

International Fight League, Inc.  
Form 8-K  
December 05, 2006

**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 8-K**

**CURRENT REPORT**

**PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): **November 29, 2006**

**INTERNATIONAL FIGHT LEAGUE, INC.**

(Exact Name of Registrant as Specified in Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation)

**000-21134**  
(Commission  
File Number)

**04-2893483**  
(IRS Employer  
Identification No.)

**424 West 33rd Street, Suite 650, New York, NY 10001**  
(Address of Principal Executive Offices)(Zip Code)

**(212) 356-4000**  
Registrant's Telephone Number

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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This current report on Form 8-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). This current report includes statements regarding our plans, goals, strategies, intent, beliefs or current expectations. These statements are expressed in good faith and based upon a reasonable basis when made, but there can be no assurance that these expectations will be achieved or accomplished. These forward looking statements can be identified by the use of terms and phrases such as believe, plan, intend, anticipate, target, estimate, expect, and the like, and future-tense or conditional constructions ( will, may, could, should, etc.). Items contemplating or making assumptions about, actual or potential future sales, market size, collaborations, and trends or operating results also constitute such forward-looking statements.

Although forward-looking statements in this report reflect the good faith judgment of management, forward-looking statements are inherently subject to known and unknown risks, business, economic and other risks and uncertainties that may cause actual results to be materially different from those discussed in these forward-looking statements. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this current report. We assume no obligation to update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report, other than as may be required by applicable law or regulation. Readers are urged to carefully review and consider the various disclosures made by us in our reports filed with the Securities and Exchange Commission which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operation and cash flows. If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those expected or projected.

### **Item 2.01. Completion of Acquisition or Disposition of Assets.**

**THE MERGER AND RELATED TRANSACTIONS**

**The Merger**

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Prior to November 29, 2006, we were known as Paligent Inc., a Delaware corporation ( Paligent ). On November 29, 2006, we acquired International Fight League, Inc., a privately held Delaware corporation ( Old IFL ), pursuant to an agreement and plan of merger, dated as of August 25, 2006, as amended (the Merger Agreement ), by and among us, IFL Corp., a Delaware corporation and our wholly-owned subsidiary ( Merger Sub ), and Old IFL, providing for the merger of Merger Sub and Old IFL, with Old IFL being the surviving corporation and becoming our wholly-owned subsidiary (the Merger ). Immediately following the Merger, we changed our name to International Fight League, Inc. ( IFL or the Company ), Old IFL changed its name to IFL Corp., and we began operating Old IFL 's business of organizing and promoting a mixed martial arts sports league.

The Merger Agreement contained customary representations, warranties and covenants of Old IFL, Paligent and, as applicable, Merger Sub, for like transactions. None of these representations and warranties survived the closing of the Merger.

Immediately prior to the Merger, we completed a 1-for-20 reverse stock split of our common stock. Except as otherwise specified herein, all references herein to share amounts of our common stock reflect the reverse stock split. In addition, effective upon the closing of the Merger, the directors elected at the special meeting, who comprise all of the current Paligent and IFL directors, became the directors of the Company. As part of the Merger, Paligent also adopted the International Fight League, Inc. 2006 Equity Incentive Plan (the 2006 Equity Incentive Plan ) under which options to purchase shares of common stock of Old IFL outstanding prior to the Merger were converted into options to purchase shares of common stock of the IFL.

As part of the Merger, we issued 30,872,101 shares of our common stock to the former stockholders of Old IFL in exchange for all of the issued and outstanding shares of common stock of Old IFL (including shares of Old IFL preferred stock which were converted to Old IFL common stock immediately prior to the Merger). As part of the Merger, in exchange for options to purchase 1,865,000 shares of Old IFL common stock, we issued to the holders thereof options to purchase an aggregate of 1,925,376 shares of our common stock under our 2006 Equity Incentive Plan having substantially the same terms and conditions as the Old IFL options. As a result of the Merger,

the former stockholders of Old IFL became holders of IFL common stock, and holders of Old IFL options became holders of options to acquire shares of IFL common stock.

Following the reverse stock split and the Merger, there were 32,496,948 shares of IFL common stock outstanding, of which the pre-Merger stockholders of Paligent owned approximately 5% and the pre-Merger stockholders of Old IFL owned approximately 95%. As a result, Old IFL has been treated as the acquiring company for accounting purposes. The Merger has been accounted for as a reverse acquisition under the purchase method of accounting for business combinations in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP. Reported results of operations of the combined group issued after completion of the transaction will reflect Old IFL's operations.

Immediately after the Merger, we issued 1,627,500 shares of IFL common stock to Richard J. Kurtz, Paligent's principal stockholder before the Merger, in exchange for his contribution of \$651,000 of indebtedness owing to him under a promissory note issued to him by Paligent. Following the reverse stock split, the Merger and the issuance of common stock upon the debt conversion (collectively, the Transactions), there were 34,124,448 shares of IFL common stock outstanding.

Unless otherwise indicated or the context otherwise requires, the terms Company, IFL, we, us, and our refer to International Fight League, Inc. (formerly known as Paligent Inc.) and its affiliates, including IFL Corp., after giving effect to the Merger. Unless otherwise indicated or the context otherwise requires, the term our business refers to the mixed martial arts business of Old IFL as continued by IFL after the Merger. This current report contains summaries of the material terms of various agreements executed in connection with the transactions described herein. The summaries of these agreements are subject to, and qualified in their entirety by, reference to these agreements, all of which are incorporated herein by reference.

## **1. BUSINESS**

### **Overview**

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We are world's first professional mixed martial arts sports league. Our business was founded in 2005 to organize, host and promote live and televised mixed martial arts, or MMA, sporting events and to capitalize on the growing popularity of mixed martial arts in the United States and around the world. At the core of our business are our eight mixed martial arts teams (which we plan to expand to 12 teams for the 2007 season), which comprise some of the world's most highly regarded mixed martial arts athletes and coaches. Our mixed martial arts sporting events typically showcase four teams, in two-team match-ups, with athletes competing in one-on-one matches across five weight divisions. These events create a body of television programming content that we currently distribute in the United States through an arrangement with Fox Sports Net (FSN), a national sports cable network available to over 80 million households across the United States. We earn revenue from live event ticket sales, sponsorships and promotions and licensing of our intellectual property. We have held five live events, the first of which took place during the second quarter of 2006, the first period in which we recognized revenues. During the first nine months of 2006, we recognized a net loss of approximately \$5.5 million.

Mixed martial arts, commonly known as MMA, is a sport that is growing in popularity around the world. In MMA matches, athletes combine a variety of fighting styles, such as boxing, judo, jiu jitsu, karate, kickboxing, muay thai, tae kwon do and/or wrestling, in each fight. Typically, MMA sporting events are promoted either as championship matches or as vehicles for well-known individual athletes. Professional MMA competition conduct is regulated primarily by rules implemented by state athletic commissions and is currently permitted in 33 states.

Our mission is to establish the popularity of our league based on the success of our teams while developing household stars similar to other professional sports leagues. Our uniqueness is derived from our team-based league structure, where individual exclusive athletes are members of teams that are regionally situated throughout the world. The league format enables the announcement of a full calendar of events in advance of the season, enabling fans, sponsors, and athletes to plan for a full year of events, which is a new concept for MMA. Each of our teams consists of a world champion coach and eight athletes. During each team match, there are five one-on-one matches, one in each weight class (lightweight, welterweight, middleweight, light heavyweight, and heavyweight). The team winning the most one-on-one matches wins the competition. The regular season will be followed by post-season playoffs culminating in two teams competing for the annual IFL championship. We intend to launch our first

full season in 2007, which will consist of a six-month regular season and a two-month post-season. In addition to the anticipated 2007 regular season, we expect to host an All-Star tournament with the top four athletes from each weight class competing. Generally, athletes will be signed to exclusive contracts for the entire season. These contracts typically will provide a base compensation, as well as team and individual performance incentives. We intend to retain exclusive rights to extend the 2007 regular season contract for an additional year and an exclusive first negotiation right to enter into a contract with each athlete for the next season upon completion of the term of the contract, or option term, as the case may be. This approach will allow athletes to train on a full-time basis, which differs markedly from the event-by-event contracts that historically provided the only form of compensation for MMA athletes. Each athlete and team coach is and will be an independent contractor.

Our management believes that the league and team approach to mixed martial arts gives us a substantial competitive advantage in that our organization is not dependent on a single athlete's success and has the ability to build the popularity of individual athletes as well as its teams and the league in general.

Our operations are centered on the following three business segments:

- **Live and Televised Entertainment**, which consists of live events in arenas and free distribution of IFL content on basic cable television.
- **Sponsorships and Promotions**, which consists of sponsorships for live events and televised productions and related promotion opportunities.
- **Branded Merchandise**, which consists of licensing and marketing of our intellectual property.

#### **Corporate History**

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From our incorporation in 1985 through 1999, we operated, under the name Procept, Inc., as a biotechnology company engaged in the development and commercialization of novel drugs with a product portfolio focused on infectious diseases and oncology. During 1999, our principal efforts were devoted to drug development and human clinical trials focusing on two biotechnology compounds, PRO 2000 Gel and O6-Benzylguanine ( O6-BG ). During fiscal 2000, we closed our research facilities and out-licensed PRO 2000 Gel and O6-BG, which had been under development by us for several years. In September 2004, we transferred all of our rights, title and interest in PRO 2000 Gel pursuant to an option duly exercised by our sublicensee, and in March 2005, we assigned all of our rights, interests and obligations in O6-BG.

In January 2000, we acquired Heaven s Door Corporation ( HDC ), a company that provided products and services over the Internet. Effective with the acquisition of HDC, our name was changed from Procept, Inc. to HeavenlyDoor.com, Inc. At the same time, Procept, Inc. became the new name of the Company s subsidiary, Pacific Pharmaceuticals, Inc., a company engaged in the development of cancer therapies, which we acquired in March 1999. After a sustained period of deterioration in the Internet and technology sectors and related capital markets, we decided, in the fourth quarter of 2000, to discontinue the pursuit of our Internet strategy. Shortly thereafter, we entered into an agreement to sell all of our Web-based assets and Internet operations and ceased our Internet activities. In connection with this agreement, we changed our name, on December 31, 2000, from HeavenlyDoor.com, Inc. to Paligent Inc.

From 2001 until the Merger, we had been engaged in seeking business opportunities to maximize value for our shareholders. As a result of the Merger and our acquisition of Old IFL, we changed our name to International Fight League, Inc.

### **Corporate History of Old IFL**



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Old IFL had been organized as a New Jersey limited liability company in 2005 and reincorporated as a Delaware corporation in January 2006. In the Merger, Old IFL merged with Merger Sub, with Old IFL being the surviving corporation. As a result of the Merger, Old IFL became our wholly owned subsidiary and changed its name to IFL Corp.

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**Corporate Information**

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Our principal office is located at 424 West 33rd Street, Suite 650, New York, NY 10001 and our telephone number is (212) 356-4000. We maintain an Internet website at [www.ifl.tv](http://www.ifl.tv). This website, and the information contained therein, is not a part of this current report.

### **Market Opportunity**

*Mixed Martial Arts*

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MMA is a sport that is growing in popularity around the world. MMA athletes combine a variety of fighting styles, such as boxing, judo, jiu-jitsu, karate, kickboxing, muay thai, taekwondo and/or wrestling in each match. Typically, MMA sporting events are promoted either as championship matches or as vehicles for well-known individual athletes. MMA is currently permitted in 33 states with competition conduct regulated primarily by rules implemented by state athletic commissions, similar to professional boxing. Athletes win individual matches by knockout, technical knockout (referee or doctor stoppage), submission, or judges' decision. Scoring for a judges' decision is conducted by a panel of three judges provided by the relevant state athletic commission, using a ten-point system similar to the scoring system used in boxing. Referees attending matches are also provided by the relevant state athletic commission and are qualified to referee at a MMA competition. During fights, which typically consist of three four-minute rounds, referees strictly enforce the rules of conduct for the relevant state's athletic commission and those required by the organization promoting the event.

The MMA industry is highly fragmented with a variety of promoters and organizations hosting events across the country and globally. The largest MMA event promoter is the Ultimate Fighting Championship (the UFC), which began hosting events in 1995 and currently promotes roughly 10 major events yearly that draw sizable live audiences. Typically, events are promoted on a fight-by-fight basis with little to no guidance about the timing of future events, similar to boxing.

Historically, MMA events were broadcast in the United States only through pay-per-view arrangements. MMA events were broadcast for the first time on free cable television in 2004 and now attract roughly two million viewers per week, comparable to weekly broadcasts of WWE events. Spike TV, a cable television broadcaster, is currently broadcasting the fourth season of a popular reality television program, *The Ultimate Fighter*, based on MMA training and competitions. In addition, we understand that competing MMA promoters have continued to grow the pay-per-view audience for their MMA events as well as their presence on broadcast and basic cable television. In Japan, live MMA sporting events promoted by competitors routinely sell tens of thousands of seats, are broadcast on major Japanese television networks, and appear on pay-per-view and home video throughout the rest of the world. MMA events in the United States now generate attendance and pay-per-view audiences similar to professional boxing and wrestling.

The talent pool for MMA athletes is growing rapidly as there are an estimated tens of thousands of martial arts focused training schools in the United States. It is estimated that there are millions of martial arts practitioners, including high school and college wrestling participants, in the United States alone. In addition, MMA is truly a global sport with many foreign athletes competing in U.S. based events, and many U.S. athletes competing in international organizations such as Pride Fighting and K-1 (kickboxing) of Japan. MMA athletes typically begin their careers after successfully competing in wrestling, martial arts, kickboxing, or other related sports. Training schools such as Miletich's Fighting System, led by former UFC Champion and current IFL coach Pat Miletich, and Team Quest, led by top ranked middleweight and current IFL coach Matt Lindland, serve as a major pipeline for MMA talent, and the IFL specifically, seeking to attract interest from professional MMA leagues.

### *The IFL Concept*

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We operate the world's first professional MMA sports league International Fight League. We were founded in 2005 to organize, host and promote live and televised mixed martial arts sporting events and to capitalize on the growing popularity of mixed martial arts in the United States and around the world. Using our unique league and team concept, we believe that we are positioned to rapidly become a market leader in the MMA industry. We

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believe that our league and team approach to mixed martial arts gives us a substantial competitive advantage in that our success will not depend on a single athlete's success. In addition, by establishing teams and holding scheduled events on a seasonal basis, our league-based model focuses on gaining substantial sponsorship, promotion and marketing opportunities as we develop our market presence and brand awareness.

We currently operate eight MMA teams, have held five live MMA sporting events, and are currently hosting a four-event tournament called The World Team Championship. Beginning in 2007, we intend to add four additional teams to the league, for a total of twelve teams, and to hold our first full season made up of a six-month regular season with a two-month post-season, including semi-final and championship matches. Our live events and television programming are directed at 18- to 49-year-old males, with a core target audience of 18- to 34-year-old males.

In addition to operating the world's first professional MMA sports league, we believe that our operations are unique compared to those of other MMA event promoters in many ways, including:

- our sporting events are held in an over-sized five-rope boxing ring rather than a cage, which we believe to be the most conducive environment for the athletes, fans and television production;
- we announce our full season in advance, which enables marketers, sponsors, broadcasters, fans and the teams to plan accordingly;
- to foster athlete safety and a broader acceptance of the sport, we have established our own rules of conduct, including bans on certain dangerous moves, such as elbow strikes to an opponent's head, placing more emphasis on the sport and competition;
- we presently own each team, which has a set annual operating budget;
- building equity in the league, teams and athletes;
- we have granted team coaches options to purchase our common stock, which aligns their interests with those of our stockholders; and
- we offer a performance bonus system for athletes and coaches, including both individual and team incentives.

Each team features five starter athletes and three alternate athletes, consisting of lightweight, welterweight, middleweight, light heavyweight and heavyweight athletes. Each team has its own uniforms, logos, and team colors. IFL is recruiting a number of MMA champions to serve as athletes and coaches for its teams. All IFL coaches are under exclusive team coaching contracts with IFL for a period of six years. IFL is currently negotiating contracts with athletes for the 2007 regular season. To date, IFL has formed eight teams and announced an additional five teams for future seasons as follows:

**IFL COACHES AND TEAMS**

<b>Team</b>	<b>Based</b>	<b>Coach</b>	<b>Past Affiliation</b>
Anacondas	Los Angeles	Bas Rutten	UFC, WFA, Pancrase (Japan)
Dragons	Toronto	Carlos Newton	UFC, Pride, K-1
Razorclaws	San Jose	Frank Shamrock	UFC, Pancrase, K-1
Sabres	Tokyo	Antonio Inoki	Forefather of MMA
Wolfpack	Portland	Matt Lindland	UFC, WFA, Olympic Wrestler
Tigersharks	Seattle	Maurice Smith	UFC, Pride, Pancrase
Silverbacks	Quad Cities	Pat Miletich	UFC
Pitbulls	New York	Renzo Gracie	Pride, K-1
Lions(1)	Nevada	Ken Shamrock	UFC, Pride
Scorpions(1)	Tucson	Don Frye	UFC, Pride, K-1
Condors(1)	Southern California	Marco Ruas	UFC
Bulldogs(2)	England	Ian Freeman	UFC, Cage Rage, Pancrase
Red Bears(2)	Chicago	To be named	

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(1) - New team for 2007 season

(2) - New team for 2008 season

To foster athlete safety and a broader acceptance of the sport, we have established our own rules of conduct. Some of our rules of conduct are more stringent than those mandated by state athletic commissions, including bans on certain dangerous moves, such as elbow-strikes to an opponent's head. Our fights take place in an over-sized five-rope boxing ring, rather than in a cage, which is typical for competitors' MMA sporting events.

**Strategy**



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Our objective is to use our MMA league and team business model to become a leader in the creation, production and promotion of live and televised MMA sporting events and to market our content and brands around the world. Using our team and league approach, we seek to build multiple revenue streams much like other professional sports leagues. Key elements of our strategy are to:

- produce high quality live events, branded programming and consumer products for distribution;
- expand existing television distribution relationships and develop broader distribution arrangements for branded programming worldwide;
- increase the licensing and direct sale of IFL branded products through distribution channels;
- expand our Internet operations to further promote the IFL brand and to develop additional sources of revenue; and
- form strategic relationships with other sports, media, and entertainment companies to further promote the IFL brand and products.

### **Operations, Sales and Marketing**

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Our operations are centered on the following three business components:

- Live and televised entertainment, which consists of live events in arenas and the distribution of our content on free basic cable, international television, pay-per-view and video-on-demand;
- Sponsorships and promotions, which consists of sponsorships for live events and televised productions and related promotional opportunities; and

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- Branded merchandise, which consists of the licensing and marketing of our intellectual property.

*Live and Televised Entertainment*

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Live MMA events are the cornerstone of our business, and provide content for our television programming in the United States through Fox Sports Net and in Canada through Rogers Sports Network, a Canadian broadcaster and affiliate of Fox Sports Net. Each live event is a high-quality production, incorporating original music scores, computer-generated graphics, specialized lighting and in-arena large video screens. Production costs for MMA sporting events, including equipment, insurance, temporary personnel and other live event-specific costs, constitute our largest expense item, contributing an expense of approximately \$3.1 million for the nine months ended September 30, 2006.

**Live Events.** We hosted our first tournament, *The Legends Championship*, with one live event in April 2006 and one event in June 2006 at the Trump Taj Mahal Hotel & Casino in Atlantic City, New Jersey. These events were promoted through a variety of media outlets, including television, radio, print, the Internet and local grass roots marketing efforts. In September 2006, we launched a four-event live tournament, *The World Team Championship*, with two live events in Portland, Oregon, one in Moline, Illinois and one in Uncasville, Connecticut at Mohegan Sun. During the nine months ended September 30, 2006, we recognized approximately \$500,000 of revenue from box office receipts for live events.

We expect to launch our first full regular season of MMA sporting events in early 2007. We expect to add four additional teams to the league, for a total of twelve teams for the 2007 regular season. We are working on obtaining contracts with our athletes for the 2007 regular season. The 2007 season will include a six-month regular season, with a two-month post-season, including semi-final and championship matches. During the regular season, we anticipate that there will be 9 live MMA sporting events, with each team competing three times. The four teams with the best records will continue to compete in the post-season semi-finals and, ultimately, the championship match.

After the 2007 championship match, we expect to host additional live events featuring our standout athletes and all-stars in each weight class in a *Grand Prix* tournament where athletes will compete for weight class titles.

IFL's team and league structure is scalable to allow for the addition of new teams both domestically and internationally. These new teams, regardless of their origin, can take part in our full season, and support hosting live events outside the United States.

**Television Programming.** We produce and own our television programming and video library. The primary television outlet for our programming is Fox Sports Net. During the nine months ended September 30, 2006, during which period the *Legends Championship* was broadcast, we treated our arrangement with Fox Sports Net as a barter transaction, recognizing an estimated \$500,000 in television rights revenues and charging an equivalent amount to cost of revenues.

Under our current television rights agreement, which covers only the broadcasts of *The World Team Championship* and expires in June 2007, Fox Sports Net has agreed to broadcast ten hours of original MMA programming. The broadcasts will include six one-hour broadcasts, a two-hour season championship finale broadcast and a two-hour *Best Damn Sports Show Special* broadcast during prime-time. We are currently negotiating a television rights agreement for our 2007 season of MMA events. Fox Sports Net previously televised three one-hour segments of *The Legends Championship* in May and June 2006.

We believe that the wide exposure the league gains from free television distribution through Fox Sports Net, particularly among its target audience of 18 to 34 year old males, presents meaningful opportunities to increase IFL's popularity, the recognition of the league and its athletes and stars, and sales of tickets and branded products.

**International.** We intend to pursue opportunities for expansion into international markets by seeking contracts with local terrestrial, cable and satellite television providers in as many countries as we are able, and by providing our content in local languages. Because of the growing popularity of mixed martial arts throughout the

world, we expect a positive response from foreign broadcasters. In Canada, our programming is distributed by the Rogers Sports Network through an arrangement it has with Fox Sports Net.

*Pay-Per-View Television Programming.* We believe that pay-per-view television distribution presents opportunities to generate significant additional revenue. In an effort to build our brand, we are currently distributing television programming for free through basic cable television broadcasting. However, we intend to plan production and distribution of certain live events through pay-per-view television outlets in the future.

**Sponsorships and Promotions**

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We sell sponsorships and promotion opportunities to companies seeking to reach our core target audience of 18- to 34-year-old males. Under our current contract, securing commercial advertisers for the television broadcast of our programming is the sole responsibility of Fox Sports Net. In 2006, sponsorships and promotions were sold separately for the two-event Legend Championship and four-event World Team Championship. We have begun to sell sponsorship and promotional opportunities for full seasons as an overall sponsorship/promotion package, and have already secured a sponsorship agreement with Microsoft Xbox for the full 2007 season. For the nine months ended September 30, 2006, during which we hosted our first four live events, we recognized revenues of approximately \$300,000 from sponsorships and promotions.

***Sponsorships.*** Sponsorships include, among other things, the opportunity to display corporate brand names at our live events and on televised broadcasts. The most highly sought after sponsorship opportunities include painted brands/logos on the fighting canvas in the ring, billboards in the arena and on the television broadcast, the time clock, tale of the tape, website banners and advertisements in the event program guide. For our past events, sponsors have included, among others, Microsoft Corporation's Xbox, the Coca Cola Corporation's Vault Energy Drink, the Suzuki Motor Corporation, Sandals Resorts, Dale and Thomas Popcorn, Fairtex Inc. and Full Contact Fighter, Inc. Sponsors pay a fee based upon the position of their advertising media and the exposure it will receive during a live event and on television broadcasts. We are currently negotiating sponsorships for the 2007 season.

***Promotions.*** Promotions are opportunities to tie an advertiser's brand in with our league, teams or events. Promotion opportunities include product placement and brand associations. At past IFL events, the Suzuki Motor Corporation conducted an ATV give-away and Dale and Thomas Popcorn sampled its popcorn products. We have continued to build momentum with sponsors as evidenced by our recent agreement with Sandals Resorts, a leading resort owner and operator. The Sandals sponsorship demonstrates our ability to attract sponsors from a broad range of industries beyond our initial sponsors in video games and beverages. As our brand grows, we expect to earn revenues by creating promotions with companies and brands seeking to benefit from the popularity of IFL and the exposure received from appearing at our live events and on televised broadcasts.

***Branded Merchandise***

*Licensing.* The licensing of IFL and team names, logos and copyrighted works on a variety of retail products presents a further opportunity to generate revenues, and this licensing may become one of our largest sources of revenue. As our brand grows, we expect to pursue greater opportunities to expand our licensing efforts through a more comprehensive licensing program. To date, revenues from branded merchandise have not been material. Given the profit margins and nature of our sports business, we expect video games, apparel and sportswear to be the biggest revenue generating categories of licensed products.

We have three existing license agreements. The first is with Bioworld Merchandising to design, develop and sell a line of IFL-branded hats and bags to retailers. Bioworld is an industry leader in developing accessories for music, entertainment, and branded properties, including Superman, the Sopranos, the Simpsons, Guinness and Cadillac. The second license is with International Sunprints, a full service apparel manufacturer and distributor. International Sunprints provides clothing to major retail chains, such as Target, Wal-Mart, JC Penney, Dillard's, and Mervyn's. Lastly, Full Contact Fighter, Inc., a leading manufacturer of high quality professional fighting gear, makes certain performance products on a non-exclusive basis. The license agreements with Bioworld and International Sunprints anticipate retail distribution of IFL-branded products during 2007. Certain select products already are offered for sale at our live venues and through our website. We earn a royalty for each item of IFL-branded merchandise that is sold.

We have engaged 360ep, Inc., an agency specializing in marketing, promotion and licensing to help generate opportunities to exploit all of our team names, logos and copyrighted works. Under these arrangements, 360ep will help develop licensing opportunities for us and work with licensees and potential licensees to create retail promotions using our brands. We anticipate that we will receive initial advanced guarantees with royalty payments of approximately 5% to 10% of the net proceeds from sales of licensed products, depending on the product type. 360ep will receive a percentage of the royalties and other fees that it generates for us.

*Home Video.* We expect to pursue opportunities in the home video market by licensing, on a distribution fee and/or royalty basis our growing video library to third parties to develop, produce, manufacture, and sell DVDs for the home video market. Our video library includes proprietary material from our live events, television broadcasts, special events and behind the scenes of live events. We are currently negotiating with potential distribution companies, but we cannot assure that any of these negotiations will result in the execution of a definitive agreement.

*Digital Media.* We use our website, [www.ifl.tv](http://www.ifl.tv), to create a community for our fans, to promote IFL brands, teams and fighters, to market and distribute our products and services and to create awareness for our live events and television broadcast schedule. Through [www.ifl.tv](http://www.ifl.tv), our fans are able to obtain the latest IFL news and information and experience archived video and audio clips of IFL athletes and media events. We also use our website for e-commerce. We promote [www.ifl.tv](http://www.ifl.tv) on our televised programming, at live events, and on all collateral marketing materials.

#### **Competition**



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We are a growth stage company and are constantly seeking to increase our fan base. The MMA industry is also rapidly growing and evolving, and we face competition from other promoters of MMA sporting events, including the UFC, owned by Zuffa, LLC, a widely known MMA promoter in the United States. UFC produces MMA events for cable television through its agreement with SpikeTV and for pay-per-view audiences. Other U.S. based MMA competitors include Strikeforce and the World Fighting Alliance. Most promoters operate on an event-by-event basis and rely on the presence of a few well-known athletes to promote their events and, other than the UFC, have not been available on free television.

With MMA enjoying popularity on a global basis, we face competition from a variety of non-U.S. based organizations. Pride Fighting is a Japan-based organization that draws significant live event and television audiences. Pride, owned by Japanese parent company Dream Stage Entertainment, hosted its first event in Tokyo in 1997. Pride organized its first U.S.-based event in October 2006 and has plans to hold additional U.S. events in the future. Pride recently lost its free television distribution deal with Fuji TV and is now only available via pay-per-view. Pride draws upon a global talent pool for its events with many fighters coming from the United States, Brazil and Europe. In addition to these larger organizations that enjoy global followings, we will compete with local market based organizations.

For our live and television audiences, we face competition from other professional and college sports as well as from other forms of live, filmed and televised entertainment and other leisure activities. We compete with entertainment companies, professional and college sports leagues and other makers of branded apparel and merchandise for the sale of our branded merchandise.

### **Trademarks and Copyrights**

## Edgar Filing: International Fight League, Inc. - Form 8-K

Intellectual property is material to all aspects of our operations, and we expend substantial cost and effort in an attempt to maintain and protect our intellectual property and to avoid infringing other parties' intellectual property. We have a portfolio of trademarks and service marks and maintain a catalog of copyrighted works, including copyrights to our television programming and photographs.

When necessary, we intend to enforce our intellectual property rights by, among other things, searching the Internet to detect unauthorized use of our intellectual property, seizing goods that feature unauthorized use of our intellectual property and seeking restraining orders and/or damages in court against individuals or entities infringing

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upon our intellectual property rights. Our failure to curtail piracy, infringement or other unauthorized use of our intellectual property rights effectively could adversely affect our operating results.

**Insurance**

## Edgar Filing: International Fight League, Inc. - Form 8-K

We currently have three general liability insurance policies: one for our New York office, one for our Nevada office and a special events policy for MMA events. For each event hosted to date, we have purchased event-specific insurance that met or exceeded the requirements of the relevant state athletic commissions.

### **Regulation**

*Live Events*

## Edgar Filing: International Fight League, Inc. - Form 8-K

In various states in the United States and some foreign jurisdictions, athletic commissions and other applicable regulatory agencies require us to obtain licenses for promoters, medical clearances and/or other permits or licenses for fighters and/or permits for events in order to promote and conduct live events. If we fail to comply with the regulations of a particular jurisdiction, we may be prohibited from promoting and conducting live events in that jurisdiction. The inability to present live events could lead to a decline in the various revenue streams we generate from live events, which could adversely affect our operating results.

### *Television Programming*

## Edgar Filing: International Fight League, Inc. - Form 8-K

The production and distribution of television programming by independent producers is not directly regulated by the federal or state governments, but the marketplace for television programming in the United States is substantially affected by government regulations applicable to, as well as social and political influences on, television stations, television networks and cable and satellite television systems and channels. We voluntarily designate the suitability of our television programming using standard industry practices. A number of governmental and private sector initiatives relating to the content of media programming have been announced. Changes in governmental policy and private sector perceptions could further restrict our program content and adversely affect our viewership levels and operating results.

### **Employees**

As of November 1, 2006, we had 23 employees, with 16 employees located in New York City and an additional seven located in Las Vegas. We believe that our relationships with our employees are generally good. None of our employees is represented by a union.

#### **1A. RISK FACTORS**

*An investment in IFL involves a high degree of risk. Investors should carefully consider the risks below before making an investment decision. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. In such case, the trading price of our common stock could decline and investors could lose all or part of their investment.*

##### **Risks Related To Our Business**

**Our business is difficult to evaluate because it represents a new business model for the MMA market and we have been operating for less than one year. The MMA market may not develop as we anticipate, and we may not successfully execute our business strategy.**

Our league-based MMA business model focusing on team, rather than individual competition, is unique to the MMA industry and may not prove to be successful. We have a limited operating history upon which you can evaluate our business. Although we were organized in 2005, we did not begin revenue generating operations until 2006 and have only held a limited number of live MMA sporting events. The MMA industry is also rapidly growing and evolving and may not develop in a way that is advantageous for our business model. You must



consider the challenges, risks and difficulties frequently encountered by early stage companies using new and unproven business models in new and rapidly evolving markets. Some of these challenges relate to our ability to:

- increase our brand name recognition;
- expand our popularity and fan base;
- successfully produce live events;
- manage existing relationships with broadcast television outlets and create new relationships domestically and internationally;
- manage licensing and branding activities; and
- create new outlets for our content and new marketing opportunities.

Our business strategy may not successfully address these and the other challenges, risks and uncertainties that we face, which could adversely affect our overall success and delay or prevent us from achieving profitability.

**We have experienced losses and expect to incur substantial net losses in the future. If we do not achieve profitability, our financial condition and stock price could suffer.**

Since the inception of our business in 2005, we have incurred significant losses and only began generating revenue during the second quarter of 2006. As of September 30, 2006, we had incurred net losses of \$5.5 million for the nine-month period then ended.

We expect operating losses and negative cash flow to continue for the foreseeable future. We anticipate that our losses will increase significantly from current levels because we expect to incur significant additional costs and expenses related to being a public company, production of live events, brand development, advertising, marketing and promotional activities, as well as the employment of additional personnel as our business expands.

Our ability to become profitable depends on our ability to generate and sustain substantially higher revenue while maintaining reasonable expense levels. In particular, although we intend to increase significantly our spending on marketing and promotional activities, these efforts may not be effective in growing our brand or increasing our fan base. If we do not achieve profitability, we may not be able to continue our operations.

**Our limited operating history makes forecasting our revenues and expenses difficult, and we may be unable to adjust our spending in a timely manner to compensate for unexpected revenue shortfalls.**

As a result of our limited operating history, it is difficult to accurately forecast our future revenues. In addition, we have limited meaningful historical financial data upon which to base planned operating expenses. Current and future expense levels are based on our operating plans and estimates of future revenues. Revenues and operating results are difficult to forecast because they generally depend on our ability to promote events and the growth in popularity of the IFL franchise. As a result, we may be unable to adjust our spending in a timely manner to compensate for any unexpected revenue shortfall, which would result in further substantial losses. We may also be unable to expand our operations in a timely manner to adequately meet demand to the extent it exceeds expectations.

**Our revenues from operations are not expected to be sufficient to meet our capital needs in the near future, and we will need to raise additional funds, which may not be available to us on favorable terms, if at all, thereby potentially disrupting the growth of our business and ability to generate revenues.**

Since inception, we have incurred losses and have had capital and stockholders' deficits and limited cash to fund operations. Prior to June 30, 2006, Old IFL raised \$2.5 million from the issuance of preferred stock, which was converted to common stock of the Company at the time of the Merger. Since June 30, 2006, Old IFL and the



Company have received loans in the aggregate principal amount of approximately \$4.4 million from Richard Kurtz, one of our directors, to fund our MMA operations. Mr. Kurtz is not obligated to continue providing loans to us and may cease providing additional loans at any time.

Because we do not expect that revenues from operations will be sufficient to meet our projected capital needs, we will likely be required to raise additional capital through equity or debt financings. Such capital may not be available to us from Mr. Kurtz or from any other party or, if it is available, such capital may not be available on terms that are acceptable to us. Such financing may be substantially dilutive to existing stockholders and could result in significant financial and operating covenants that would negatively impact our business. If we are unable to raise sufficient additional capital on acceptable terms, we will likely have liquidity problems which will disrupt our planned growth and would have a material adverse effect on our financial condition or business prospects.

***Our 2005 audited financial statements contain, and our future audited financial statements are likely to contain, an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. The inclusion of this paragraph may make it more difficult for us to raise additional capital on acceptable terms.***

## Edgar Filing: International Fight League, Inc. - Form 8-K

The report of the independent registered public accounting firm accompanying the audit of our financial statements for the year ended December 31, 2005 contains an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern because of our operating losses and our need for additional capital. Such doubt could make it more difficult for us to raise additional capital and may materially and adversely affect the terms of any financing that we may obtain.

### **Our failure to obtain and maintain key agreements could adversely affect our ability to distribute television programming.**

Our television programming is distributed by Fox Sports Net. Our contract with Fox Sports Net to broadcast the World Team Championship expires in June 2007. We are currently negotiating a television rights agreement for our 2007 season of MMA events. No assurance can be given that we will be able to negotiate a television rights agreement for the 2007 MMA season that is favorable to us with Fox Sports Net or with any other broadcaster. Because our revenues are dependent, indirectly, on the distribution of our free televised programming, any failure to maintain or renew arrangements with Fox Sports Net or other distributors or the failure of these distributors to continue to broadcast our programming could adversely affect our operating results.

### **We depend on certain key executive personnel for our success, the loss of whom could adversely affect our business, financial condition and results of operations.**

Our success depends on the continued availability and contributions of members of our senior management and other key personnel. These include Gareb Shamus, our Chief Executive Officer, President and Chairman of our board of directors, and Kurt Otto, our Commissioner and Vice-Chairman of our board of directors. As such, our success depends in large measure on the continued service of Messrs. Shamus and Otto in those positions. The loss of the services of either Mr. Shamus or Mr. Otto or any of a number of other executive officers could delay or reduce our product and service development and commercialization efforts. Furthermore, recruiting and retaining qualified personnel to educate the marketplace about our business will be critical to our success. The loss of members of our management team or our inability to attract or retain other qualified personnel or advisors, could significantly weaken our management team, harm our ability to compete effectively and harm our long-term business prospects. If key managers were to end their employment with us, it could disrupt our initial client relationships and have a corresponding negative effect on our financial results, marketing and other objectives and impair our ability to implement our rapid growth strategy. None of our executive officers or other planned key personnel are currently subject to written employment agreements, and we do not maintain key man life insurance on any of these individuals.

**Our failure to continue to develop creative and entertaining programs and events would likely lead to a decline in the popularity of our brand of entertainment.**

The creation, marketing and distribution of our live and televised entertainment, including our proposed future pay-per-view events, are at the core of our business and are critical to our ability to generate revenues across our media platforms and product outlets. Our failure to continue to create popular live events and televised programming would likely lead to a decline in our television ratings and attendance at our live events, which would likely harm our operating results.

**Our insurance may not be adequate to cover liabilities resulting from accidents or injuries that occur during our physically demanding events.**

We hold numerous live events each year. This schedule exposes our athletes and coaches who are involved in the production of those events to the risk of travel and event-related accidents, the consequences of which may not be fully covered by insurance. The physical nature of our events exposes athletes and coaches to the risk of serious injury or death. Although we provide the necessary and required health, disability and life insurance for our athletes and coaches on an event-by-event basis, this coverage may not be sufficient to cover all injuries they may sustain. Liability extending to us resulting from any death or serious injury sustained by one of athletes or coaches during an event, to the extent not covered by our insurance, could adversely affect our operating results.

**We face a variety of risks as we expand into new and complementary businesses.**

We are a new company and are rapidly entering into new and complementary businesses. Risks of expansion may include:

- potential diversion of management's attention and other resources, including available cash, from our existing business;
- unanticipated liabilities or contingencies;
- reduced earnings due to increased depreciation and other costs;
- failure to retain and recruit MMA athletes;
- failure to maintain agreements for distribution;
- inability to protect intellectual property rights;
- competition from other companies with experience in such businesses; and
- and possible additional regulatory requirements and compliance costs.

**If we fail to maintain effective internal controls over financial reporting, we may be subject to litigation and/or costly remediation and the price of our common stock may be adversely affected.**

As a private company, Old IFL previously had not been obligated to report on its disclosure controls and procedures or its internal control over financial reporting, and as a growth stage company, is only in the process of implementing formal procedures intended to satisfy the requirements of Section 404 and other related provisions of the Sarbanes-Oxley Act of 2002. However, beginning with our fiscal year ending December 31, 2007, we will have to fully comply with these requirements.

Failure to establish the required controls or procedures, or any failure of those controls or procedures once established, could adversely impact our public disclosures regarding our business, financial condition or results of operations. Upon review of the required internal control over financial reporting and disclosure controls and procedures, our management and/or our auditors may identify material weaknesses and/or significant deficiencies



that need to be addressed. Any actual or perceived weaknesses or conditions that need to be addressed in our internal control over financial reporting, disclosure of management's assessment of its internal control over financial reporting or disclosure of our public accounting firm's attestation to or report on management's assessment of our internal control over financial reporting could adversely impact the price of our common stock and may lead to claims against us.

**Compliance with changing corporate governance and public disclosure regulation will likely result in additional expenses and increased liability exposure for us, our directors and our executive officers.**

Rules adopted by the United States Securities and Exchange Commission (the "SEC") pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require annual assessment of our internal control over financial reporting, and attestation of our assessment by our independent registered public accountants. The assessment requirement first will apply to our annual report for fiscal 2007. The standards for management's assessment of the internal control over financial reporting as effective are new and complex, and require significant documentation, testing and possible remediation to meet the detailed standards. We may encounter problems or delays in completing activities necessary to make an assessment of our internal control over financial reporting. In addition, we may encounter problems or delays in completing the implementation of any requested improvements and receiving an attestation of our assessment by our independent registered public accountants. If we cannot assess our internal control over financial reporting as effective, or our independent registered public accountants are unable to provide an unqualified attestation report on such assessment, investor confidence in us and our share value may be negatively impacted. Further, many companies have reported that compliance with these standards requires a disproportionate expenditure of funds.

In addition, the SEC recently announced a significant number of changes to the laws, regulations and standards relating to corporate governance and public disclosure. Our management team will need to invest significant time and financial resources to comply with both existing and evolving standards for public companies, which will lead to increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In addition, because public company directors and officers face increased liabilities, the individuals serving in these positions may be less willing to remain as directors or executive officers for the long-term, and we may experience difficulty in attracting qualified replacement directors and officers. We also expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, we may need to expend a significantly larger amount than we previously spent on recruiting, compensating and insuring new directors and officers.

**Risks Related To Our Industry**

**The failure to retain or continue to recruit key athletes and coaches could negatively impact the growth of IFL's popularity.**

Our success depends, in large part, upon our ability to recruit and retain athletes and coaches who are well known fighters in the MMA world and who have the physical presence and ability to compete in our live events and televised programming. There is no assurance that we will be able to continue to identify and retain these athletes and coaches in the future. Additionally, there is no assurance that we will be able to retain our current athletes and coaches after their contracts expire. Our failure to attract and retain key athletes, or a serious or untimely injury to, or the death of, or unexpected or premature loss or retirement for any reason of any of our key athletes, could lead to a decline in the popularity of our brand of mixed martial arts, which could adversely affect our operating results.

**The markets in which we operate are highly competitive, rapidly changing and increasingly fragmented, and we may not be able to compete effectively, especially against competitors with greater financial resources or marketplace presence.**

For our live and television audiences, we face competition from professional and college sports, as well as from other forms of live and televised entertainment and other leisure activities in a rapidly changing and increasingly fragmented marketplace. Many of the companies with which we compete have greater financial

resources than are currently available to us. Our failure to compete effectively could result in a significant loss of viewers, venues, distribution channels or athletes and fewer advertising dollars spent on our form of sporting events, any of which could adversely affect our operating results.

**A decline in the popularity of mixed martial arts, including changes in the social and political climate, could adversely affect our business.**

Our operations are affected by consumer tastes and entertainment trends, which are unpredictable and subject to change and may be affected by changes in the social and political climate. We believe that mixed martial arts is growing in popularity in the United States and around the world, but a change in our fans' tastes or a material change in the perceptions of our advertisers, distributors and licensees, whether due to the social or political climate or otherwise, could adversely affect our operating results.

**Changes in the regulatory atmosphere and related private-sector initiatives could adversely affect our business.**

Although the production and distribution of television programming by independent producers is not directly regulated by the federal or state governments in the United States, the marketplace for television programming in the United States is affected significantly by government regulations applicable to, as well as social and political influences on, television stations, television networks and cable and satellite television systems and channels. We voluntarily designate the suitability of each of our television programs for audiences using standard industry practices. A number of governmental and private sector initiatives relating to the content of media programming in recent years have been announced in response to recent events unrelated to us or mixed martial arts. Changes in governmental policy and private sector perceptions could further restrict our program content and adversely affect our viewership levels and operating results, as well as the willingness of broadcasters to distribute our programming.

**Because we depend upon our intellectual property rights, our inability to protect those rights or prevent their infringement by others could adversely affect our business.**

Intellectual property is material to all aspects of our operations, and we may expend substantial cost and effort in an attempt to maintain and protect our intellectual property. We have a portfolio of registered trademarks and service marks and maintain a catalog of copyrighted works, including copyrights to television programming and photographs. Our inability to protect our portfolio of trademarks, service marks, copyrighted material, trade names and other intellectual property rights from piracy, counterfeiting or other unauthorized use could negatively affect our business.

**We may be prohibited from promoting and conducting our live events if we do not comply with applicable regulations.**

In various states in the United States and some foreign jurisdictions, athletic commissions and other applicable regulatory agencies require us to obtain licenses for promoters, medical clearances and/or other permits or licenses for athletes and/or permits for events in order for us to promote and conduct our live events. In the event that we fail to comply with the regulations of a particular jurisdiction, we may be prohibited from promoting and conducting live events in that jurisdiction. The inability to present live events over an extended period of time or in a number of jurisdictions could lead to a decline in the various revenue streams generated from our live events, which could adversely affect our operating results.

**A decline in general economic conditions could adversely affect our business.**

Our operations are affected by general economic conditions, which generally may affect consumers' disposable income, the level of advertising spending and sponsorships. The demand for entertainment and leisure activities tends to be highly sensitive to the level of consumers' disposable income. A decline in general economic conditions could reduce the level of discretionary income that our fans and potential fans have to spend on our live and televised entertainment and consumer products, which could adversely affect our revenues.



## **Risks Related To Our Common Stock**

### **Insiders have substantial control over us, and they could delay or prevent a change in our corporate control even if our other stockholders wanted it to occur.**

As of November 29, 2006, our executive officers, directors, and principal stockholders who hold 5% or more of our outstanding common stock beneficially owned, in the aggregate, approximately 82% of our outstanding common stock. These stockholders are able to exercise significant control over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This could delay or prevent an outside party from acquiring or merging with us even if our other stockholders wanted it to occur.

### **We cannot assure you that a market will develop for our common stock or what the market price of our common stock will be.**

Prior to the merger and our acquisition of Old IFL's business, there was a limited trading market for our common stock and there was no public trading market for Old IFL's common stock. There is no assurance that a more active market for our common stock will develop as a result of our operation of the IFL business. If a market does not develop or is not sustained, it may be difficult for you to sell your shares of common stock at an attractive price or at all. We cannot predict the prices at which our common stock will trade. It is possible that, in future quarters, our operating results may be below the expectations of securities analysts or investors. As a result of these and other factors, the price of our common stock may decline, possibly materially.

### **In the event that we raise additional capital through the issuance of equity securities, or securities exercisable for or convertible into our equity securities, our stockholders could experience substantial dilution.**

If we raise additional capital by issuing equity securities or convertible debt securities, our existing stockholders may incur substantial dilution. Further, any shares so issued may have rights, preferences and privileges superior to the rights, preferences and privileges of our outstanding common stock.

### **The market price of our common stock may be volatile.**

The market price of our common stock has been and will likely continue to be highly volatile, as is the stock market in general, and the market for OTC Bulletin Board quoted stocks in particular. Some of the factors that may materially affect the market price of our common stock are beyond our control, such as changes in financial estimates by industry and securities analysts, conditions or trends in the MMA and entertainment industries, announcements made by our competitors or sales of our common stock. These factors may materially adversely affect the market price of our common stock, regardless of our performance.

In addition, the public stock markets have experienced extreme price and trading volume volatility. This volatility has significantly affected the market prices of securities of many companies for reasons frequently unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock.

### **Our common stock is considered a penny stock and may be difficult to sell.**

The SEC has adopted regulations which generally define a penny stock to be an equity security that has a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to specific exemptions. The market price of our common stock is less than \$5.00 per share and, therefore, is a penny stock according to SEC rules. This designation requires any broker or dealer selling these securities to disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules may restrict the ability of brokers or dealers to sell our common stock and may affect the ability of investors to sell their shares.

**Future sales of our common stock may depress our stock price.**

Sales of a substantial number of shares of our common stock in the public market could cause a decrease in the market price of our common stock. Immediately following the Transactions, we had 34,124,448 shares of common stock outstanding on November 29, 2006. A substantial portion of our outstanding shares either are or will soon be eligible for resale to the public pursuant to Rule 144 or without restriction pursuant to Rule 144(k). Options to purchase 2,190,148 shares of our common stock are outstanding. We may also issue additional shares of stock and securities convertible into or exercisable for stock in connection with our business. If a significant portion of these shares were sold in the public market, the market value of our common stock could be adversely affected.

**Provisions in our certificate of incorporation and bylaws and under Delaware law may discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our common stock.**

Our certificate of incorporation and bylaws contain provisions that could depress the trading price of our common stock by acting to discourage, delay or prevent a change of control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions:

- authorize the issuance of blank check preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;
- allow stockholders to request that we call a special meeting of our stockholders only if the requesting stockholders hold of record at least a majority of the outstanding shares of common stock;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- provide that business to be conducted at any special meeting of stockholders be limited to matters relating to the purposes stated in the applicable notice of meeting.

**2. FINANCIAL INFORMATION**

**SELECTED FINANCIAL DATA**

You should read the data set forth below in conjunction with our financial statements and related notes, Management's Discussion and Analysis of Financial Condition and Results of Operation, and other financial information appearing elsewhere in this current report.

We derived the statement of operations data for the period from March 29, 2005 (date of inception) to December 31, 2005 and the balance sheet data as of December 31, 2005 from the audited financial statements of International Fight League, LLC, the predecessor to Old IFL, which were prepared in accordance with generally accepted accounting principles, included elsewhere in this current report.

We derived the unaudited statement of operations data for the nine months ended September 30, 2006 and the unaudited balance sheet data as of September 30, 2006 from the financial statements of Old IFL included elsewhere in this current report. The unaudited financial statements include, in the opinion of management, all adjustments, which include only normal recurring adjustments, that management considers necessary for the fair presentation of the financial information set forth in those statements. Our historical results are not necessarily indicative of the results to be expected in any future period.

International Fight  
League, LLC  
March 29, 2005  
(date of inception)  
to  
December 31, 2005

International Fight  
League, Inc.  
For the Nine Months  
Ended  
September 30, 2006  
(unaudited)

**Statement of Operations Data:**

**Revenues**

**Live and televised events**

Advertising sponsorships \$ 253,549

Advertising other 1,000

Live events box office receipts 452,129

Television rights 500,000

**Branded merchandise 18,946**

**Total revenues 1,225,624**

**Cost of revenues**

**Live and televised events**

Advertising sponsorships 139,480

Live Events advertising 544,060

Live events other costs 3,083,738

Distribution fees 500,000

**Branded merchandise 11,242**

**Total cost of revenues 4,278,520**

**Selling, general and administrative expenses (43,003 ) 2,346,553**

**Stock-based compensation expense 32,866**

**Operating loss (43,003 ) (5,432,315 )**

**Dividend expense (120,197 )**

**Interest expense (14,795 )**

**Interest income 25,671**

**Net loss \$ (43,003 ) \$ (5,541,636 )**

Net Loss per common share basic and diluted: \$ (0.31 )

Weighted average common shares outstanding:

Basic and diluted 18,000,000

**International Fight League, LLC**  
as of  
December 31, 2005

**International Fight League, Inc.**  
as of  
September 30, 2006  
(unaudited)

**Consolidated Balance Sheet Data:**

Cash and Cash Equivalents	\$ 1,136,960	\$ 383,295
Total Assets	1,147,227	766,626
Term Loan		2,514,795
Investor Advances	1,175,000	
Series A Convertible Redeemable Preferred Stock		2,525,000

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

**Overview**

## Edgar Filing: International Fight League, Inc. - Form 8-K

We operate the world's first professional mixed martial arts sports league International Fight League. Immediately prior to November 29, 2006, we were known as Paligent Inc. and were a shell company with no operating business. On November 29, 2006, pursuant to the Merger between our wholly owned subsidiary and Old IFL, we acquired the mixed martial arts sports league business of Old IFL. As a result of the Merger, Old IFL became our wholly owned subsidiary and changed its name to IFL Corp., and we changed our name from Paligent Inc. to International Fight League, Inc.

Immediately prior to the effective time of the Merger, all of the outstanding shares of preferred stock of Old IFL were converted into shares of Old IFL common stock on a one-for-one basis, and we effected a 1-for-20 reverse stock split of our common stock, such that the number of shares of our common stock outstanding following the Merger would be approximately equal to the number of shares of our common stock outstanding immediately prior to the reverse stock split. Pursuant to the Merger, we issued 30,872,101 shares of our common stock to the stockholders of Old IFL in exchange for all of the outstanding capital stock of Old IFL. Immediately following the reverse stock split and the Merger, we had 32,496,948 shares of common stock outstanding. In connection with the Merger, all of the options to purchase shares of common stock of Old IFL outstanding prior to the Merger were converted into options to purchase 1,925,376 shares of our common stock on the same terms and conditions applicable to such options prior to the Merger. The new options were issued under the International Fight League, Inc. 2006 Equity Incentive Plan approved by our stockholders in conjunction with their approval of the Merger. In addition, immediately following the Merger, we issued 1,627,500 shares of common stock to Mr. Kurtz, Paligent's principal stockholder before the Merger, in exchange for his contribution of \$651,000 of indebtedness owing to him under a promissory note issued by Paligent. As a result of the reverse stock split, the Merger and the issuance of shares of common stock upon the conversion of indebtedness, we had 34,124,448 shares of common stock outstanding.

As part of Merger, our two existing directors, Salvatore A. Bucci and Mr. Kurtz, and Old IFL's three existing directors, Gareb Shamus, Kurt Otto and Michael Molnar, were elected as our directors, and Old IFL's officers became our officers, except that upon the consummation of the Merger, Mr. Bucci, our President and Chief Executive Officer before the Merger, resigned from these positions and was appointed our Chief Financial Officer, Executive Vice President and Treasurer.

## Edgar Filing: International Fight League, Inc. - Form 8-K

The Old IFL business was founded in 2005 to organize, host and promote live and televised mixed martial arts sporting events and to capitalize on the growing popularity of mixed martial arts in the United States and around the world. Following the acquisition of Old IFL, we refocused our business efforts on developing and operating Old IFL's mixed martial arts sports league business and have continued operating this business through IFL Corp. At the core of our business are our eight mixed martial arts teams, which are comprised of some of the world's most highly regarded mixed martial arts athletes and coaches. Our mixed martial arts sporting events typically include two match-ups of two teams, with athletes competing in one-on-one matches according to weight division. These events create a body of television programming content that we currently distribute in the United States through an arrangement with Fox Sports Net. We earn revenue from live event ticket sales, sponsorships and promotions and licensing of our intellectual property.

Old IFL's predecessor, International Fight League, LLC (the "LLC"), was organized on March 29, 2005 as a New Jersey limited liability company. On January 11, 2006, the LLC merged into Old IFL, whereupon the existence of the LLC ceased, and at which time the members of the LLC received an aggregate of 18,000,000 shares of Old IFL common stock, par value \$0.0001 per share, in exchange for their membership interests in the LLC.

Old IFL operated as a development stage enterprise through March 31, 2006. On April 29 and June 3, 2006, Old IFL held its debut MMA sports events featuring its initial four teams. The event was broadcast in a series of three original taped telecasts in May and June 2006. We have held three additional events as part of The World Team Championship, with the final event to be held in December 2006.

As Old IFL, we raised funds through stockholder loans and the issuance of preferred stock. The Merger also is considered to be a capital transaction in substance rather than a business combination. The transaction is equivalent to the issuance of stock by Old IFL for the net monetary assets of Paligent, accompanied by a recapitalization. The transaction has been accounted for as a reverse acquisition of a shell company whereby Old IFL is the acquirer for accounting purposes and Paligent is the legal acquirer. In this transaction, no goodwill or other intangible assets have been recorded. As a result, the financial information included in this current report on Form 8-K for periods prior to the Merger relates to Old IFL.

At September 30, 2006, we had a stockholders' deficit of \$5.5 million. During the nine months ended September 30, 2006, we incurred losses and negative operating cash flows of approximately \$5.5 million and \$4.3 million, respectively. These trends have continued in the fourth quarter as we continue to develop our business. These conditions raise substantial doubt about our ability to continue as a going concern.

### **Results of Operations**

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From inception to September 30, 2006, we have incurred costs and expenses significantly in excess of revenues. As we pursue our goals, we expect to increase revenues and control costs and maximize value to existing stockholders, though we expect to incur additional losses.

During 2005, we were a development stage company with insignificant operations. Accordingly, there are no meaningful comparative data upon which prior period comparisons can be made.

*Three and nine months ended September 30, 2006*

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During the three and nine months ended September 30, 2006, IFL incurred net losses of \$3.1 million and \$5.5 million, or \$ 0.17 and \$0.31 per common share, respectively.

Revenues for the three and nine months ended September 30, 2006 were \$488,000 and \$1.2 million, respectively, all of which were derived from IFL's initial four events, which were held on April 29, June 3, and September 9 and 23, 2006. The principal components of revenue include respectively, for the three and nine months ended September 30, 2006:

- television rights of \$125,000 and \$500,000, relating to IFL's agreements with FSN;

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- box office receipts of \$325,000 and \$452,000; and
- sponsorships of \$19,000 and \$254,000.

The agreements with FSN grants FSN exclusive rights to the Legends and World Team Championship events through December 31, 2006 and June 30, 2007, respectively. In return, FSN agreed to broadcast the initial telecast and one repeat telecast of each series episode of the Legends Championship in a minimum of 50 million homes. These telecasts were aired during the three months ended March 31, 2006. The agreement with FSN relating to the World Team Championship events provides for FSN to broadcast ten hours of original programming, including six one-hour broadcasts, a two-hour season championship finale broadcast and a two-hour Best Damn Sports Show special broadcast during prime time. The first broadcast of this series was aired during the quarter ended September 30, 2006. The agreements with FSN provide that there shall be no payment of any distribution fee by the Company. The Company has treated the transaction as a barter transaction in accordance with Accounting Principles Board Opinion No. 29, *Accounting for Non-Monetary Transactions* and EITF Issue 01-2, *Interpretations of APB No. 29*.

During the three and nine months ended September 30, 2006, costs of revenues were \$2.3 million and \$4.3 million, respectively, which consist of the following principal components, respectively:

- distribution fees of \$125,000 and \$500,000 relating to the FSN agreement;
- live event costs of \$2.1 million and \$3.6 million; and
- sponsorship costs of \$37,000 and \$139,000.

Components of live event costs for the three and nine months ended September 30, 2006, respectively, includes \$1.0 million and \$1.6 million of talent costs, \$311,000 and \$617,000 of event travel and other event costs, \$423,000 and \$857,000 of television production costs and \$374,000 and \$544,000 of advertising expenses.

During the three and nine months ended September 30, 2006, selling, general and administrative expenses were \$1.3 million and \$2.3 million, respectively, the primary components of which, respectively, were professional fees of \$443,000 and \$899,000, payroll and benefits expenses of \$464,000 and \$745,000 and travel and entertainment of \$36,000 and \$104,000. In addition, advertising expenses of \$51,000 and \$102,000, respectively, were recorded to selling, general and administrative expenses in the three and nine months ended September 30, 2006. During the nine months ended September 30, 2006, we also recorded a \$100,000 charge to bad debt expense.

Stock compensation expense of \$8,000 and \$33,000 recorded to the three and nine month periods ended September 30, 2006, respectively, relates to option grants under Old IFL's 2006 Equity Compensation Plan.

Dividend expense relates to dividends accruing on the Series A Preferred Stock. For the three and nine months ended September 30, 2006, dividend expense was \$48,000 and \$120,000, respectively.

Interest expense of \$15,000 for the three and nine months ended September 30, 2006 relates to the cost of funds resulting from loans from Mr. Kurtz.

Interest income of \$3,000 and \$26,000 for the three and nine months ended September 30, 2006 relates to earnings on available cash balances.

### Liquidity and Capital Resources

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At September 30, 2006, our cash and cash equivalents were \$383,000, a decrease of \$754,000 from the end of the prior year. During the nine months ended September 30, 2006, we issued \$2.5 million of Series A Preferred Stock, of which \$1.3 million was received in cash and \$1.2 million was issued in exchange for the conversion of investor advances, received \$2.5 million in loans and used \$4.3 million for operating activities and \$300,000 for cash advances and purchases of property and equipment.

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Since inception, we have incurred losses and have had capital and stockholders' deficits and limited cash to fund MMA operations. Since June 30, 2006, we have received loans in the aggregate principal amount of \$4.4 million from Richard J. Kurtz, one of our directors, to fund operations. Mr. Kurtz is not obligated to continue providing loans to us and may cease providing additional loans at any time. Because we expect that revenues from operations will continue to be insufficient to meet our capital needs, we likely will need to raise additional capital through equity or debt financings in the near future. We cannot be certain that such capital will be available to us from Mr. Kurtz or from any other party or, if it is available, whether such capital will be available on terms that are acceptable to us. Such financing likely would be dilutive to existing stockholders and could result in significant financial and operating covenants that would negatively impact our business. If we are unable to raise sufficient additional capital on acceptable terms, we will have insufficient funds to operate our business or pursue our planned growth.

The lack of profitability and the uncertainty surrounding the possibility of future financing raise substantial doubt about our ability to continue as a going concern.

**Plan of Operation**

*Overview*

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Our near and long-term operating strategy focuses on increasing revenues through additional live events, increased sponsorship revenues, sales of branded merchandise, increased television rights revenue while controlling costs to achieve profitable operations. Our objective is to use our MMA league and team business model to become a leader in the creation, production and promotion of live and televised MMA sporting events and to market our content and brands around the world. Key elements of our strategy are to:

- produce high quality live events, branded programming and consumer products for distribution;
- expand existing television distribution relationships and develop broader distribution arrangements for branded programming worldwide;
- increase the licensing and direct sale of IFL branded products through distribution channels;
- expand our Internet operations to further promote the IFL brand and to develop additional sources of revenue; and
- form strategic relationships with other sports, media, and entertainment companies to further promote the IFL brand and products.

### *Future Capital Requirements*

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Since inception, our MMA operations have incurred losses, and we have funded these operating deficits through proceeds of \$2.5 million from the issuance of preferred stock and from loans aggregating \$4.4 million from Richard Kurtz. We believe that revenues from operations will continue to be insufficient to meet our capital needs while we execute our operating strategy. We estimate that we will require approximately \$14 million in additional capital, excluding amounts required to repay indebtedness to Mr. Kurtz, before our cash flows from operations are sufficient to meet our anticipated cash outlays. In addition, we are obligated to repay amounts due to Mr. Kurtz under his promissory note with Old IFL upon the first funding of debt and/or equity capital after the Merger that results in aggregate net cash proceeds to us of not less than \$5 million.

In order to fund our cash requirements, we anticipate that we will need to raise additional capital through equity or debt financings in the near future. We cannot be certain that such capital will be available to us or, if it is available, whether such capital will be available on terms that are acceptable to us. Such financing likely would be substantially dilutive to our existing stockholders and could result in significant financial and operating covenants that would negatively impact our business. If we are unable to raise sufficient additional capital on acceptable terms, we will have insufficient funds to operate our business or pursue our planned growth.

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This current report is not an offer to sell, or a solicitation of an offer to buy, any of our securities.

**Off-Balance Sheet Arrangements**

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As of December 31, 2005, we had no off-balance sheet arrangements.

### **Critical Accounting Policies and Estimates**



*Use of Estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Property and Equipment* Property and equipment is stated at historical cost less accumulated depreciation and amortization. Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the assets, varying from 3 to 5 years or, when applicable, the life of the lease, whichever is shorter.

*Long-Lived Assets* We comply with the accounting and reporting requirements of Statement of Financial Accounting Standards ( SFAS ) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. We will periodically evaluate the carrying value of long-lived assets when events and circumstances warrant such a review. Long-lived assets will be written down if the evaluation determines that the fair value is less than the book amount.

*Cash and Cash Equivalents* Amounts reported include cash on deposit in overnight deposit accounts and investments in money market accounts.

*Accounts Receivable* Accounts receivable relates principally to sponsorship agreements. We evaluate the collectibility of accounts receivable and establish allowances for the amount of receivables that are estimated to be uncollectible. Allowances are based on the length of time receivables are outstanding and the financial condition of individual customers.

*Income Taxes* We comply with SFAS No. 109, *Accounting for Income Taxes*, which requires an asset and liability approach to financial reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amount expected to be realized.

*Revenue Recognition* In accordance with the provisions of Staff Accounting Bulletin ( SAB ) No. 101, *Revenue Recognition*, as amended by SAB 104, revenues are generally recognized when products are shipped or as services are performed. However, due to the nature of our business, there are additional steps in the revenue recognition process, as described below:

- Sponsorships: We follow the guidance of Emerging Issues Task Force ( EITF ) Issue 00-21 *Revenue Arrangements with Multiple Deliverables*, and assign the total of sponsorship revenues to the various elements contained within a sponsorship package based on their relative fair values.
- Licensing: Licensing revenues are recognized upon receipt of notice by the individual licensees as to license fees due. Licensing fees received in advances will be deferred and recognized as income when earned.

*Stock-Based Compensation* Accounting for stock options issued to employees follows the provisions of SFAS No. 123R, *Share-Based Payment*. This statement requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost

will be recognized over the period during which an employee is required to provide service in exchange for the reward.

We use the Black-Scholes option pricing model to measure the fair value of options granted to employees.

*Advertising Expense* In accordance with the provisions of Statement of Position ( SOP ) No. 93-7, advertising costs are expensed as incurred, except for costs related to the development of a major commercial or media campaign which are expensed in the period in which the commercial or campaign is first presented.

*Fair Value of Financial Instruments* The fair value of our assets and liabilities that qualify as financial instruments under SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, approximate their carrying amounts.

*Recently Issued Accounting Standards*

### **Share-Based Payment**

In December 2004, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 123R, *Share-Based Payment*. SFAS No. 123R is a revision to SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123R establishes standards for accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. Entities will be required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service, the requisite service period (usually the vesting period), in exchange for the award. SFAS No. 123R is effective for interim and annual financial statements for years beginning after December 15, 2005 and will apply to all outstanding and unvested share-based payments at the time of adoption. In March 2005, the SEC released SAB No. 107, *Share-Based Payment*. SAB No. 107 provides the SEC staff position regarding the application of SFAS No. 123R. SAB No. 107 contains interpretive guidance related to the interaction between SFAS No. 123R and certain SEC rules and regulations, as well as provides the Staff's views regarding the valuation of share-based payment arrangements for public companies.

SFAS No. 123R was adopted effective January 1, 2006 using the Black-Scholes option pricing model under the modified prospective application method. Under this method, SFAS No. 123R is applied to new awards and to awards modified, repurchased or canceled after the effective date.

### **Accounting Changes And Error Corrections**

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements*. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS No. 154 also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The provisions of SFAS No. 154 are effective for accounting changes and corrections of errors made in fiscal periods beginning after December 15, 2005. The adoption of the provisions of SFAS No. 154 is not expected to have a material impact on our financial position or results of operations.

### Accounting For Uncertain Tax Positions

In July 2006, FASB issued Statement of Financial Accounting Standards Interpretation No. 48 ( FIN 48 ), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new FASB standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. We intend to adopt FIN 48 effective January 1, 2007 and have not yet determined the impact, if any, this adoption will have.

### 3. PROPERTIES

Our principal office is located in New York City, New York, where we lease 4,300 square feet of office space pursuant to a lease that expires in August 2010. We have a one-year lease for an office in Las Vegas, Nevada, expiring in January 2007. If we require additional space, we believe that we will be able to obtain such space on commercially reasonable terms.

### 4. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table set forth information regarding the beneficial ownership of our common stock after consummation of the reverse stock split, the Merger and the issuance of common stock upon the conversion of a portion of the indebtedness owed to Mr. Kurtz, except as noted in the footnotes below, by:

- each person known to be the beneficial owner of 5% or more of our outstanding common stock;
- each of our executive officers;
- each of our directors; and
- all of our executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and is calculated based on 34,124,448 shares of our common stock issued and outstanding on November 29, 2006 following the Transactions. In computing the number of shares beneficially owned by a person and the percentage of ownership of that person, shares of common stock subject to options, warrants and/or convertible notes held by that person that are currently exercisable or convertible, as appropriate, or will become exercisable or convertible within 60 days of the reporting date are deemed outstanding, even if they have not actually been exercised or converted. Those shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

Unless otherwise indicated in the table, the persons and entities named in the table have sole voting and sole investment power with respect to the shares set forth opposite the stockholder's name. The address of each stockholder is listed in the table.

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Name and Address of Beneficial Owner	Beneficially Owned Following the Transactions	Percent of Class	
Kurt Otto (1)	9,291,361	27.2	%
Richard J. Kurtz (1)	7,372,926	21.6	%
Gareb Shamus (1)	7,923,700	(2)23.2	%
Keith Otto (3)	2,594,190	7.6	%
Michael Molnar (1)	735,918	2.2	%
Salvatore A. Bucci (1)	16,250	(4)*	
All executive officers and directors as a group (5 persons)	25,340,155	(5)74.2	%

\* Indicates less than 1%

(1) 424 West 33rd Street, Suite 650, New York, NY 10001.

(2) Includes 490,611 shares held by GSE, Inc., of which Mr. Shamus is the controlling stockholder.

(3) 1 Old Saw Mill Road, Alpine, NJ 07620.

(4) Represents shares issuable to Mr. Bucci pursuant to options to purchase shares of our common stock.

(5) Includes 16,250 shares issuable to Mr. Bucci pursuant to options to purchase shares of our common stock.

## 5. DIRECTORS AND EXECUTIVE OFFICERS

### Changes in Directors and Executive Officers

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As part of Merger, our two existing directors and Old IFL's three existing directors were elected as our directors, and Old IFL's officers became our officers, except that upon the consummation of the Merger, Salvatore A. Bucci, our President and Chief Executive Officer before the Merger, resigned from these positions and was appointed as our Chief Financial Officer, Executive Vice President and Treasurer.

### **Directors and Executive Officers**

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The following persons are our executive officers and directors, and hold the offices set forth opposite their names:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Gareb Shamus	37	Chairman of the Board of Directors, Chief Executive Officer and President
Kurt Otto	36	Vice Chairman of the Board of Directors and Commissioner
Salvatore A. Bucci	51	Director, Chief Financial Officer, Executive Vice President and Treasurer
Richard J. Kurtz	66	Director
Michael Molnar	45	Director

**Gareb Shamus** has been the Chairman of our board of directors, our Chief Executive Officer and President since the Merger. Prior to the Merger, Mr. Shamus held the same positions with Old IFL. Mr. Shamus is also currently the Chairman and a director of the Wizard Entertainment Group, a magazine publisher and convention promoter focused primarily on the comic book, toy, gaming, action figure and anime/manga industries. Mr. Shamus has appeared numerous times as a commentator on pop-culture on CNN, CNBC, NBC, ABC CBS and FOX and in many newspapers and magazines, including The New York Times, The Wall Street Journal, USA Today, Newsweek, Time, Variety and Inc. Magazine. Mr. Shamus founded Wizard in 1991 shortly after graduating from the State University of New York at Albany with a Bachelor of Arts degree in Economics, Magna Cum Laude.

**Kurt Otto** has been the Vice Chairman of our board of directors and our Commissioner since the Merger. Prior to the Merger, Mr. Otto held the same positions with Old IFL. Mr. Otto is also currently an Associate at FDS Architecture, a leading New Jersey architecture firm, which he joined in 1997, and a partner in Timeless Estates, a luxury residential land developer in northern New Jersey. Mr. Otto is currently a 2nd degree black belt in tae-kwon do and is studying jiu-jitsu under world champion Renzo Gracie. Mr. Otto has had a lifelong passion for martial arts, which he has been studying for nearly 30 years and teaching for over 15 years. Mr. Otto graduated from the Pratt Institute in 1994 with a Bachelor of Architecture degree.

**Salvatore A. Bucci** has been one of our directors since May 2002 and our Chief Financial Officer, Executive Vice President and Treasurer since the Merger. Prior to the Merger, Mr. Bucci was our President and Chief Executive Officer since February 2001. Mr. Bucci joined us in May 2000 as Senior Vice President and Chief Financial Officer and was appointed our Executive Vice President and Chief Financial Officer in October 2000. Prior to joining us, Mr. Bucci was Senior Vice President and Chief Financial Officer of DeGeorge Financial Corporation, a publicly traded financial services and contract fulfillment company and was also President and a director of DeGeorge Capital Corp., its mortgage banking subsidiary. Prior to his 1995 to 1999 employment at DeGeorge, Mr. Bucci served in senior financial roles in the development of several emerging growth businesses, including as Chief Financial Officer of MHI, Ltd., a privately held hospitality company, and also as Vice President, Financial Services for First National Realty Associates, Inc., a publicly traded realty brokerage company, during its conversion to public ownership. Previously, Mr. Bucci held management positions in the mortgage banking and realty brokerage divisions of Merrill Lynch. Mr. Bucci, a Certified Public Accountant, began his career with Coopers & Lybrand, a predecessor firm to PricewaterhouseCoopers LLP.

**Richard J. Kurtz** has been one of our directors since January 2000. Mr. Kurtz also has been the Chairman of the Board of Directors of LaPolla Industries, Inc., a publicly traded corporation in the sealant and coating business, since February 1999. For over twenty years, Mr. Kurtz has been the President and Chief Executive Officer of the Kamson Corporation, a privately held corporation which owns and operates real estate investment properties in the Northeastern United States. Mr. Kurtz received his Bachelor of Arts from the University of Miami in 1962.

**Michael Molnar** has been one of our directors since the Merger. Prior to the Merger, Mr. Molnar was a director of Old IFL since April 2006. Mr. Molnar is currently a Managing Director at Banc of America Securities, which he joined in March 2005 and is responsible for institutional product sales to middle market clients in both the debt and equity markets. From 2001 until 2005, Mr. Molnar was a Managing Director at Citigroup, responsible for middle market institutional sales. From March 2000 to October 2000, Mr. Molnar was the President and Chief Operating Officer of Tradescape.com, an electronic trading and brokerage firm, which was subsequently acquired by E Trade Group. Before joining Tradescape.com, Mr. Molnar was a Managing Director at Citigroup responsible for Global Retail Sales and trading for individual investors and small institutions from 1993 through 2000 and, prior to that, he was a Vice President at Lehman Brothers, where he worked from 1987 to 1993 in equity sales and trading. Mr. Molnar graduated from Boston University in 1983 with a Bachelor of Science degree in Business Administration.

#### **Family Relationships**



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There are no family relationships among the individuals comprising our board of directors, management and other key personnel.

### **Board Committees**

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The Board intends to appoint such persons and form such committees as are required to meet the corporate governance requirements imposed by the national securities exchanges. Therefore, we intend that a majority of our directors will eventually be independent directors and at least one director will qualify as an audit committee financial expert. Additionally, the Board is expected to appoint an audit committee, nominating committee and compensation committee, and to adopt charters relative to each such committee. Until further determination by the Board, the full Board will undertake the duties of the audit committee, compensation committee and nominating committee.

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**Code of Ethics**

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We have not formally adopted a written code of ethics that applies to our principal executive officer, principal financial officer, or persons performing similar functions. Based on our small size and limited financial and human resources, we did not adopt a written code of ethics prior to the Merger. We intend to formalize and adopt a written code of ethics now that we have acquired an operating business.

### **6. EXECUTIVE COMPENSATION**

Following the Merger on November 29, 2006, Gareb Shamus became the Chairman of our board of directors and our Chief Executive Officer and President, Mr. Otto became Vice Chairman of our board of directors and our Commissioner and Mr. Bucci resigned as our Chief Executive Officer and President but was appointed our Chief Financial Officer, Executive Vice President and Treasurer. Although International Fight League, LLC, the predecessor to Old IFL, was formed in March 2005, Old IFL's business activities did not commence until January 2006. Old IFL did not accrue or pay any compensation to its executive officers during the year ended December 31, 2005. Therefore, there is no compensation information for Old IFL for any of the fiscal years ended December 31, 2005, 2004 or 2003. The executive compensation data provided below with respect to such fiscal years represents that provided to our former Chief Executive Officer prior to the Merger.

Effective July 1, 2006, each of Messrs. Shamus and Otto has been employed by us or Old IFL pursuant to an aggregate annual base salary of \$120,000. Effective January 1, 2007, we expect to increase each of their annual base salaries to \$250,000.

#### **Compensation Discussion and Analysis**

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With respect to our executive compensation policies, the board of directors had determined that until a business combination or other strategic transaction was completed, we would continue to compensate our then sole executive officer on a basis commensurate with prior cash compensation and benefit levels, as equity incentives were not a meaningful element of compensation while we were a shell corporation without an operating business.

The following discussion and analysis reflects the limited compensation arrangements that we had with our sole executive officer as a result of our status as a shell corporation prior to the Merger. Now that we have acquired the mixed martial arts sports league business of Old IFL and are rounding out our management team, our board of directors intends to review and modify, as necessary, our executive compensation policies in light of our current status as an operating company. This review will be conducted with the goal of compensating our executives so as to maximize their, as well as our, performance.

### *Chief Executive Officer Compensation*

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Salvatore A. Bucci served as our Chief Executive Officer from February 2001 until the Merger. Pursuant to his amended employment agreement, which expired on May 25, 2002, Mr. Bucci was entitled to receive a base salary of \$200,000 per annum. Mr. Bucci was also eligible to receive bonus compensation, which amount and form are determinable and at the discretion of the compensation committee or the board of directors of the Company. Since that date, we had continued the employment of Mr. Bucci as our Chief Executive Officer upon the salary and with the health benefits and other perquisites as were provided in the amended employment agreement. Notwithstanding, Mr. Bucci voluntarily reduced his base salary for a portion of 2005.

### *Compensation of Other Executive Officers*

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Mr. Bucci was our sole executive officer during fiscal 2005 and during fiscal 2006 for the period prior to the Merger.

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*Stock Options*



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Stock options generally have been granted to our executive officers at the time of their hire and at such other times as the board of directors has deemed appropriate, such as in connection with a promotion or upon nearing full vesting of prior options. In determining option grants, the board of directors has considered the same industry survey data as used in its analysis of base salaries and bonuses, and has strived to make awards that are in line with its competitors. In general, the number of shares of common stock underlying the stock options granted to each executive has reflected the significance of that executive's current and anticipated contributions to us.

In addition, the stock option grants made by the board of directors are designed to align the interests of management with those of the stockholders. In order to maintain the incentive and retention aspects of these grants, the board of directors has determined that a significant percentage of any officer's stock options should be unvested option shares.

The value that may be realized from exercisable options depends on whether the price of the common stock at any particular point in time accurately reflects our performance. However, each individual optionholder, and not the board of directors, makes the determination as to whether to exercise options that have vested in any particular year.

During 2005 and during 2006 for the period prior to the Merger, Mr. Bucci was not granted any stock options given our lack of an operating business.

### *Compliance with Internal Revenue Code Section 162(m)*

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Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to a public company for compensation over \$1 million paid to its Chief Executive Officer and its four other most highly compensated executive officers. However, if certain performance-based requirements are met, qualifying compensation will not be subject to this deduction limit. Although the limitations of Section 162(m) generally have not been of concern to us while we were a shell corporation, we intend to consider the requirements of Section 162(m) in developing our compensation policies now that we are an operating company.

### *Summary Compensation Table*

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The following table sets forth certain compensation information as to our former Chief Executive Officer, who was our only executive officer (the Named Executive Officer ), for each of the years ended December 31, 2005, 2004 and 2003:

### SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Long Term Compensation Awards Securities Underlying Options (#)	All Other Compensation (\$)
Salvatore A. Bucci President and Chief Executive Officer	2005	162,500	0	0	0
	2004	179,672	0	0	0
	2003	200,000	0	0	0

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***Fiscal Year-End Option Values***

The following table provides information regarding exercisable and unexercisable stock options held by the Named Executive Officer as of December 31, 2005:

**FISCAL YEAR-END OPTION VALUES**

<b>Name</b>	<b>Shares Acquired on Exercise (#)</b>	<b>Value Realized (\$)</b>	<b>Fiscal Year-End (#) Exercisable/Unexercisable</b>	<b>Value of Unexercised In-the-Money Options at Fiscal Year-End (\$) Exercisable/Unexercisable(1)</b>
Salvatore A. Bucci	0	0	325,000/0	(2) 0/0

(1) Based on the difference between the option exercise price and the closing price of the underlying common stock on December 31, 2005, which closing price was \$0.03, or \$0.60 after giving effect to our 1-for-20 reverse split on November 29, 2006.

(2) Does not reflect the effect of the 1-for-20 reverse stock split on November 29, 2006, which reduced to 16,250 the number of shares issuable upon exercise of such options.

***Compensation of Directors***

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There are presently no arrangements providing for payments to directors for director or consulting services. We expect to establish these arrangements shortly now that we have operating business.

### *Executive Employment Contract*

## Edgar Filing: International Fight League, Inc. - Form 8-K

Provided below is information concerning the employment arrangement that we have entered into with our Chief Financial Officer.

**Salvatore A. Bucci.** On May 25, 2000, we and Mr. Bucci entered into an employment agreement (the Original Agreement ) providing for Mr. Bucci to serve as our Senior Vice President and Chief Financial Officer for a period of two years. On October 6, 2000, Mr. Bucci was appointed Executive Vice President and Chief Financial Officer and on February 9, 2001, Mr. Bucci was named President and Chief Executive Officer. The Original Agreement entitled Mr. Bucci to receive a minimum annual base salary of \$150,000 and a minimum annual bonus of \$25,000, which minimum annual bonus was required to be paid to Mr. Bucci in quarterly installments over the term of the Original Agreement. The amount of Mr. Bucci's actual bonus was to be determined annually by the compensation committee in light of his and our performance over the prior year. Mr. Bucci also received an option to purchase 325,000 shares of common stock (which amount was reduced to 16,250 as result of the reverse stock split), with vesting to occur in equal annual installments over a four-year period. If we terminate Mr. Bucci's employment without cause, or if Mr. Bucci terminates his employment because there has been a change of control of IFL, then Mr. Bucci is entitled to receive:

- severance payments in a lump sum equal to one-half of his most recent base salary plus one-half of the amount of cash bonus most recently awarded; and
- immediate vesting and exercisability of any unvested options then held by Mr. Bucci.

Effective with Mr. Bucci's appointment as President and Chief Executive Officer, we and Mr. Bucci amended the terms of the Original Agreement (the Amended Agreement ). The Amended Agreement provided for:

- a minimum annual base salary of \$200,000, effective January 1, 2001;
- a bonus of \$25,000, which was paid upon execution of the Amended Agreement; and
- the elimination of the minimum annual bonus.

The Amended Agreement expired on May 25, 2002. We have continued the employment of Mr. Bucci as our Chief Financial Officer, Executive Vice President and Treasurer upon the salary and with the health benefits and other perquisites as were provided in the Amended Agreement.

During 2005, no options or other equity-based awards were granted and Mr. Bucci's compensation was not adjusted.

**Compensation Committee Interlocks and Insider Participation**

During 2005, we did not have a compensation committee or another committee of the board of directors performing equivalent functions. Instead the entire board of directors performed the function of a compensation committee. As a member of the board of directors, Mr. Bucci, our sole executive officer and sole employee, participated in deliberations of the board of directors; however, there were no deliberations relating to executive officer compensation during 2005. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

**2006 Equity Incentive Plan**

*Summary of the Plan*



## Edgar Filing: International Fight League, Inc. - Form 8-K

Our 2006 Equity Incentive Plan, which was approved by our stockholders on November 27, 2006, provides for the grant of up to 5,000,000 post-reverse stock split shares of common stock pursuant to incentive stock options or nonqualified stock options (together with incentive stock options, *Stock Options* ), stock purchase rights, stock appreciation rights and restricted and unrestricted stock awards (the latter three, collectively, *Stock Awards* ) for employees, directors and consultants. Such shares are currently authorized and unissued, but reserved for issuance under the plan. No more than 500,000 shares of common stock may be awarded to any eligible participant in the plan with respect to *Stock Options* or *Stock Awards* during any calendar year.

The plan has a term of ten years. Accordingly, no grants may be made under the plan after November 27, 2016, but the plan will continue thereafter while previously granted *Stock Options* or *Awards* remain outstanding and unexercised.

### *Administration of the Plan*

## Edgar Filing: International Fight League, Inc. - Form 8-K

The plan will be administered by a committee appointed by the board of directors (the Committee ) comprised of at least two members of the board of directors. The Committee s membership shall be made up entirely of members of the board of directors who qualify as non-employee directors, as defined in Rule 16b-3 under the Securities Exchange Act of 1934, and as outside directors, within the meaning of the Department of Treasury Regulations issued under Section 162(m) of the Internal Revenue Code of 1986.

The Committee has the power and authority to make grants of Stock Options or Stock Awards or any combination thereof to eligible persons under the plan, including the selection of such recipients, the determination of the size of the grant, and the determination of the terms and conditions, not inconsistent with the terms of the plan, of any such grant including, but not limited to:

- approval of the forms of agreement for use
- the applicable exercise price;
- the applicable exercise periods;
- the applicable vesting period;
- the acceleration or waiver of forfeiture provisions; and

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- any other restrictions or limitations regarding the Stock Option or Stock Award.

The Committee also has the authority, in its discretion, to prescribe, amend and rescind the administrative rules, guidelines and practices governing the plan as it shall from time to time deem advisable. The Committee may construe and interpret the terms of the plan and any Stock Options or Stock Awards issued under the plan and any agreements relating thereto and otherwise supervise the administration of the plan. In addition, the Committee may modify or amend each Stock Option or stock purchase right granted under the plan. All decisions made by the Committee pursuant to the provisions of the plan are final and binding on all persons, including us and all plan participants.

*Eligibility*

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Employees and directors of, and consultants providing services to, us are eligible to be granted non-qualified stock options and Stock Awards under the plan. Our employees are also eligible to receive incentive stock options. The Committee shall select from among the eligible persons under the plan as recommended by our senior management, from time to time in its sole discretion, to make certain grants of Stock Options or Stock Awards, and the Committee shall determine, in its sole discretion, the number of shares covered by each award.

### *Stock Options*

## Edgar Filing: International Fight League, Inc. - Form 8-K

Stock Options may be granted to eligible persons alone or in addition to Stock Awards under the plan. Any Stock Option granted under the plan shall be in such form as the Committee shall from time to time approve, and the provisions of a Stock Option award need not be the same with respect to each optionee. Recipients of Stock Options must enter into a stock option agreement with us, in the form determined by the Committee, setting forth the term, the exercise price and provisions regarding exercisability of the Stock Options granted thereunder. The Committee may grant either incentive stock options or non-qualified stock options or a combination thereof, but the Committee may not grant incentive stock options to any individual who is not one of our employees. To the extent that any Stock Option does not qualify as an incentive stock option, it shall constitute a separate non-qualified stock option. The Committee may not grant to any employee incentive stock options that first become exercisable in any calendar year in an amount exceeding \$100,000.

Incentive stock options and nonstatutory stock options may not be granted at less than the fair market value of the underlying common stock at the date of the grant. Incentive stock options may not be granted at less than 110% of fair market value if the employee owns or is deemed to own more than 10% of the combined voting power of the all classes our stock at the time of the grant. Stock Options can be exercisable at various dates, as determined by the Committee and will expire no more than 10 years from the grant date, or no more than five years for any Stock Option granted to an employee who owns or is deemed to own 10% of the combined voting power of all classes of our stock.

Once vested, Stock Options granted under the plan are exercisable in whole or in part at any time during the option period by giving written notice to us and paying the option price:

- in cash or by certified check;
- through delivery of shares of common stock having a fair market value equal to the purchase price; or
- a combination of these methods.

The Committee may also permit cashless exercises of Stock Options.

Stock Options issued under the plan may not be transferred other than by will or by the laws of descent and distribution. During an optionee's lifetime, a Stock Option may be exercised only by the optionee. Unless otherwise provided by the Committee, Stock Options that are exercisable at the time of a recipient's termination of

service with us will continue to be exercisable for three months thereafter, or for twelve months thereafter if the optionee's employment is terminated due to their death or disability.

***Stock Appreciation Rights***

## Edgar Filing: International Fight League, Inc. - Form 8-K

Stock appreciation rights may be granted to eligible persons alone or in addition to Stock Options or other Stock Awards under the plan. The Committee will determine the number of shares of common stock to which the stock appreciation rights shall relate. Each stock appreciation right will have an exercise period determined by the Committee not to exceed 10 years from the grant date. Upon exercise of a stock appreciation right, the holder will receive cash or a number of shares of common stock equal to:

- (x) the number of shares for which the stock appreciation right is exercised multiplied by the appreciation in the fair market value of a share of common stock between the stock appreciation right grant date and exercise date, divided by
- (y) the fair market value of a share of common stock on the exercise date of the stock appreciation right.

### *Stock Purchase Rights*

## Edgar Filing: International Fight League, Inc. - Form 8-K

Stock purchase rights may be granted to eligible persons alone or in addition to Stock Options or other Stock Awards under the plan. A stock purchase right allows a recipient to purchase a share of common stock at a price determined by the Committee. Unless otherwise determined by the Committee, we will have the right to repurchase the shares of common stock acquired upon exercise of the stock purchase right upon the recipient's termination of service, for any reason, prior to the satisfaction of the vesting conditions established by the Committee. Unless otherwise determined by the Committee, our right of repurchase will lapse as to 1/6th of the purchase shares on the date that is six months after the grant date, and as to an additional 1/6th of such shares every six months thereafter. Upon exercise of a stock purchase right, the purchaser will have all of the rights of a stockholder with respect to the shares of common stock acquired.

Stock purchase rights may not be transferred other than by will or by the laws of descent and distribution, and during a recipient's lifetime, a purchase grant may be exercised only by the recipient. Unless otherwise determined by the Committee, if a recipient's service to us terminates for any reason, all stock purchase rights held by the recipient will automatically terminate.

### ***Restricted and Unrestricted Stock Awards***



## Edgar Filing: International Fight League, Inc. - Form 8-K

Restricted and unrestricted stock awards may be granted to eligible persons alone or in addition to Stock Options or other Stock Awards under the plan. Shares of common stock granted in connection with a restricted stock award are generally subject to forfeiture upon:

- termination of the recipient's service with us prior to vesting; or
- the failure by the recipient to meet performance goals established by the Committee as a condition of vesting.

Shares of common stock subject to a restricted stock award cannot be sold, transferred, assigned, pledged or otherwise encumbered or disposed of until the applicable restrictions lapse. Unless otherwise determined by the Committee, holders of shares of common stock granted in connection with a restricted stock award have the right to vote such shares and to receive any cash dividends with respect thereto during the restriction period. Any stock dividends will be subject to the same restrictions as the underlying shares of restricted stock. Unrestricted stock awards are outright grants of shares of common stock that are not subject to forfeiture.

*Effect of Certain Corporate Transactions*

If:

- we merge or consolidate with another corporation,
- there is an exchange of substantially all of our outstanding stock for shares of another entity in which our stockholders will own less than 50% of the voting shares of the surviving entity or
- we sell substantially all of our assets,

then, unless otherwise provided by the Committee in a grantee's option or award agreement, each outstanding and unexercised Stock Option or Stock Award may be assumed by the successor corporation or an equivalent option, or stock award will be substituted by the successor. If, however, the successor does not assume the Stock Options and Stock Awards or substitute equivalent stock options or stock awards, then each outstanding and unexercised Stock Option and Stock Award will become exercisable for a period of at least 20 days prior to the effective date of such transaction and our right of repurchase with respect to shares covered by all outstanding stock purchase rights and all restrictions with respect to restricted stock awards will lapse. Any Stock Options, or Stock Awards that are not exercised during such 20-day period shall terminate at the end of such period.

Stock Options and Stock Awards made under the plan will be proportionately adjusted for any increase or decrease in the number of issued shares of common stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the common stock, or any other increase or decrease in the number of issued shares of common stock effected without receipt of consideration by the company.

#### **1998 Equity Incentive Plan**

*Summary of the Plan*

## Edgar Filing: International Fight League, Inc. - Form 8-K

Under our 1998 Equity Incentive Plan, which amended and restated our 1989 Stock Plan, we originally were permitted to grant of stock options (incentive and nonstatutory), stock appreciation rights, performance shares, restricted stock and stock units ( Awards ) to our employees and consultants and those of our affiliates up to a maximum of 4,800,000 shares. In February 2000, the board of directors approved an amendment to the 1998 plan to increase the number of shares covered by the 1998 plan by 6,000,000, to 10,800,000, subject to adjustment for stock splits and similar capital changes. The amendment was approved by our stockholders at our June 19, 2000 annual meeting of stockholders. Following the reverse stock split, there are 270,401 shares available for future grants under the 1998 plan. However, as a result of the adoption of our 2006 Equity Incentive Plan, we do not intend to make any additional Awards under the 1998 Equity Incentive Plan. Following the reverse stock split, options to purchase an aggregate of 264,772 shares of common stock are outstanding under the 1998 plan.

The purpose of the 1998 plan was to enable us to attract and retain key employees and consultants, to provide incentives for them to achieve long-range performance goals and to enable them to participate in our long-term growth.

Options could be granted under the 1998 plan through the assumption or substitution of outstanding grants from an acquired company without reducing the number of shares available for award under the 1998 plan.

### *Administration and Eligibility*

## Edgar Filing: International Fight League, Inc. - Form 8-K

Awards had been made by a committee designated by the board of directors to administer the 1998 plan. The committee was authorized to delegate to one or more officers the power to make awards under the 1998 plan to persons other than our officers who are subject to the reporting requirements of Section 16 of the Exchange Act. Awards under the 1998 plan have been made at the discretion of the committee, which determined the recipients and established the terms and conditions of each award, including the exercise price, the form of payment of the exercise

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price, the number of shares subject to options or other equity rights and the time at which such options become exercisable.

The 1998 Plan provided for the granting of incentive stock options and non-statutory stock options. In the case of incentive stock options, the exercise price shall not be less than 100% of the fair market value per share of the Company's common stock, on the date of grant. In the case of non-statutory options, the exercise price shall be determined by the committee. All stock options under the 1998 plan have been granted at exercise prices at least equal to the fair market value of the common stock on the date of grant.

The options either were exercisable immediately on the date of grant or became exercisable in such installments as the committee may specify, generally over a four-year period. Each option expires on the date specified by the committee, but not more than ten years from the date of grant in the case of incentive stock options (five years in other cases).

#### **7. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

There are no material relationships between us and our current directors and executive officers other than the transactions and relationships described below:

##### **Loans from Directors, Officers, Stockholders and Affiliated Parties**

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On October 8, 2003, Paligent entered into a promissory note with Richard J. Kurtz, then our principal stockholder and one of our directors, under which we received loans to meet operating costs of the Company. The loan was evidenced by a promissory note that we issued to Mr. Kurtz. The loan bears interest at 8% per annum and after its first anniversary, the outstanding loan amount was payable on demand. As of the Merger, the aggregate balance of principal and interest due under the promissory note was \$920,000, consisting of \$840,000 in principal and \$80,000 of accrued interest. Mr. Kurtz converted \$651,000 of the amount outstanding under the note into 1,627,500 shares of our common stock immediately following the Merger at the rate of \$0.40 per share. Immediately following the Transactions, the balance of principal and interest owed to Mr. Kurtz under his promissory note with Paligent was \$269,000.

On August 1, 2006, Old IFL entered into a promissory note with Mr. Kurtz, which loan was evidenced by a promissory note that Old IFL issued to Mr. Kurtz. To date, Mr. Kurtz has loaned Old IFL and the Company an aggregate of \$4.4 million to fund MMA operations, all of which is outstanding. The loans bear interest at 8% per annum and are repayable upon the earlier of:

- the first anniversary of the promissory note, or August 1, 2007; and
- the first funding of debt and/or equity capital subsequent to the Merger that results in aggregate net cash proceeds to Old IFL of not less than \$5 million.

As of November 29, 2006, the balance of accrued interest due under the Old IFL promissory note was \$60,186.

As a result of the Merger and the subsequent conversion of debt, Mr. Kurtz beneficially owns 7,372,926 shares of our common stock or approximately 21.6% of our aggregate issued and outstanding shares of common stock on November 29, 2006 following the Transactions.

### **Securities Transactions with Old IFL**



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On June 16, 2005, Mr. Kurtz advanced \$25,000 to Old IFL to help defray start-up costs. In January 2006, in connection with Old IFL's private placement of its Series A preferred stock, Mr. Kurtz converted his earlier \$25,000 advance to IFL into 111,111 shares of Old IFL Series A Preferred Stock at a conversion price of \$0.225 per share. On April 26, 2006, Mr. Kurtz invested an additional \$1,000,000 and received 4,444,444 shares of Old IFL Series A preferred stock at a purchase price of \$0.225 per share. At the time of the Merger, Mr. Kurtz owned 4,555,555 shares of Old IFL preferred stock, which together with accrued dividends of \$49,513 thereon, were converted into

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4,775,610 shares of Old IFL common stock immediately prior to the Merger at a conversion price of \$0.225 per share. These shares of Old IFL common stock subsequently were converted into 4,930,213 shares of IFL common stock in the Merger.

On January 11, 2006, pursuant to a merger agreement between the LLC and Old IFL, Gareb Shamus, Kurt Otto and Keith Otto, who were all of the members of the LLC, exchanged their respective member interests in the LLC for 7,200,000, 9,000,000 and 1,800,000 shares, respectively, of Old IFL common stock. As a result of the Merger, those shares of Old IFL common stock were converted into 7,433,089, 9,291,361, and 1,858,272 shares of IFL common stock, respectively.

In January 2006, in connection with Old IFL's private placement of its Series A preferred stock, GSE, Inc., and entity controlled by Mr. Shamus, purchased 444,444 shares of Old IFL Series A Preferred Stock at a price of \$0.225 per share. Immediately prior to the Merger, these shares of Old IFL Series A Preferred Stock, together with accrued dividends of \$6,926 thereon, were converted into 475,226 shares of Old IFL common stock at a conversion price of \$0.225 per share. These shares of Old IFL common stock subsequently were converted into 490,611 shares of IFL common stock in the Merger.

### **Lease Guaranty**

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In connection with Old IFL's lease of our New York City headquarters in August 2006, Mr. Shamus executed an unconditional and irrevocable guaranty of Old IFL's obligations under the lease. This lease commenced on September 1, 2006 and expires on August 31, 2010. Rent expense initially is \$13,394 per month (not including escalations) commencing on November 1, 2006 and payable in advance. Future minimum rental payments are as follows:

2006	\$ 34,000
2007	\$ 163,000
2008	\$ 164,000
2009	\$ 169,000
2010	\$ 113,000

### **Transactions with Entities Controlled by Our Chief Executive Officer**

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Prior to moving to its new principal office in New York City in October 2006, the Company utilized office space provided by a business venture controlled by Mr. Shamus. No rent was charged to Old IFL under this arrangement, nor is there any obligation upon the Company or Old IFL to pay rent for its past use of such premises.

In addition, certain business transactions are transacted among Old IFL and two business ventures that are controlled by Mr. Shamus, our chief executive officer. Typically, Old IFL reimburses these related companies for charges incurred and advances made on Old IFL's behalf. Further, Old IFL purchases certain goods and services from these related companies. As of September 30, 2006, approximately \$63,000 was owed to these related companies, relating to transactions aggregating \$317,000 for the nine months ended September 30, 2006.

### **Review, Approval and Ratification of Related Party Transactions**

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Given Old IFL's small size and limited financial resources, Old IFL had not adopted prior to the Merger formal policies and procedures for the review, approval or ratification of transactions, such as those described above, with its executive officers, directors and significant stockholders. Since our acquisition of Old IFL in the Merger, we intend that such transactions will, on a going-forward basis, be subject to the review, approval or ratification of our board of directors, or an appropriate committee thereof.

### **Director Independence**

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Presently, we are not required to comply with the director independence requirements of any securities exchange. In determining whether our directors are independent, however, we intend to comply with the rules of the

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American Stock Exchange LLC, or the AMEX. The board of directors also will consult with counsel to ensure that the board of director s determinations are consistent with those rules and all relevant securities and other laws and regulations regarding the independence of directors, including those adopted under the Sarbanes-Oxley Act of 2002 with respect to the independence of audit committee members. The AMEX listing standards define an independent director generally as a person, other than an officer of a company, who does not have a relationship with the company that would interfere with the director s exercise of independent judgment.

Currently we do not satisfy the independent director requirements of the American Stock Exchange, which requires that a majority of a company s directors be independent. Our board of directors intends to appoint additional members, each of whom will satisfy such independence requirements.

## 8. LEGAL PROCEEDINGS

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. We are not aware of any pending or threatened legal proceeding that, if determined in a manner adverse to us, could have a material adverse effect on our business and operations.

We, two of our officers and two IFL employees, had been named as defendants in a civil action filed in Clark County, Nevada by Zuffa, LLC seeking unspecified monetary, exemplary and injunctive relief. The complaint alleged that IFL and its officers and employees misappropriated the plaintiff s trade secrets and intentionally interfered with its business relationships. In October 2006, the action was settled and all claims and liabilities relating thereto were released.

## 9. MARKET PRICE OF AND DIVIDENDS ON COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our shares of common stock, par value \$0.01 per share, are quoted on the OTC Bulletin Board under the symbol IFLI. Prior to November 29, 2006, our common stock was quoted on the OTC Bulletin Board under the symbol PGNT. The following table sets forth the range of high and low closing sale prices for the common stock as reported by the OTC Bulletin Board for the periods indicated below.

	High	Low
<b>2006</b>		
Third Quarter	\$ 3.40	\$ 1.30
Second Quarter	\$ 2.10	\$ 0.30
First Quarter	\$ 1.80	\$ 0.01
<b>2005</b>		
Fourth Quarter	\$ 1.60	\$ 0.40
Third Quarter	\$ 1.60	\$ 1.00
Second Quarter	\$ 3.40	\$ 1.20
First Quarter	\$ 5.40	\$ 2.20
<b>2004</b>		
Fourth Quarter	\$ 8.60	\$ 2.60
Third Quarter	\$ 6.60	\$ 2.80
Second Quarter	\$ 6.40	\$ 1.80
First Quarter	\$ 3.00	\$ 1.80

The closing sale prices in the table above reflect inter-dealer prices, without retail mark-up or commissions and may not represent actual transactions.

Immediately prior to the Merger on November 29, 2006, we effected a 1-for-20 reverse stock split, whereby every 20 shares of common stock then outstanding was combined and reduced into one share of common stock. The closing sale prices in the table above reflect the reverse stock split. The reverse stock split did not affect the authorized number of shares of common stock or the number of our stockholders of record since each fractional share resulting from the reverse stock split was rounded up to the nearest whole share. Following the Transactions, we had approximately 1,500 holders of record of our common stock and 34,124,448 shares of common stock issued and outstanding on November 29, 2006.

**Dividend Policy**



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We have never declared or paid dividends on our common stock. We intend to retain earnings, if any, to support the development of our business and therefore do not anticipate paying cash dividends for the foreseeable future. Payment of future dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including current financial condition, operating results and current and anticipated cash needs.

### **Securities Authorized for Issuance Under Equity Compensation Plans**

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The following table sets forth information as of December 31, 2005 with respect to Paligent's equity compensation plans, for which common stock of Paligent is authorized for issuance.

	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance</b>
Equity compensation plans approved by security holders	264,772	\$ 38.00	270,401
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>264,772</b>	<b>\$ 38.00</b>	<b>270,401</b>

The data in the table above, reflects the effect of the 1-for-20 reverse stock split with respect to our common stock that we effected immediately prior to the Merger on November 29, 2006. The table does not reflect the approval and adoption of the 2006 Equity Incentive Plan by our stockholders on November 27, 2009 pursuant to which we are authorized to issue up to 5,000,000 shares of our common stock, of which 1,925,376 shares are subject to outstanding options to purchase common stock.

### 10. RECENT SALES OF UNREGISTERED SECURITIES

#### Shares Issued in Connection with the Merger

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On November 29, 2006, the stockholders of Old IFL surrendered all of the issued and outstanding shares of common stock of Old IFL and received an aggregate of 30,872,101 shares of our common stock. For each share of Old IFL common stock, the holder thereof received 1.032373 shares of our common stock. Our pre-Merger stockholders retained 1,624,847 shares of common stock following the reverse stock split and the Merger.

As part of the Merger, in exchange for options to purchase 1,865,000 shares of Old IFL common stock, we issued to the holders thereof options to purchase an aggregate of 1,925,376 shares of our common stock under the 2006 Equity Incentive Plan having substantially the same terms and conditions as the Old IFL options.

### **Shares Issued to Mr. Kurtz Upon Conversion of Indebtedness**

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Mr. Kurtz converted \$651,000 of the amount of indebtedness outstanding under the promissory note previously issued to Mr. Kurtz by Paligent into 1,627,500 shares of our common stock immediately following the Merger at the rate of \$0.40 per share.

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None of the above transactions involved a public offering, and we believe that each transaction was exempt from the registration requirements of the Securities Act by virtue of Section 4(2) of the Securities Act and Rule 506 of Regulation D as promulgated by the SEC.

**11. DESCRIPTION OF SECURITIES.**

**Authorized Capital Stock**

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We are authorized to issue 75,000,000 shares of common stock, par value \$0.01 per share, and 1,000,000 shares of undesignated preferred stock, par value \$0.01 per share.

### **Common Stock**

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Immediately following the Transactions on November 29, 2006, there were 34,124,448 shares of common stock issued and outstanding.

The holders of common stock are entitled to one vote for each share on all matters to be voted on by the stockholders. The holders of common stock do not have cumulative voting rights. Therefore, holders of a majority of the shares of common stock voting for the election of directors can elect all of the directors. Holders of common stock representing a majority of the voting power of the capital stock issued, outstanding and entitled to vote, represented in person or by proxy, are necessary to constitute a quorum at any meeting of stockholders. A vote by the holders of a majority of the outstanding shares of common stock is required to effectuate certain fundamental corporate changes such as liquidation, merger or an amendment to the certificate of incorporation.

Subject to any preferences that may be applicable to any outstanding preferred stock, holders of common stock are entitled to share in all dividends that the board of directors, in its discretion, declares from legally available funds. In the event of a liquidation, dissolution or winding up, each outstanding share of common stock entitles its holder to participate pro rata in all assets that remain after payment of liabilities and after providing for each class of stock, if any, having preference over the common stock. Holders of common stock have no pre-emptive or conversion rights, and there are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and nonassessable.

### **Preferred Stock**

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The board of directors has the authority, without action by the stockholders, to designate and issue preferred stock in one or more series and to designate the rights, preferences and privileges of each series, any or all of which may be greater than the rights of the common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of the common stock until the board of directors determines the specific rights of the holders of preferred stock. However, the effects might include restricting dividends on the common stock, diluting the voting power of the common stock, impairing the liquidation rights of the common stock and delaying or preventing a change of our control without further action by the stockholders. No shares of preferred stock are issued and outstanding.

### **Options**



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As of November 29, 2006, there were options outstanding to purchase an aggregate of 2,190,148 shares of common stock, of which options to purchase 1,925,376 shares were issued under our 2006 Equity Incentive Plan and options to purchase 264,772 were issued under our 1998 Equity Incentive Plan. Under the terms of the 2006 Equity Incentive Plan, we may issue incentive awards that may include the issuance of up to 5,000,000 shares of common stock.

### **Provisions of Our Certificate of Incorporation and Bylaws**

## Edgar Filing: International Fight League, Inc. - Form 8-K

Our certificate of incorporation and bylaws contain provisions that could make it more difficult for another person to acquire us. These provisions are intended to discourage coercive takeover practices and inadequate

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takeover bids and to encourage persons seeking to acquire control of us to first negotiate with us. We believe that protecting our ability to negotiate with the proponent of an unfriendly or unsolicited takeover proposal outweighs the disadvantages of discouraging a takeover proposal because negotiation of a proposal could result in an improvement of its terms. These provisions:

- authorize the issuance of blank check preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;
- allow stockholders to request that we call a special meeting of our stockholders only if the requesting stockholders hold of record at least a majority of the outstanding shares of common stock;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- provide that business to be conducted at any special meeting of stockholders be limited to matters relating to the purposes stated in the applicable notice of meeting.

**Transfer Agent and Registrar**

The transfer agent and registrar for the common stock is the American Stock Transfer & Trust Company.

## 12. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law grants IFL the power to indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that he is or was a director, officer, employee or agent of IFL, or is or was serving at the request of IFL as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of IFL, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful, provided, however, no indemnification shall be made in connection with any proceeding brought by or in the right of IFL where the person involved is adjudged to be liable to IFL except to the extent approved by a court. Under Section 145, to the extent that one of our present or former directors or officers is successful on the merits or otherwise in defense of any of these actions, suits or proceedings, or in defense of any claim, issue or matter, the director or officer shall be indemnified against expenses (including attorneys' fees) that the director or officer actually and reasonably incurs because of the action, suit or proceeding.

Under Section 145 of the DGCL, advances for expenses may be made by agreement if the director or officer affirms in writing that he believes he has met the standards and will personally repay the expenses if it is determined such officer or director did not meet the standards. Under IFL's certificate of incorporation, IFL will not indemnify any person who seeks indemnification in connection with a proceeding initiated by such officer or director unless the initiation was approved by the board of directors.

Article Eighth of IFL's certificate of incorporation as currently in effect provides that IFL shall, to the fullest extent permitted by the Delaware General Corporation Law, as amended from time to time, indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by reason of the fact that he is or was, or has agreed to become, a director or officer of IFL, or is or was serving, or has agreed to serve, at the request of IFL, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise. Such indemnification may include the advancement of expenses to such indemnified person upon such person's written undertaking to repay such advancement if it is ultimately determined that such person is not entitled to indemnification under Article Eighth. The indemnification provided for in Article Eighth is expressly not exclusive of any other rights to which those seeking indemnification may be entitled under any law, agreement or vote of stockholders or disinterested directors or otherwise, and shall inure to the benefit of the heirs, executors and administrators of such persons. Article Eighth permits the board of directors to authorize the grant of indemnification rights to other employees or agents of IFL or

other persons serving IFL and such rights may be equivalent to, or greater or less than, those set forth in Article Eighth.

Article V, Section 1 of IFL's by-laws provides that IFL shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of IFL, or is or was serving at the request of IFL as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against and incurred by such person in any such capacity or arising out of such person's status as such. In accordance with these provisions, we maintain liability insurance for the benefit of our officers and directors.

Pursuant to Section 102(b)(7) of the Delaware General Corporation Law, Article Ninth of IFL's certificate of incorporation eliminates a director's personal liability for monetary damages to IFL and its stockholders for breaches of fiduciary duty as a director, except in circumstances involving a breach of a director's duty of loyalty to IFL or its stockholders, acts or omissions not in good faith, intentional misconduct, knowing violations of the law, the unlawful payment of dividends, the unlawful repurchase or redemption of stock or an improper personal benefit.

### 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following tables set forth selected unaudited quarterly consolidated income statement data for each of the quarters ended March 31, June 30 and September 30, 2006. No information is presented for earlier quarters, as Old IFL did not commence operations until January 2006. The consolidated financial statements for each of these quarters have been prepared on the same basis as the audited consolidated financial statements included in this current report and, in the opinion of management, include all adjustments necessary for the fair presentation of the consolidated results of operations for these periods. You should read this information together with our audited consolidated financial statements and the related notes included elsewhere in this prospectus. These quarterly operating results are not necessarily indicative of the results for any future period.

	Three Months Ended		September 30,
	March 31, 2006	June 30, 2006 (unaudited)	2006
<b>Revenues</b>			
<b>Live and televised events</b>			
Advertising sponsorships	\$	\$ 234,080	\$ 19,469
Advertising other		230	770
Live events box office receipts		127,142	324,987
Television rights		375,000	125,000
<b>Branded merchandise</b>		1,342	17,604
<b>Total revenues</b>	\$	\$ 737,794	\$ 487,830
<b>Cost of revenues</b>			
<b>Live and televised events</b>			
Advertising sponsorships		102,280	37,200
Live Events - advertising		169,691	374,369
Live events other costs		1,343,731	1,740,007
Distribution fees		375,000	125,000
<b>Branded merchandise</b>		680	10,562
<b>Total cost of revenues</b>		1,991,382	2,287,138
<b>Selling, general and administrative expenses</b>	565,190	504,773	1,276,590
<b>Stock-based compensation expense</b>	9,582	15,546	7,738
<b>Operating loss</b>	(574,772 )	(1,773,907 )	(3,083,636 )
<b>Dividend expense</b>	(27,450 )	(45,167 )	(47,580 )
<b>Interest expense</b>			(14,795 )
<b>Interest income</b>	11,523	11,248	2,900
<b>Net loss</b>	\$ (560,699 )	\$ (1,807,826 )	\$ (3,143,111 )



**14. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS  
ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**15. FINANCIAL STATEMENTS AND EXHIBITS**

See Item 9.01 and the Exhibit Index below and the corresponding exhibits, which are incorporated by reference herein.

**Item 3.02. Unregistered Sales of Equity Securities.**

Reference is made to the disclosure set forth under Item 2.01 of this current report on Form 8-K, which disclosure is incorporated herein by reference.

**Item 5.01. Changes in Control of Registrant.**

Reference is made to the disclosure set forth under Item 2.01 of this current report on Form 8-K, which disclosure is incorporated herein by reference.

**Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.**

Reference is made to the disclosure set forth under Item 2.01 of this current report on Form 8-K, which disclosure is incorporated herein by reference.

**Item 5.06. Change in Shell Company Status.**

Reference is made to the disclosure set forth under Item 2.01 of this current report on Form 8-K, which disclosure is incorporated herein by reference. As a result of the Merger described under Item 2.01 of this current report on Form 8-K, we believe we are no longer a shell corporation as that term is defined in Rule 405 of the Securities Act and Rule 12b-2 of the Exchange Act.

**Item 9.01. Financial Statements and Exhibits.**

- (a) **Financial statements of businesses acquired**
- (b) **Pro forma financial information**

The financial statements of International Fight League, Inc. for the periods and dates indicated below are filed with this report.

**International Fight League, LLC**

Audited financial Statements

Report of Independent Registered Public Accounting Firm

Balance Sheet as of December 31, 2005

Statement of Operations for the period from March 29, 2005 (date of inception) to December 31, 2005

Statement of Members Deficit for the period from March 29, 2005 (date of inception) to December 31, 2005

Statement of Cash Flows for the period from March 29, 2005 (date of inception) to December 31, 2005

Notes to Financial Statements

**International Fight league, Inc. (Old IFL)**

Unaudited Interim Financial Statements

Balance Sheet as of September 30, 2006

Statements of Operations for the three and nine months ended September 30, 2006

Statement of Members and Stockholders Deficits for the nine months ended September 30, 2006

Statement of Cash Flows for the nine months ended September 30, 2006

Notes to Financial Statements

**Paligent Inc. and International Fight League, Inc. (Old IFL)**

Unaudited Pro Forma Condensed Combined Financial Statements

Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2006

Unaudited Pro Forma Condensed Combined Statement of Operations for the year ended December 31, 2005

Unaudited Pro Forma Condensed Combined Statement of Operations for the nine months ended September 30, 2005

Notes to Unaudited Pro Forma Condensed Combined Financial Statements

**(d) Exhibits**

See the Exhibit Index hereto, which is incorporated by reference herein.



**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

**INTERNATIONAL FIGHT LEAGUE, INC.**

By: */s/ Gareb Shamus*  
Name: Gareb Shamus  
Title: Chairman, Chief Executive Officer  
and President

Date: December 5, 2006

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**EXHIBIT INDEX**

Exhibit	No.	Description
2.1		Agreement and Plan of Merger by and among Paligent Inc., IFL Corp., and International Fight League, Inc., dated as of August 25, 2006 (incorporated by reference to Annex A to the Company's amended Schedule 14A filed on October 31, 2006).
3.1		Amended and Restated Certificate of Incorporation of Paligent Inc. (f/k/a HeavenlyDoor.com, Inc.), filed with the Secretary of State of Delaware on June 26, 2000 (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 (Commission File No. 333-45168) filed on September 5, 2000).
3.2		Certificate of Ownership and Merger of Paligent Inc. into HeavenlyDoor.com, Inc., filed with the Secretary of State of Delaware on December 28, 2000, to be effective as of December 31, 2000 (incorporated by reference to Exhibit 3.2 to the Company's Form 10-K for the year ended December 31, 2000, filed on April 2, 2001).
3.3		Certificate of Amendment to Certificate of Incorporation of Paligent Inc. filed with the Secretary of State of the State of Delaware on November 28, 2006, to be effective as of November 29, 2006 to the reverse stock split.
3.4		Certificate of Amendment to Certificate of Incorporation of Paligent Inc. filed with the Secretary of State of the State of Delaware on November 28, 2006, to be effective as of November 29, 2006 to change the Company's name to International Fight League, Inc.
3.5		By-laws of Paligent Inc. (incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-1 (Commission File No. 33-57188))
10.1		1997 Unit Purchase Options (originally issued by Procept, Inc.) held by a Schedule of Holders (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed on March 31, 1999).
10.2		1998 Equity Incentive Plan, as amended through June 30, 1999 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended June 30, 1999, filed on August 16, 1999).
10.3		Executive Employment Agreement dated as of May 25, 2000, as amended February 9, 2001, between the Company and Salvatore A. Bucci (incorporated by reference to Exhibit 10.5 to the Company's Form 10-K for the year ended December 31, 2000, filed on April 2, 2001)
10.4		Promissory Note by and between Paligent, Inc. and Richard Kurtz dated October 8, 2003.
10.5		Promissory Note by and between International Fight League, Inc. and Richard Kurtz dated August 1, 2006.
10.6		2006 Equity Incentive Plan (incorporated by reference to Annex C to the Company's amended Schedule 14A filed on October 31, 2006).
10.7		Agreement of Lease by and between 424 West 33rd Street LLC and International Fight League, Inc. dated as of September 1, 2006.
21.1		List of Subsidiaries of the Company
99.1		Press release, dated November 29, 2006.
99.2		Press release, dated November 29, 2006.

**Index to Financial Statements**

**International Fight League, Inc. LLC**

Audited financial Statements

Report of Independent Registered Public Accounting Firm

Balance Sheet as of December 31, 2005

Statement of Operations for the period from March 29, 2005 (date of inception) to December 31, 2005

Statement of Members' Deficit for the period from March 29, 2005 (date of inception) to December 31, 2005

Statement of Cash Flows for the period from March 29, 2005 (date of inception) to December 31, 2005

Notes to Financial Statements

**International Fight League, Inc. (Old IFL)**

Unaudited Interim Financial Statements

Balance Sheet as of September 30, 2006

Statements of Operations for the three and nine months ended September 30, 2006

Statement of Members' and Stockholders' Deficits for the nine months ended September 30, 2006

Statement of Cash Flows for the nine months ended September 30, 2006

Notes to Financial Statements

**Paligent Inc. and International Fight League, Inc. (Old IFL)**

Unaudited Pro Forma Condensed Combined Financial Statements

Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2006

Unaudited Pro Forma Condensed Combined Statement of Operations for the year ended December 31, 2005

Unaudited Pro Forma Condensed Combined Statement of Operations for the nine months ended September 30, 2005

Notes to Unaudited Pro Forma Condensed Combined Financial Statements

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Members of

International Fight League, LLC

We have audited the accompanying balance sheet of International Fight League, LLC (a development stage company) (the Company) as of December 31, 2005 and the related statements of operations, members' deficit and cash flows for the period March 29, 2005 (date of inception) to December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Fight League, LLC (a development stage company) as of December 31, 2005 and the results of its operations, changes in its members' deficit and its cash flows for the period March 29, 2005 (date of inception) to December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has a members' deficit as of December 31, 2005 and has incurred losses and negative operating cash flows since inception. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters are also described in Note 1. The financial statements do not include any adjustments that may result from the outcome of this uncertainty.

/s/ Rothstein, Kass & Company, P.C.

Roseland, New Jersey

June 21, 2006, (except for the last two paragraphs of Note 7 which is as of October 25, 2006)

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**INTERNATIONAL FIGHT LEAGUE, LLC**

**(a development stage company)**

**BALANCE SHEET**

**December 31, 2005**

<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 1,136,960
<b>OTHER ASSETS</b>	<b>10,267</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,147,227</b>
<b>LIABILITIES AND MEMBERS DEFICIT</b>	
<b>CURRENT LIABILITIES:</b>	
Investor advances	\$ 1,175,000
Accrued expenses	13,430
<b>Total current liabilities</b>	<b>1,188,430</b>
<b>MEMBERS DEFICIT:</b>	
Members capital	1,800
Deficit accumulated during the development stage	(43,003 )
<b>Total members deficit</b>	<b>(41,203 )</b>
<b>TOTAL LIABILITIES AND MEMBERS DEFICIT</b>	<b>\$ 1,147,227</b>

See Accompanying Notes to Financial Statements

**INTERNATIONAL FIGHT LEAGUE, LLC**

**(a development stage company)**

**STATEMENT OF OPERATIONS**

**For the Period March 29, 2005 (date of inception) to December 31, 2005**

Selling, general and administrative expenses	\$ (43,003 )
Net loss	\$ (43,003 )

See Accompanying Notes to Financial Statements

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**INTERNATIONAL FIGHT LEAGUE, LLC**

**(a development stage company)**

**STATEMENT OF MEMBERS DEFICIT**

**For the Period March 29, 2005 (date of inception) to December 31, 2005**

	Members Capital	Deficit accumulated during the development stage	Total Members Deficit
Members contributions	\$ 1,800	\$	\$ 1,800
Net loss		(43,003)	(43,003)
Balances, December 31, 2005	\$ 1,800	\$ (43,003)	\$ (41,203)

See Accompanying Notes to Financial Statements

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**INTERNATIONAL FIGHT LEAGUE, LLC**

**(a development stage company)**

**STATEMENT OF CASH FLOWS**

**For the Period March 29, 2005 (date of inception) to December 31, 2005**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net loss	\$ (43,003 )
Adjustments to reconcile net loss to net cash used in operating activities:	
Changes in operating liabilities:	
Accrued expenses	13,430
Net cash used in operating activities	(29,573 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Members' contributions	1,800
Proceeds from investor advances	1,175,000
Payments of deferred costs of financing	(10,267 )
Net cash provided by financing activities	1,166,533
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,136,960</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 1,136,960</b>

See Accompanying Notes to Financial Statements



**INTERNATIONAL FIGHT LEAGUE, LLC**

**(a development stage company)**

**NOTES TO FINANCIAL STATEMENTS**

**1. Basis of Presentation and Business Description**

International Fight League, LLC (a development stage company) (the *LLC*) was organized on March 29, 2005 as a New Jersey Limited Liability Company. On January 11, 2006, the LLC merged into a newly formed Delaware corporation, International Fight League, Inc. (*IFL*), whereupon the separate existence of the LLC ceased. (See Note 7). The accompanying financial statements and notes thereto include the accounts of the LLC and the combined results of operations of the LLC and its successor entity, IFL (hereinafter collectively referred to as the *Company* or *IFL*).

IFL, a professional mixed martial arts (*MMA*) sports league, is in the initial stages of becoming an integrated media and entertainment business, engaged in the development, production and marketing of live mixed martial arts events with the intent to package television and pay-per-view programming and eventually license and sell branded consumer products featuring the IFL, its teams and personalities.

The Company is in the development stage as defined in Statement of Financial Accounting Standards (*SFAS*) No. 7, *Accounting and Reporting by Development Stage Enterprises*; therefore, recovery of its assets is dependent upon future events, the outcome of which is indeterminable.

**2. Going Concern Consideration**

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. At December 31, 2005, the Company had a members' deficit of approximately \$41,000. During 2005, the Company incurred losses and negative operating cash flows of approximately \$43,000 and \$30,000, respectively. During 2006, these trends have continued. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company has been successful in raising funds through shareholder loans and the issuance of preferred stock. Additionally, the Company has executed an Agreement and Plan of Merger dated as of August 25, 2006 (the *Merger*) with a publicly traded shell company (see Note 7) that would allow the Company broader financing alternatives. The Company's near and long-term operating strategies focus on increasing revenues through additional live events, increased sponsorship revenues, sales of branded merchandise, increased television rights revenue and controlling costs to achieve profitable operations.

There can be no assurance that the Company will continue to obtain sufficient equity or debt financing on favorable terms, if at all. If the Company is unable to secure additional financing and achieve future profitable operations, its ability to implement its growth strategies will be impaired and its financial condition, results of operations and cash flows are likely to be materially adversely affected.

**3. Summary of Significant Accounting Policies**

*Use of Estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Property and Equipment* Property and equipment will be stated at historical cost less accumulated depreciation and amortization. Depreciation and amortization will be computed on a straight-line basis

over the estimated useful lives of the assets, expected to vary from 3 to 5 years or, when applicable, the life of the lease, whichever is shorter.

*Long-Lived Assets* The Company complies with the accounting and reporting requirements of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The Company will periodically evaluate the carrying value of long-lived assets when events and circumstances warrant such a review. Long-lived assets will be written down if the evaluation determines that the fair value is less than the book amount.

*Cash and Cash Equivalents* Amounts reported include cash on deposit in overnight deposit accounts and investments in money market accounts.

*Fair Value of Financial Instruments* The fair values of the Company's assets and liabilities that qualify as financial instruments under SFAS No. 107, Disclosures about Fair Value of Financial Instruments, approximate their carrying amounts as presented in the accompanying balance sheet at December 31, 2005.

*Income Taxes* As a limited liability company, the Company is treated as a partnership for federal and state income tax purposes and, accordingly, does not record a provision for income taxes because the individual members report their share of the Company's income or loss on their income tax returns.

*Revenue Recognition* In accordance with the provisions of Staff Accounting Bulletin ( SAB ) No. 101, Revenue Recognition, as amended by SAB 104, revenues will be generally recognized when products are shipped or as services are performed. However, due to the nature of the Company's business, there are additional steps in the revenue recognition process, as described below:

- **Sponsorships:** The Company will follow the guidance of Emerging Issues Task Force (EITF) Issue 00-21, Revenue Arrangements with Multiple Deliverables, and assigns the total of sponsorship revenues to the various elements contained within a sponsorship package based on their relative fair values.
- **Licensing:** Revenues will be recognized upon receipt of notice by the individual licensees as to license fees due. Licensing fees received in advance will be deferred and recognized as income when earned.

*Stock-Based Compensation* Accounting for stock options issued to employees will follow the provisions of SFAS No. 123(R), Share-Based Payment. This statement requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the reward.

The Company expects to utilize the Black-Scholes option pricing model to measure the fair value of options granted to employees.

*Advertising Expense* In accordance with the provisions of Statement of Position ( SOP ) No. 93-7, advertising costs will be expensed as incurred, except for costs related to the development of a major commercial or media campaign which will be expensed in the period in which the commercial or campaign is first presented.

**4. Financial Instruments and Off-Balance Sheet Risk**

Financial instruments, which potentially subject the Company to concentrations of credit risk, are principally bank deposits, short-term investments and accounts receivable. Cash and cash equivalents are deposited with high credit quality financial institutions. The Company did not have any short-term investments or accounts receivable during the period covered by the financial statements. We will perform ongoing evaluations of our customers' financial condition and we will monitor our exposure for credit losses and maintain allowances for anticipated losses.

**5. Members' capital**

Members' capital consists of 100 units in the amount of \$1,800.

**6. Related party transactions**

The Company maintains its principal office in New York City and utilizes office space provided by a business venture controlled by the Company's chief executive officer. No rent has been charged since the inception of the Company nor is there any obligation upon the Company to pay rent for its use of such premises.

**7. Subsequent events**

In January 2006, the members of the LLC contributed 100% of their members' capital contribution to IFL in exchange for 18 million shares of IFL's \$0.0001 par value common stock. The transaction has been accounted for as a merger of entities under common control, similar to a pooling of interests, in which IFL was the surviving entity.

On January 18, 2006, the Company issued 6,777,774 shares of Series A Convertible Redeemable Preferred Stock (Series A Preferred Stock) in exchange for \$1,525,000 in cash, including \$1,175,000 of investor advances received as of December 31, 2005. On April 26, 2006, the Company issued 4,444,444 shares of Series A Preferred Stock for cash of \$1,000,000. The Series A Preferred Stock is redeemable at the option of the holders of at least 50% of the Series A Preferred Stock commencing any time after the seventh anniversary of the initial closing and, therefore, will be recorded as mezzanine debt. The Series A Preferred Stock provides for accrual of dividends (which will be treated as an expense in the financial statements) amounting to \$0.0180 per share, per annum. The Series A Preferred Stock contains a preference in liquidation and is convertible into common stock under a formula contained in the instrument, which initially results in a one-to-one conversion. The Series A Preferred Stock may be voted at the rate of one vote for each share of common stock into which the Series A Preferred Stock is convertible.

On March 14, 2006, the Company entered into an agreement with National Sports Programming, owner and operator of Fox Sports Net Sports Programming Service (FSN), regarding IFL's series of team mixed martial arts events held on April 29 and June 3, 2006. The agreement grants FSN exclusive rights to the series through December 31, 2006. In return, FSN agrees to broadcast the initial telecast and one repeat telecast of each series episode in a minimum of 50 million homes. The telecasts were aired during the six months ended June 30, 2006. Under this agreement, there shall be no payment of any distribution fee by the Company to FSN; however, the Company has estimated the value of the distribution fee (and associated television rights) to be \$375,000 and has treated the transaction as a barter transaction in accordance with Accounting Principles Board Opinion No. 29, Accounting

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## Edgar Filing: International Fight League, Inc. - Form 8-K

for Non-monetary Transactions and EITF Issue 01-2, Interpretations of APB No. 29, recognizing \$375,000 in television rights revenue and a corresponding charge to cost of revenues of \$375,000.

On January 30, 2006, the Company leased additional office premises in Las Vegas, Nevada. The lease begins February 1, 2006 and expires on January 31, 2007. Rent expense is \$2,500 per month, payable in advance.

During 2006, the Company's board of directors adopted the 2006 Equity Compensation Plan (the Plan), which provides for the issuance of options representing a maximum of 2 million shares of the Company's common stock. As of August 31, 2006, the Company has issued options under the Plan for 1,515,000 shares to certain non-employee coaches and managers, employees and others.

On April 25, 2006, the Company entered into an agreement with Paligent, Inc., a publicly traded shell company (Paligent) and Richard J. Kurtz, Paligent's principal stockholder (the Letter Agreement). Under terms of the Letter Agreement, Paligent would acquire 100% of the issued and outstanding common and preferred stock of the Company in exchange for shares of common stock of Paligent which, upon their issuance, would be equal to 95% of the issued and outstanding shares of common stock of Paligent. As provided for in the Letter Agreement, Mr. Kurtz purchased 4,444,444 shares of the Company's Series A Preferred Stock for \$1,000,000 in cash immediately following the execution of the Letter Agreement (increasing his ownership of Series A Preferred Stock to 4,555,555 shares). On August 25, 2006, the Company and Paligent executed an Agreement and Plan of Merger under terms substantially similar to terms of the Letter Agreement and subject to the satisfaction of certain conditions, including stockholder approval of the respective companies (the Merger Agreement).

The Merger Transaction is considered to be a capital transaction in substance rather than a business combination. The Merger Transaction is equivalent to the issuance of stock by the Company for the net monetary assets of Paligent, accompanied by a recapitalization. The Merger Transaction would be accounted for as a reverse acquisition of a shell company whereby the Company would be the accounting acquirer and Paligent would be the legal acquirer. In such a transaction, no goodwill or other intangible assets would be recorded.

On August 10, 2006, the Company entered into an agreement with FSN, under which FSN has agreed to broadcast IFL's series of team mixed martial arts events that will be held in the Fall of 2006. The agreement provides for FSN to broadcast ten hours of original MMA programming. The broadcasts will include six one-hour broadcasts, a two-hour season championship finale broadcast and a two-hour Best Damn Sports Show Special broadcast during prime-time. Under this arrangement with FSN, IFL earns revenues from the sponsorships and promotions it sells in connection with the televised events; however, there shall be no payment of any distribution fee by the Company to FSN. The Company will treat the arrangement as a barter transaction under which the Company will recognize television rights revenue and a corresponding charge to costs of revenues based on prevailing market values.

On August 1, 2006, the Company executed a promissory note with Mr. Kurtz pursuant to which the Company has received, as of October 25, 2006, loan proceeds aggregating \$3.0 million. The loans bear interest at 8% per annum and are repayable upon the earlier of (i) the first anniversary of the making of the first loan and (ii) the first funding of debt and/or equity capital subsequent to the transaction contemplated by the Letter Agreement that results in aggregate net cash proceeds to the Company of not less than \$5 million.

## Edgar Filing: International Fight League, Inc. - Form 8-K

The Company, two of its officers, and two Company employees had been named as defendants in a civil action filed in Clark County, Nevada seeking unspecified monetary, exemplary and injunctive relief. The complaint alleged that the defendants misappropriated the plaintiff's trade secrets and intentionally interfered with its business relationships. In October 2006, the suit was settled and all claims and liabilities relating thereto were released.

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**International Fight League, Inc.****Balance Sheet****September 30, 2006****(Unaudited)**

<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 383,295
Accounts receivable, net	1,500
Prepaid expenses	41,588
Total current assets	426,383
PROPERTY AND EQUIPMENT, NET	112,673
OTHER ASSETS	227,570
<b>TOTAL ASSETS</b>	<b>\$ 766,626</b>
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 728,410
Accrued expenses	548,394
Due to related party	2,514,795
Total current liabilities	3,791,599
SERIES A CONVERTIBLE REDEEMABLE PREFERRED STOCK	2,525,000
<b>COMMITMENTS AND CONTINGENCIES</b>	
<b>STOCKHOLDERS DEFICIT:</b>	
Common stock: \$.0001 par value; 50,000,000 shares authorized; 18,000,000 shares issued and outstanding	1,800
Additional paid-in capital	32,866
Accumulated deficit	(5,584,639 )
Total stockholders deficit	(5,549,973 )
<b>TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT</b>	<b>\$ 766,626</b>

See Accompanying Notes to Financial Statements

## International Fight League, Inc.

## Statements of Operations

(Unaudited)

	For the Three Months Ended September 30, 2006	For the Nine Months Ended September 30, 2006
<b>Revenues</b>		
<b>Live and televised</b>		
Advertising sponsorships	\$ 19,469	\$ 253,549
Advertising other	770	1,000
Live events box office receipts	324,987	452,129
Television rights	125,000	500,000
<b>Branded merchandise</b>	17,604	18,946
<b>Total revenues</b>	487,830	1,225,624
<b>Cost of revenues</b>		
<b>Live and televised</b>		
Advertising sponsorship	37,200	139,480
Live events advertising	374,369	544,060
Live events other costs	1,740,007	3,083,738
Distribution fees	125,000	500,000
<b>Branded merchandise</b>	10,562	11,242
<b>Total cost of revenues</b>	2,287,138	4,278,520
<b>Selling, general and administrative expenses</b>	1,276,590	2,346,553
<b>Stock-based compensation expense</b>	7,738	32,866
<b>Operating loss</b>	(3,083,636 )	(5,432,315 )
<b>Dividend expense</b>	(47,580 )	(120,197 )
<b>Interest expense</b>	(14,795 )	(14,795 )
<b>Interest income</b>	2,900	25,671
<b>Net loss</b>	\$ (3,143,111 )	\$ (5,541,636 )
Net Loss per common share - basic and diluted:	\$ (0.17 )	\$ (0.31 )
Weighted average common shares outstanding:		
Basic and diluted	18,000,000	18,000,000

See Accompanying Notes to Financial Statements

**International Fight League, Inc.**

**Statements of Members and Stockholders Deficit**

**For the Nine Months Ended September 30, 2006**

**(Unaudited)**

	Members Capital	Common Stock Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders Deficit
<b>Balances, January 1, 2006</b>	\$ 1,800		\$	\$	\$	\$ 1,800
Stock-based compensation expense				\$ 32,866		32,866
Merger of International Fight League, LLC	(1,800 )	18,000,000	\$ 1,800		(43,003 )	(43,003 )
Net loss					(5,541,636 )	(5,541,636 )
<b>Balances, September 30, 2006</b>	\$	18,000,000	\$ 1,800	\$ 32,866	\$ (5,584,639 )	\$ (5,549,973 )

See Accompanying Notes to Financial Statements



**International Fight League, Inc.****Statement of Cash Flows****For the Nine Months Ended September 30, 2006****(Unaudited)**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net loss	\$ (5,541,636 )
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	13,743
Stock-based compensation expense	32,866
Bad debt expense	100,000
Changes in operating assets and liabilities:	
Accounts receivable	(101,500 )
Prepaid expenses	(41,588 )
Accounts payable	728,410
Accrued expenses	534,964
Interest payable to related party	14,795
Net cash used in operating activities	(4,259,946 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Payment of deposit	(206,089 )
Purchases of property and equipment	(123,839 )
Net cash used in investing activities	(329,928 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Issuance of Series A preferred stock	2,525,000
Proceeds from related party loan	2,500,000
Conversion of investor advances to Series A Preferred Stock	(1,175,000 )
Deferred costs of financing	(13,791 )
Net cash provided by financing activities	3,836,209
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(753,665 )</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>1,136,960</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 383,295</b>

See Accompanying Notes to Financial Statements

**International Fight League, Inc.**

**Notes to Financial Statements**

**Unaudited**

**1. Basis of Presentation and Business Description**

The unaudited interim financial statements included herein have been prepared by International Fight League Inc. ( IFL or the Company ) pursuant to accounting principles generally accepted in the United States of America. In the opinion of management, the accompanying unaudited financial statements reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial position of the Company at September 30, 2006 and the results of its operations and its cash flows for the three and nine months ended September 30, 2006. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the fiscal year or any other interim period.

The accompanying financial statements represent the accounts of IFL, a professional mixed martial arts ( MMA ) sports league. IFL is an integrated media and entertainment company, engaged in the development, production and marketing of live mixed martial arts events with the intent to package television and pay-per-view programming and the license and sale of branded consumer products featuring the IFL, its teams and personalities.

IFL's predecessor, International Fight League, LLC (the LLC ), was organized on March 29, 2005 as a New Jersey Limited Liability Company. On January 11, 2006, the LLC merged into IFL, whereupon the existence of the LLC ceased, and at which time members of the LLC contributed 100% of their members' capital contribution to IFL in exchange for 18 million shares of IFL's \$0.0001 par value common stock. The transaction has been accounted for as a merger of entities under common control, similar to a pooling of interests, in which IFL was the surviving entity.

The accompanying financial statements of the Company include the operating results and cash flows of the LLC for the period January 1, 2006 through January 10, 2006 and the operating results and cash flows of IFL for the period January 11, 2006 through September 30, 2006.

The Company was in the development stage through March 31, 2006. The quarter ended June 30, 2006 is the first quarterly period that the Company is considered to be an operating company.

**2. Going concern**

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. At September 30, 2006, the Company had stockholders' and working capital deficits of approximately \$5,585,000 and \$3,365,000, respectively. During the nine months ended September 30, 2006, the Company incurred losses and negative operating cash flows of approximately \$5,542,000 and \$4,260,000, respectively. During the fourth quarter of 2006, these trends have continued. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company has been successful in raising funds through shareholder loans and the issuance of preferred stock. The Company's near and long-term operating strategies focus on increasing revenues through additional live events, increased sponsorship revenues, sales of branded merchandise, increased television rights revenue and controlling costs to achieve profitable operations.

On November 29, 2006, the Company completed a reverse merger with Paligent Inc. pursuant to which IFL emerged as the surviving entity. Although IFL believes that the merger will allow IFL access to broader financing alternatives, there can be no assurance that the Company will continue to obtain sufficient equity or debt financing on favorable terms, if at all. If the Company is unable to secure additional financing and achieve future profitable operations, its ability to implement its growth strategies will be impaired and its financial condition, results of operations and cash flows are likely to be materially adversely affected.

### **3. Summary of Significant Accounting Policies**

*Use of Estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Property and Equipment* Property and equipment is stated at historical cost less accumulated depreciation and amortization. Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the assets, varying from 3 to 5 years or, when applicable, the life of the lease, whichever is shorter.

*Long-Lived Assets* The Company complies with the accounting and reporting requirements of Statement of Financial Accounting Standards ( SFAS ) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The Company will periodically evaluate the carrying value of long-lived assets when events and circumstances warrant such a review. Long-lived assets will be written down if the evaluation determines that the fair value is less than the book amount.

*Cash and Cash Equivalents* Amounts reported include cash on deposit in overnight deposit accounts and investments in money market accounts.

*Accounts Receivable* Accounts receivable relates principally to sponsorship agreements. The Company evaluates the collectibility of accounts receivable and establishes allowances for the amount of receivables that are estimated to be uncollectible. Allowances are based on the length of time receivables are outstanding and the financial condition of individual customers. As of September 30, 2006, the Company maintains an allowance for doubtful accounts of \$100,000, the provision for which is included in selling, general and administrative expenses.

*Income Taxes* The Company complies with SFAS No. 109, Accounting for Income Taxes, which requires an asset and liability approach to financial reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amount expected to be realized.

*Revenue Recognition* In accordance with the provisions of Staff Accounting Bulletin ( SAB ) No. 101, Revenue Recognition , as amended by SAB 104, revenues are generally recognized when products are shipped or as services are performed. However, due to the nature of the Company s business, there are additional steps in the revenue recognition process, as described below:

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- **Sponsorships:** The Company follows the guidance of Emerging Issues Task Force ( EITF ) Issue 00-21 Revenue Arrangements with Multiple Deliverables, and assigns the total of sponsorship revenues to the various elements contained within a sponsorship package based on their relative fair values.
- **Licensing:** Licensing revenues are recognized upon receipt of notice by the individual licensees as to license fees due. Licensing fees received in advance will be deferred and recognized as income when earned.

*Stock-Based Compensation* Accounting for stock options issued to employees follows the provisions of SFAS No. 123(R), Share-Based Payment . This statement requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the reward.

The Company uses the Black-Scholes option pricing model to measure the fair value of options granted to employees.

*Advertising Expense* In accordance with the provisions of Statement of Position ( SOP ) No. 93-7, advertising costs are expensed as incurred, except for costs related to the development of a major commercial or media campaign which are expensed in the period in which the commercial or campaign is first presented.

Advertising expense for the three and nine months ended September 30, 2006 was \$374,000 and \$544,000, respectively.

*Fair Value of Financial Instruments* The fair value of the Company s assets and liabilities that qualify as financial instruments under SFAS No. 107, Disclosures about Fair Value of Financial Instruments, approximate their carrying amounts as presented in the accompanying balance sheet at September 30, 2006.

#### **4. Financial Instruments and Off-Balance Sheet Risk**

Financial instruments, which potentially subject the Company to concentrations of credit risk, are principally bank deposits, short-term investments and accounts receivable. Cash and cash equivalents are deposited with high credit quality financial institutions. The Company did not have any short-term investments during the periods covered by the financial statements. We perform ongoing evaluations of our customers financial condition and we monitor our exposure for credit losses and, where required, maintain allowances for anticipated losses.

#### **5. Earnings (Loss) per Common Share**

The Company complies with the accounting and reporting requirements of SFAS No.128, Earnings Per Share. Basic earnings per share ( EPS ) excludes dilution and is computed by dividing income (loss) applicable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS is based upon the weighted average number of common shares outstanding during the period plus the additional weighted average common equivalent shares during the period. At September 30, 2006, the Company s common stock equivalents currently include 1,865,000 stock options and 11,222,218 shares issueable upon conversion of convertible preferred stock. These common stock equivalents are not included in the diluted EPS calculations because the effect of their inclusion would be anti-dilutive or would decrease the loss per common share.

**6. Property and Equipment**

Property and equipment comprises the following at September 30, 2006:

Computer equipment and software	\$ 64,916
Other equipment	58,923
Total	123,839
Accumulated depreciation and amortization	(11,166 )
Net Property and Equipment	\$ 112,673

**7. Leases**

On January 30, 2006, the Company leased additional office premises in Las Vegas, Nevada. The lease commenced on February 1, 2006 and expires on January 31, 2007. Rent expense is \$2,500 per month payable in advance. Future minimum rental payments are \$15,000. In August 2006 the Company leased space for its principal office in New York City. This lease commenced on September 1, 2006 and expires on August 31, 2010. Rent expense initially is \$13,394 per month (not including escalations) commencing on November 1, 2006 and payable in advance. Future minimum rental payments are as follows:

2006	\$ 34,000
2007	\$ 163,000
2008	\$ 164,000
2009	\$ 169,000
2010	\$ 113,000

**8. Related party transactions**

Prior to moving to its new principal office in October 2006, the Company utilized office space provided by a business venture controlled by the Company's chief executive officer. No rent has been charged since the inception of the Company nor is there any obligation upon the Company to pay rent for its past use of such premises.

In addition, certain business transactions are transacted among the Company and two business ventures that are controlled by the Company's chief executive officer. Typically, the Company reimburses these related companies for charges incurred and advances made on the Company's behalf. Further, the Company purchases certain goods and services from these related companies. As of September 30, 2006, approximately \$63,000 is owed to these related companies, which is included in accounts payable, relating to transactions aggregating \$169,000 and \$317,000, respectively, for the three and nine months ended September 30, 2006.

On August 1, 2006, the Company executed a promissory note with Richard J. Kurtz pursuant to which the Company has received, as of September 30 and November 29, 2006, respectively, loan proceeds aggregating \$2,500,000 and \$4,200,000. The loans bear interest at 8% per annum and are repayable upon the earlier of (i) the first anniversary of the making of the first loan and (ii) the first funding of debt and/or equity capital subsequent to the Merger that results in aggregate net cash proceeds to the Company of not less than \$5,000,000. As of September 30 and November 29, 2006, the balance of accrued interest due under the Promissory Note was \$14,795 and \$45,392, respectively.

**9. Television rights agreement**

On March 14, 2006, the Company entered into an agreement with National Sports Programming, owner and operator of Fox Sports Net Sports Programming Service ( FSN ) regarding IFL s series of team mixed martial arts matches held on April 29 and June 3, 2006. The agreement grants FSN exclusive rights to the series through December 31, 2006. In return, FSN agrees to broadcast the initial telecast and one repeat telecast of each Series episode in a minimum of 50 million homes. The telecasts were aired during the three months ended June 30, 2006.

On August 10, 2006, the Company entered into a second agreement with FSN under which FSN agreed to broadcast IFL s series of team mixed martial arts matches held in the Fall of 2006. The agreement provides for FSN to broadcast ten hours of original MMA programming, including six one-hour broadcasts, a two-hour season championship finale broadcast and a two-hour Best Damn Sports Show special broadcast during prime time. The agreement grants FSN exclusive rights to the series through June 30, 2007. The first episode of this series of telecasts was aired during the quarter ended September 30, 2006.

The agreements with FSN provide that there shall be no payment of any distribution fees by the Company to FSN. The Company treats the arrangements as barter transactions in accordance with Accounting Principles Board Opinion No. 29, Accounting for Non-monetary Transactions and EITF Issue 01-2, Interpretations of APB No. 29. For the three and nine months ended September 30, 2006, the Company recognized \$125,000 and \$500,000, respectively, of television rights revenue and corresponding charges to costs of revenues.

**10. Income Taxes**

No federal or state income taxes have been provided for as the Company has incurred losses since its inception. At September 30, 2006, the Company has federal and state tax net operating loss ( NOL ) carry forwards of approximately \$5,043,000 and \$5,542,000, respectively, which will expire through 2026.

The components of the Company s net deferred tax assets were as follows at September 30, 2006:

Net operating loss carryforwards	\$ 2,213,000
Allowance for doubtful accounts	40,000
Total	2,253,000
Valuation allowance	(2,253,000 )
Total net deferred tax assets	\$

The Company has evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets. Based on the Company s history of losses, management concluded that it is more likely than not that the Company will not realize the benefit of the deferred tax assets. Accordingly, a full valuation allowance has been provided for the deferred tax assets.

**11. Stockholders Deficit**

The Company is authorized to issue up to 50,000,000 shares of common stock, \$.0001 par value per share, and up to 20,000,000 shares of preferred stock, \$.0001 par value per share. 18,000,000 shares of common stock were issued in connection with the merger of International Fight League, LLC into

International Fight League, Inc. on January 11, 2006. 13,333,333 shares of the authorized preferred stock of the Company have been designated Series A Preferred Stock (as defined in Note 12).

The Series A Preferred Stock is redeemable at the option of the holders of at least 50% of the Series A Preferred Stock commencing any time after the seventh anniversary of the initial closing and, therefore, has been recorded as mezzanine debt (e.g. outside of stockholders' deficit).

**12. Series A Convertible Redeemable Preferred Stock**

During the quarter ended March 31, 2006, pursuant to the terms of a Private Placement Memorandum, the Company raised \$350,000 in connection with the issuance of 1,555,556 shares of Series A Convertible Redeemable Preferred Stock (Series A Preferred Stock). In addition, 5,222,218 shares of Series A Preferred Stock were issued upon the reduction of a short-term liability designated Advances from investors amounting to \$1,175,000. Further, 4,444,444 shares of Series A Preferred Stock were issued on April 26, 2006 for \$1,000,000 in cash. Costs and expenses amounting to \$24,058 (\$13,791 of which were incurred during the nine months ended September 30, 2006) were recorded in connection with the issuance of the Series A Preferred Stock and are included in other assets in the accompanying Balance Sheet. The Series A Preferred Stock provides for accrual of dividends (treated as dividend expense in the financial statements) amounting to \$0.0180 per share, per annum. Dividend expense for the three and nine months ended September 30, 2006 was \$47,580 and \$120,197, respectively. These liabilities are reflected in accrued expenses in the accompanying balance sheet. The Company is under no obligation to pay such accruing dividends. The Series A Preferred Stock contains a preference in liquidation and is convertible into common stock under a formula contained in the instrument. The Series A Preferred Stock may be voted at the rate of one vote for each share of common stock into which the Series A Preferred Stock is convertible. The terms of the Series A Preferred Stock include antidilution provisions.

**13. Stock Option Plan**

During the nine months ended September 30, 2006, the Company adopted the 2006 Equity Compensation Plan (the Plan), which permits the grant of share options and other forms of share-based awards to its employees and service providers for up to 2,000,000 shares of the Company's common stock. Option awards generally vest based on 3 years of continuous service and have 10-year contractual terms. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the plan).

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that used the assumptions noted in the following table. Expected volatilities are estimated based on the volatility of other entities in similar businesses. The expected term of options granted to employees is 3 years and is derived from the option agreement and represents the vesting period, since there is no employment history to consider. The expected term of options granted to non-employees is 2 to 5 years and is derived from the agreements with the parties. The risk-free rate for the expected term of the options is based on the U.S. Treasury yield curve in effect at the time of grant.

	September 30, 2006	
Expected volatility	33	%
Expected dividends	0	
Expected term (in years)	2-5	
Risk-free rate	4.8	%

A summary of option activity under the Plan for the nine months ended September 30, 2006 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at January 1, 2006		\$	
Granted	1,865,000	0.12	
Outstanding at September 30, 2006	1,865,000	\$ 0.12	9.7
Exercisable at September 30, 2006		\$	

In connection with grants of options issued under the Plan, compensation costs of approximately \$8,000 and \$33,000 were charged against income for the three and nine months ended September 30, 2006.

#### 14. Legal Proceeding

The Company, two of its officers, and two Company employees, had been named as defendants in a civil action filed in Clark County, Nevada seeking unspecified monetary, exemplary and injunctive relief. The complaint alleged that the defendants misappropriated the plaintiff's trade secrets and intentionally interfered with its business relationships. In October 2006, this action was settled and all claims and liabilities thereto were released.

#### 15. Other Matters

On November 29, 2006, the Company was acquired by Paligent Inc. ( Paligent ) under an agreement and plan of merger, dated as of August 25, 2006, as amended (the Merger Agreement ), by and among Paligent, IFL Corp., a Delaware corporation and wholly owned subsidiary of Paligent ( Merger Sub ), and the Company, providing for the merger of Merger Sub and the Company, pursuant to which the Company emerged as the surviving corporation. The Merger Agreement contained customary representations, warranties and covenants of the Company and Paligent and, as applicable, Merger Sub, for like transactions. None of these representations and warranties survived the closing of the Merger.

Immediately following the Merger, the Company changed its name to IFL Corp. and Paligent changed its name to International Fight League, Inc. ( IFL ) and began operating the Company's business of organizing and promoting a mixed martial arts sports league.

The Merger is considered to be a capital transaction in substance rather than a business combination. The Merger is equivalent to the issuance of stock by the Company for the net monetary assets of Paligent, accompanied by a recapitalization. The Merger will be accounted for as a reverse acquisition of a shell company whereby the Company is the accounting acquirer and Paligent is the legal acquirer. In such a transaction, no goodwill or other intangible assets are recorded.



**PALIGENT AND OLD IFL  
UNAUDITED PRO FORMA CONDENSED  
COMBINED FINANCIAL STATEMENTS**

The following unaudited pro forma condensed combined financial statements are based on the historical financial statements of Paligent and Old IFL and have been prepared to illustrate the effects of the Paligent acquisition of Old IFL under terms of the Merger Agreement. The following data is presented as if the merger of Paligent and Old IFL (the Merger) was effective as of September 30, 2006 for the unaudited pro forma condensed combined balance sheet. The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2005 and the nine months ended September 30, 2006 are presented as if the Merger had occurred as of January 1, 2005. This unaudited condensed combined pro forma financial information reflects the Merger as a capital transaction whereby IFL would be the accounting acquirer and Paligent would be the legal acquirer under the purchase method of accounting for business combinations in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations. Under the purchase method of accounting, the total estimated purchase price will be allocated to the net tangible assets acquired and liabilities assumed in connection with the Merger, based on their estimated fair values as of the completion of the Merger, taking into account the intended issuance of Paligent's remaining assets and the settlement of its outstanding liabilities upon consummation of the Merger. The Merger is equivalent to the issuance of stock by Old IFL for the net monetary assets of Paligent, accompanied by a recapitalization. Subsequent to the Merger, reported historical financial condition and results of operations of the combined group shown for comparative purposes in periodic filings will reflect Old IFL's operations only.

The pro forma data presented herein is for informational purposes only and is not intended to represent or be indicative of the results of operations or financial condition of the combined entities that would have been reported had the proposed transaction been completed as of the dates presented, and should not be taken as representative of future results of operations or financial condition of the combined group.

The unaudited pro forma condensed combined financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the historical financial statements, including the related notes, of Paligent covering these periods included in Paligent's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and in Paligent's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2006 as well as the historical financial statements of Old IFL included elsewhere in this report.

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## PALIGENT AND OLD IFL

## UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

As of September 30, 2006

	Paligent	Old IFL	Pro Forma Adjustments	Condensed Combined Pro Forma
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 2,618	\$ 383,295	\$	\$ 385,913
Accounts receivable, net		1,500		1,500
Prepaid expenses and other current assets	9,262	41,588		50,850
Total current assets	11,880	426,383		438,263
Property and equipment, net		112,673		112,673
Other assets		227,570		227,570
Total assets	\$ 11,880	\$ 766,626	\$	\$ 778,506
<b>LIABILITIES AND STOCKHOLDERS</b>				
<b>EQUITY (DEFICIT)</b>				
Current liabilities:				
Accounts payable	\$ 86,332	\$ 728,410	\$	\$ 814,742
Accrued expenses	47,559	548,394	(120,197 )B	475,756
Due to related party	834,224	2,514,795	(651,000 )D	2,698,019
Total current liabilities	968,115	3,791,599	(771,197 )	3,988,517
Series A Convertible Redeemable Preferred Stock		2,525,000	(2,525,000 )A	
Stockholders' equity (deficit):				
Common stock	324,910	1,800	14,535	A,B,C,D 341,245
Additional paid-in-capital	154,634,974	32,866	(152,634,457 )A,B,C,D	2,033,383
Accumulated deficit	(155,916,119 )	(5,584,639 )	155,916,119 C	(5,584,639 )
Total stockholders' equity (deficit)	(956,235 )	(5,549,973 )	3,296,197	(3,210,011 )
Total liabilities and stockholders' equity (deficit)	\$ 11,880	\$ 766,626	\$	\$ 778,506

See notes to unaudited pro forma condensed combined financial statements.

**PALIGENT AND OLD IFL**

**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**

**For the year ended December 31, 2005**

	<b>Paligent</b>	<b>Old IFL</b>	<b>Pro Forma Adjustments</b>	<b>Condensed Combined Pro Forma</b>
Selling, general and administrative expenses	\$ 445,134	\$ 43,003	\$ (28,072)	\$ 460,065
Loss from operations	(445,134 )	(43,003 )	28,072	(460,065 )
Other income, net	141,250			141,250
Net loss	\$ (303,884 )	\$ (43,003 )	\$ 28,072	\$ (318,815 )
Net loss per share basic and diluted	\$ (0.01 )	N/A	*	\$ (0.01 )
Weighted average number of common shares outstanding basic and diluted	32,490,948	N/A	* 1,633,500	C,D 34,124,448

\* As a private company, IFL's historical financial statements do not provide earnings per share data.

See notes to unaudited pro forma condensed combined financial statements.

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## PALIGENT AND OLD IFL

## UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the nine months ended September 30, 2006

	Paligent	Old IFL	Pro Forma Adjustments	Condensed Combined Pro Forma
<b>Revenues:</b>				
Live and televised events:				
Advertising sponsorships	\$	\$ 253,549	\$	\$ 253,549
Advertising other		1,000		1,000
Live events box office receipts		457,129		457,129
Television rights		500,000		500,000
Branded merchandise		18,946		18,946
Total revenues		1,225,624		1,225,624
<b>Costs of revenues:</b>				
Advertising sponsorships		139,480		139,480
Live events advertising		544,060		544,060
Live events other costs		3,083,738		3,083,738
Distribution fees		500,000		500,000
Branded merchandise		11,242		11,242
Total costs of revenues		4,278,520		4,278,520
Selling, general and administrative expenses	424,851	2,346,553	(23,258)	)F 2,748,146
Stock-based compensation expense		32,866		32,866
Loss from operations	(424,851)	(5,432,315)	23,258	(5,833,908)
Dividend expense		(120,197)	120,197	E
Interest expense		(14,795)		(14,795)
Interest income		25,671		25,671
Net loss	\$ (424,851)	\$ (5,541,636)	\$ 143,455	\$ (5,823,032)
Net loss per share basic and diluted	\$ (0.01)	N/A	*	\$ (0.17)
Weighted average number of common shares outstanding basic and diluted	32,490,948	N/A	* 1,633,500	C,D 34,124,448

\* As a private company, IFL's historical financial statements do not provide earnings per share data.

See notes to unaudited pro forma condensed combined financial statements.

**PALIGENT AND OLD IFL**  
**NOTES TO UNAUDITED PRO FORMA CONDENSED**  
**COMBINED FINANCIAL STATEMENTS**

**1.** Description of Transaction and Basis of Presentation

On November 29, 2006, a wholly owned subsidiary of Paligent completed its acquisition of Old IFL pursuant to the Merger Agreement. Immediately following the Merger, Paligent changed its name to IFL. Pursuant to the terms of the Merger Agreement, Paligent acquired 100% of the issued and outstanding common and preferred stock of Old IFL, and the holders of Old IFL common and preferred stock received shares of common stock of IFL which represent approximately 95% of the issued and outstanding shares of common stock of IFL after the Merger. In addition, in connection with the Merger, options to purchase shares of common stock of Old IFL outstanding prior to the Merger were converted into options to purchase shares of common stock of IFL on the same terms and conditions applicable to such options prior to the Merger, under a new equity incentive plan that was approved by Paligent's stockholders together with the Merger.

Immediately prior to the Merger, Paligent effected a 1-for-20 reverse stock split of Paligent's common stock, such that the number of shares of common stock of IFL outstanding following the Merger shall be approximately the number of shares of common stock of Paligent currently outstanding.

In connection with and as required by the Merger Agreement, Paligent and Richard J. Kurtz, a director and the principal stockholder of Paligent prior to the Merger, entered into a contribution agreement, dated as of August 25, 2006 (the Kurtz Contribution Agreement), providing that, immediately following consummation of the Merger, Mr. Kurtz would contribute to IFL all or a portion of the amounts owed to him by Paligent pursuant to the promissory note issued to him by Paligent, but not less than \$651,000, in exchange for shares of common stock of the Company. Upon the Merger, Mr. Kurtz elected to contribute only the minimum amount of \$651,000, and in exchange, Mr. Kurtz received 1,627,500 shares of common stock of IFL.

**2.** Pro Forma Adjustments

(A) To record the conversion of 11,222,218 shares of Old IFL Series A Convertible Redeemable Preferred Stock ( Old IFL Preferred Stock ) into shares of common stock of Old IFL, on a 1:1 exchange ratio, immediately prior to the Merger.

(B) To record the conversion of dividends accrued at September 30, 2006 on Old IFL Preferred Stock into shares of common stock of Old IFL immediately prior to the Merger. The exchange price assumed for conversion of accrued dividends for pro forma purposes is equal to the price per share paid for the underlying preferred stock, or \$0.225. As Old IFL stockholders, as a group, will receive in connection with the Merger shares of common stock of Paligent which are approximately equal to 95% of the issued and outstanding shares of common stock of IFL after the Merger, any adjustment in the exchange price will have no effect on the number of shares issued to Old IFL stockholders in the Merger.

(C) To record (i) the effect of the 1:20 reverse split of Paligent's common stock immediately prior to the Merger, including the issuance of approximately 6,000 shares to account for the rounding up of fractional shares; (ii) the issuance of 30,872,101 shares of Paligent common stock to Old IFL stockholders upon the consummation of the Merger; and (iii) the eliminations of Old IFL's common stock and Paligent's accumulated deficit.

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(D) To record Mr. Kurtz's contribution of Paligent's indebtedness to him in exchange for shares of common stock of IFL upon the consummation of the Merger in accordance with terms of the Kurtz Contribution Agreement. Mr. Kurtz converted the minimum amount of \$651,000 of Paligent's obligations in exchange for 1,627,500 shares of IFL common stock.

(E) To eliminate dividend expense resulting from the conversion of shares of Old IFL Preferred Stock into shares of Old IFL common stock (see Note B).

(F) To eliminate interest expense resulting from Mr. Kurtz's contribution of Paligent's indebtedness to him in exchange for shares of common stock of IFL (see Note D).

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