

Company acquired over a dozen other companies, using cash raised through public and private equity sales, and using Company stock as acquisition currency. As a result of the purported successful integration of the acquired assets, and as a result of Defendants' purported ability to control integration costs while building an adequate management structure within the Company, the Company recorded a net income of \$4.8 million for the third quarter of 2011 – the last reported quarter prior to the inception of the Class Period – and Defendants claimed that the Company was poised for a breakout. At the inception of the Class Period, Defendants projected revenue of \$300 million for 2012, with an organic growth of between 25% and 30%, and with a projected EPS of \$1.45 per share.

3. The representations concerning the Company's operations and projected profitability, as well as further statements regarding the Company's accounting controls, were materially false and misleading throughout the Class Period, and were known or recklessly disregarded by Defendants to be false at that time. Unbeknownst to investors, throughout the Class Period, the Company was suffering from a host of undisclosed adverse factors that were negatively impacting the Company's business, factors that would cause it to report declining financial results that were materially less than the market expectations Defendants had caused and cultivated. As evidence of the foregoing:

- At all times during the Class Period, it was not true that the Company was achieving the growth in earnings and revenues as projected by Defendants when, throughout the Class Period, Defendants knew or recklessly disregarded that they had overstated the effectiveness of the Company's integration of purchased companies.
- At all times during the Class Period, unbeknownst to investors, Defendants had materially overstated the Company's foreseeable growth and profitability and had falsely stated that the Company was poised to achieve significant financial success.

- Throughout the Class Period, it was also not true that the Company contained adequate systems of accounting, such that the Company's reported financial statements were true, accurate or reliable.
- As a result of the aforementioned adverse conditions throughout the Class Period that Defendants knew about or recklessly disregarded but failed to disclose, Defendants lacked any reasonable basis to claim that the Company was operating according to plan or that the Company could achieve guidance sponsored and/or endorsed by Defendants.

4. It was only on May 3, 2012, at the end of the Class Period, however, that investors ultimately learned the true financial and operational condition of the Company. At that time, investors first learned that the Company was operating far below expectations and that Defendants had overstated the success of the Company's integration of its purchased assets, and underreported the costs of these acquisitions and the administration of those acquired assets. Accordingly, based on the huge disparity between Defendants' prior guidance, and the Company's announced results for 1Q:12, on May 3, 2012, the Company's stock fell 30%, trading from a close of \$6.34 per share on May 2, 2012, to an intra-day low of \$4.12 per share, before closing the trading day at \$4.42 per share.

5. In fact, in connection with the Company's belated corrective disclosure on May 3, 2012, the *Wall Street Journal* published a critical report on the Company that concluded that Defendant Tuzman had "left a mess" of a company and that the new CEO, who ultimately replaced Tuzman, would not endorse guidance. As evidence of this, the *Journal* reported, in part, the following:

Kateil Isaza Tuzman left a mess at KIT digital that his successor, Barak Bar-Cohen, may have a tough time cleaning up. *Among Mr. Bar-Cohen's first big moves may be to backtrack on the financial projections made to shareholders.*

"You won't hear me reiterate guidance," Mr. Bar-Cohen, KIT's new chief executive, told The Wall Street Journal on Tuesday. *He said he plans to reset the bar on financial results he believes the company can achieve in the future.*

Mr. Tuzman was the star of "Startup.com," a documentary that followed the rise and fall of one of his previous ventures. At KIT, he acquired 19 companies in an effort to create an online video technology powerhouse. *Since 2009, KIT has raised \$268 million via stock sales to help fund the deals. The company enjoyed positive stock recommendations from some Wall Street analysts whose firms also sponsored those stock sales. But KIT didn't properly integrate the acquisitions or put the necessary corporate structure in place to handle its own growth.*

In its latest annual financial filing, KIT's auditor said the company is short of accounting personnel to review its transactions, citing a material weakness in internal controls. Indeed, *KIT filed the document late due to questions about the valuation of past acquisitions.*

KIT has also had trouble tracking cash in the bank. When it reported fourth-quarter results, KIT said it had \$47.8 million of cash as of Dec. 31. Two weeks later, in the annual filing, it said the figure was \$45.7 million. And cash may take a further hit. The company is in violation of a debt covenant that says it must keep 75% of its cash in the U.S. To comply, it may have to repatriate cash, incurring taxes.

Mr. Tuzman is himself facing scrutiny from the SEC over stock trades from June 2010. It sent subpoenas to Mr. Tuzman and the company in February.

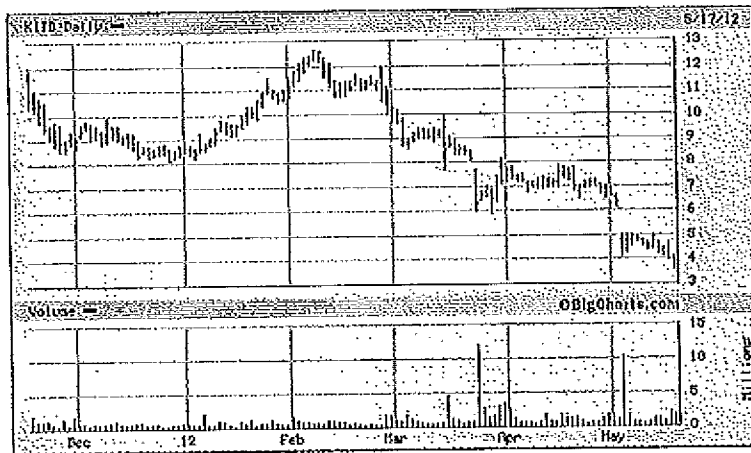
On March 18, one of KIT's independent directors resigned from the board over disagreements regarding the company's direction. Three other directors resigned from the board four days later, and Mr. Tuzman stepped down as CEO the day after that. Still the company's top shareholder, Mr. Tuzman remained board chairman until he resigned on April 11.

Mr. Bar-Cohen said he would like to "control-alt-delete the past." He is determining which parts of KIT's business to shutter, recruiting accounting staff and new board members while trying to win new customers. But the "Kaleil factor," as he calls it, could take a while to leave behind. [Emphasis added.]

6. Defendants were motivated to and did conceal the true operational and financial condition of the Company, and they materially misrepresented and failed to disclose the conditions that were adversely affecting the Company throughout the Class Period because this enabled Defendants to: (i) deceive the investing public regarding the Company's business, operations, management and the intrinsic value of KIT's securities; (ii) enable Defendants to artificially inflate the price of KIT's securities; (iii) enable Defendants to use over 1 million

shares of the Company's artificially inflated stock as currency then valued at \$11 million in the acquisition of Sezmi; (iv) enable Company insider Defendant Tuzman to sell millions of dollars of KIT stock owned by a private equity group under his control; and (v) cause Plaintiff and other members of the Class to purchase KIT securities at artificially inflated prices, resulting in damages after the truth was revealed and the artificial inflation was removed from the stock price.

7. The chart below evidences the dramatic decline in the price of KIT stock following Defendants' belated disclosures and the artificial inflation in these shares throughout the Class Period, as follows:



JURISDICTION AND VENUE

8. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act [15 U.S.C. §§ 78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder by the United States Securities and Exchange Commission ("SEC") [17 C.F.R. § 240.10b-5].

9. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331 and 1337, and Section 27 of the Exchange Act [15 U.S.C. § 78aa].

10. Venue is proper in this District pursuant to Section 27 of the Exchange Act and 28 U.S.C. § 1391(b). The Company maintains its principal place of business in this District, and many of the acts and practices complained of herein occurred in substantial part in this District.

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

PARTIES

12. Plaintiff [REDACTED] as set forth in the accompanying certification, incorporated by reference herein, purchased the securities of KIT at artificially inflated prices during the Class Period and has been damaged thereby.

13. Defendant **KIT DIGITAL INC.** is a Delaware corporation with its principal place of business at 26 West 17th Street, 2nd Floor, New York, New York 10011. According to the Company's profile, the Company "provides enterprise clients an end-to-end technology platform for managing Internet Protocol ("IP")-based video, including ingestion, transcoding, storage, metatagging, localization, editing/repurposing, search optimization, advertising, syndication and unicast distribution."

14. Defendant **KALEIL TUZMAN** ("Tuzman") was, during the Class Period, President, Chief Executive Officer and Chairman of the Company's Board of Directors. During the Class Period, Tuzman signed and certified the Company's SEC filings, including the Company's Forms 10-Q and 10-K.¹ In addition, during the Class Period, Defendant Tuzman also sold over \$7 million of KIT stock owned by a private equity group he controlled. At all relevant

¹ Defendant Tuzman resigned as President from the Company on March 23, 2012, but remained as Chairman of the Board of Directors. He then abruptly resigned as Board Chairman only a week later on April 11, 2012.

times, Defendant Tuzman was one of the Company's largest stockholders through entities he controlled, including KIT Media Ltd. and KIT Capital, Ltd.

15. Defendant **ROBIN SMYTH** ("Smyth") is and was, during the Class Period, Chief Financial Officer and Chief Accounting Officer of the Company. During the Class Period, Defendant Smith signed and certified the Company's SEC filings, including its Forms 10-Q and Form 10-K.

16. Defendant **GAVIN CAMPION** ("Campion") is and was, during the Class Period, President of the Company. During the Class Period and as described herein, Defendant Campion made numerous misleading statements regarding the Company's financial prospects and projected revenues. Prior to joining the Company as President in April 2008, and to joining the Company's Board of Directors in November 2008, from January 2005 to March 2008, Defendant Campion served as managing director of Sputnik Agency Pty Ltd., an Australian-based interactive marketing agency.

17. The Defendants referenced above in ¶¶ 13-16 are referred to herein as the "Individual Defendants".

18. The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the contents of the Company's quarterly reports, press releases, and presentations to securities analysts, money and portfolio managers and institutional investors, *i.e.*, the market. They were provided with copies of the Company's reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions with the Company and their access to material non-public information available to them but not to the public, the Individual Defendants knew that the adverse facts

specified herein had not been disclosed to and were being concealed from the public and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false and misleading statements pleaded herein.

19. Each of the Defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of KIT securities by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding the Company's business, operations, and management, and the intrinsic value of KIT securities; (ii) enabled Defendants to artificially inflate the price of KIT shares; (iii) enabled Company insider Defendant Tuzman to sell millions of dollars of KIT shares held by a private equity firm under his control, while in possession of material adverse non-public information about the Company; and (iv) caused Plaintiff and other members of the Class to purchase KIT securities at artificially inflated prices and to be damaged after the true facts were revealed and the artificial inflation was removed from the price of the stock.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

20. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise acquired the securities of KIT between November 8, 2011 and May 3, 2012, inclusive, (the "Class") and who were damaged thereby. Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

21. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, KIT common shares were actively traded on the NASDAQ. As evidence of this, some 47.94 million shares of KIT securities were issued and outstanding as of May, 2012. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by the Company or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

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

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

24. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- (a) whether the federal securities laws were violated by Defendants' acts as alleged herein;
- (b) whether statements made by Defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of the Company; and

(c) to what extent the members of the Class have sustained damages and the proper measure of damages.

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

BACKGROUND

26. The Company can trace its roots back to ROO Media Corporation, which was formed in March 2001 and engaged in providing video content over the internet. In 2004, the ROO Media Corporation changed its name to ROO Group, Inc. In December 2007, ROO entered into an agreement with KIT Capital, a company controlled by and led by Defendant Tuzman. Under this agreement, Defendant Tuzman assumed the positions of Chairman and Chief Executive Officer of KIT Digital, Inc.

27. Board defections took place immediately. On December 17, 2007 Messrs. Douglas Chertok, Simon Bax, Stephen Palley, and Scott Ackerman, together comprising the independent members of the Board, resigned from their positions. Thereafter, ROO was renamed KIT digital in May of 2008.

28. Immediately after Defendant Tuzman took control over the Company, the Company embarked on a very aggressive acquisition program. Under Tuzman's direction, in only 48 months, the Company acquired more than a dozen companies scattered across the globe. These acquisitions were financed primarily by cash raised through the public sales of Company

equity and through the use of the Company's stock as currency. The Company's acquisitions included the following:

- On May 14, 2008 the Company acquired 51% of Sputnik Agency Pty, Ltd., an Australian company, at a cost of \$4.6 million.
- On May 19, 2008, the Company acquired Kamera Content AB, a Swedish company, for an amount in excess of \$4.5 million.
- On August 13, 2008, the Company acquired Morpheum Internet Services Pty. Inc., an Australian company, at a cost of \$790,000.
- On October 5, 2008, the Company, through its wholly owned subsidiary KIT digital FZ-LLC, acquired Visual Connection, A.S., a Czech Republic based company, for an amount in excess of \$3 million in cash and stock.
- On April 8, 2009, the Company acquired operating assets and assumed liabilities of Narrowstep, Inc., a UK and US based internet TV platform company, in exchange for 25,000 shares of restricted stock.
- On October 1, 2009, the Company acquired The Feed Room, Inc., a US company engaged in online video communications, in exchange for some 1.2 million shares of KIT stock.
- On October 1, 2009, the Company acquired Nunot AG, a German company engaged in broadband video management, for a purchase price in excess of \$12 million.
- On March 16, 2010, the Company acquired Multicast Media Technologies Inc., a US corporation engaged in internet broadcasting, for 1.3 million shares of KIT common stock as well as \$4.75 million in cash.
- On January 26, 2011, the Company acquired Kewego, a French corporation that provides IP based, multi-screen video asset management solutions, for 1.4 million shares of KIT stock and \$4.6 million in cash.
- On January 28, 2011, the Company acquired KickApps Corporation, a US corporation providing solutions for video based solution experiences online, for 2.9 million shares of KIT stock and \$4 million in cash.
- On May 2, 2011, the Company acquired ioko365 Ltd. a U.S. and U.K. company that provided multi-screen cloud based end to end managed solutions, for 1.5 million shares of KIT stock and \$74.4 million in cash.

- On May 17, 2011, the Company acquired Polymedia S.p.A., an Italian company providing IP video platform solutions, for 1.1 shares of KIT stock and \$24.2 million in cash.
- On December 30, 2011, the Company acquired Sezmi Corporation, a US corporation providing broadband/broadcast hybrid TV solutions. The Company paid approximately \$16 million in upfront cash-based consideration (including the assumption of liabilities) and approximately \$11 million in KIT digital common stock (or approximately 1.2 million shares). The initial consideration is exclusive of future earn-outs.

29. Despite such an aggressive acquisition strategy, the Company had few independent directors overseeing the Company. As evidence of this, in the Company's 2011 Form 14A Proxy statement, filed with the SEC on September 20, 2011, Defendants reported that several of the Company's then current directors, including Gavin Campion, Daniel W. Hart, Lars Kroijer and Joseph E. Mullin III, were also minority investors in KIT Media, one of the Company's largest stockholders controlled by Defendant Tuzman. In addition, Mr. Hart was also a member of the Board of KIT Media. The relationship between the Company and KIT Media was described in the Company's 2011 Proxy statement, in part, as follows:

- In May 2008, KIT Media purchased an aggregate of 1,008,572 shares of the Company's common stock and warrants to purchase an additional 1,008,572 shares of common stock for a total of \$7,060,000, in a private offering. Over a period of 60 days between June 2009 and August 2009, KIT Media made \$3,350,000 available to the Company through an interim convertible promissory note bearing interest at 8% per annum and convertible into the next common stock offering under terms identical with other investors in the offering. The KIT Media note was converted into common stock in the Company's August 2009 public offering under terms identical with other investors in the offering. Together with its additional cash investment of \$654,000, KIT Media purchased a total of 572,000 shares of common stock in the Company's August 2009 public offering. In a subsequent public offering completed in March 2010, KIT Media invested another \$1,750,000, purchasing 179,856 shares of common stock. In a public offering in April 2010, KIT Capital invested \$1,300,000, purchasing 100,000 shares of common stock. In each case, KIT Media and KIT Capital purchased shares at the same price and on the same terms as the other investors in the offerings.

- On March 7, 2010, the Company's board of directors approved the repurchase of certain outstanding warrants with exercise prices below the then-current market price from certain warrant holders (who had acquired the warrants in May 2008 private placement financings), including KIT Media and Wellington Management Company ("Wellington"), an entity with greater than a 10% holding in the Company's outstanding common stock at the time of the transaction. KIT Media and Wellington were at the time considered related parties of the Company. The terms of the warrant repurchase were identical for KIT Media and Wellington, and the negotiation of such terms was led by Wellington. The Company offered to purchase and cancel these warrants at 133% of the intrinsic value of the warrants (but because intrinsic value was based on a 20-day trailing volume weighted average price of the underlying common stock at the time, the ultimate purchase price of the warrants ended up being below the actual intrinsic value at the date of purchase). These warrants with anti-dilution provisions totaling 3,030,747 shares were cancelled effective on March 31, 2010. Total payments for the settlement of these warrants was \$22,232,000 and a loss of \$1,665,000 was recorded in the derivative expense in the statement of operations. These warrants were included in the warrant buyback liability as at March 31, 2010 and were paid after such date. The Company also repurchased and cancelled another 403,577 warrants with anti-dilution provisions during the year ended December 31, 2010, at varying prices, from parties other than KIT Media and Wellington, for \$1,342,000.
- In April 2010, the Company repurchased and cancelled a warrant to purchase 47,143 shares from Robin Smyth, the Company's Chief Financial Officer. The terms of the warrant repurchase were identical to Wellington and KIT Media, the negotiation of which terms was led by Wellington, as described above.

30. In substantial part, as a result of Defendants' failure to integrate its acquired assets according to plan, throughout the Class Period, the Company was suffering from a host of undisclosed adverse factors that were negatively impacting the Company's business, and which would cause it to report declining financial results that were materially less than the market expectations Defendants had caused and cultivated. At all times during the Class Period:

- It was not true that the Company was achieving the growth in earnings and revenues as projected by Defendants when, throughout the Class Period, Defendants knew or recklessly disregarded that they had overstated the effectiveness of the Company's integration of purchased companies.
- Unbeknownst to investors, Defendants had materially overstated the Company's foreseeable growth and profitability and had falsely stated that the Company was poised to achieve significant financial success.

- It was also not true the Company contained adequate systems of accounting, such that the Company's reported financial statements were true, accurate or reliable.
- As a result of the aforementioned adverse conditions that Defendants knew or recklessly disregarded but failed to disclose, throughout the Class Period, Defendants lacked any reasonable basis to claim that the Company was operating according to plan, or that the Company could achieve guidance sponsored and/or endorsed by Defendants.

SUBSTANTIVE ALLEGATIONS

Defendants' Materially False and Misleading Statements Made During the Class Period

31. "Record" 3Q:11 Results Announced: On November 9, 2011, the inception of the Class Period, Defendants published a release that purported to announce financial results for 3Q 2011, the period ended September 30, 2011. This release stated, in part, the following:

KIT digital Reports Record Q3 2011 Results

Revenue Up 124% Y-o-Y and 29% Sequentially to \$62.3 Million and Op. EBITDA UP 223% Y-o-Y and 49% Sequentially to \$14.3 Million, Delivering Net Income of \$4.8 Million or \$0.11 per share.

* * *

Q3 2011 & Outlook Highlights

- Revenue up 29% sequentially to record \$62.3 million and up 124% over Q3 2010;
- On an organic basis, revenue was up 11% sequentially (off of pro forma Q2 revenues of approximately \$56 million), implying an annualized organic growth pace of over 40%;
- GAAP net income totaled \$4.8 million or \$0.11 per basic and diluted share, compared to net losses in all comparable periods;
- Operating EBITDA up 49% sequentially to record \$14.3 million and up 223% over Q3 2010;
- *Integration expenses from previous acquisitions totaled \$2.6 million during Q3, with no such expenses expected for Q4;*
- Added more than 30 net new clients during the quarter, with over \$35,000 per month in average revenue;

- *Q4 2011 guidance of at least \$67 million in revenue and \$17.5 million in EBITDA;*
- *Reaffirmation of revenue guidance of at least \$300 million in 2012, with a "positive bias;" projected to reach EBITDA margin in the vicinity of 30% by the end of 2012;*
- Non-GAAP adjusted EPS guidance of at least \$0.33 per basic share in Q4 2011 and at least \$1.45 per basic share in FY 2012.

Q3 2011 Financial Results

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

32. In addition to the foregoing, the November 9, 2011 release also quoted Defendant Tuzman, in part, as follows:

Management Commentary

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

33. The November 9, 2007 release also quoted Defendant Campion, in part, as follows:

Gavin Campion, KIT digital's president, commented: "This industry-wide evolution from traditional broadcast television to multi-screen OTT and multi-platform premium VoD solutions is evidenced by many large commercial wins and upsells we have recently announced, including Sky, Liberty Global, LG Electronics and AT&T. The \$32 million funding we completed in September and the resulting stronger balance sheet have been instrumental in facilitating the establishment or expansion of these large-scale deployments. *We estimate this*

has already translated into more than \$25 million in annualized contract extensions and new client wins for 2012. [Emphasis added.]

34. The November 9, 2011 release also purported to provide forward guidance, in part, as follows:

Growth Outlook

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

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

* * *

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

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

35. **3Q:11 Form 10-Q: Basis of Presentation.** As shares of KIT traded at levels artificially inflated as a result of Defendants' publication of materially false and misleading information, on November 9, 2011, Defendants filed with the SEC the Company's 3Q:11 Form 10-Q, for the quarter ended September 30, 2011, signed by Defendant Tuzman and certified by Defendants Tuzman and Smyth. In addition to making substantially similar statements concerning the Company operations, including projections of the Company's future revenue, as

had been published previously, the 3Q:11 Form 10-Q also reported the basis of the Company's presentation, in part, as follows:

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

36. **Controls.** The Company's 3Q:11 Form 10-Q also contained representations that attested to the purported effectiveness and sufficiency of the Company's controls and procedures, in part, as follows:

ITEM 4. CONTROLS AND PROCEDURES.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

37. **Certifications.** In addition to the foregoing, the Company's 3Q:11 Form 10-Q also contained certifications by Defendants Tuzman and Smyth that attested to the purported accuracy and completeness of the Company's financial and operational reports, as follows:

CERTIFICATION

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 9, 2011
/s/ Kaleil Isaza Tuzman
Kaleil Isaza Tuzman

* * *

Dated: November 9, 2011
/s/ Robyn Smyth
Robin Smyth

**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, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I...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

Dated: November 9, 2011
/s/ Kaleil Isaza Tuzman
Kaleil Isaza Tuzman

Dated: November 9, 2011
/s/ Robyn Smyth
Robin Smyth

[Emphasis added.]

38. The same day, Defendant Tuzman also hosted an earning conference call with investors, analysts, and members of the press to discuss the Company's Q3 financial results and its projected financial performance going forward. During the conference call, Defendant Tuzman made several positive statements concerning the Company's purported robust financial health and record-setting third quarter results, stating in part the following:

Revenue in the third quarter reached a record \$62.3 million. This represented a 29% sequential increase over the second quarter and an increase of almost 125% over the same quarter a year ago. We also generated record operating EBITDA of \$14.3 million, up 49% sequentially and over 200% from the same year-ago quarter.

On an organic basis our third quarter revenue is up 11% sequentially during the quarter from a pro forma Q2 revenue level of approximately \$56 million when you back-date the closure of the Polymedia and Nioku acquisitions to April 1, 2011. Thus, in a third quarter, we were on an annualized organic growth pace of over 40%. *These record results, particularly in what is usually a seasonally weak quarter for our industry, reflect our ability to drive strong top-line growth while increasing the operating leverage and margin profile of our business.*

Q3 marked a major milestone for the Company. We launched our next-generation KIT Video platform in both our tier 1 KIT Cosmos edition and our mid-tier KIT Cloud edition and *we crossed over to GAAP net profitability.* [Emphasis added.]

39. Defendant Tuzman also used this call to condition the market to believe that the Company's integration charges had been completed. As evidence of this, Defendant Tuzman stated, in part, the following:

In the quarter we also recognized the last remaining integration charges related to the acquisitions completed in the first half of the year, which came in line with our expectations of around \$2.5 million for the quarter. We do not expect any such charges in Q4. We can now take advantage of free cash flow generation going forward in our business, which we expect to be more than \$2.5 million per month by the end of Q4. [Emphasis added.]

40. Defendant Tuzman went on to discuss the Company's projected financial performance in Q4 2011 and into 2012. In this regard, Defendant Tuzman stated, in part, the following:

As you can tell, we're very excited about both our financial and operational progress in Q3. I'd now like to turn to our financial outlook. Here's what we're setting for KIT Digital for the remainder of 2011 and 2012. We expect to report revenues in Q4, 2011 of at least \$67 million. This would represent an 8% sequential and organic increase over Q3 and imply a revenue expectation for the overall fiscal year of 2011 of approximately \$212 million, a little bit above our annual guidance, and 100% top-line and over 35% organic growth increase over fiscal-year 2010.

For Q4 of this year, we expect EBITDA of approximately \$17.5 million, in line or slightly above annual guidance previously provided and representing an increase of 20% plus sequentially and up more than 150% over Q4 of last year...we plan to start reporting a new cash or adjusted EPS metric, which we expect to be at least \$0.33 per share in this Q4.

Now, for 2012. Although we've expressed an upward revision bias to our previously stated 2012 revenue guidance, *for the time being we are reaffirming our expectation of at least \$300 million of revenues next year, representing an organic growth rate for 2012 of between 25% and 30%.* That is based on an expected pro forma revenue of approximately \$238 million for 2011 when you back-date the acquisitions we completed during the course of the year to January 1, 2011. *We expect to report cash or adjusted EPS of at least \$1.45 per share for the full year of 2012 after tax and so forth. [Emphasis added.]*

41. The statements made by Defendants and contained in the Company's November 9, 2011 release in the Company's 3Q:11 Form 10-Q, and Defendant's November 9, 2011 conference call, were each materially false and misleading when made, and were known by Defendants to be false or were recklessly disregarded as such thereby, for the following reasons, among others:

(a) At all times during the Class Period, it was not true that the Company's purported success was the result of its integration of acquisitions or Defendants' competent

management when, in fact, throughout the Class Period, Defendants had propped up the Company's results by manipulating the Company's future projections;

(b) At all times during the Class Period, unbeknownst to investors, Defendants had materially overstated the Company's future profitability by failing to properly account for the Company's results of operations and by artificially inflating the Company's financial results;

(c) At all times during the Class Period, unbeknownst to investors, Defendants had failed to report the true costs of its many acquisitions, including the cost of proper administration and integration into the Company;

(d) Throughout the Class Period, it was also not true that the Company contained adequate systems of internal operational or financial controls, such that the Company's reported projections were true, accurate or reliable;

(e) As a result of the aforementioned adverse conditions that Defendants failed to disclose, throughout the Class Period, Defendants lacked any reasonable basis to claim that the Company was operating according to plan, or that the Company could achieve guidance sponsored and/or endorsed by Defendants.

42. **Updated Guidance.** On November 16, 2011, Defendants published a release announcing the results of a customer satisfaction survey that also purported to announce strong growth in 2012. This release again quoted Defendant Tuzman, in part, as follows:

KIT digital Reports Strong Customer Satisfaction Results Pointing to Growth in 2012

According to Kaleil Isaza Tuzman, chairman and CEO, KIT digital: "KIT digital meets the diverse needs of its customers with a set of solutions that can transform the world's most complex, top-tier deployments into a seamless, integrated video ecosystem. *We continue to execute on our vision to power the global transformation of traditional broadcast to multiscreen broadband TV. It's*

exciting to see that vision validated by our customers, as well as by recognized analyst firms like IDC."

KIT digital is being recognized from multiple angles as a leader within the IP-based video software space, based on its offering of a diverse set of solutions that cater to Tier 1 customers in multiple industries, and for its aggressive, rapid growth on a global scale. The company reported last week record third quarter earnings with revenue of \$62.3 million, an increase of 124% when compared to the same quarter last year. *The company also crossed the threshold to GAAP profitability...* [Emphasis added.]

43. **Reaffirms Guidance.** On November 28, 2011, Defendants published a release discussing their European operations and reaffirming guidance for 2012. This release again quoted Defendant Campion and stated, in part, the following:

**KIT digital Reaffirms Guidance, Addresses
Eurozone Turbulence and Comments on Recent Events**

PRAGUE, CZECH REPUBLIC--(Marketwire -11/28/11)- KIT digital, Inc. (NASDAQ: **KITD**), a premium cloud-based software solutions and technology services provider for multiscreen video management and delivery, *reaffirmed guidance for the fourth quarter of 2011 and fiscal year 2012*, commented on the general commercial environment, and discussed recent events.

FINANCIAL GUIDANCE AND EUROZONE CONTROVERSY

KIT digital reiterated Q4 2011 guidance of at least \$67 million in revenue, EBITDA of approximately \$17.5 million and adjusted, or cash, earnings per share (EPS) of \$0.33. The company expects to generate at least \$2.5 million in free cash flow per month starting in December 2011.

The company also reaffirmed its guidance for 2012, including at least \$300 million in revenue and at least \$1.45 in adjusted, or cash, EPS, with EBITDA margins expected to reach close to 30% by year-end 2012. KIT digital emphasized it retains an overall "positive bias" regarding its 2012 guidance, which it plans to revisit early next year. KIT also confirmed it expects to remain GAAP net income positive going forward.

"The market is strong for IP-delivered video and over-the-top premium content, and we have become the leading enabler of these 'TV Everywhere' services for telcos, cable operators and major media companies globally," commented Gavin Campion, president of KIT digital. *"While we are obviously aware of the general anxiety around the Eurozone, we benefit from the video technology industry's long-term transition towards OTT content delivery and cloud-based services. Our financial performance has not been affected, and we do not anticipate it will be*

affected by European macroeconomic and political turbulence. In fact, we have thrived and grown market share through even more turbulent times in 2008-2009, and believe there will be a flight to quality as customers shift their spend to KIT digital versus smaller, underfunded competitors." [Emphasis added.]

44. Updated 2012 Guidance. On January 6, 2012, Defendants published a release discussing the acquisition of Sezmi Corporation and the purported "*strengthening*" of the *Company's 2012 outlook*. This release stated, in part, the following:

**KIT digital Delivers Positive End-of-Year 2011 Update
Strengthens Outlook for 2012**

PRAGUE, CZECH REPUBLIC and BELMONT, CA, Jan 06, 2012 --KIT digital, Inc. (NASDAQ:KITD), a premium cloud-based software solutions and technology services provider for multiscreen video management and delivery, provided an update on its 2011 performance, closed the asset purchase of Sezmi Corporation, raised its 2012 guidance...

* * *

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

45. The January 6, 2012 release again quoted Defendant Tuzman, in part, as follows:

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

46. Describing the purported successful integration of the Company's acquisition of Sezmi, Defendant Tuzman stated, in part, the following:

**Accretive Acquisition of Sezmi Provides Impactful Technology,
Customers & Personnel**

* * *

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

47. Following the acquisition of Sezmi, Defendants again raised the Company's 2012 projected revenues, and again focused investors on the Company's purported "organic growth rate of at least 25%, stating in part, the following:

Management Increases 2012 Financial Guidance

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

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

* * *

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

48. The statements made by Defendants, and contained in the Company's November 16, 2011, November 28, 2011 and January 6, 2012 press releases, reproduced in part herein, *supra*, were materially false and misleading when made, and were known by Defendants to be false at that time or were recklessly disregarded as such thereby for the reasons stated herein.

49. "Record" Preliminary 4Q & FY:2011: Guidance Updated. On February 27, 2012, Defendants published a release, that purported to announce "record" Q4:11 revenues, and

that also purported to again upgrade the *Company's 2012 outlook*. This release stated, in part, the following:

**KIT digital Announces Record Preliminary Q4
and Full Year 2011 Results, Updates Guidance for 2012**

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

* * *

Based on preliminary unaudited information, KIT digital management expects to report record revenue for the fourth quarter of 2011 of approximately \$70 million. This would exceed the company's guidance by approximately \$3 million, and represent a 12% increase from the previous quarter and 82% versus the fourth quarter of 2010. Non-GAAP operating income (previously called operating EBITDA in the company's guidance) in the fourth quarter is expected to be approximately \$16.4 million versus guidance of \$17.5 million, representing an increase of 15% sequentially and 145% over the fourth quarter of 2010. Cash-based adjusted EPS (a non-GAAP metric) for the fourth quarter of 2011 is expected to be approximately in line with the company's guidance of \$0.33. KIT digital management also expects to meet its guidance for positive free cash flow in December 2011 of at least \$2.5 million. [Emphasis added.]

50. Defendant Tuzman again used the Company's release to condition investors to believe that the Company was meeting or exceeding guidance sponsored and/or endorsed by Defendants. As evidence of this, the February 27, 2012 release stated, in part, the following:

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

51. The February 27, 2012 release also purported to contain the Company's preliminary Q4 and full year 2011 results, summarized as follows:

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

* * *

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

* * *

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

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

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

areas of strong growth opportunities in 2012 and 2013; and (d) approximately \$3.5 million for office consolidation and relocation of certain client service centers to lower cost jurisdictions.

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

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

52. Regarding the Company's first quarter and full year 2012 outlook, Defendant Tuzman stated, in part, the following:

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

53. In addition to Defendant Tuzman, Defendant Campion also provided investors with positive forward guidance, in part, as follows:

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

digital expects to finish the year with a run-rate non-GAAP operating income margin in the range of 27% to 29%. [Emphasis added.]

54. "Record" 4Q:11 Results Announced. On March 15, 2012, Defendants published a release announcing purported "Record" setting results for the fourth quarter of 2011, and for calendar year 2011. This release also stated, in part, the following:

KIT digital Reports Record Q4 and Full Year 2011 Results

PRAGUE, CZECH REPUBLIC and NEW YORK, NY, Mar 15, 2012 (MARKETWIRE via COMTEX) --KIT digital, Inc. (NASDAQ: KITD), a leading premium cloud-based software solutions and technology services provider for multiscreen video management and delivery, reported fourth quarter and full year 2011 results for the period ended December 31, 2011. All figures are listed in U.S. dollars

Q4 2011 Highlights

- Revenue up 12% sequentially to record \$70.0 million and up 82% over Q4 2010
- Non-GAAP operating income (formerly referred to as operating EBITDA) was up 15% sequentially to \$16.5 million and up 144% over Q4 2010
- Cash-based adjusted EPS totaled \$0.37 in Q4 2011, from \$0.02 in 2010
- Achieved positive free cash flow in the month of December 2011 of \$2.5 million

Full Year 2011 Highlights

- Revenue up 102% to record \$214.9 million from \$106.6 million in 2010
- Non-GAAP operating income increased 159% to \$47.4 million from \$18.3 million in 2010
- Cash-based adjusted EPS totaled \$0.56 in 2011, an improvement from \$(0.15) in 2010
- GAAP net loss was \$25.4 million or \$(0.61) per basic and diluted share in 2011, an improvement from a net loss of \$35.3 million or \$(1.63) per basic and diluted share in 2010

Other Q4 2011 Financial Results

The company estimates approximately 69% of the revenues in Q4 2011 were related to video platform fees, and approximately 31% were derived from fees related to broadcast systems integration, solutions and interface design, content transformation and other professional services.

GAAP net income was \$2.2 million or \$0.05 per basic share in Q4 2011, compared to \$4.8 million or \$0.11 per basic share in the previous quarter, and an improvement from a net loss of \$8.5 million or \$(0.31) per basic and diluted share in Q4 2010. [Emphasis added.]

55. Again, Defendant Tuzman used the Company's release to condition investors to believe that the Company was meeting or exceeding guidance and stated, in part, the following:

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

* * *

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

56. The March 15, 2012 release again reaffirmed the Company's full year 2012 guidance, in part, as follows:

- Revenue to range between \$320 million and \$330 million, representing an increase over 2011 of approximately 30% organically (using pro forma 2011 revenues of \$246 million)
- Non-GAAP operating income margin between 23.5% and 25.5%
- Finish the year with a run-rate non-GAAP operating income margin in the range of 27% to 29%
- *Cash-based adjusted EPS expected to range between \$1.35 to \$1.45 per share*

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

57. The March 15, 2012 release also reaffirmed the Company's previous Q1 2012 guidance, in part, as follows:

- Revenue of at least \$72 million, representing a 3% sequential and organic increase over Q4 2011, and up 109% from \$34.5 million in Q1 2011
- *Cash-based adjusted EPS expected to range between \$0.25 and \$0.30 per share*

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

The company has completed a four-year aggressive consolidation phase and is now focused on a "normalized" M&A activity appropriate to a software company at its growth rate and current stage of development.... [Emphasis added.]

58. On March 15, 2012, Defendant Tuzman hosted an earning conference call with investors, analysts, and members of the press to discuss the Company's purported "record" setting Q4 financial and operational results, and its projected financial performance going forward. During the conference call, Defendant Tuzman provided an in-depth analysis of how the company was forecasting 2012 revenues. Defendant Tuzman stated, in part, the following:

We'll be filing our 10-K early next week. The organic growth in our business is reflected in these record results. We grew Q4 over Q3 organically with no impact from acquisition of about 12% sequentially which annualizes to over 50% growth. And we notched new tier 1 contracts in all three of our regions, a few of which Gavin will speak to momentarily. On today's call we're going to frame the opportunity presented by our market in slightly different ways that we have in the past. I'm going to reiterate why we believe our business is so well placed to lead our market globally...

Now we're now going to talk for a minute about how do you get comfortable around the revenue expansion guides that we've given, how—and really give you a little bit of a lens into how we think about, how we model and plan our business.

And it's a bit hard to digest, a lot of info on this slide, but this revenue bridge shows you in this case from our business planning perspective organically, just purely organic, *how we got from 2011 numbers to 2012 guidance*. [Emphasis added.]

59. Defendant Tuzman further described how he and the Company derived the 2012 guidance, which he was providing to investors, in part, as follows:

And what we start with is our Q4 annualized run rate. And what you see here in the orange, green and blue columns are the different three streams I talked about before, the base licenses, the utilization fees and the professional services fees. The base license as being in orange, the utilization fees being in green and the professional services [ala carte] are in light blue.

And it shows you we're starting the year, we're going into 2012 with \$91 million, call it \$90 million, of base license fees and that's contractual totally recurring revenue that goes through the year. Then you've got \$102 million, call it \$100 million, of fees that are utilization fees, and that's again per unit, it could be based on amount of bandwidth being consumed or storage, it could be based on number of video assets, we call them assets from our video files so to speak being held in the video platform database, it could be based on number of authentication events, number of times subscribers go in, number of subscribers et cetera and tiered numbers through managed service type contract, and that also recurring. So we're going into the year with about \$190 million, north of \$190 million of recurring revenue that we know we will stay with us through the year. And again this just on our existing customers.

Then you've got a professional services fees that annualize about \$88 million, let's call it \$90 million, of revenues that our customers are now spending on professional services. Anywhere between 20% and 35% of this in a given quarter might be implementation, but a lot of it again remember off of around 2,500 clients are just service requests that come up, changes in user experiences that our clients want other systems of record like ERP systems, CMS systems that are introduced that we have to integrate with. So there you have now are what we call are highly visible revenues coming in the year which coincides of course with the annualized rate of Q4.

Now in terms of same-store sales, or our existing client base growth, we break that again down into the licensed fee, the utilization fee and the services. And we find as I referred to before that little orange bar that you see there, we assume say another 7% or 8% that's net of attrition growth in the license fees from new device support, some contractual escalators, some modest pricing power we have upon renewal, you then see around *\$18 million assumed growth coming out of utilization*, which is actually a conservative number that comes out of a combination of the compounded monthly increase in utilization across a baseline

of some attrition assumption. And then we assume a very modest increase in the fees related to additional professional services orders.

And then of course now you're at really our assumption around same-store sales or the growth that we're going to have in 2012 off our existing client base. *And you can see that alone gets us quite close to our \$320 million to \$330 million guidance for the year.* And then the last piece that we put in of course our entirely discrete new clients and we could have gotten real granule here, but this figure you see on the screen for new clients is an amalgam of course of the services and the implementation phase, the licenses and the utilization fees that will come from new clients during the course of 2012, we think it's a modest assumption. *So there we go, that's how we plan, that's our revenue bridge, lots of recurring revenue coming into the year increases on the existing client base and then of course new client acquisition.* [Emphasis added.]

60. The statements made by Defendants, and contained in the Company's February 27, 2012 and March 15, 2012 press releases and those statements made by Defendants during the Company's March 15, 2012 conference call, reproduced in part herein, *supra*, were materially false and misleading when made, and were known by Defendants to be false at that time or were recklessly disregarded as such thereby for the reasons stated herein.

61. On March 23, 2012, the Company shocked investors after it announced that four directors had resigned from the Board of Directors and that Defendant Tuzman would resign as Chief Executive Officer within six months. Immediately following this announcement, shares of the Company declined over 20%, to below \$6.50 per share – the biggest drop in share price since before January 2010. According to certain media reports, it appears that investors were most concerned about Santo Politi's unscheduled departure from the Company's Board, which had occurred on March 18, 2012. According to the Company's Form 8-K, filed with the SEC on March 23, 2012, Politi had resigned his position as a member of the Company's Board of Directors because of differences of opinion with other members of the Board over issues related to the Company's operations, policies and management. At the time of his resignation, Mr. Politi

chaired the Board's Compensation Committee and served as a member of its Mergers & Acquisitions Committee.

62. As a result of the decline in the price of KIT shares, Defendants immediately published a release, which was designed to, and which did act to pacify the market. This release stated, in part, the following:

KIT digital, Inc... a leading video technology and services company, today announced that its chief executive officer, Kaleil Isaza Tuzman, will assume the role of chairman and Barak Bar-Cohen, currently the company's chief administrative officer, will assume the role of interim CEO while the company conducts a search -- internally and externally -- for a permanent CEO. These changes will be effective on March 31, 2012...

Lead independent director Wayne Walker said, "These changes represent a flexible and prudent approach to our future. We are grateful to Kaleil, who for many years has demonstrated a clear and prescient vision of where the video technology industry is heading. Kaleil has been a bold leader with a bold plan, and his direction has led to the commercial success that KIT digital enjoys today. We look forward to his continued contributions as chairman of the board." ...

The company has had a longstanding plan to change its board composition, in part as a response to periodic shareholder requests. As such, the company is reducing the number of inside directors and paving the way for new outside members of the board. *The company has accepted the resignations from the board of management members Gavin Campion, Robin Smyth, Chris Williams, and independent director Santo Politi.*

The board is now composed of *non-executive chairman Isaza Tuzman and four continuing independent directors: Wayne Walker (lead independent director), Dan Hart, Lars Kroljer, and Joseph Mullin.* The company intends to expand the board over the coming months with additional independent directors, and also anticipates that the future, permanent CEO will serve as a director as well. Messrs. Campion, Smyth, and Williams will continue in management roles at KIT.

Walker continued, "While these changes have been challenging to navigate and accomplish, they set the right structure for the future of our business. By adding further independent industry talent to the board, we will ensure that the board is best prepared to make key decisions in coming quarters that serve the common interests of shareholders, employees and customers." /

The company reiterates financial guidance provided in its Q4 and FY 2011 earnings release on March 15, 2012. [Emphasis added.]

63. **Material Control Weakness.** On March 30, 2012, for the first time, Defendants reported a "Material Weakness" in the Company's internal controls over financial reporting. In this regard, the Company's Form 10-K, for the year ended December 31, 2007, signed and certified by Defendants Tuzman and Smyth, stated, in part, the following:

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

64. **Certifications.** As a result of Defendants reporting a material weakness in the Company's financial controls and procedures, the Sarbanes-Oxley Certifications were of significant importance to investors, in part, because these Certifications attested to the accuracy and sufficiency of the Company's disclosures, at that time. Accordingly, the Certifications by Defendants Tuzman and Smyth, contained in the Company's 2011 10-K, stated in part, the following:

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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

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

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

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

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

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

(b) *designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;*

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

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

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

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

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

March 30, 2012
/s/ Kaleil Isaza Tuzman
Kaleil Isaza Tuzman
Chairman and Chief Executive

/s/ Robin Smyth
Robin Smyth
Chief Financial Officer

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

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

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. *The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.*

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

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

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. *The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.*

[Emphasis added.]

65. The statements made by Defendants and contained in the Company's March 23, 2012 releases and those statements contained in the Company's 2011 Form 10-K, reproduced in part herein, *supra*, were each materially false and misleading when made, and were known by Defendants to be false at that time or were recklessly disregarded as such thereby for the reasons stated herein.

66. **Defendant Tuzman Resigns as Chairman:** Despite having stepped down as Chief Executive Officer only weeks before, at which time he stated he intended to remain at the Company indefinitely as its Board Chairman, on April 11, 2012, Defendant Tuzman unexpectedly resigned as the Company's Chairman. Defendants announced this resignation on April 16, 2012.

THE TRUTH BEGINS TO EMERGE

67. On May 2, 2012, after the close of trading, the *Wall Street Journal* published a critical report on the Company that concluded that Defendant Tuzman had "left a mess" of a company and that the new CEO would not endorse guidance. As evidence of this, the *Journal* reported, in part, the following:

Kaleil Isaza Tuzman left a mess at KIT digital that his successor, Barak Bar-Cohen, may have a tough time cleaning up. *Among Mr. Bar-Cohen's first big moves may be to backtrack on the financial projections made to shareholders.*

"You won't hear me reiterate guidance," Mr. Bar-Cohen, KIT's new chief executive, told The Wall Street Journal on Tuesday. *He said he plans to reset the bar on financial results he believes the company can achieve in the future.*

Mr. Tuzman was the star of "Startup.com," a documentary that followed the rise and fall of one of his previous ventures. At KIT, he acquired 19 companies in an effort to create an online video technology powerhouse. *Since 2009, KIT has raised \$268 million via stock sales to help fund the deals. The company enjoyed positive stock recommendations from some Wall Street analysts whose firms also sponsored those stock sales. But KIT didn't properly integrate the acquisitions or put the necessary corporate structure in place to handle its own growth.*

In its latest annual financial filing, KIT's auditor said the company is short of accounting personnel to review its transactions, citing a material weakness in internal controls. Indeed, *KIT filed the document late due to questions about the valuation of past acquisitions.*

KIT has also had trouble tracking cash in the bank. When it reported fourth-quarter results, KIT said it had \$47.8 million of cash as of Dec. 31. Two weeks later, in the annual filing, it said the figure was \$45.7 million. And cash may take a further hit. The company is in violation of a debt covenant that says it must keep 75% of its cash in the U.S. To comply, it may have to repatriate cash, incurring taxes.

Mr. Tuzman is himself facing scrutiny from the SEC over stock trades from June 2010. It sent subpoenas to Mr. Tuzman and the company in February.

On March 18, one of KIT's independent directors resigned from the board over disagreements regarding the company's direction. Three other directors resigned from the board four days later, and Mr. Tuzman stepped down as CEO the day after that. Still the company's top shareholder, Mr. Tuzman remained board chairman until he resigned on April 11.

Mr. Bar-Cohen said he would like to "control-alt-delete the past." He is determining which parts of KIT's business to shutter, recruiting accounting staff and new board members while trying to win new customers. But the "Kaleil factor," as he calls it, could take a while to leave behind. [Emphasis added.]

68. On May 3, 2012, prior to the opening of trading, Defendants shocked and alarmed investors after they published a release that revealed, for the first time, that the Company was performing well below guidance. In addition to radically reducing full year 2012 projections, the Company also announced a sudden loss for 1Q:12 stating, in part, the following:

NEW YORK, NY, May 03, 2012 (MARKETWIRE via COMTEX) --KIT digital, Inc. (NASDAQ: KITD), a leading video technology and services company, today reported preliminary results for the first quarter ended March 31, 2012.

Based on preliminary unaudited information, KIT digital management expects to report revenue for the first quarter of 2012 of approximately \$59 million, and a non-GAAP operating loss in the first quarter of 2012 of approximately \$8 million.

Contributing to the lower than expected financial results, the company cited longer than anticipated sales cycles for a number of larger opportunities, increased personnel costs associated with deployments in future quarters, payments of assumed liabilities arising from the acquisition of Sezmi, and higher than expected legal and advisory fees, among other factors.

69. The Company's May 3, 2012 release quoted the Company's new CEO, Barak Bar-Cohen, who also revealed that the Company's guidance was not reasonable, in part, as follows:

"Over the last several weeks, the management team and I have performed a detailed review of our lines of business and their cash flow contributions, and have determined that previous guidance was too high," said Barak Bar-Cohen, KIT digital's CEO. "During our quarterly earnings call, we will present a revised operating plan and financial outlook for a growing, cash-generative software business."

70. After reporting a quarterly operating loss of \$8 million (compared to previous guidance of adjusted earnings of 25 to 30 cents per share), and as a result of citing increased sales personnel costs, *payments related to the Company's acquisition of Sezmi Corp.*, and higher-than-expected legal and advisory fees among the factors affecting its first-quarter results, shares of KIT declined substantially. Immediately, shares of the Company declined 27%, trading to \$4.57 per share at the opening of trading, and then trading to an intra day low of \$4.12 per share.

71. **Guidance Lowered.** As stated on May 3, 2012, the Company reported financial results for 1Q:2012 on May 15, 2012. At that time, the Company published a release that stated, in part, the following:

KIT digital, Inc.... a leading video management software and services company, today reported first quarter results for the period ended March 31, 2012 that were in line with preliminary figures announced on May 3, 2012. The company also reported a number of strategic and operational initiatives in support of targeted growth, improved financial controls and a strengthened balance sheet, including the completion of a \$29.2 million common equity placement.

* * *

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

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

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

* * *

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

72. The following day, May 16, 2012, the Company filed with the SEC a Form 8-K that disclosed the dilutive effect of the equity sale, mentioned in the May 15, 2012 release. Despite having purported to have closed this transaction the prior day, the buyers of the equity do not appear to be identified. The Company's Form 8-K stated, in part, the following:

On May 15, 2012, KIT digital, Inc. (the "Company") entered into a definitive Securities Purchase Agreement to raise \$29,190,000 in gross proceeds, before deducting placement agents' fees and other estimated offering expenses, in a private placement (the "Offering") of (i) 7,000,000 shares of the Company's

Common Stock (the "Common Stock") and Warrants to purchase 5,250,000 shares of Common Stock (the "Warrants"). After deducting the fees of the placement agent and other estimated offering expenses, the net proceeds to the Company from the Offering will be approximately \$28,200,000.

The Common Stock and Warrants to purchase Common Stock were offered and sold pursuant to a Securities Purchase Agreement dated May 15, 2012. The Offering is expected to close on May 16, 2012, subject to the satisfaction of customary closing conditions. The Company's press release dated May 15, 2012, announcing the financing (among other things), is filed as Exhibit 99.1 to this Current Report on Form 8-K, and the relevant information contained therein is incorporated herein by reference.

* * *

The Warrants will be exercisable at an exercise price of \$5.00 per share commencing on the six-month anniversary of the closing date and expiring five years after the date on which they become exercisable. The exercise price of the Warrants is subject to adjustment under certain circumstances, including anti-dilution protection upon the issuance of any Common Stock, securities convertible into Common Stock, or certain other issuances at a price below the then-existing exercise price, with certain exceptions and subject to a "floor" price. The Warrants contain limitations that prevent the holder of any Warrants from acquiring shares upon exercise of a Warrant that would result in the number of shares beneficially owned by it and its affiliates exceeding 4.99% of the total number of shares of the Company's Common Stock then issued and outstanding (which limit may be raised to 9.99% upon the request of the holder). In addition, upon certain changes in control of the Company, the holder of a Warrant can elect to receive, subject to certain limitations and assumptions, cash equal to the Black-Scholes value of the outstanding Warrants.

CAUSATION AND ECONOMIC LOSS

73. During the Class Period, as detailed herein, Defendants engaged in a scheme to deceive the market, and a course of conduct that artificially inflated KIT's stock price and operated as a fraud or deceit on Class Period purchasers of KIT's stock by misrepresenting the Company's operational performance and financial condition. Over a period of approximately six months, Defendants improperly inflated the Company's financial projections by overstating the integration of purchased assets. Ultimately, however, when Defendants' prior

misrepresentations and fraudulent conduct came to be revealed and was apparent to investors, shares of KIT declined precipitously – evidence that the prior artificial inflation in the price of KIT's shares was eradicated. As a result of their purchases of KIT's stock during the Class Period, Plaintiff and other members of the Class suffered economic losses, *i.e.* damages under the federal securities laws.

74. By improperly characterizing the Company's financial results and misrepresenting its prospects, the Defendants presented a misleading image of the Company's business and future growth prospects. During the Class Period, Defendants repeatedly emphasized the success of the integration process, projected robust growth and consistently claimed the Company was operating with adequate accounting procedures and personnel controls. These claims caused and maintained the artificial inflation in KIT's stock price throughout the Class Period until the truth about the Company was ultimately revealed to investors.

75. Defendants' false and materially misleading statements had the intended effect of causing KIT's shares to trade at artificially inflated levels throughout the Class Period – reaching a Class Period high of over \$8.36 per share in early November 2011.

76. On May 3, 2012, however, investors learned the truth about the Company: that Defendants had appeared to have overstated the success of its integration of its acquired assets, and lacked a reasonable basis for their projections and guidance as well as any reasonable disclosure or operating controls and procedures. As investors came to realize that Defendants had overstated the Company's true financial condition, shares of the Company declined precipitously. Defendants' belated disclosures had an immediate, adverse impact on the price of KIT shares.

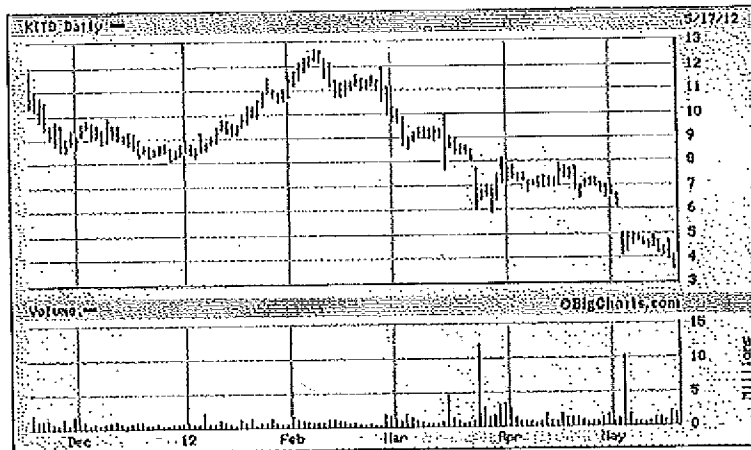
77. These belated revelations also evidenced Defendants' prior falsification of the Company's business prospects due to Defendants' materially misleading statements. As investors and the market ultimately learned, the Company's prior business prospects had been materially overstated. As this adverse information became known to investors, the prior artificial inflation began to be eliminated from KIT's share price, and shareholders were damaged as a result of the related share price decline.

78. As a direct result of investors learning the truth about the Company, shares of the Company declined precipitously – falling over 30% on May 3, 2012. This dramatic share price decline eradicated much of the artificial inflation from KIT's share price, causing real economic loss to investors who purchased this stock during the Class Period.

79. The decline in KIT's stock price at the end of the Class Period was a direct result of the nature and extent of Defendants' fraud being revealed to investors and to the market. The timing and magnitude of KIT's stock price decline negates any inference that the losses suffered by Plaintiff and the other members of the Class were caused by changed market conditions, macroeconomic or industry factors, or even Company-specific facts unrelated to Defendants' fraudulent conduct. During the same period in which KIT's share price fell over 30% as a result of Defendants' fraud being revealed, the Standard & Poor's 500 securities index was relatively unchanged.

80. The economic loss, *i.e.* damages suffered by Plaintiff and other members of the Class, was a direct result of Defendants' fraudulent scheme to artificially inflate the price of KIT stock and the subsequent significant decline in the value of the Company's shares when Defendants' prior misstatements and other fraudulent conduct was revealed. The chart below

evidences the dramatic decline in the price of KIT stock following Defendants' belated disclosures and the artificial inflation in these shares throughout the Class Period, as follows:



SCIENTER ALLEGATIONS

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

82. Defendants were motivated to materially misrepresent to the SEC and investors the true financial condition of the Company because it: (i) deceived the investing public

regarding the Company's business, operations, and management, and the intrinsic value of KIT's securities; (ii) enabled Defendants to artificially inflate the price of KIT's securities; (iii) enabled Defendants to use over 1 million shares of the Company's artificially inflated stock as currency then valued at \$11 million, in the acquisition of Sezmi; (iv) enabled Company insider Defendant Tuzman to sell millions of dollars of KIT stock owned by a private equity group under his control; and (v) caused Plaintiff and other members of the Class to purchase KIT securities at artificially inflated prices.

83. Sales of Company shares by insiders, including Defendant Tuzman, that occurred during the Class Period include, in part, a sale on November 18, 2011 of 677,000 shares of KIT common stock at \$10.46 per share, by an investment entity controlled by Defendant Tuzman, generating proceeds of \$7,081,420.00.

84. On December 30, 2011, Defendants used approximately 1.2 million KIT shares, then valued at \$11 million, as currency in the acquisition of Sezmi Corporation, a US corporation providing broadband/broadcast hybrid TV solutions. The Company paid approximately \$16 million in upfront cash-based consideration (including the assumption of liabilities) and approximately \$11 million in KIT digital common stock, exclusive of future earn-outs. Defendants were further motivated to artificially inflate the price of KIT shares so to artificially inflate the value of its acquisition currency.

**Applicability Of Presumption Of Reliance:
Fraud-On-The-Market Doctrine**

85. At all relevant times, the market for KIT's securities was an efficient market for the following reasons, among others:

(a) KIT's stock met the requirements for listing, and was listed and actively traded on the NASDAQ national market exchange, a highly efficient and automated market;

(b) As a regulated issuer, the Company filed periodic public reports with the SEC and the NASDAQ;

(c) The Company regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) The Company was followed by several securities analysts employed by major brokerage firm(s) who wrote reports that were distributed to the sales force and certain customers of their respective brokerage firm(s). Each of these reports was publicly available and entered the public marketplace.

86. As a result of the foregoing, the market for KIT securities promptly digested current information regarding the Company from all publicly available sources and reflected such information in KIT securities prices. Under these circumstances, all purchasers of KIT securities during the Class Period suffered similar injury through their purchase of KIT securities at artificially inflated prices, and a presumption of reliance applies.

NO SAFE HARBOR

87. The statutory safe harbor providing for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this complaint. Many of the specific statements pleaded herein were not identified as "forward-looking statements" when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the

extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of the Company who knew that those statements were false when made.

BASIS OF ALLEGATIONS

88. Plaintiff has alleged the following based upon the investigation of Plaintiff's counsel, which included a review of SEC filings by the Company, as well as regulatory filings and reports, securities analysts' reports and advisories about the Company, press releases and other public statements issued by the Company, and media reports about the Company. Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

FIRST CLAIM

Violation Of Section 10(b) Of The Exchange Act And Rule 10b-5 Promulgated Thereunder Against All Defendants

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

90. During the Class Period, Defendants carried out a plan, scheme and course of conduct that was intended to and, throughout the Class Period, did: (i) deceive the investing public regarding the Company's business, operations, and management, and the intrinsic value of KIT's securities; (ii) enable Defendants to artificially inflate the price of KIT's securities; (iii) enable Defendants to use over 1 million shares of the Company's artificially inflated stock as

currency then valued at \$11 million, in the acquisition of Sezmi; (iv) enable Company insider Defendant Tuzman to sell millions of dollars of KIT stock owned by a private equity group under his control; and (v) cause Plaintiff and other members of the Class to purchase KIT securities at artificially inflated prices and resulting in damage to class members after the truth was revealed and the artificial inflation was removed from the price of the stock. In furtherance of this unlawful scheme, plan and course of conduct, Defendants, jointly and individually, took the actions set forth herein.

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

92. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, operations and future prospects of the Company, as specified herein.

93. These Defendants employed devices, schemes and artifices to defraud while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of the Company's value, performance, and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material

facts necessary in order to make the statements made about the Company and its business operations and future prospects in the light of the circumstances under which they were made not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business that operated as a fraud and deceit upon the purchasers of KIT's securities during the Class Period.

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

95. The Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts. Such Defendants' material misrepresentations and/or omissions were done knowingly or recklessly for the purpose and effect of concealing the Company's operating condition and future business prospects from the investing public, and supporting the artificially inflated price of its securities. As demonstrated by Defendants'

overstatements and misstatements of the Company's business, operations and earnings throughout the Class Period, Defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, they were reckless in failing to obtain such knowledge by refraining from taking those steps necessary to discover whether those statements were false or misleading.

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

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

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

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

SECOND CLAIM

Violation Of Section 20(a) Of The Exchange Act Against Individual Defendants

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

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

102. In particular, each of these Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to

control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

103. As set forth above, the Company and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

- A. Determining that this action is a proper class action, designating Plaintiff as Lead Plaintiff and certifying Plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;
- B. Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;
- C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees;
- D. Awarding extraordinary, equitable and/or injunctive relief as permitted by law, equity and the federal statutory provisions sued hereunder, pursuant to Rules 64 and 65 and any appropriate state law remedies, to assure that the Class has an effective remedy; and
- E. Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: May 25 2012