

Jennifer Feldsher (JF 9773)
Anna Rozin (AR 4830)
BRACEWELL & GIULIANI LLP
1251 Avenue of the Americas
New York, New York 10020
Telephone: (212) 508-6100
Facsimile: (212) 508-6101

Attorneys for Debtor and Debtor In Possession

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re

KIT digital, Inc.,

Debtor.

Chapter 11

Case No. 13-11298 (___)

**DECLARATION OF FABRICE HAMAIDE (I) IN
SUPPORT OF DEBTOR'S CHAPTER 11 PETITION AND
FIRST DAY PLEADINGS AND (II) PURSUANT TO LOCAL RULE 1007-2**

Under 28 U.S.C. § 1746, I, Fabrice Hamaide, declare as follows under penalty of perjury:

1. I am the Chief Financial Officer of KIT digital, Inc., the above-captioned debtor and debtor in possession ("**KDI**" or the "**Debtor**"), a publicly owned corporation organized under the laws of the State of Delaware. I have been a contract employee for the Debtor since July 2012 and am familiar with the Debtor's day-to-day operations, business, financial affairs and books and records.

2. I submit this declaration (this "**Declaration**") pursuant to Rule 1007-2 of the Local Bankruptcy Rules for the Southern District of New York (the "**Local Rules**") in support of the voluntary petition for relief filed by the Debtor under chapter 11 of title 11 of the United States Code (the "**Bankruptcy Code**") and the motions and applications for related relief filed

herewith (collectively, the “*First Day Pleadings*”). Any capitalized term not expressly defined herein shall have the meaning ascribed to it in the relevant First Day Pleading.

PRELIMINARY STATEMENT

3. The Debtor, a global, award-winning provider of digital television and media solutions, commenced this chapter 11 case to implement and consummate a prenegotiated restructuring plan sponsored by several of the Debtor’s largest equity holders. The restructuring, to be effectuated through a chapter 11 plan, will enable the Debtor to transform its operations around four of its profitable subsidiaries, Ioko 365, Polymedia, KIT digital France and KIT digital - Americas, while shedding underperforming non-core businesses. Upon emergence, the Debtor expects to be a healthier, focused company that is poised to take advantage of the burgeoning demand in its industry and to generate significant cash flows after obtaining a financial “fresh start.”

4. The Debtor’s proposed restructuring is the result of an extensive marketing process that began over a year ago after the Debtor suffered a number of significant setbacks that impacted its operations. First, in early 2012, the Debtor accepted the resignation of its then-CEO amid an SEC investigation into certain of his trading practices with respect to the Debtor’s stock. Thereafter, the Debtor’s audit committee uncovered financial irregularities and the Debtor announced that it would need to restate historical financials from 2009 onward, sparking a flurry of securities lawsuits and derivative claims along with attendant litigation costs. Contemporaneously, the company was incurring extensive losses from unprofitable acquisitions made over the prior twenty-four (24) months. While the Debtor’s core businesses were (and remain) profitable and strong, mounting legal expenses and the costs of divesting and liquidating the unprofitable non-core businesses caused the Debtor to experience a near-term liquidity

crunch. The crunch became more acute when the Debtor's prepetition lender, without forewarning, swept the Debtor's operating account and withdrew approximately \$1.1 million.

5. Recognizing it had a short runway and no audited financials, the Debtor redirected the efforts of its investment banker, Deutsche Bank ("**DB**"), to assist the company with possible financing or sale alternatives. DB conducted an extensive marketing process over the past year canvassing a wide range of over fifty-six (56) financial and strategic players, as well as possible stand-alone financing options to accompany the Debtor in a chapter 11 process. In addition to DB, the Debtor also retained financing brokers to look into the availability of third-party financing. Although the Debtor engaged in extensive negotiations on non-binding terms with at least two parties, the negotiations ultimately failed to culminate in a binding term sheet either because of the need to provide audited financials or because of extensive requirements for due diligence that represented a substantial execution risk.

6. In March 2013, the Debtor was approached by a group of shareholders with the terms of a restructuring plan. The Debtor (through a special committee of its independent board of directors) negotiated with the shareholder group, which ultimately included the Debtor's largest shareholders, Prescott Group Capital Management, JEC Capital Partners (an affiliate of the current CEO), and Ratio Capital Partners (collectively, the "***Plan Sponsor Group***"), on the terms of a restructuring to be backstopped by the Plan Sponsor Group. The special committee's negotiations culminated in a plan support agreement (the "***Plan Support Agreement***"), which provides the Debtor with the resources necessary to fund this chapter 11 case and a reorganization plan that is expected to pay allowed unsecured claims in full while also providing a meaningful recovery to the Debtor's equity holders in the form of the opportunity to participate

in the reorganized company. A copy of the Plan Support Agreement is attached hereto as Exhibit A.

7. The Debtor believes the contemplated reorganization pursuant to the Plan Support Agreement marks the best opportunity for the Debtor to preserve its global operations and the jobs of its over 800 employees world-wide. It is economically the best proposal the Debtor received through the prepetition marketing process, even including bids conditioned on due diligence. The Plan Support Agreement, however, requires the Debtor to emerge from chapter 11 within ninety-five (95) days of the filing date. Accordingly, to meet the required tight timeframe, contemporaneously herewith, the Debtor has filed a chapter 11 plan with the hope that confirmation of such plan can occur within 90 days of the date hereof.

8. This Declaration is intended to provide a summary overview of the Debtor's business and the need for this restructuring pursuant to chapter 11. I have reviewed the First Day Pleadings or have otherwise had their contents explained to me and, to the best of my knowledge, insofar as I have been able to ascertain after reasonable inquiry, I believe that approval of the relief requested therein is necessary to minimize disruption to the Debtor's business operations so as to permit an effective transition into chapter 11, preserve and maximize the value of the Debtor's estate and, ultimately, achieve a successful reorganization.

9. Except as otherwise indicated, all facts set forth herein are based upon my personal knowledge, my review of relevant documents, my reliance on staff members and my opinions based on experience, knowledge and information concerning the Debtor's operations and financial condition. If called upon to testify, I could and would testify competently to the facts set forth herein.

10. This Declaration is divided into three parts. Part I contains an overview of the Debtor's business, organizational structure and capital structure, as well as a discussion of the Debtor's financial performance and the events leading to the Debtor's chapter 11 filing. Part II sets forth relevant facts in support of the First Day Pleadings. Part III contains the schedules providing additional information about the Debtor, as required by Local Rule 1007-2(a)(3)-(12), (b)(1)-(3).

I.
THE NATURE OF THE DEBTOR'S BUSINESS AND THE CIRCUMSTANCES
LEADING TO THE COMMENCEMENT OF THE DEBTOR'S CHAPTER 11 CASE

Overview of the Debtor's Business and Operations

11. The Debtor is a holding company, which directly and indirectly owns thirty (30) non-debtor subsidiaries (the "*Subsidiaries*"),¹ engaged in the provision of end-to-end video management software and services (the "*Business*"). Through the Business, the Debtor develops and manages applications and platforms that allow its clients to deliver multiscreen social video experiences to audiences wherever they are. The Business caters to different ends of the video market – from enterprises deploying internal video systems to broadcasters and telecommunication companies deploying multiscreen "TV Everywhere" initiatives.

12. KDI, formally known as ROO Group, Inc., was incorporated under the laws of the State of Delaware in August 1998. In late 2007, Kaleil Isaza Tuzman purchased a controlling interest in ROO Group and became the chief executive officer and chairman of the Board. Through certain key acquisitions, Mr. Tuzman was able to transform ROO Group into one of the leading end-to-end IP video providers under the new name of "KIT digital." The Debtor listed on the NASDAQ Global Market in August 2009 under ticker symbol "KITD."

¹ An organizational chart showing the Debtor and its Subsidiaries is attached hereto as Exhibit B.

13. Today, KDI, through its Subsidiaries, services hundreds of clients in more than fifty (50) countries. Its client list includes some of the world's biggest brands such as Airbus, AT&T, The Associated Press, BBC, Best Buy, Bristol-Myers Squibb, BSkyB, Disney-ABC, FedEx, Google, HP, MTV, News Corp, Telecom Argentina, Telefonica, Universal Studios, Verizon, Vodafone and Volkswagen.

KDI's Core Businesses

14. The Debtor's core businesses are operated out of four of its Subsidiaries: KIT digital - Americas, Inc. ("**Multicast Media**"), Kit digital France, S.A. ("**Kewego**"), ioko365 Limited ("**ioko365**") and Polymedia S.p.A. ("**Polymedia**"). Notably, the Debtor acquired each of these Subsidiaries over the last three (3) years, but each is now an important revenue source and business driver for the Debtor.

Multicast Media

15. Multicast Media, formerly one of the Debtor's main competitors, was acquired in early 2010. Based out of Atlanta, Georgia, Multicast Media specializes in live event broadcasting, Internet video management and targeted multimedia communications for governmental and non-profit organizations and Fortune 500 companies. Along with Kewego, Multicast Media is part of the Debtor's on-line video platform, which allows customers to stream content they upload over the internet. Multicast Media also provides the Debtor with an award winning transcoding platform – winner of the Transcoding SaaS (software as a service) category in the 2009 Streaming Media Readers' Choice Awards – that complements and substantially expands the Debtor's North American client base.

16. Multicast Media's customers include Herbalife, Honeywell, and ESPN. Multicast Media also runs two faith departments, 316 Networks and Streaming Faith, that provide religious institutions with the ability to broadcast video live and on-demand on their websites.

Kewego

17. Based in Paris, France, Kewego provides enterprises, media operators and communications agencies with professional IP-based, multi-screen video asset management solutions for managing, broadcasting, and monetizing videos on IP connected devices. Together with Multicast Media, Kewego produces KIT Cloud, a high performance web-based video asset management system that simplifies delivery of live and on-demand video.

18. In addition, Kewego's solution set includes onsite, digital signage deployments. Large corporate customers who want to run their own video programming across intranets can use the Kewego platform to deliver IP video content to internal publishing points through dedicated LCD screens located on customer premises. Key Kewego customers include France Telecom, Volkswagen, and Eurosports.

Polymedia SpA

19. Polymedia, based out of Milan, Italy, is a provider of large-scale IP video platform solutions that manage the entire lifecycle of video content from acquisition to distribution, with particular expertise in metadata-related workflow and deep third party software integration. Polymedia supports the KIT Cosmos Platform, including the recently updated DAM (Digital Asset Management) and DRM (Digital Rights Management) tools within the Video Content Management Software solution. Key Polymedia customers include Mediaset, Sky Germany and RCS.

ioko365

20. ioko365 provides end-to-end managed platform solutions for multi-screen video delivery over connected Internet Protocol devices. ioko365's capabilities allow premium video services such as movies-on-demand to be delivered over the Internet and presented on televisions and other connected devices. Its business is geared to tier-one telecommunications, cable, media

and entertainment companies around the world and it boasts most of the largest network operators as its clients, along with Disney, BSKyB, LGI, and Channel 4.

21. The above core businesses provide the Debtor with one of the largest set of referenceable accounts and deployments, the deepest technology offering and the largest geographical and customer footprint. As a result, the Debtor's Business generated aggregate revenues of approximately \$134.5 million in 2012.

Capital Structure of the Debtor

Secured Debt

22. The Debtor is a party to that certain Loan and Security Agreement (the "**2010 Loan Agreement**"), dated April 15, 2010, with Venture Lending & Leasing V, Inc. ("**Venture V**"), an affiliate of Western Technology Investments ("**WTI**"), pursuant to which the Debtor initially borrowed \$5 million bearing interest at 10%. Subsequently, on June 10, 2010, the Debtor borrowed an additional \$1 million bearing interest at 9.75% from Venture V pursuant to a Supplement to the 2010 Loan Agreement (such Supplement together with the 2010 Loan Agreement, the "**2010 Loan Facility**").

23. On May 16, 2011, the Debtor entered into a Loan and Security Agreement (the "**2011 Loan Agreement**" and, together with the 2010 Loan Facility, the "**WTI Loans**") with another affiliate of WTI, Venture Lending & Leasing VI, Inc., for a \$15 million term loan.

24. As of the date hereof (the "**Petition Date**"), approximately \$9.8 million is outstanding under the WTI Loans, including interest as of the Petition Date.

Unsecured Loan from JEC Capital Partners

25. On October 15, 2012, JEC Capital Partners, LLC (“*JEC*”) provided a \$2.5 million unsecured loan to the Debtor at a rate of 13.5% per annum. \$2.7 million remains outstanding on the JEC Loan, including interest as of the Petition Date.

Unsecured Trade Debt

26. The Debtor has approximately \$9.2 million in outstanding trade debt as of the Petition Date, primarily relating to amounts owing for legal and other professional services.

Events Leading to the Commencement of the Debtor’s Chapter 11 Case

The Debtor’s Aggressive Growth Strategy

27. Under the management of its former CEO, the Debtor spent much of the last few years acquiring other companies in an effort to increase its market share in the video technology market. Since late 2008, the Company made 22 acquisitions, taking its revenue from less than \$30 million to slightly over \$200 million in 2011. While certain of these acquired businesses have enhanced the Debtor’s operations, others have struggled or posed integration and operational problems. In total, since May 2008, the Debtor has paid, in both cash and common stock, more than \$320 million in connection with acquisitions on its way to becoming an online video technology powerhouse.

28. The time and expense associated with the Debtor’s “buying binge” took a significant toll on the Debtor. Indeed, the acquired businesses that could not be successfully integrated became a significant cash drain on the entire KDI corporate group. Out of a total of \$389 million paid-in-capital, \$320 million was spent on acquisitions and approximately \$60 million was spent operating and then liquidating or winding down unprofitable Subsidiaries. The

Debtor anticipates 8 of its Subsidiaries will still need to be wound-down or divested through this chapter 11 case.

Reconstitution of the Board, New Management and Discovery of Financial Statement Errors and Irregularities

29. In the beginning of 2012, the Company experienced a protracted period of upheaval. In April 2012, Mr. Tuzman, the Debtor's then-CEO, resigned as chairman and CEO after the Debtor's receipt of subpoenas from the SEC related to certain 2010 transactions purportedly undertaken by Mr. Tuzman in the Debtor's common stock. Several other Board members and officers of the Debtor, some of which were affiliated with Mr. Tuzman, had also resigned by this time. A securities class action lawsuit, two shareholder derivative lawsuits, as well as other similar litigations were initiated against the Debtor, diverting management time and expense at a critical time for the company.

30. To address the leadership void left after Mr. Tuzman's exit, the Debtor made significant changes to the composition of its Board of Directors and its management team. On June 28, 2012, two independent directors, Bill Russell and Greg Petersen, were elected to the Board, and in July 2012, I was brought in as Chief Financial Officer. The following month two shareholder representatives were elected to the Board, Seth Hamot and K. Peter Heiland. Thereafter, K. Peter Heiland was also appointed as the Debtor's interim Chief Executive Officer, a position he holds today.

31. The Debtor's new management team took proactive steps to begin to focus the Debtor's operations on its core strengths, while cutting costs. Ultimately, management was successful in reducing operating losses from an average consolidated monthly loss of -\$7.0 million to -\$1.0 million by October 2012. During the same time period, however, the audit committee (the "*Audit Committee*") of the Debtor's Board, after an extensive investigation,

uncovered certain accounting errors and irregularities related to recognition of revenue for certain perpetual software license agreements entered into by the prior management team in 2010 and 2011. The Audit Committee also determined that certain transactions the Debtor entered into under the prior management team during fiscal years ended December 31, 2008 through 2011 were related party transactions and additional disclosure with respect to those transactions should have been included in the footnotes to the relevant financial statements. As a result, the Audit Committee concluded on November 15, 2012, that the Debtor's financial statements for the years ended December 31, 2009, 2010 and 2011 and each of the three quarters in 2009, 2010 and 2011 would need to be restated. Because of the need to restate prior periods, the financial statements for the quarters ended March 31, 2012 and June 30, 2012 also had to be amended.²

32. The public announcement of the need to restate the Debtor's historical financials resulted in a significant decline in the trading price for the Debtor's stock. Additional litigations were initiated against the Debtor, further diverting management time and expense. In addition, an event of default was triggered under the WTI Loans for breach of a financial representation therein, and on November 21, 2012, WTI, without advance notice to the Debtor, swept approximately \$1.1 million from the Debtor's cash collateral account.

The Debtor's Prepetition Marketing Process

33. Without reliable financials, the Debtor's ability to "borrow" out of its near-term liquidity crisis by accessing the capital markets was foreclosed. In addition, the Subsidiaries, although profitable on a consolidated basis, could not continue to fund the Debtor's mounting legal expenses and regulatory costs.

² Lacking sufficient available resources, the Debtor has not been able undertake the requisite restatement of its financial statements.

34. In February 2012, the Debtor engaged DB to assist the company in identifying sale alternatives. DB conducted an extensive search of financial and strategic players, aggressively canvassing the marketplace to locate potential financial or strategic partners to purchase the Debtor. Although DB contacted fifty-six (56) potential buyers (twenty-five (25) strategic and thirty-one (31) financial), no firm interest in the purchase of the Debtor resulted. Following the conclusion that its financials would have to be restated and the resulting short term liquidity constraints, the Debtor, to preserve its Business, redirected the efforts of DB to find stand-alone rescue financing or potential chapter 11 stalking horse bidders. In addition to DB's efforts, the Debtor also reached out to specialized financing brokers who contacted over twenty-five (25) potential financing sources for stand-alone financing options. While several parties provided draft term sheets, the Debtor could not move forward with such proposals either because of the need to provide audited financials or because of extensive requirements for due diligence that represented a substantial execution risk. Moreover, despite advancing work fees to two interested parties, the Debtor still failed to obtain a binding commitment from either of those parties that could serve as a basis for a successful restructuring.

35. Thereafter, the Debtor was approached by a group of shareholders led by JEC, the private equity firm affiliate of KDI's CEO, with the terms of a restructuring alternative. As a result, and to remove any conflicts of interest in the Debtor's decision-making, the Board constituted a special committee of its independent directors to consider the shareholder proposal. Among other things, the special committee was charged with overseeing the sales and/or restructuring process from then forward, including the decision to file for chapter 11.

36. The special committee met numerous times to consider the Debtor's alternatives. From the outset, the special committee, in an effort to achieve the highest and best result for the

Debtor's stakeholders, pursued restructuring on a dual-track, negotiating with the shareholder group and its then-proposed third-party DIP lender, on one hand, while having DB continue to canvas interested third-parties, on the other. All the while, the special committee was mindful of the Debtor's dwindling cash position, which I advised them on regularly.

37. Discussions with the shareholder group stalled in early April 2013, when the group's proposed DIP lender could not come to terms with the special committee on a path forward for the financing necessary to fund a chapter 11 process. Thereafter, the Debtor, unable to upstream sufficient funds from its Subsidiaries, failed to make a scheduled payment in respect of the WTI Loans on April 1, 2013, triggering an 8-K obligation to disclose the event of default. The special committee faced and prepared for the possibility of having to file chapter 11 without a restructuring plan in place, thereby risking the Debtor's customer relationships and putting the Debtor's chances of restructuring in peril. Indeed, if a filing would have happened at that time, the Debtor had sufficient cash in its corporate group to operate in chapter 11 for only several weeks. The Debtor was, put simply, at the end of its rope by early April 2013.

38. Ultimately, the shareholder group reconstituted itself into the Plan Sponsor Group and proposed terms for restructuring the Debtor, which included a debtor-in-possession financing from an affiliate of JEC sufficient to fund the chapter 11 case. The Plan Sponsor Group's proposal was notable for four primary reasons:

- a. it appeared on its face to provide sufficient cash to pay valid unsecured claims of the Debtor in full, assuming the anticipated successful resolution of certain pending litigation claims and subordination of other litigation claims under section 510(b) of the Bankruptcy Code;
- b. it allowed all equity holders to buy into a share of reorganized KDI at the same price as the Plan Sponsor Group, a right the special committee viewed as being particularly equitable and valuable;

- c. the proposal was not subject to any due diligence and did not require payment of any up-front diligence fees, delivering certainty for the Debtor, its employees and customers; and
- d. it was supported by a significant percentage of the Debtor's equity holders.

Nevertheless, to ensure it was obtaining the highest and best proposal available, the special committee, with the assistance of its advisors, compared the terms of the Plan Support Agreement against the best non-binding term sheets the Debtor had received during its marketing process. In a side-by-side analysis, the Plan Support Agreement represented the highest and best offer the Debtor had received. WTI, who was generally supportive of the efforts of the Plan Sponsor Group, provided the Debtor with a two-week forbearance to enable the Debtor to come to terms with the Plan Sponsor Group and commence this chapter 11 case.

39. After extensive negotiations on the terms and conditions of the offer, the parties reached the agreement embodied in the Plan Support Agreement, which was executed on April 16, 2013. The Plan Support Agreement obligates the Plan Sponsor Group to, among other things, vote to support a plan of reorganization (the “**Plan**”) consistent with the terms of the Plan Support Agreement, which Plan is being filed contemporaneously. The Plan Support Agreement also recognizes the Debtor's fiduciary obligations to maximize value for all stakeholders and, as such, does not impair the Debtor's ability to consider an Alternate Transaction (as defined in the Plan Support Agreement) or to terminate the Plan Support Agreement in the event the special committee reasonably determines proceeding with the Plan would be inconsistent with the exercise of its fiduciary duties. In addition, the Plan Support Agreement is subject to the Debtor's satisfaction of the confirmation requirements under the Bankruptcy Code, including, but not limited to, receipt of votes in favor of the Plan by the requisite amount of the Debtor's stakeholders voting on the Plan.

40. In light of the above, and in order to promptly effectuate the Plan Support Agreement, the special committee authorized the Debtor to commence this chapter 11 case.

II.

FACTS IN SUPPORT OF FIRST DAY MOTIONS

41. Contemporaneously herewith, the Debtor has filed a number of First Day Pleadings. I believe that, among other things, the relief requested in the First Day Pleadings is necessary to enable the Debtor to operate with minimal disruption during the pendency of this chapter 11 case. A description of the relief requested and the facts supporting each of the First Day Pleadings is set forth below.

Administrative and Procedural Motions

- a. **Motion of Debtor for Entry of Order Pursuant to 11 U.S.C. §§ 105(a), 342(a), and 521(a)(1), Fed. R. Bankr. P. 1007(a), and 2002(a), (d), (f), and (l), and Local Bankruptcy Rule 1007-1 (I) Waiving Requirement to File List of Creditors and Equity Holders and (II) Granting Debtor Authority to Establish Procedures for Notifying Creditors and Equity Holders of Commencement of Debtor's Chapter 11 Case**

42. The Debtor seeks entry of an order waiving the requirements to file lists of creditors and equity holders on the Petition Date. In lieu of filing these lists, the Debtor proposes to provide American Legal Claim Services, LLC (“ALCS”), the Debtor’s proposed notice and claims agent, with a list of creditors and a list of equity security holders so that ALCS can undertake all mailings directed by the Court, the U.S. Trustee or as required by the Bankruptcy Code, including, without limitation, the notice of commencement of this chapter 11 case. In addition, the Debtor proposes to publish the notice of commencement in the global edition of the *Wall Street Journal* and the national edition of *The New York Times*, as well as on ALCS’s website to provide notice of the pendency of this chapter 11 case to entities for whom the Debtor does not have contact information. Given the number of creditors and the fact that the Debtor’s

equity is publicly traded, I submit that having ALCS assist with mailing and preparation of creditor lists and notices will ease administrative burdens that would otherwise fall upon the Court and the U.S. Trustee, while at the same time ensuring that actual notice is provided to all of the Debtor's creditors and equity interest holders in an efficient and cost effective manner.

b. Motion for Order Pursuant to 11 U.S.C. §§ 105(a) and 331 and Bankruptcy Rule 2016(a) Establishing Procedures for Interim Compensation and Reimbursement of Expenses of Professionals

43. The Debtor requests the entry of an order establishing an orderly, regular process for the monthly allowance and payment of compensation and reimbursement of expenses for professionals whose services are authorized by the Court pursuant to sections 327 or 1103(a) of the Bankruptcy Code and who will be required to file applications for allowance of compensation and reimbursement of expenses (the “*Interim Compensation Motion*”). I believe that establishing orderly procedures to pay the professionals and attorneys whose retentions are approved by this Court and who will be required to file applications for the allowance of compensation and reimbursement of expenses will streamline the administration of this chapter 11 case and otherwise promote efficiency for the Court, the Office of the United States Trustee for the Southern District of New York and all parties in interest. Accordingly, on behalf of the Debtor, I respectfully submit that the Interim Compensation Motion should be approved.

c. Motion of Debtor for Entry of Order Pursuant to 11 U.S.C. § 521 and Fed. Bankr. P. 9007 to Implement Certain Notice, Case Management and Administrative Procedures

44. The Debtor seeks to establish certain notice, case management and administrative procedures in this chapter 11 case (the “*Case Management Motion*”). The Debtor believes, and I agree, that the proposed procedures will streamline the administration of its chapter 11 case and, consequently, will preserve value that will inure to the benefit of the Debtor and its estate.

Accordingly, on behalf of the Debtor, I respectfully submit that the Case Management Motion should be approved.

Operational Motions

a. Debtor's Motion for Entry of an Order Approving (A) Plan Support Agreement, (B) Approving Expense Reimbursement and Break Up Fee to the Plan Sponsor Group and (C) Granting Certain Related Relief

45. The Debtor seeks entry of an order approving the Debtor's entry into the Plan Support Agreement described above and approving the expense reimbursement and break up fee (the "***Bidding Incentives***") of the Plan Support Group (the "***Plan Support Agreement Motion***"), all on the terms set forth in the Plan Support Agreement.

46. As set forth above, the Plan Support Agreement is the product of an extensive marketing process and good faith, arm's length negotiations among the parties. After evaluating numerous restructuring proposals, the special committee, on behalf of the Debtor and in the exercise of its sound business judgment, determined that entry into the Plan Support Agreement was in the best interests of the Debtor's estate, its creditors and equity holders. It is my understanding that the Plan Sponsor Group would not have entered into the Plan Support Agreement without the Bidding Incentives.

47. Furthermore, I believe that the terms of the Bidding Incentives are reasonable and necessary under the circumstances.

48. In light of the foregoing, I believe that the relief requested in the Plan Support Agreement Motion is in the best interests of the Debtor and its stakeholders.

b. Motion Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, and 364, Bankruptcy Rules 2002 and 4001, and Local Rule 4001-2 (I) Authorizing the Debtor to (A) Obtain Post-Petition Secured Financing and (B) Utilize Cash Collateral, (II) Granting Security Interests and Superpriority Claims, and (III) Scheduling Final Hearing

49. By this motion (the “**DIP Motion**”), the Debtor requests entry of an order (i) authorizing the Debtor to obtain debtor in possession financing from JEC II Associates, LLC (the “**DIP Lender**”) pursuant to the terms of the Debtor-In-Possession Credit Agreement, dated April 25, 2013, (ii) granting security interests and superpriority claims to the DIP Lender, and (iii) scheduling a final hearing.

50. Material provisions of the DIP Loan are set out in the DIP Motion pursuant to, and in accordance with, Bankruptcy Rule 4001(c)(1)(B)(i)-(xi) and Local Rule 4001-2(a)(i).

51. The Debtor has determined that entering into the DIP Loan is appropriate and necessary to fund its chapter 11 case. Approval of the DIP Loan will provide the Debtor with immediate and ongoing access to borrowing availability to pay its current and ongoing operating expenses through confirmation of the Plan. As indicated above, absent the DIP Loan, the Debtor could be forced to cease operations within a few weeks, thereby immediately impeding the Debtor’s ability to reorganize. Moreover, the implementation of the DIP Loan will be favorably received by the Debtor’s employees, customers and trade partners.

52. The Debtor believes that the DIP Loan is being provided on favorable terms after reviewing other financing proposals that it received during its prepetition marketing process. As indicated above, the Debtor solicited proposals from financing sources during its more than year-long marketing process, but could not come to terms with any other financing source, whether on a stand-alone basis or in conjunction with a planned restructuring.

53. In addition, it is my understanding that the DIP Lender would not have provided the DIP Loan unless it received a lien on the Debtor’s assets and a superpriority claim in the Debtor’s chapter 11 case. The DIP Lender’s liens, however, will be junior to valid existing liens on those assets pursuant to the DIP Motion. The Debtor is also seeking authority to use cash

collateral of the DIP Lender and WTI, its prepetition lender. The Debtor intends to continue using its operating account at HSBC in the ordinary course of its operations. The operating account is pledged to WTI, so out of an abundance of caution, the Debtor is seeking approval to use WTI's cash collateral and to have access to the operating account without interference from WTI. I believe that WTI is adequately protected for any diminution in value because (i) minimal cash collateral exists in the operating account as of the Petition Date and funds in the account going forward will be proceeds of the DIP Loan which is incremental to WTI's cash collateral and (ii) the Plan Sponsor Group's proposal values the assets of the Debtor far in excess of the amounts outstanding under the WTI Loans, thereby manifesting a significant, existing equity cushion for WTI. Moreover, the proceeds of the DIP Loan will be used to preserve the value of the Debtor's assets during the course of this chapter 11 case, which I believe will further insulate WTI from any diminution in value of its collateral.

54. In light of the foregoing, I believe that the relief requested in the DIP Motion is in the best interests of the Debtor and its stakeholders and should be approved.

c. Motion of Debtor for Entry of Order (I) Authorizing, but not Directing, Debtor to Remit and Pay Prepetition Taxes and (II) Authorizing and Directing Financial Institutions to Honor All Related Checks and Electronic Payment Requests

55. The Debtor requests entry of interim and final orders granting the Debtor authority, in its discretion, to pay certain taxes that accrued or arose in the ordinary course of business prior to the Petition Date, and directing financial institutions to receive, process, honor, and pay checks presented for payment and electronic payment requests relating to the foregoing (the "***Tax Motion***").

56. In connection with the normal operation of its Business, the Debtor as the corporate parent for the KDI corporate group is responsible for collecting and remitting taxes to

various taxing authorities. Among other things, the Debtor and its Subsidiaries collect sales taxes from customers and affiliates for ultimate remittance to taxing authorities and incur Federal and State income taxes and franchise taxes in operating their businesses (collectively, the “*Taxes*”), payable to various taxing, licensing and other governmental authorities (collectively, the “*Authorities*”). The Taxes are paid monthly, quarterly or annually to the respective Authorities, in each case as required by applicable laws and regulations.

57. The Debtor needs authority to continue to pay its Taxes in order to continue operating in certain jurisdictions and to avoid costly distractions during this chapter 11 case. Specifically, it is my understanding that the failure of the Debtor or its Subsidiaries to pay the Taxes could adversely affect the Debtor’s business operations because certain Authorities could suspend the Debtor’s operations, file liens or seek to lift the automatic stay. Additionally, certain directors and officers of the Debtor could be subject to personal liability, which would likely distract those key employees from their duties related to the Debtor’s restructuring.

58. Thus, to prevent immediate and irreparable harm to the Debtor’s business, I believe that the relief requested in the Tax Motion is in the best interests of the Debtor’s estate, its creditors and all other parties in interest, and will enable the Debtor to continue to operate its business in chapter 11 without disruption. Accordingly, on behalf of the Debtor, I respectfully submit that the Tax Motion should be approved.

d. Debtor’s Motion for Interim and Final Orders Authorizing Use of Existing Bank Accounts and Business Forms

59. The Debtor requests entry of an order authorizing the Debtor to continue using its existing bank accounts and business forms (the “*Bank Accounts Motion*”).

60. Prior to commencing this case, in connection with the normal operation of its business, the Debtor held a total of four (4) bank accounts (collectively, the “*Bank Accounts*”),

with HSBC Bank USA, N.A. HSBC is an authorized bank under the Operating Guidelines and Reporting Requirements of the United States Trustee for Chapter 11 Debtors in Possession and Chapter 11 Trustees.

61. The Debtor routinely deposits, withdraws and otherwise transfers funds to, from and between the Bank Accounts by various methods including check, wire transfer, automated clearing house transfer and electronic funds transfer. In addition to the Bank Accounts, the Debtor uses, in the ordinary course of its business, numerous business forms (including, but not limited to, checks, deposit slips, letterhead, contracts, purchase orders and invoices). To minimize the expense to the Debtor's estate associated with developing and/or purchasing entirely new forms, the delay in conducting business prior to obtaining such forms and the confusion of suppliers and other vendors, the Debtor seeks authority to continue to use its business forms as such forms existed immediately prior to the Petition Date, without reference therein to the Debtor's status as debtor in possession.

62. I believe that the relief requested in the Bank Accounts Motion will help to ensure the Debtor's orderly entry into and administration in chapter 11 and avoid the possible disruptions and distractions occasioned by opening all new accounts for the Debtor, as debtor in possession, that could divert the Debtor's attention from more pressing matters during the initial days of this chapter 11 case. The continued use of the Bank Accounts will enable the Debtor to conduct its operations efficiently and effectively. Accordingly, on behalf of the Debtor, I respectfully submit that the Bank Accounts Motion should be approved.

e. Motion of Debtor for Entry of Order Authorizing Debtor to Continue Prepetition Insurance Coverage and Related Practices

63. The Debtor requests the entry of an order (a) authorizing the Debtor to continue, in its discretion, insurance coverage entered into prepetition and to honor obligations thereunder,

and to revise, supplement or change its insurance coverage by, among other things, entering into new insurance policies through renewal of the current policies or purchase of new policies and (b) authorizing the Debtor's financial institutions to receive, process, honor and pay all checks presented for payment and electronic payment requests related to the foregoing (the "***Insurance Motion***").

64. In connection with the normal operation of its business, the Debtor has maintained and continues to maintain thirteen (13) insurance policies (collectively, the "***Insurance Policies***") for itself and its Subsidiaries through several third-party insurance carriers (collectively, the "***Insurance Carriers***") that benefit the Debtor's estate. The Insurance Policies have terms of ten (10) months to one (1) year. The Debtor is responsible for an approximate aggregate amount of \$1,075,320 in premiums on account of the Insurance Policies, of which approximately \$1,010,772 has been paid to date. The Debtor was current as of the Petition Date under all of the Insurance Policies.

65. Continuation of the Insurance Policies through the duration of this chapter 11 case is essential to the preservation of the Debtor's business, property and assets. In many cases, the coverage under such policies is required by various regulations, laws and contracts that govern the Debtor's business conduct. If the Debtor's Insurance Policies lapse without renewal, the Debtor could be exposed to substantial liability to the detriment of all parties in interest.

66. I understand that, as part of an effort to obtain comprehensive insurance coverage for the Debtor's operations in the most cost-effective manner, the Debtor maintains a brokerage agreement with an insurance broker. The insurance broker assists the Debtor in procuring and negotiating Insurance Policies from the Insurance Carriers at advantageous terms and competitive rates. From the insurance premiums that the Debtor pays to the Insurance Carriers,

brokerage fees (the “**Brokerage Fees**”) are paid out to the insurance broker in accordance with the premium payment schedule of the relevant Insurance Policy. As of the Petition Date, the Debtor does not believe it owes any prepetition Brokerage Fees.

67. I believe that the relief requested in the Insurance Motion is in the best interests of the Debtor’s estate, its creditors and all other parties in interest, and will enable the Debtor to continue to operate its business in chapter 11 without disruption. Accordingly, on behalf of the Debtor, I respectfully submit that the Insurance Motion should be approved.

f. Motion of Debtor for Entry of an Order (I) Authorizing, but not Directing, Debtor to Pay Prepetition Wages, Salaries and Other Compensation and Benefits and Continue Payment of Wages, Salaries and Other Compensation and Benefits in the Ordinary Course of Business; (II) Authorizing and Directing Applicable Banks and Other Financial Institutions to Process and Pay All Checks Presented for Payment and to Honor All Funds Transfer Requests Made by the Debtor Relating to the Foregoing

68. The Debtor requests the entry of an order (a) authorizing, but not directing, the Debtor to pay, in its sole discretion, all prepetition wages, salaries and other compensation and benefits and to continue payment of wages, salaries and other compensation and benefits in the ordinary course of business and (b) authorizing and directing the Debtor’s financial institutions to process and pay all checks presented for payment and electronic payment requests related to the foregoing (the “**Employee Motion**”).

69. As of the Petition Date, the Debtor employs approximately eight (8) full-time employees (collectively, the “**Employees**”). None of the Employees are subject to a collective bargaining agreement. Three (3) of the Employees are independent contractors, including myself, the interim corporate counsel and the associate general counsel.

70. The Petition Date occurred shortly after the Debtor made a payroll payment. As a result, while the Debtor does not believe any amounts are outstanding for prepetition wages,

there may be some Employees who will have failed to cash paychecks from this or prior pay periods, drawn directly off of the Debtor's Bank Accounts, before the bankruptcy filing. Accordingly, out of an abundance of caution, the Debtor is seeking authority to pay any such amounts in the ordinary course.

71. Prior to the Petition Date and in connection with the normal operation of its business, the Debtor provided employee benefits, reimbursed business expenses and paid other miscellaneous consideration to the Employees. The Employees are essential to the Debtor's business as the Debtor relies on their skills and expertise to meet its strategic goals and to carry out daily operations. The Employees are also critical to the Debtor's successful reorganization; any loss of Employees would disrupt the Debtor's business and deplete the value of the estate. Accordingly, I believe it is imperative that the Debtor have authority to honor its salary, wage and other compensation obligations by paying, in the ordinary course, any prepetition amounts owed to the Employees for services within 180 days of the Petition Date. To the best of my knowledge, no Employees will be owed more than \$12,475.

72. I believe that the relief requested in the Employee Motion is in the best interests of the Debtor's estate, its creditors and all other parties in interest, and will enable the Debtor to continue to operate its business in chapter 11 without disruption. In addition, payment of all Employee wages, salaries and other compensation and benefits is included in the Debtor's budget in connection with the DIP Loan. Accordingly, on behalf of the Debtor, I respectfully submit that the Employee Motion should be approved.

g. Debtor's Motion for the Entry of Interim and Final Orders Establishing Notification and Hearing Procedures for Transfers Of, or Claims of Worthlessness With Respect to, Certain Equity Securities and for Related Relief

73. The Debtor requests that the Court enter interim and final orders (a) establishing notification and hearing procedures regarding the trading of, or declarations of worthlessness for federal or state tax purposes with respect to the equity securities in the Debtor or of any beneficial interest therein (the common stock of the Debtor and any beneficial interest therein, including options to acquire such stock, the “**Common Stock**” or “**Equity Securities**”) that must be complied with before trades or transfers of such securities or declarations of worthlessness become effective, (b) ordering that any purchase, sale, or other transfer of, or declaration of worthlessness with respect to, Equity Securities in violation of the procedures set forth below shall be void *ab initio*, and (c) scheduling a final hearing (the “**NOL Preservation Motion**”).

74. The Debtor has incurred, and is currently incurring, significant net operating losses (“**NOLs**”), amounting to approximately \$75 million as of the Petition Date translating to potential tax savings of approximately \$26.25 million. The Debtor’s NOLs consist of losses generated in any given or prior tax year and can be “carried forward” to up to 20 subsequent tax years to offset the Debtor’s future taxable income, thereby reducing future aggregate tax obligations. NOLs also may be utilized to offset taxable income generated by transactions completed during the chapter 11 case.

75. It is my understanding that establishing notification and hearing procedures for the trading of and declarations of worthlessness with respect to the Equity Securities will protect and preserve the Debtor’s valuable tax attributes, including the NOLs, as well as certain other tax and business credits (“**Tax Credits**” and with the NOLs, the “**Tax Attributes**”), ultimately benefitting all of the Debtor’s stakeholders. Conversely, I believe that loss of the Debtor’s NOLs and Tax Attributes will cause substantial deterioration of value, harming the estate and significantly reducing the ultimate payout to the Debtor’s stakeholders. Accordingly, it is my

understanding that failure to obtain the relief sought in this motion will greatly increase the risk that the Debtor will be unable to make use of its NOLs and Tax Attributes.

76. The Debtor's NOLs are substantial and I believe that any loss of the Debtor's Tax Attributes, including during the first month of this case could cause significant and irreparable damage to the estate and stakeholders. I further believe that the relief requested herein is critical for maximizing estate value and will help to ensure a meaningful recovery for creditors and equity holders. If no restrictions on trading or worthlessness deductions are imposed as requested in the NOL Preservation Motion, such trading or deductions could severely limit or even eliminate the Debtor's ability to use its Tax Attributes (including its NOLs). I believe that loss of these valuable estate assets could lead to significant negative consequences for the Debtor, its estate, the Debtor's stakeholders and the overall reorganization process.

77. Finally, it is my belief that the limited relief requested in the NOL Preservation Motion is immediately necessary to enable the Debtor to act expeditiously to prevent such transfers or declarations, if necessary, with the purpose of preserving the NOLs, and that failure to grant this relief from the commencement of the chapter 11 case onward will cause irreparable harm to the Debtor's estate.

III. **LOCAL RULE 1007-2 SCHEDULES**

78. Attached hereto and incorporated herein by this reference are various schedules setting forth information required pursuant to Local Rule 1007-2. Capitalized terms used in the attached schedules that are not otherwise defined herein shall have the meanings ascribed to

them in the preceding paragraphs of this Declaration. Specifically, the schedules attached hereto contain the following information with respect to the Debtor:³

- a. Pursuant to Local Rule 1007-2(a)(3), Schedule 1 sets forth a list of any committee formed prepetition.
- b. Pursuant to Local Rule 1007-2(a)(4), Schedule 2 sets forth a list of the names and addresses and, where available, the telephone numbers of the creditors holding the 30 largest unsecured claims against the Debtor, excluding insiders, and (where available) the name of the person familiar with the Debtor's account. This list also includes the amount of each claim and, if appropriate, an indication whether such claim is contingent, unliquidated, disputed or partially secured, subject to the Debtor's right to dispute the validity of any claims.
- c. Pursuant to Local Rule 1007-2(a)(5), Schedule 3 sets forth a list of the names and addresses of the creditors holding the five largest secured claims against the Debtor. This list also includes the amount of each claim, a brief description of the type of collateral securing the claim, and whether the claim or lien is disputed, subject to the Debtor's right to dispute the validity of any claims. The value of the collateral securing these claims remains undetermined.
- d. Pursuant to Local Rule 1007-2(a)(6), Schedule 4 sets forth a summary of the assets and liabilities of the Debtor, as of the Petition Date, which has not been audited and is subject to change.
- e. Pursuant to Local Rule 1007-2(a)(7), Schedule 5 lists the number and classes of shares of stock, debentures and other securities of the Debtor that are publicly held and the number of holders thereof.
- f. Pursuant to Local Rule 1007-2(a)(8), Schedule 6 sets forth a list of the Debtor's property that is in possession or custody of any custodian, public officer, mortgagee, pledgee, assignee of rents or secured creditor (other than Bank Accounts which may be subject to claims or setoff), or agent for any such entity.
- g. Pursuant to Local Rule 1007-2(a)(9), Schedule 7 sets forth a list of the premises owned, leased or held under other arrangement from which the Debtor operates its business.
- h. Pursuant to Local Rule 1007-2(a)(10), Schedule 8 sets forth a list of the locations of the Debtor's substantial assets and books and records, and the nature, location

³ The information contained in the schedules attached hereto shall not constitute an admission of liability by, nor is it binding on, the Debtor. The Debtor reserves all rights to assert that any debt or claim listed herein is a disputed claim or debt, and to challenge the priority, nature, amount or status of such claim or debt. The descriptions of collateral securing the underlying obligations are intended only as brief summaries. Unless otherwise indicated, the financial information contained in the schedules is unaudited. In the event of any inconsistencies between the summaries set forth below and the respective corporate and legal documents relating to such obligations, the descriptions in the corporate and legal documents shall control.

and value of any assets held by the Debtor outside the territorial limits of the United States.

- i. Pursuant to Local Rule 1007-2(a)(11), Schedule 9 sets forth a list identifying the nature and present status of each action or proceeding, pending or threatened, against the Debtor or its property, where a judgment against the Debtor or a seizure of its property may be imminent.
- j. Pursuant to Local Rule 1007-2(a)(12), Schedule 10 sets forth a list of the names of the individuals who comprise the Debtor's existing senior management, their tenure with the Debtor and a brief summary of their relevant responsibilities and experience.
- k. Pursuant to Local Rule 1007-2(b)(1), Schedule 11 sets forth a list identifying the estimated amount of the gross weekly payroll to employees (exclusive of officers and directors), for the 30 day period following the filing of the Debtor's chapter 11 petition.
- l. Pursuant to Local Rule 1007-2(b)(2)(A) and (C), Schedule 12 sets forth a list identifying the estimated amount to be paid to officers, directors, stockholders and financial and business consultants retained by the Debtor, for the 30-day period following the filing of the Debtor's chapter 11 petition.
- m. Pursuant to Local Rule 1007-2(b)(3), Schedule 13 sets forth the estimated cash receipts and disbursements, net cash gain or loss, obligations and receivables expected to accrue by remain unpaid, other than professional fees, for the 30-day period following the commencement of the Debtor's chapter 11 petition.

IV.
CONCLUSION

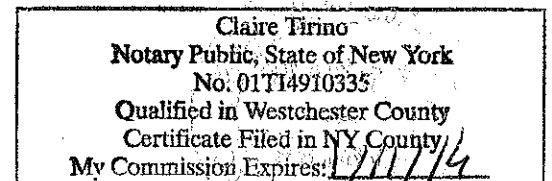
Accordingly, for the reasons stated herein and in each of the First Day Pleadings, the Debtor requests that the relief sought in the First Day Pleadings be approved.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Dated: April 25, 2013
New York, New York



Fabrice Hamaide
Chief Financial Officer



SCHEDULE 1

List of Committees Formed Prior to the Commencement Date

None.

SCHEDULE 2

Schedule Regarding Holders of Top 30 Unsecured Claims

Pursuant to Local Rule 1007-2(a)(4), the following provides information with respect to the holders of the 30 largest unsecured claims against the Debtor. The information contained herein has been prepared in accordance with Rule 1007(d) of the Federal Rules of Bankruptcy Procedure and does not include (i) persons or entities who come within the definition of “insider” set forth in 11 U.S.C. § 101(31), or (ii) secured creditors unless the value of the collateral is such that the unsecured deficiency places the creditor among the holders of the 30 largest unsecured claims.

The information contained herein shall not constitute an admission of liability by, nor is it binding on, the Debtor. The Debtor reserves all rights to challenge the priority, nature, amount, and status of any claim or debt listed herein. In the event of any inconsistencies between the summaries set forth below and the respective corporate and legal documents relating to such obligations, the descriptions in the corporate and legal documents shall control. This schedule estimates outstanding claim amounts as of the Petition Date. The Debtor has excluded from this schedule any claims that will be addressed by First Day Motions filed in connection with this chapter 11 case.

	NAME OF CREDITOR AND COMPLETE MAILING ADDRESS	NAME, FAX NUMBER, EMAIL ADDRESS AND COMPLETE MAILING ADDRESS OF EMPLOYEE, AGENT OR DEPARTMENT OF CREDITOR FAMILIAR WITH CLAIM	NATURE OF CLAIM <i>(bond debt, trade debt, bank loan, government contracts, etc.)</i>	INDICATE IF CLAIM IS CONTINGENT, UNLIQUIDATED, DISPUTED, OR SUBJECT TO SETOFF	AMOUNT OF CLAIM <i>(if secured, also state value of security)</i>
1.	JONES DAY 222 East 41st Street New York, NY 10017	Marilyn W. Sonnie (212) 755-7306 222 East 41st Street New York, NY 10017 pjvillareal@jonesday.com	Legal Services		\$1,582,542.02
2.	GRANT THORTON 666 Third Avenue New York, NY 10017	Christine Verdejo (212) 370-4520 666 Third Avenue New York, NY 10017 christine.verdejo@us.gt.com	Consulting Services	Contingent, disputed and subject to setoff	\$804,202.00
3.	CTPARTNERS 2 Shenton Way SGX Centre 1, #09-01 068804 Singapore	Tanja Iannarelli (212) 688-5754 2 Shenton Way SGX Centre 1, #09-01 068804 Singapore tiannarelli@ctnet.com	Recruiting Services		\$570,445.36

	NAME OF CREDITOR AND COMPLETE MAILING ADDRESS	NAME, FAX NUMBER, EMAIL ADDRESS AND COMPLETE MAILING ADDRESS OF EMPLOYEE, AGENT OR DEPARTMENT OF CREDITOR FAMILIAR WITH CLAIM	NATURE OF CLAIM <i>(bond debt, trade debt, bank loan, government contracts, etc.)</i>	INDICATE IF CLAIM IS CONTINGENT, UNLIQUIDATED, DISPUTED, OR SUBJECT TO SETOFF	AMOUNT OF CLAIM <i>(if secured, also state value of security)</i>
4.	AKAMAI TECHNOLOGIES, INC. PO Box 26590 New York, NY 10087-6590	Josh Phalen PO Box 26590 New York, NY 10087-6590 tunagara@akamai.com	Trade Payable		\$362,492.82
5.	ALVAREZ & MARSAL 55 West Monroe Street, Suite 4000 Chicago, IL 60603	Jonathan Vanderveen (205) 994 3601 55 West Monroe Street, Suite 4000 Chicago, IL 60603 jvanderveen@alvarezandmarsal.com	Consulting Services		\$312,582.00
6.	DELOITTE & TOUCHE LLP 695 Town Center Drive, Suite 1200 Costa Mesa, CA 92626	Mark J. Motloch (714) 436-7200 695 Town Center Drive, Suite 1200 Costa Mesa, CA 92626 mmotloch@deloitte.com	Accounting Services		\$245,356.96
7.	ROTTENBERG LIPMAN RICH, PC 369 Lexington Avenue 16th Floor New York, NY 10017	Harry W. Lipman, Esq. (212) 867-1914 369 Lexington Avenue 16th Floor New York, NY 10017 kriffle@rlrpclaw.com	Legal Services		\$241,629.12
8.	TECH MAHINDRA INC. 2140 Lake Park Blvd, Suite 300 Richardson, TX 75080-2294	Indu Prakash (972) 991-3776 2140 Lake Park Blvd, Suite 300 Richardson, TX 75080-2294 hbehra@TechMahindra.com	Trade Payable		\$180,000.00
9.	DOAR COMMUNICATIONS INC. 170 Earle Avenue Lynbrook, NY 11563	Paul Neale (516) 537-0981 170 Earle Avenue Lynbrook, NY 11563 kryu@doar.com	Consulting Services		\$161,211.75

	NAME OF CREDITOR AND COMPLETE MAILING ADDRESS	NAME, FAX NUMBER, EMAIL ADDRESS AND COMPLETE MAILING ADDRESS OF EMPLOYEE, AGENT OR DEPARTMENT OF CREDITOR FAMILIAR WITH CLAIM	NATURE OF CLAIM <i>(bond debt, trade debt, bank loan, government contracts, etc.)</i>	INDICATE IF CLAIM IS CONTINGENT, UNLIQUIDATED, DISPUTED, OR SUBJECT TO SETOFF	AMOUNT OF CLAIM <i>(if secured, also state value of security)</i>
10.	DELAWARE SECRETARY OF STATE # 51-6000279 Division of Corporations P.O Box 5509 Binghamton, NY 13902-5509	Fax: (302)739-3812 Division of Corporations P.O Box 5509 Binghamton, NY 13902- 5509 DOSDOC_Ftax@state.de.us	Franchise Tax		\$147,868.26
11.	ROPES & GRAY LLP Prudential Tower 800 Boylston Street Boston, MA 02199-3600	Jeffrey R. Katz (617) 951-7050 Prudential Tower 800 Boylston Street Boston, MA 02199-3600 Jeffrey.Katz@ropesgray.com	Legal Services		\$142,575.32
12.	BAKER & MCKENZIE LLP 300 East Randolph Street Suite 5000 Chicago, IL 60601	Richard Fink (312) 861-2899 300 East Randolph Street Suite 5000 Chicago, IL 60601 Richard.Fink@bakermckenzie.com	Legal Services		\$134,217.17
13.	LEVEMENTUM, LLC 55 N. Arizona Place Suite 203 Chandler, AZ 85225	Kim Carrigan 55 N. Arizona Place Suite 203 Chandler, AZ 85225 dbaier@levementum.com	Trade Payable		\$105,136.89
14.	ALLEN & COMPANY 711 Fifth Ave New York, NY 10022	Richard Fields 711 Fifth Ave New York, NY 10022 scodner@intralinks.com	Consulting Services	Contingent, disputed and subject to setoff	\$105,000.00
15.	KIT DIGITAL SWEDEN Drottninggatan 92-94, 111 36 111 36 Stockholm, Sweden	Elin Askfelt Drottninggatan 92-94, 111 36 111 36 Stockholm, Sweden Jaroslava.pavlikova@kit- digital.com	Trade Payable		\$104,625

	NAME OF CREDITOR AND COMPLETE MAILING ADDRESS	NAME, FAX NUMBER, EMAIL ADDRESS AND COMPLETE MAILING ADDRESS OF EMPLOYEE, AGENT OR DEPARTMENT OF CREDITOR FAMILIAR WITH CLAIM	NATURE OF CLAIM <i>(bond debt, trade debt, bank loan, government contracts, etc.)</i>	INDICATE IF CLAIM IS CONTINGENT, UNLIQUIDATED, DISPUTED, OR SUBJECT TO SETOFF	AMOUNT OF CLAIM <i>(if secured, also state value of security)</i>
16.	PRICEWATERHOUSECOOPERS CZ Katerinska 40/466 120 00 Praha 2 Czech Republic	Marta Pankiv Katerinska 40/466 120 00 Praha 2 Czech Republic igor.wotke@cz.pwc.com	Consulting Services		\$103,982.37
17.	EQUINIX, INC. 301 Velocity Way, 5th Floor Foster City, CA 94404-4803	Tim Horton 301 Velocity Way 5th Floor Foster City, CA 94404-4803 vnguyen@equinix.com	Trade Payable		\$98,318.50
18.	JB LEGAL CONSULTING FZ-LLC P.O.BOX 487928 Dubai United Arab Emirates	Rima Jameel 971 (0) 9 243 1680 P.O.Box 487928 Dubai United Arab Emirates RJ@jblegal.me	Legal Services	Disputed	\$92,399.57
19.	BE BRANDS PTY LTD Were Street LPO PO Box 9035 Brighton Vic 3186 Australia	Robyn Nelson Were Street LPO PO Box 9035 Brighton Vic 3186 Australia robyn.nelson@bebrands.com	Trade Payable		\$90,117.30
20.	BALAJI SOFTWARE 55, Juhu Supreme Shopping Center Gulmohar Cross Rd No. 9 Juhu Scheme Mumbai 400049 India	Snehal Vaidya 55, Juhu Supreme Shopping Center Gulmohar Cross Rd No. 9 Juhu Scheme Mumbai 400049 India snehal.vaidya@balajisoftware.in	Trade Payable		\$89,640.40
21.	CDW DIRECT – CORP Po Box 75723 Chicago, IL 60675	Lisa Hansen PO Box 75723 Chicago, IL 60675 Lisahan@cdw.com	Trade payable		\$80,527.12

	NAME OF CREDITOR AND COMPLETE MAILING ADDRESS	NAME, FAX NUMBER, EMAIL ADDRESS AND COMPLETE MAILING ADDRESS OF EMPLOYEE, AGENT OR DEPARTMENT OF CREDITOR FAMILIAR WITH CLAIM	NATURE OF CLAIM <i>(bond debt, trade debt, bank loan, government contracts, etc.)</i>	INDICATE IF CLAIM IS CONTINGENT, UNLIQUIDATED, DISPUTED, OR SUBJECT TO SETOFF	AMOUNT OF CLAIM <i>(if secured, also state value of security)</i>
22.	REED SMITH 599 Lexington Avenue, 22nd Floor New York, NY 10022599	(650) 352-0699 1510 Page Mill Road Suite 110 Palo Alto, CA 94304	Legal services		\$75,396.91
23.	AMERICAN APPRAISAL ASSOCIATES INC. 411 East Wisconsin Avenue Milwaukee, WI 53202411	Nancy Cruz 411 East Wisconsin Avenue Milwaukee, WI 53202411 Rogers@american-appraisal.com	Consulting services		\$70,597.22
24.	IDG CONNECT PO BOX 370087 Boston, MA 02241	Todd Hall Po Box 370087 Boston, MA 02241 Monica_goddard@idg.com	Technology services		\$70,520.00
25.	DIGITAL DISTRIBUTION NETWORK – CORP Str Splai Bahlui Nr 53b 700031 Iasi, Jud. Iasi Romania	Gabriel Mirea Str splai bahlui nr 53b 700031 Iasi, Jud. Iasi Romania Gabi@ddnet.ro	Trade payable		\$69,419.20
26.	PRICEWATERHOUSE COOPERS THAILAND 15th Floor Bangkok City Tower 179/74-80 South Sathorn Road Bangkok 10120 Thailand	Sirisuk (Nicky/ Aor) manmettakul 15th Floor Bangkok City Tower 179/74-80 South Sathorn Road Bangkok 10120 Thailand Panadda.pholphakwaen@th.pwc.com	Consulting services		\$64,835.16
27.	EDELMAN A & R Edelman JP Morgan Chase NA 23714 Network Place Chicago, IL 60673-1237	Raquel Soto A & R Edelman JP Morgan Chase NA 23714 Network Place Chicago, IL 60673-1237 raquel.soto@edelman.com	Public relations		\$60,000.00

	NAME OF CREDITOR AND COMPLETE MAILING ADDRESS	NAME, FAX NUMBER, EMAIL ADDRESS AND COMPLETE MAILING ADDRESS OF EMPLOYEE, AGENT OR DEPARTMENT OF CREDITOR FAMILIAR WITH CLAIM	NATURE OF CLAIM <i>(bond debt, trade debt, bank loan, government contracts, etc.)</i>	INDICATE IF CLAIM IS CONTINGENT, UNLIQUIDATED, DISPUTED, OR SUBJECT TO SETOFF	AMOUNT OF CLAIM <i>(if secured, also state value of security)</i>
28.	CIGNA HEALTH & LIFE INSURANCE COMPANY 13680 Collections Center Drive Chicago, IL 60693	Howard Metzger 13680 Collections Center Drive Chicago, IL 60693 Cignaglobalhealthbenefitsbilling@cigna.com	Insurance		\$59,993.11
29.	BLACK LOWE & GRAHAM 701 Fifth Avenue Suite 4800 Seattle, WA 98104	Richard Black (206) 381-3301 701 Fifth Avenue Suite 4800 Seattle, WA 98104 Black@blacklaw.com	Legal services		\$59,971.50
30.	HOGAN LOVELLS 11th Floor, One Pacific Place 88 Queensway Hong Kong China	Jun Wei 11th Floor, One Pacific Place 88 Queensway Hong Kong China Phone +852 2219 0888 Fax +852 2219 0222S	Legal services		\$59,103.56

SCHEDULE 3

Schedule of Holders of the Five Largest Secured Claims

Pursuant to Local Rule 1007-2(a)(5), the following is a schedule of the holders of the five largest secured claims for the Debtor.

The information contained herein shall not constitute an admission of liability by, nor is it binding on, the Debtor. The Debtor reserves all rights to assert that any debt or claim listed herein is a disputed claim or debt, and to challenge the priority, nature, amount of status of any such claim or debt. The descriptions of the collateral securing the underlying obligations are intended only as brief summaries. In the event of any inconsistencies between the summaries set forth below and the respective corporate and legal documents relating to such obligations, the descriptions in the corporate and legal documents shall control. The schedule below estimates outstanding claim amounts (including, where appropriate, principal and interest) as of the Petition Date.

Name/Address of Secured Creditor	Amount of Claim	Description of Collateral	Claim Status
Venture Lending & Leasing VI, Inc. and Venture Lending & Leasing V, Inc.	\$9,691,961.72	Substantially all of the Debtor's assets.	Outstanding
HSBC Bank USA, N.A.	\$474,068	Credit card account secured up to \$500,000.	Outstanding

SCHEDULE 4

Summary of the Debtor's Assets and Liabilities

Pursuant to Local Rule 1007-2(a)(6), the following financial data is the latest available information and reflects the Debtor's total assets and liabilities as of April 25, 2013.

The information contained herein shall not constitute an admission of liability by the Debtor. The Debtor reserves all rights to assert that any debt or claim listed herein as liquidated or fixed is in fact a disputed claim or debt. The Debtor reserves all rights to challenge the priority, nature, amount or status of any claim or debt.

Total Assets (Book Value): \$24 million¹

Total Liabilities: \$29 million²

¹ Total assets amount excludes investments in subsidiaries and intercompany receivables.

² Total liabilities amount excludes derivative liabilities related equity-related litigation.

SCHEDULE 5

Schedule of Publicly Held Securities

Pursuant to Local Rule 1007-2(a)(7), the following table sets forth, as of April 22, 2013, the number and classes of shares of stock, debentures and other securities of the Debtor that are publicly held, and the number of holders thereof, listing separately those held by each of the Debtor's officers and directors and the amounts so held.

Equity Security	Number of Shares Outstanding	Number of Holders
Common Stock	60,893,809	292 registered holders

Name of Officer or Director	Title	Equity Security Held	Number of Shares Held
K. Peter Heiland	Interim Chief Executive Officer, Director	Common Stock	4,425,939
Seth W. Hamot	Director	Common Stock	102,939

SCHEDULE 6

List of Debtor's Property in Possession of Third Parties

Pursuant to Local Rule 1007-2(a)(8), the following schedule lists the Debtor's property, as of the Petition Date, that is in the possession or custody of any custodian, public officer, mortgagee, pledge, assignee of rents, secured creditor, or agent for any such entity.

Certain property of the Debtor is likely to be in the possession of various other persons including maintenance providers, shippers, common carrier, materialmen, custodians, public officers, mortgagees, pledges, assignees of rents, secured creditors or agents. Through these arrangements, the Debtor's ownership interest is not affected.

Third Party	Property Description
Manhattan Mini Storage 510-520 West 21 st Street New York, NY 10011	Storage facility containing old accounting and human resources files.
Equinix, Inc. 21691 Filigree Court Ashburn, VA 20147	Data center facility containing computer and network equipment.

SCHEDULE 7

List of Premises Owned and Leased From Which the Debtor Operates

Pursuant to Local Bankruptcy Rule 1007-2(a)(9), the following lists the premises owned, leased or held under other arrangements from which the Debtor operates its business.

DESCRIPTION	ADDRESS	OWNED/LEASED
Corporate office	26 West 17 th Street, 2 nd Floor New York, New York 10011	Leased by the Debtor's subsidiary, KIT digital Americas.

SCHEDULE 8

Location of Debtor's Substantial Assets and Books and Records and Nature, Location and Value of Assets Held Outside the United States

Pursuant to Local Bankruptcy Rule 1007-2(a)(10), the following lists the locations of the Debtor's substantial assets, the location of its records, and the nature, location, and value of any assets held by the Debtor outside of the territorial limits of the United States.

Location of the Debtor's Substantial Assets:

Debtor's Assets	Location
HSBC Bank Accounts	Buffalo, NY
Debtor's Other Substantial Assets	New York, NY

Location of the Debtor's Books and Records:

KIT digital, Inc.
26 West 17th Street, 2nd Floor
New York, New York 10011

Manhattan Mini Storage
510-520 West 21st Street
New York, NY 10011

Equinix, Inc.
21691 Filigree Court
Ashburn, VA 20147

KIT digital - Americas
1100 Circle 75 Parkway
Suite 600
Atlanta, GA 30339

Nature, Location and Value of Assets Held Outside the United States:

The Debtor's stock certificate in its subsidiary, Polymedia SpA, is located in Italy.

SCHEDULE 9

Summary of Legal Actions Against the Debtor

Pursuant to Local Bankruptcy Rule 1007-2(a)(11), the following is a list of the nature and present status of each action or proceeding pending or threatened against the Debtor or its properties as of the Petition Date, where a judgment against the Debtor or a seizure of its property may be imminent.

None.

SCHEDULE 10

Schedule of Senior Management

Pursuant to Local Bankruptcy Rule 1007-2(a)(12), the following sets forth the names of the individuals comprising the Debtor's existing senior management, their tenure with the Debtor, and a brief summary of their relevant responsibilities and experiences.

NAME	TITLE	RELEVANT EXPERIENCE	TENURE
K. Peter Heiland	Interim Chief Executive Officer, Director	Responsibilities: overall management and direction of the company Experience: Managing Director of JEC Capital Partners, a technology-focused investment firm founded in 2009; former founder and CEO of Integrated Dynamics Engineering, a designer, manufacturer and retailer of environmental control systems, robotics and motion control systems for semiconductor metrology and lithography equipment	August 2012 to present
Fabrice Hamaide	Chief Financial Officer	Responsibilities: managing the company's finance, accounting, financial planning and investment activities Experience: former CFO of ATARI, the global entertainment software developer; former CFO of Parrot SA, a European maker of wireless hardware and software for the mobile communications industry; held executive and strategic positions at Talkway Communications, Logitech and Ernst & Young; Bachelor's Degree in Mathematics from the University of Jussieu; Master's Degree in Information Systems Design from the Sorbonne University; MBA from Columbia University, with a specialty in Finance and Organizational Management	July 2012 to present

SCHEDULE 11

Estimated 30-Day Weekly Payroll (Excluding Directors, Officers, Stockholders and Partners)

Pursuant to Local Bankruptcy Rule 1007-2(b)(1), the estimated amount of weekly payroll to all employees of the Debtor (exclusive of directors, officers, stockholders and partners) for the 30-day period following the Petition Date is approximately \$77,422.21 (i.e. approximately \$19,126.38 per week).

SCHEDULE 12

Estimated 30-Day Weekly Payroll for Directors, Officers, Stockholders and Financial and Business Consultants

Pursuant to Local Bankruptcy Rule 1007-2(b)(2)(A), the Debtor estimates that the amounts paid and proposed to be paid for services to be provided by the Debtor's directors and officers for the 30-day period following the Petition Date is approximately \$95,000. The Debtor will not make any payroll-related payments to its stockholders in their capacity as stockholders (other than their officers and directors in their official capacity) during the 30-day period following the Petition Date.

Pursuant to Local Rule 1007-2(b)(2)(C), during the 30-day period following the Petition Date, the Debtor anticipates paying Deutsche Bank, its investment banker, \$100,000 in the 30-day period following the Petition Date in accordance with its engagement letter with Deutsche Bank, subject to the Court's approval of their retention in this chapter 11 case. Any payments to legal professionals deemed ordinary course will be in made accordance with any approved Ordinary Course Professional motion.

SCHEDULE 13

Schedule of 30-day Estimated Cash Receipts and Disbursements, Net Cash Gain or Loss, and Accrued Obligations and Receivables (Excluding Professional Fees)

Pursuant to Local Bankruptcy Rule 1007-2(b)(3), the following schedule provides, for the 30-day period following the Petition Date, the estimated cash receipts and disbursements, net cash gain or loss, and obligations and receivables expected to accrue that remain unpaid, other than professional fees, for the Debtor:

Description	Estimated Amount
Cash Receipts	\$1,750,000
Cash Disbursements	\$1,726,858
Net Cash Gain/(Loss)	\$23,142
Unpaid Obligations (ex professional fees)	N/A
Unpaid Receivables (ex professional fees)	N/A

EXHIBIT A

Plan Support Agreement

PLAN SUPPORT AGREEMENT

This PLAN SUPPORT AGREEMENT (this “**Agreement**”), dated as of April 16, 2013, is made and entered into by and among KIT digital, Inc. (the “**Company**”); and JEC Capital Partners, LLC (“**JEC**”), Stichting Bewaarder Ratio Capital Partners (“**Ratio**”), and Prescott Group Capital Management, L.L.C. (“**Prescott**”; and together with JEC and Ratio, the “**Sponsors**” and each a “**Sponsor**”). Each of the Company and Sponsors are sometimes referred to herein as a “**Party**” and collectively as the “**Parties**.”¹

RECITALS

- A. The Sponsors hold shares of common stock in the Company.
- B. JEC is the holder of a promissory note, dated as of October 15, 2012, in the initial principal amount of \$2,500,000 issued by the Company and holds an unsecured claim in the approximate amount of at least \$500,000 owing under that certain Consulting Agreement, dated December 27, 2012, between the Company and JEC.
- C. A restructuring proposal term sheet (the “**Term Sheet**”), attached hereto as **Exhibit A**, sets forth the principal terms and conditions for a restructuring of the Company’s indebtedness and certain related transactions to be funded by the Sponsors (the “**Restructuring**”).
- D. This Agreement contemplates the implementation of the Restructuring through a chapter 11 plan of reorganization to be proposed by the Company substantially consistent in all material respects with the terms of the Term Sheet (the “**Sponsored Restructuring**”). The Parties agree and acknowledge that the terms of this Agreement will play a central role in the successful Restructuring.

NOW, THEREFORE, in consideration of the foregoing and the promises, mutual covenants and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

Section 1. **Binding Term Sheet; Deposit; Financial Commitment**

(a) Notwithstanding anything to the contrary contained in the Term Sheet, the Term Sheet shall be binding upon the Parties and shall be incorporated by reference herein and be a part hereof. In the event of any inconsistency between the terms and conditions set forth in the Term Sheet and this Agreement, the terms and conditions of the Term Sheet shall govern.

(b) Within two (2) days of the execution and delivery of this Agreement, the Sponsors shall deposit \$1,500,000 (the “**Deposit**”) with Wilmington Trust, N.A. (the “**Escrow Agent**”) pursuant to the terms of that certain escrow agreement, to be dated as of the date the Deposit is made, by and among the Parties and the Escrow Agent. The Deposit will either be credited towards the Purchase Price or disbursed by the Escrow

¹ All capitalized terms used, but not defined herein shall have the meanings ascribed to them in the Term Sheet:

Agent to the Sponsors or the Company, as the case may be, as set forth in the Term Sheet.

(c) Simultaneously with the execution and delivery of this Agreement, the Sponsors and the Company shall have entered into a funding commitment letter (the “**Commitment Letter**”) providing for the Sponsors’ obligation to fund the Purchase Price, subject to the terms and conditions set forth therein.

Section 2. Support of Restructuring.

(a) During the term of this Agreement, Sponsors shall, in their capacity as Sponsors (including in their capacity as shareholders arising from any and all future purchases of common stock and as the holders of any unsecured or other claims against the Company) (and shall cause each of their representatives, agents and employees to) (i) use their commercially reasonable efforts to facilitate the solicitation, approval, confirmation and consummation of the Sponsored Restructuring on a timely basis; and (ii) not object to, challenge, vote to reject, or otherwise take any action or commence or participate, directly or indirectly, in any proceeding opposing any of the terms of the Sponsored Restructuring; provided, however, prior to voting on a plan of reorganization (whether in accordance with the provisions of this Section 2(b) or any other provision of this Agreement), Sponsors shall have received a disclosure statement in compliance with 11 U.S.C. § 1125.

(b) During the term of this Agreement, the Company shall (i) use its commercially reasonable efforts to facilitate the solicitation, approval, confirmation and consummation of the Sponsored Restructuring on a timely basis; (ii) use commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the Sponsored Restructuring at the earliest date practicable, including to file, execute and deliver, as applicable, the Plan and all documents related thereto, the Disclosure Statement and any other documents necessary to effectuate the Sponsored Restructuring; (iii) provide draft copies of all material pleadings and applications that the Company intends to file in the Chapter 11 Case in support of the Sponsored Restructuring, including without limitation “first day motions” as soon as reasonably practicable and to consult in good faith with the Sponsors regarding the form and substance of any such proposed filing; and (iv) subject to Section 2(d), not take any action or commence or participate in any proceeding opposing any of the terms of the Sponsored Restructuring, nor, directly or indirectly, seek or support or encourage or join with any other person or entity in seeking, to challenge or otherwise oppose the Sponsored Restructuring.

(c) During the term of this Agreement, Sponsors shall not, in their capacity as shareholders or creditors (including in their capacity as shareholders arising from any and all future purchases of common stock and as the holders of any claims against the Company), allow any of their representatives, agents or employees to, directly or indirectly (including, without limitation, by encouraging any other entity to), (i) solicit, support, prosecute, encourage or respond in the affirmative to any offer to purchase the

equity of the Company, all or substantially all of its assets or propose any plan of reorganization or plan of liquidation to retain or dispose of all or any material portion of the equity of the Company or its assets, other than as part of the Sponsored Restructuring (an “**Alternate Transaction**”) or negotiate, enter into, consummate or otherwise participate in any Alternate Transaction, or (ii) take any other action that could reasonably be expected to hinder, block, prevent, delay or impede the transactions contemplated by the Term Sheet, including, without limitation, commencing against the Company any case, proceeding or action under any existing or future law of any jurisdiction relating to bankruptcy, insolvency, reorganization or relief of debtors or exercising any remedies permitted under law.

(d) During the term of this Agreement, the Company shall not allow any of its representatives, agents or employees to, directly or indirectly (including, without limitation, by encouraging any other entity to), (i) solicit, support, prosecute, encourage or respond in the affirmative to any Alternate Transaction or negotiate, enter into, consummate or otherwise participate in any Alternate Transaction, or (ii) take any other action that could reasonably be expected to hinder, block, prevent, delay or impede the transactions contemplated by the Term Sheet, including, without limitation, commencing against the Company any case, proceeding or action under any existing or future law of any jurisdiction relating to bankruptcy, insolvency, reorganization or relief of debtors; provided, however, as set forth in the Term Sheet, that if after the date hereof the Board of Directors of the Company receives a written offer to enter into an Alternative Transaction made after the date hereof in circumstances not involving a breach of this Section 2(d) and the Board of Directors of the Company (a) believes in good faith that such Alternative Transaction is bona fide, (b) determines in good faith that such Alternative Transaction constitutes or would reasonably be expected to lead to a superior proposal, it being understood and agreed that to the extent the existing common stock of the Company receives consideration from the bankruptcy estate, the Company will, within the bounds of its fiduciary duties, give greater consideration to transactions structured to allow the existing shareholders to retain an equity interest in the reorganized Company, and (c) determines in good faith, after consulting with and receiving advice of its outside counsel, that the failure to take such action would reasonably be expected to result in a breach of its fiduciary duties to the Company’s stockholders under Delaware law, then the Company may, after providing the Sponsors not less than seventy-two (72) hours written notice of their intention to take such actions (i) furnish information with respect to the Company to the third party proposing such Alternative Transaction; provided that the Company, concurrently with its delivery to such third party, advises the Sponsors of all non-public information delivered to such third party and delivers to the Sponsors all such information not previously provided to the Sponsors, and (ii) consider and participate in discussions and negotiations with such third party or its representatives regarding such Alternative Transaction. During such 72-hour period, if the Sponsors match any such Alternative Transaction negotiated pursuant to this provision, then the Company shall pursue such Alternative Transaction with the Sponsors. As set forth in the Term Sheet, if the Company, after satisfying the terms hereof and not in breach of its obligations hereunder, the Company accepts or enters into an offer with respect to an Alternative Transaction with a third party, the Company shall pay a break-up fee to the Sponsors of \$1.5 million and the Expense Reimbursement.

Section 3. Transfer of Interests or Claims.

Sponsors hereby agree not to sell, assign, transfer, hypothecate or otherwise dispose of, directly or indirectly (each, a “**Transfer**”), all or any of their shares (or any option thereon or any right or interest related thereto, including any voting rights associated with such shares) or claims, unless the transferee thereof (the “**Transferee**”) agrees in writing, by executing a joinder in a reasonable form requested by the Company and the other Sponsors to (a) assume this Agreement and (b) assume the obligations of the Sponsors under this Agreement, in their capacity as Sponsors, and deliver such joinder to the Company and remaining Sponsors at least one (1) Business Day prior to the relevant Transfer (each such Transferee becoming, upon such Transfer, a Party and, for the purposes of this Agreement, a Sponsor). Any Transfer by a Sponsor that does not comply with the requirements set forth in this Section 3 shall be null and void and shall be treated as if it never occurred.

Section 4. Representations and Warranties.

(a) Each of the Sponsors, severally, but not jointly represents and warrants to the Company that the following statements are true, correct and complete as of the date hereof:

(i) (x) It is the beneficial owner of the common stock of the Company and claims against the Company, as more fully set forth on Schedule I and (y) except as set forth on Schedule I, it has no agreements, arrangements or understanding with any other person (except among themselves) with respect to the Company or with respect to any other equity securities or indebtedness of the Company except for the transactions contemplated by this Agreement.

(ii) The Commitment Letter is in full force and effect and is valid and enforceable against the parties thereto in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or limiting creditors’ rights generally, or by equitable principles relating to enforceability; and

(iii) The Sponsors are acquiring the Sponsor Common Stock for their own account, for investment purposes only and not with a view to the distribution (as such term is used in Section 2(a)(11) of the Securities Act of 1933, as amended and the rules and regulations thereunder (the “**Securities Act**”). The Sponsors understand that the Sponsor Common Stock will not have been registered under the Securities Act and may not be sold unless subsequently registered under the Securities Act, or an exemption from such registration is available. Each of the Sponsors is an “accredited investor” as defined under Regulation D of the Securities Act.

(b) Each Party, severally, but not jointly, represents and warrants to the other Parties that the following statements are true, correct and complete as of the date hereof:

(i) It has all requisite corporate, partnership, limited liability company or similar authority to enter into this Agreement and carry out the transactions contemplated hereby and perform its obligations contemplated hereunder, and the execution and

delivery of this Agreement and the performance of such Party's obligations hereunder have been duly authorized by all necessary corporate, limited liability, partnership or other similar action on its part;

(ii) The execution, delivery, and performance by such Party of this Agreement does not and shall not (i) violate any provision of law, rule or regulation applicable to it or any of its subsidiaries or its charter or bylaws (or other similar governing documents) or those of any of its subsidiaries, or (ii) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any material contractual obligation to which it or any of its subsidiaries is a party;

(iii) The execution, delivery, and performance by such Party of this Agreement, subject in the case of the Company to the approval of the Bankruptcy Court to the extent required, does not and shall not require any registration or filing with, consent or approval of, or notice to, or other action to, with or by, any federal, state or governmental authority or regulatory body of which any Party is presently aware; and

(iv) This Agreement, subject in the case of the Company to the approval of the Bankruptcy Court to the extent required, is the legally valid and binding obligation of it, enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or limiting creditors' rights generally, or by equitable principles relating to enforceability.

Section 5. Third-Party Beneficiaries. Nothing in this Agreement, express or implied, shall give to any person, other than the Parties and their respective successors, assigns, heirs, executors, administrators and representatives, any benefit or any legal or equitable right, remedy or claim under this Agreement.

Section 6. Settlement Discussions. This Agreement and the Term Sheet are part of a proposed settlement of matters that could otherwise be the subject of litigation among the parties hereto. Nothing herein shall be deemed an admission of any kind. Pursuant to Federal Rules of Evidence 408 and any applicable state rules of evidence, this Agreement and all negotiations relating thereto shall not be admissible into evidence in any proceeding other than a proceeding to enforce the terms of this Agreement.

Section 7. Effectiveness. This Agreement (including the Term Sheet) shall become effective and binding against the Sponsors upon execution of this Agreement.

Section 8. Termination. This Agreement may be terminated by the Sponsors or the Company, as the case may be, upon the occurrence of the events set forth in the Term Sheet (each a "**Termination Event**"). In addition, the following events shall be additional Termination Events:

(a) Denial of the Company's motion for approval of the Expense Reimbursement;

(b) Failure to obtain entry of an interim order approving JEC's proposed debtor-in-possession financing arrangement within five (5) business days after the commencement of Company's chapter 11 case;

(c) Failure to obtain entry of a final order approving JEC's proposed debtor-in-possession financing arrangement within twenty-one (21) calendar days after the commencement of Company's chapter 11 case;

(d) An event of default occurs under the Company's debtor-in-possession financing arrangement that is not cured within the relevant cure period, if any, and the DIP Loan has been accelerated, unless such default is waived by the DIP Lender;

(e) Entry of an order by the Bankruptcy Court, or any other court of competent jurisdiction, declaring this Agreement to be unenforceable;

(f) Consummation of the Plan; and

(g) Filing with the Bankruptcy Court by the Company of (i) plan of reorganization other than the Plan; (ii) a motion to approve an Alternative Transaction; or (iii) a withdrawal of the Plan or motion to withdraw the Plan.

Section 9. Effect of Termination.

(a) Upon the occurrence of the Termination Events set forth in Section 8(a), (b) or (c), this Agreement shall terminate with respect to the obligations of all Parties hereto upon delivery of written notice thereof from the Sponsors to the Company;

(b) Upon the occurrence of the Termination Event set forth in Section 8(d) or (e), this Agreement shall terminate automatically with respect to the obligations of all Parties hereto and without further notice to or further act or failure to act by any Party; and

(c) Upon the occurrence of the Termination Event set forth in Section 8(f) or any of the Termination Events specified in the Term Sheet, this Agreement shall terminate with respect to the obligations of all Parties hereto upon written notice thereof from the Party exercising such termination right:

provided, however, that any claim for breach of this Agreement shall survive termination and all rights and remedies with respect to such claims shall not be prejudiced in any way whatsoever; provided further however, that any breach of this Agreement by one or more Sponsors shall not create any rights or remedies against any other non-breaching Sponsors.

Section 10. Governing Law; Jurisdiction. This Agreement and the transactions contemplated hereby shall be construed in accordance with, and governed by, the laws of the State of New York. Each of the parties hereto agrees that any proceeding brought to enforce the rights or obligations of any party hereto under this Agreement (including the Exhibits attached hereto) shall be commenced and maintained in the Bankruptcy Court,

and the Bankruptcy Court shall have exclusive jurisdiction over any such proceeding. By its execution and delivery of this Agreement, each Party (i) submits to the exclusive jurisdiction of the Bankruptcy Court and (ii) hereby waives and agrees not to assert in any such dispute, to the fullest extent permitted by applicable law, any claim that (A) such Party is not personally subject to the jurisdiction of such court, (B) such Party and such Party's property is immune from any legal process issued by such court or (C) any litigation or other proceeding commenced in such court is brought in an inconvenient forum. The Parties agree that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 17, or in such other manner as may be permitted by applicable law, shall be valid and sufficient service thereof and hereby waive any objections to service accomplished in the manner herein provided.

Section 11. Waiver of Jury Trial. EACH PARTY HEREBY WAIVES ALL RIGHTS TO TRIAL BY JURY IN ANY JURISDICTION IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE AMONG THE PARTIES UNDER THIS AGREEMENT, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE.

Section 12. Complete Agreement, Interpretation and Modification.

(a) This Agreement, the Commitment Letter, and the Term Sheet attached hereto, constitute the complete agreement among the Parties with respect to the subject matter hereof and supersede all prior agreements, oral or written, between or among the Parties with respect thereto.

(b) This Agreement is the product of negotiation by and among the Parties. There shall be no presumption concerning whether to interpret this Agreement for or against any Party by reason of that Party having drafted this Agreement, or any portion thereof, or caused it or any portion thereof to be drafted.

(c) This Agreement may only be modified, altered, amended or supplemented by an agreement in writing signed by the Sponsors and the Company. No waiver of any provision of this Agreement or any default, misrepresentation, or breach of any representation, warranty or covenant hereunder, whether intentional or unintentional, shall be valid unless the same is made in a writing signed by the Party making such waiver, nor will such waiver be deemed to extend to any prior or subsequent default, misrepresentation, or breach of any representation, warranty or covenant hereunder, or affect in any manner any rights arising by virtue of any prior or subsequent default, misrepresentation, or breach of any representation, warranty or covenant. The Parties expressly agree that this Agreement may not be modified, revised, or amended by the exchange of electronic messages, including, but not limited to, e-mail and text messaging.

Section 13. Specific Performance. The Parties understand and agree that money damages would not be a sufficient remedy for any breach of this Agreement (including the Term Sheet or the Commitment Letter) by any Party, and further understand and agree that each non-breaching Party shall be entitled to the remedy of specific performance and injunctive or other equitable relief as a non-exclusive remedy of any such breach without the need to post a bond or other surety.

Section 14. Execution of Agreement. This Agreement may be executed and delivered (by facsimile, pdf or otherwise) in any number of counterparts, each of which, when executed and delivered, shall be deemed an original, and all of which together shall constitute the same Agreement. Each individual executing this Agreement on behalf of a Party has been duly authorized and empowered to execute and deliver this Agreement on behalf of such Party.

Section 15. No Solicitation. While the Parties agree herein to vote in favor of the Plan, this Agreement is not and shall not be deemed to be a solicitation for votes in favor of any chapter 11 plan or consent to the Plan in contravention of applicable non-bankruptcy law or section 1125(b) of the Bankruptcy Code. Notwithstanding anything to the contrary contained herein, the acceptance of any Sponsor shall not be solicited until, and any obligation to support confirmation of the Plan is expressly conditioned on the receipt by such Sponsor of the Plan and a copy of the disclosure statement that shall have previously been approved by the Bankruptcy Court, after notice and a hearing, as containing adequate information as required by section 1125 of the Bankruptcy Code. Notwithstanding the foregoing provisions, nothing in this Agreement shall require any Party to take any action prohibited by the Bankruptcy Code, the Securities Act of 1933 (as amended), the Securities Exchange Act of 1934 (as amended), any rule or regulations promulgated thereunder, or by any other applicable law or regulation or by an order or direction of any court or any state or federal governmental authority.

Section 16. Automatic Stay. The Parties acknowledge that the giving of notice or termination by any Party pursuant to this Agreement shall not be violation of the automatic stay of section 362 of the Bankruptcy Code.

Section 17. Notices. All notices hereunder (including, without limitation, any notice of termination in accordance with Section 9) shall be deemed given if in writing and delivered, if sent by telecopy, courier or by registered or certified mail (return receipt requested) to the following addresses and telecopier numbers (or at such other addresses or telecopier numbers as shall be specified by like notice):

(a) If to the Company:

KIT digital, Inc.
26 West 17th Street, 2nd Floor
New York, New York 10011
Attn: Fabrice Hamaide
Facsimile: (212) 206-7059

with copies to:

Bracewell & Giuliani LLP
1251 Avenue of the Americas
New York, New York 10020
Attn: Robb Tretter and Jennifer Feldsher
Facsimile: (212) 508-6101

(b) If to the Sponsors:

JEC Capital LLC
68 Mazzeo Drive
Randolph, Massachusetts 02368
Attn: Michael Torok
Facsimile: (480) 772-4733

with copies to:

Kasowitz, Benson, Torres & Friedman LLP
1633 Broadway
New York, New York 10019
Attention: Andrew K. Glenn, Esq.
Telecopy: (212) 506-1800
Telephone: (212) 506-1747

and

Prescott Group Capital Management
1924 South Utica, Suite 1120
Tulsa, OK 74104
Attn: Duminda Desilva
Facsimile: (918) 742-7303

with copies to:

Frederic Dorwart, Lawyers
124 East Fourth Street
Tulsa, Oklahoma 74103-5010
Attn: Samuel S. Ory
Facsimile: (918) 583-8251

and

Stichting Bewaarder Ratio Capital Partners
Utrechtseweg 31 d
3811NA Amersfoort
The Netherlands

Any notice given by delivery, mail or courier shall be effective when received. Any notice given by telecopier shall be effective upon oral or machine confirmation of transmission.

Section 18. Severability. If any term, provision, covenant or restriction contained in this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions contained in this Agreement shall remain in full force and effect and shall in no way be affected, impaired or

invalidated, and this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable term, provision, covenant or restriction or any portion thereof had never been contained herein.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Parties have executed this Agreement on the day and year first written above.

KIT DIGITAL, INC.

By: 
Name: Fabrice Hamaide
Title: CFO

JEC CAPITAL PARTNERS, LLC

By: _____
Name:
Title:

STICHTING BEWAARDER RATIO
CAPITAL PARTNERS

By: _____
Name:
Title:

By: _____
Name:
Title:

PRESCOTT GROUP CAPITAL
MANAGEMENT, L.L.C.

By: _____
Name:
Title:

IN WITNESS WHEREOF, the Parties have executed this Agreement on the day and year first written above.

KIT DIGITAL, INC.

By: _____
Name:
Title:

JEC CAPITAL PARTNERS, LLC

By:  _____
Name: Michael Torok
Title: Managing Director

STICHTING BEWAARDER RATIO
CAPITAL PARTNERS

By: _____
Name:
Title:

By: _____
Name:
Title:

PRESCOTT GROUP CAPITAL
MANAGEMENT, L.L.C.

By: _____
Name:
Title:

IN WITNESS WHEREOF, the Parties have executed this Agreement on the day and year first written above.

KIT DIGITAL, INC.

By: _____
Name:
Title:

JEC CAPITAL PARTNERS, LLC

By: _____
Name:
Title:

STICHTING BEWAARDER RATIO
CAPITAL PARTNERS

By: _____
Name: E. A. Kant
Title: Director

By: _____
Name: G. B. Oldenkamp
Title: Authorized Signatory A

PRESCOTT GROUP CAPITAL
MANAGEMENT, L.L.C.

By: _____
Name:
Title:

IN WITNESS WHEREOF, the Parties have executed this Agreement on the day and year first written above.

KIT DIGITAL, INC.

By: _____
Name:
Title:

JEC CAPITAL PARTNERS, LLC

By: _____
Name:
Title:

STICHTING BEWAARDER RATIO
CAPITAL PARTNERS

By: _____
Name:
Title:

By: _____
Name:
Title:

PRESCOTT GROUP CAPITAL
MANAGEMENT, L.L.C.

By: Phil Frohlich
Name: Phil Frohlich
Title: Manager

SCHEDULE 1 TO PSA¹

JEC CAPITAL PARTNERS, LLC

Common Stock: 4,397,000 shares

Claims:

JEC is the holder of a promissory note, dated as of October 15, 2012, in the initial principal amount of \$2,500,000 issued by the Company and holds an unsecured claim in the approximate amount of at least \$500,000 owing under that certain Consulting Agreement, dated December 27, 2012, between the Company and JEC.

STICHTING BEWAARDER RATIO CAPITAL PARTNERS

Common Stock: 2,014,865 shares

Claims: \$0

PRESCOTT GROUP CAPITAL MANAGEMENT, LLC

Common Stock:

This Schedule I is made on behalf of Prescott Group Capital Management, L.L.C., an Oklahoma limited liability company ("Prescott Capital"), Prescott Group Aggressive Small Cap, L.P., an Oklahoma limited partnership ("Prescott Small Cap"), Prescott Group Aggressive Small Cap II, L.P., an Oklahoma limited partnership ("Prescott Small Cap II" and, together with Prescott Small Cap, the "Small Cap Funds"), and Mr. Phil Frohlich, the principal of Prescott Capital, relating to shares of common stock, of KIT digital, Inc., a Delaware corporation (the "Issuer").

This Schedule I relates to shares of Common Stock of the Issuer purchased by the Small Cap Funds through the account of Prescott Group Aggressive Small Cap Master Fund, G.P., an Oklahoma general partnership ("Prescott Master Fund"), of which the Small Cap Funds are general partners. Prescott Capital serves as the general partner of the Small Cap Funds and may direct the Small Cap Funds, the general partners of Prescott Master Fund, to direct the vote and disposition of the 5,580,127 shares of Common Stock held by the Master Fund. As the principal of Prescott Capital, Mr. Frohlich may direct the vote and disposition of the 5,580,127 shares of Common Stock held by Prescott Master Fund.

(a) Prescott Capital and Mr. Phil Frohlich are the beneficial owners of 5,580,127 shares of Common Stock; and

¹ The failure of a Sponsor to list a claim on this Schedule I shall not constitute a waiver of such claim. Each Sponsor reserves any and all rights it may have in connection with any claim not listed herein.

KBTF DRAFT
APRIL 16, 2013

(b) Prescott Capital, as the general partner of the Small Cap Funds, the general partners of Prescott Master Fund, may direct the Small Cap Funds to direct the vote and disposition of the 5,580,127 shares of Common Stock held by Prescott Master Fund. As the principal of Prescott Capital, Mr. Phil Frohlich may direct the vote and disposition of the 5,580,127 shares of Common Stock held by Prescott Master Fund.

Claims: \$0

EXHIBIT A

[See Attached Plan Term Sheet]

KIT DIGITAL, INC. (and its Subsidiaries)
PLAN TERM SHEET

April 16, 2013

THIS SUMMARY IS NOT AN OFFER WITH RESPECT TO ANY SECURITIES OR SOLICITATION OF ACCEPTANCES OF A CHAPTER 11 PLAN PURSUANT TO SECTION 1125 OF THE BANKRUPTCY CODE. ANY SUCH OFFER OR SOLICITATION WILL BE MADE ONLY IN COMPLIANCE WITH ALL APPLICABLE SECURITIES LAWS AND PROVISIONS OF THE BANKRUPTCY CODE. THIS OUTLINE IS BEING PROVIDED IN FURTHERANCE OF SETTLEMENT DISCUSSIONS AND IS ENTITLED TO PROTECTION PURSUANT TO FED. R. EVID. 408 AND ANY SIMILAR RULE OF EVIDENCE. THE TRANSACTIONS DESCRIBED IN THIS OUTLINE ARE SUBJECT IN ALL RESPECTS TO, AMONG OTHER THINGS, COMPLETION OF DEFINITIVE DOCUMENTATION, INCLUDING THE PLAN OF REORGANIZATION, DISCLOSURE STATEMENT, PLAN SUPPORT AGREEMENT AND RELATED DOCUMENTS. NO PARTY TO THIS TERM SHEET SHALL HAVE ANY OBLIGATIONS UNLESS AND UNTIL THE EXECUTION OF ALL DEFINITIVE DOCUMENTATION CONTEMPLATED BY THIS TERM SHEET. ALL TERMS OF THIS TERM SHEET, INCLUDING THE PROPOSAL TO MAKE DIRECT EQUITY INVESTMENTS AND TO UNDERWRITE A RIGHTS OFFERING, ARE SUBJECT TO SATISFACTION OF ALL CLOSING CONDITIONS, THE NON-OCCURRENCE OF ALL TERMINATION EVENTS, AND THE EXECUTION AND DELIVERY OF DEFINITIVE DOCUMENTATION.

Plan Sponsor Group	<p>JEC Capital Partners, LLC (“<u>JEC</u>”), Prescott Group Capital Management, L.L.C. (“<u>Prescott</u>”) and Stichting Bewaarder Ratio Capital Partners (“<u>Ratio</u>”) (collectively, the “<u>Plan Sponsor Group</u>”) shall collectively act as the sponsor of a Plan (as defined below). Contemporaneously with execution of this Term Sheet, the Plan Sponsor Group will execute and deliver a binding commitment to purchase (the “<u>Commitment Letter</u>”), pro rata based on their respective commitments, for the aggregate sum of \$25 million (the “<u>Purchase Price</u>”), shares of Class B Common Stock to be issued pursuant to the Plan, which upon issuance will represent 89.29% of the total number of shares of Class A Common Stock (as defined below) and Class B Common Stock outstanding (together, the “<u>Common Stock</u>”), subject to the terms and conditions of the Commitment Letter, the Plan Support Agreement (as defined below) and the Plan. On or before April 16, 2013 the Plan Sponsor Group and KIT digital, Inc. (“<u>KIT</u>”) shall enter into a Plan Support Agreement (the “<u>Plan Support Agreement</u>”), in form and substance reasonably acceptable to the Plan Sponsor Group and KIT, to effectuate the terms hereof. Simultaneous with the execution and delivery of the Plan Support Agreement, the Plan Sponsor Group shall deposit or cause to be deposited \$1.5 million in cash with an escrow agent reasonably acceptable to the Plan Sponsor Group and KIT, in accordance with the terms and conditions of an escrow agreement consistent with this Term Sheet and reasonably acceptable to the Plan Sponsor Group and KIT, with such sum (i) to be credited to the Purchase Price, if the Plan is consummated or (ii) upon the occurrence of a termination of this Term Sheet</p>
---------------------------	--

	<p>or the Plan Support Agreement other than due to a Plan Sponsor Breach (as defined below), or in the event that any of the terms and conditions in this Term Sheet or the Plan Support Agreement are not satisfied timely (unless waived or extended in accordance with the terms hereof or thereof) or the break-up fee becomes payable to the Plan Sponsor Group, the full amount of the deposit, plus accrued interest, shall be paid or returned to the Plan Sponsor Group. The deposit shall not be considered or become property of KIT's estate unless and until there is a Plan Sponsor Breach or, such amounts are credited to the Purchase Price. In the event that the Plan Support Group breaches the Plan Support Agreement as determined by a final ruling of the Bankruptcy Court (a "<u>Plan Sponsor Breach</u>"), KIT shall be entitled to receive and retain the Deposit, it being understood that the deposit shall remain in escrow pending such final determination. Upon execution of the Plan Support Agreement, the Plan Sponsor Group shall have earned a Commitment Fee (the "<u>Commitment Fee</u>") equal to two percent (2%) of the Purchase Price payable, if the Plan is consummated, on the Effective Date of the Plan, in either cash or in Class A Common Stock or a combination thereof, as determined in the sole discretion of the Plan Sponsor Group. KIT agrees that it will file and seek approval as part of its first day motions a motion seeking approval of the Plan Support Agreement and the Plan Sponsor Group's reasonable-out of pocket expenses incurred and to be incurred in connection with the approval and consummation of the Plan or the transactions contemplated thereby, up to a maximum aggregate amount of \$500,000 (the "<u>Expense Reimbursement</u>").</p>
Plan of Reorganization:	<p>The recapitalization and debt restructuring of KIT and certain of its wholly owned direct and indirect subsidiaries (collectively, the "<u>Company</u>") is to be effectuated through a pre-negotiated plan of reorganization (the "<u>Plan</u>") to be filed by the Company with the support of the Plan Sponsor Group in the United States Bankruptcy Court for the Southern District of New York (the "<u>Bankruptcy Court</u>"). The Plan shall be (i) acceptable in all respects to the Company in its reasonable discretion and (ii) acceptable in all respects to the Plan Sponsor Group, in its reasonable discretion. The Company shall not amend, withdraw or revoke the Plan or waive or amend any provision thereof without the consent of the Plan Sponsor Group, which consent shall not be unreasonably withheld, conditioned, or delayed. The Plan Sponsor Group shall have the right, at any time, in its reasonable discretion, to implement a sale pursuant to section 363 of the Bankruptcy Code of certain assets of KIT to the Plan Sponsor Group in a form acceptable to Plan Sponsor Group, in its sole discretion, in lieu of the transactions contemplated by the Plan; provided, that such change to a 363 sale shall require the consent of the Company, which consent shall not be unreasonably withheld or delayed.</p>
Issuance of Common Stock	<p>Shares of Class B Common Stock representing 89.29% of the Common Stock (the "<u>Sponsor Group Common Stock</u>") of reorganized KIT ("<u>Reorganized KIT</u>") shall be distributed to the members of the Plan Sponsor Group, on a pro rata basis, on the effective date of the Plan (the "<u>Effective Date</u>") in exchange for payment of the Purchase Price, all pursuant to the terms of the Plan Support Agreement and the Plan, such stock having the rights and terms provided below.</p>
Terms of Sponsor Group Class B Common Stock	<p>The Plan shall provide that the Common Stock shall be subject to dilution only by the Management Equity Plan and the Commitment Fee.</p>

	<p>The Class B Common Stock shall be identical in right to the Class A Common Stock, except that: Class B Common Stock shall be subject to (i) redemption upon exercise of the Warrants and (ii) automatic conversion to Class A Common upon the expiration of the exercise period of the Warrants.</p> <p>There shall be no preemptive rights, The Common Stock shall have such other rights, if any, as are reasonable and customary for a company of the same type as Reorganized KIT emerging from bankruptcy, and which may include, without limitation, any one or more of the following: rights of first refusal, rights of first offer, tag-along or co-sale rights, drag-along rights, and similar rights.</p> <p>The Warrants shall not be transferrable. There shall be no issuances or transfers of fractional shares.</p> <p>The Plan Sponsor Group must be reasonably satisfied that the issuance of the Reorganized Common Stock, including the Sponsor Group Common Stock is exempt from registration with the Securities and Exchange Commission.</p>
Use of Proceeds of Sponsor Group Stock Purchase	<p>The proceeds of the Purchase Price, together with Company resources, will be used to satisfy Plan Distributions as set forth below, it being understood that the Plan Sponsor Group is only committed to fund the Purchase Price pursuant to the Commitment Letter.</p>
Warrants	<p>Pursuant to Section 1145 of the Bankruptcy Code, on the Effective Date, Reorganized KIT will distribute warrants (the “Warrants”) to purchase the Class A Common Stock to the current equity holders of the Company. The Warrants shall be on the following terms: (i) one Warrant for each outstanding share of existing common stock of KIT, (ii) a warrant exercise price equal to the per share price paid by the Plan Sponsor Group for the Sponsor Group Common Stock, (iii) the Warrant to be exercisable for 30 days following the distribution of such warrants pursuant to the Plan; (iv) each Warrant will be exercisable in full only, and not in part; and (v) exercise price proceeds will be used to redeem, at the same price per share paid for such redeemed shares, up to fifty percent (50%) of the shares of Sponsor Group Common Stock with the balance, if any, being used for working capital purposes.</p>
DIP Loan	<p>JEC Capital Partners, LLC or its designee (the “DIP Lender”) will provide the Company with a \$3,000,000 debtor-in possession loan (the “DIP Loan”), secured by a junior lien (junior only to (i) that certain Loan and Security Agreement, dated as of April 15, 2010, between KIT and Venture Lending & Leasing V, Inc. and that certain Loan and Security Agreement, dated as of May 16, 2011, between KIT and Venture Lending & Leasing VI, Inc. (as the same have been and may be amended, restated, supplemented or modified from time to time, collectively, the “WTI Loan”) on the Company’s assets with priority no less than that provided by Sections 364 (1), (2) and (3) of the Bankruptcy Code. The DIP Loan shall include payment of a \$125,000 agent fee and shall bear interest at 13% per annum, payable in cash and shall have such other terms and conditions as are reasonably satisfactory to the DIP Lender and KIT. Upon confirmation of the Plan, the DIP Loan shall be paid and satisfied in full by (i) the payment in cash of all accrued interest, and (ii) the payment of principal by the issuance to the DIP Lender of shares of Class A Common Stock (“Class A Common Stock”) representing 10.71% of the outstanding shares of the Common Stock.</p>

Board of Directors	The Plan will provide for a board consisting of five directors. Three directors shall be appointed by the Plan Sponsor Group with one independent director to be selected by the Plan Sponsor Group. The other director shall be the Chief Executive Officer of KIT.
Charter/By-Laws	Reorganized KIT shall adopt articles of incorporation, by-laws and other governing documents in accordance with the Plan, in form and substance acceptable to the Plan Sponsor Group in its sole discretion.
Releases	The Plan will contain releases customary for a transaction of this type, it being understood that such releases will include releases for any employees or directors who remain employees or directors as of the day prior to the Effective Date of the Plan.
<u>Plan Distributions:</u>	
Administrative Claims and Priority Claims	Paid in full in cash.
Secured Tax Claims, Other Secured Claims	Unimpaired.
Senior Secured Term Loan	The WTI Loan shall be impaired. The WTI Loan shall be paid on the Effective Date in cash at par, without any accrued post-petition interest, premium or penalty, including any pre-payment or change of control penalty.
General Unsecured Claims	Each holder of an allowed General Unsecured claim shall receive cash for the full amount of its allowed claim, without post-petition interest.
Securities Litigation Claims	Each holder of an allowed Securities Litigation Claim (i.e., the pending securities class action lawsuit and pending stockholder derivative suits) shall be paid pro rata from all rights of the Company in and to available insurance proceeds.
All Equity Interests and Subordinated Claims (other than Securities Litigation Claims).	In return for their equity interests in the Debtor the holders of equity interests shall receive the Warrants. Holders of allowed Subordinated Claims, to the extent not otherwise covered by insurance proceeds, shall be entitled to receive the Warrants on a pro rata basis along with equity interests as a single class.
<u>Closing Conditions:</u>	
	<p>(1) the filing of chapter 11 petitions for KIT by April 24, 2013 (the “Filing Date”) in the Bankruptcy Court together with first day orders satisfactory to the Plan Sponsor Group in its reasonable discretion;</p> <p>(2) the filing with the Bankruptcy Court by the Filing Date of the Plan satisfactory to the Plan Sponsor Group in its reasonable discretion;</p> <p>(3) the filing with the Bankruptcy Court by May 7, 2013 of the Disclosure Statement satisfactory to the Plan Sponsor Group in its reasonable discretion;</p> <p>(4) execution, delivery, and filing with the Bankruptcy Court of all related documentation embodying the remaining terms of the Term Sheet</p>


	<p>satisfactory to the Plan Sponsor Group in its reasonable discretion;</p> <p>(5) there shall not have occurred any Event (as defined below) which has had, or is reasonably likely to result in, a Material Adverse Effect (as defined below);</p> <p>(6) the entry of a final and non-appealable order confirming the Plan, the terms of such order being satisfactory to the Plan Sponsor Group in its reasonable discretion (the “Confirmation Order”), within ninety (90) days of the Filing Date;</p> <p>(7) the Plan Sponsor Group shall have approved the assumption or rejection of all executory contracts and unexpired leases in their sole discretion.</p> <p>“Material Adverse Effect” shall mean any event, change, effect, development, state of facts, condition, circumstance or occurrence (each, an “Event”) that individually or taken together with other Events, has or would reasonably be expected to have, a material adverse effect on the business, assets, liabilities, results of operation or financial condition of KIT and its subsidiaries, taken as a whole, except to the extent that such material adverse effect results from or is attributable to any of the following: (i) any Events in general United States or global economic conditions; (ii) any regulatory, legislative or political or geopolitical Events or securities, credit, currency, financial or other capital markets Events, in each case in the United States, or any other jurisdiction or geographical area where KIT does business; (iii) the execution and delivery of this Term Sheet or the Plan Support Agreement, or the public announcement or pendency of the Term Sheet or the Plan Support Agreement, any bankruptcy filing or any of the other transactions contemplated hereby; (iv) any adoption, implementation, enforcement, promulgation, repeal, amendment, interpretation, reinterpretation or other change, or proposed adoption, implementation, enforcement, promulgation, repeal, amendment, interpretation, reinterpretation or change, in generally accepted accounting principles (or other accounting standards applicable to KIT or its subsidiaries) or in any law applicable to KIT or its subsidiaries; (v) any man-made or natural disasters or other force majeure Events or the outbreak or escalation of hostilities, any acts of war, sabotage, terrorism or military actions, or any escalation or worsening of any such hostilities, acts of war, sabotage, terrorism or military actions threatened or underway as of the date of this Term Sheet (whether or not pursuant to the declaration of a national emergency or war); (vi) taking any action or refraining to take any action in accordance with the terms of this Term Sheet or the Plan Support Agreement or otherwise taken or refrained from being taken in accordance with the written instructions of the Plan Support Group; or (vii) the financial irregularities and related financial restatement required by KIT in connection with the events previously publicly disclosed by the KIT in its public filings made since January 1, 2012; provided, however, that any Event referred to in clauses (i), (ii) or (v) shall not be excluded pursuant to such clauses to the extent (and only to the extent) it disproportionately affects KIT and its Subsidiaries, taken as a whole, relative to other similarly situated companies in the industries and countries and regions in which KIT and its subsidiaries</p>
--	--

	operate.
Management Equity Plan:	An appropriate management equity incentive plan, as determined by the Plan Sponsor Group in its sole discretion, will be established pursuant to the Plan (the “ Management Equity Plan ”).
Fiduciary Out:	<p>From the date of execution by KIT of this Term Sheet through the earlier of (a) the Effective Date of the Plan and (b) the date that is 120 days from the date of execution by of this Term Sheet, KIT shall not solicit or negotiate with respect to other offers to purchase the equity of KIT, all or substantially all of its assets or propose any plan of reorganization or plan of liquidation to retain or dispose of all or any material portion of the equity of KIT or its assets (an “Alternative Transaction”); <u>provided, however</u>, that if after the date hereof the Board of Directors of KIT receives a written offer to enter into an Alternative Transaction made after the date hereof in circumstances not involving a breach of this section and the Board of Directors of KIT (a) believes in good faith that such Alternative Transaction is bona fide, (b) determines in good faith that such Alternative Transaction constitutes or would reasonably be expected to lead to a superior proposal, it being understood and agreed that to the extent the existing common stock of KIT receives consideration from the bankruptcy estate, KIT will, within the bounds of its fiduciary duties, give greater consideration to transactions structured to allow the existing shareholders to retain an equity interest in the Reorganized KIT, and (c) determines in good faith, after consulting with and receiving advice of its outside counsel, that the failure to take such action would reasonably be expected to result in a breach of its fiduciary duties to the KIT’s stockholders under Delaware law, then the KIT may, after providing the Plan Sponsor Group not less than seventy-two (72) hours written notice of their intention to take such actions (i) furnish information with respect to KIT to the third party proposing such Alternative Transaction; provided that KIT, concurrently with its delivery to such third party, advises the Plan Support Group of all non-public information delivered to such third party and delivers to the Plan Support Group all such information not previously provided to the Plan Support Group, and (ii) consider and participate in discussions and negotiations with such third party or its representatives regarding such Alternative Transaction. During such 72-hour period, if the Plan Support Group matches any such Alternative Transaction negotiated pursuant to this provision, then KIT shall pursue such Alternative Transaction with the Plan Support Group. If KIT, after satisfying the terms hereof and not in breach of its obligations hereunder, KIT accepts or enters into an offer with respect to an Alternative Transaction with a third party, KIT shall pay a break-up fee to the Plan Sponsor Group of \$1.5 million and the Expense Reimbursement.</p>
Termination Events:	<p>Any of the following events entitle the Plan Sponsor Group to terminate all of the agreements contemplated by this Term Sheet, including without limitation the Commitment Agreement:</p> <ol style="list-style-type: none"> (1) The failure to file Chapter 11 cases and the Plan on or before April 24, 2013; (2) The failure to file with the Bankruptcy Court a disclosure statement for the Plan containing all necessary information for approval on or before May 7, 2013 and to obtain approval within forty-seven (47) days of the Filing

	<p>Date;</p> <p>(3) An order confirming the Plan shall not have been entered and does not become final and non-appealable on or before within ninety (90) days of the Filing Date;</p> <p>(4) The Effective Date has not occurred on or before ninety five (95) days of the Filing Date;</p> <p>(5) The Company shall have entered into an Alternative Transaction;</p> <p>(6) KIT shall have materially breached the Plan Support Agreement</p> <p>(7) There shall have occurred any event or circumstance which has had, or is reasonably likely to result in, a Material Adverse Effect, as determined by the Plan Sponsor Group in its reasonable discretion; and</p> <p>(8) The appointment of a Chapter 11 trustee, the dismissal or conversion of the cases to Chapter 7 of the Bankruptcy Code, the appointment of an examiner with expanded powers including, without limitation, any involvement in KIT's operations, any change in management, or any change in KIT's board of directors.</p> <p>KIT shall be entitled to terminate all of the agreements contemplated by this Term Sheet if:</p> <p>(1) The Plan Sponsor Group shall have materially breached the Plan Support Agreement;</p> <p>(2) The Company shall have entered into an Alternative Transaction; and</p> <p>(3) The Effective Date has not occurred on or before one hundred fifty (150) days of the Filing Date.</p>
Publicity:	<p>The Plan Sponsor Group and the Company will agree on a time to issue a press release or other public statement and the content of such release. Prior to the issuance of such press release or other public statement, neither shall make any announcement regarding such transaction, except to the extent (based on the advice of counsel) required by law.</p>
Governing Law:	<p>This Plan Term Sheet shall be governed by the laws of the State of New York.</p>

The parties hereto agree to the terms set forth in this Plan Term Sheet, subject to the opening paragraph hereof.

JEC Capital Partners, LLC

By: _____

Name: Michael Torok
Its: Managing Director

Prescott Group Capital Management, L.L.C.

By: _____

Name:

Its:

Stichting Bewaarder Ratio Capital Partners

By: _____

Name:

Its:

By: _____

Name:

Its:

KIT digital, Inc., on behalf of itself and
its subsidiaries

By: _____

Name:

Its:

[Signature Page to Plan Term Sheet]

The parties hereto agree to the terms set forth in this Plan Term Sheet, subject to the opening paragraph hereof.

JEC Capital Partners, LLC

By: _____

Name:

Its:

Prescott Group Capital Management, L.L.C.

By: 

Name:

Its:

Phil Frohlich
Manager

Stichting Bewaarder Ratio Capital Partners

By: _____

Name:

Its:

By: _____

Name:

Its:

KIT digital, Inc., on behalf of itself and
its subsidiaries

By: _____

Name:

Its:

[Signature Page to Plan Term Sheet]

The parties hereto agree to the terms set forth in this Plan Term Sheet, subject to the opening paragraph hereof.

JEC Capital Partners, LLC

By: _____
Name:
Its:

Prescott Group Capital Management, L.L.C.

By: _____
Name:
Its:

Stichting Bewaarder Ratio Capital Partners

By: _____
Name: E. A. Kuij
Its: Director

By: _____
Name: G. B. Oldenkamp
Its: Authorized Signatory A

KIT digital, Inc., on behalf of itself and
its subsidiaries

By: _____
Name:
Its:

[Signature Page to Plan Term Sheet]

The parties hereto agree to the terms set forth in this Plan Term Sheet, subject to the opening paragraph hereof.

JEC Capital Partners, LLC

By: _____
Name:
Its:

Prescott Group Capital Management, L.L.C.

By: _____
Name:
Its:

Stichting Bewaarder Ratio Capital Partners

By: _____
Name:
Its:

By: _____
Name:
Its:

KIT digital, Inc., on behalf of itself and
its subsidiaries


By:  _____
Name: Fabrice Hamaide
Its: CFO

EXHIBIT B

Organizational Chart

