-ABC, FedEx, General Motors, Google, Hewlett-Packard, Home Depot, IMG Worldwide, Intel, News Corp, Telefonica, the U.S. Department of Defense, Verizon, and Vodafone. KIT digital is headquartered in Prague, and maintains principal offices in Atlanta, Cairo, Cologne, Dubai, Melbourne (Australia), London, New York, Stockholm and Toronto. For additional information, visit www.kitd.com or follow the company on Twitter at www.twitter.com/KITdigital.

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 integration expenses; 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.

GAAP to non-GAAP Reconciliation (amounts in thousands)	Three months ended	
	March 31,	
	2010	2009
Consolidated Statement of Operations Reconciliation		
Net income (loss) on a GAAP basis	\$ (18,442)	\$ 8,394
Non-cash stock-based compensation	552	\$ 280
Merger and acquisition and investor relations expenses	1,219	\$ 378
Depreciation and amortization	1,654	\$ 683
Restructuring charges	3,693	\$ 119
Integration expenses	2,921	\$ 244
Interest income	(1)	\$ (1)
Interest expense	92	\$ 139
Amortization of deferred financing costs	-	\$ 164
Derivative expense (income)	11,443	\$ (10,176)
Other income	(184)	\$ (29)
Income tax expense	14	\$ 3
Operating EBITDA income (loss)	\$ 2,961	\$ 198
Consolidated Statement of Operations Reconciliation per Share		
Basic net income (loss) per share on a GAAP basis	\$ (1.33)	\$ 1.96
Non-cash stock-based compensation	0.04	0.07
Merger and acquisition and investor relations expenses	0.09	0.09
Depreciation and amortization	0.12	0.16
Restructuring charges	0.26	0.03
Integration expenses	0.21	0.06
Interest income	-	-
Interest expense	0.01	0.03
Amortization of deferred financing costs	-	0.04
Derivative expense (income)	0.82	(2.37)
Other income	(0.01)	(0.02)
Income tax expense	-	-
Operating EBITDA income (loss) per share	\$ 0.21	\$ 0.05
Basic weighted average common shares outstanding	13,878,912	4,289,630

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", "plans" or similar expressions. Statements in this announcement that are forward-looking include, but are not limited to statements made by Mr Isaza Tuzman that "as we stand nearly halfway through the year, we appear well on track to exceed our financial targets for fiscal 2010, on both a revenue and operating margin basis." 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.

KIT DIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands, Except Share Data)

	March 31, 2010	December 31, 2009 (A)
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	(Unaudited)	
Assets:		
Current assets:		
Cash and cash equivalents	\$ 37,823	\$ 6,791
Investments	986	217
Accounts receivable, net	24,253	17,258
Unbilled revenue	2,336	2,960
Inventory, net	641	708
Other current assets	2,574	2,205
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Total current assets	68,613	30,139
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Property and equipment, net	6,632	5,697
Software, net	3,282	3,436
Customer list, net	5,880	4,650
Goodwill	57,022	36,492
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Total assets	\$ 141,429	\$ 80,414
	=====	=====
Liabilities and Stockholders' Equity:		
Current liabilities:		
Bank overdraft	\$ 1,199	\$ 1,623
Capital lease and other obligations	1,231	1,218
Secured loans payable	266	1,321
Accounts payable	12,550	6,647
Accrued expenses	9,701	8,501
Income tax payable	308	312
Deferred tax liability	580	580
Acquisition liability - Visual	1,075	1,075
Derivative liability	6,760	21,314
Warrant buyback liability	22,232	-
Other current liabilities	2,957	3,455
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Total current liabilities	58,859	46,046
Capital lease and other obligations, net of current	441	377
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Total liabilities	59,300	46,423
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Equity:		
Stockholders' equity:		
Common stock, \$0.0001 par value: authorized 30,000,000 shares; issued and outstanding 17,615,946 and 10,844,853, respectively	2	1
Additional paid-in capital	195,205	128,263
Accumulated deficit	(112,385)	(93,943)
Accumulated other comprehensive (loss) income	(693)	(330)
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Total stockholders' equity	82,129	33,991

Total liabilities and stockholders' equity	\$ 141,429	\$ 80,414
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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, 2010	
	2010	2009
Revenue	\$ 17,364	\$ 9,624
Variable and direct third party costs:		
Cost of goods and services	4,352	3,478
Hosting, delivery and reporting	1,074	282
Content costs	235	461
Direct third party creative production costs	890	805
Total variable and direct third party costs	6,551	5,026
Gross profit	10,813	4,598
General and administrative expenses:		
Compensation, travel and associated costs (including non-cash stock-based compensation of \$552 and \$280, respectively)	5,650	3,693
Legal, accounting, audit and other professional service fees	690	270
Office, marketing and other corporate costs	2,064	717
Merger and acquisition and investor relations expenses	1,219	378
Depreciation and amortization	1,654	683
Restructuring charges	3,693	119
Integration expenses	2,921	244
Total general and administrative expenses	17,891	6,104
Loss from operations	(7,078)	(1,506)
Interest income	1	1
Interest expense	(92)	(139)
Amortization of deferred financing costs and debt discount	-	(164)
Derivative (expense) income	(11,443)	10,176
Other income	184	29
Net income (loss) before income taxes	(18,428)	8,397
Income tax expense	(14)	(3)
Net income (loss) available to common shareholders	\$ (18,442)	\$ 8,394
Basic net income (loss) per common share	\$ (1.33)	\$ 1.96
Diluted net income (loss) per common share	\$ (1.33)	\$ 1.88

Basic weighted average common shares outstanding	13,878,912	4,289,630
	=====	=====
Diluted weighted average common shares outstanding	13,878,912	4,473,679
	=====	=====
Comprehensive income (loss):		
Net income (loss)	\$ (18,442)	\$ 8,394
Foreign currency translation	(432)	(37)
Change in unrealized gain on investments, net	69	-
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Comprehensive income (loss):	\$ (18,805)	\$ 8,357
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