

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, taekwondo 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**

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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**

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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*

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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*

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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.***

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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 le