International Fight League, Inc.
Form 10-Q/A
December 06, 2007

QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No. 1

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .
Commission file number: 000-21134

International Fight League, Inc.

(Exact name of Registrant as specified in its charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**04-2893483** (I.R.S. Employer Identification Number)
424 West 33rd Street, Suite 650 **New York, New York** (Address of Principal Executive Offices)	**10001** (ZIP Code)

212.356.4000
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer o Accelerated Filer o Non-accelerated filer ý

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

At August 10, 2007, there were 78,931,233 shares of Common Stock, par value $0.01 per share, outstanding.

Explanatory Note:

This Quarterly Report on Form 10-Q/A is being filed as Amendment Number 1 to our Quarterly Report on Form 10-Q which was originally filed with the Securities and Exchange Commission ("SEC") on August 14, 2007. We are filing this form 10-Q/A to restate our financial statements for the fiscal quarter ended June 30, 2007 to reflect changes in our accounting for our arrangement with Fox Sports Net.

In consultation with our independent registered accounting firm, Rothstein, Kass & Company, PC ("Rothstein Kass"), we determined that we must account for the television revenue and distribution costs for its barter transaction with FSN at the recorded, or book, value rather than the fair value estimated by the Company. Under APB 29, as amended by FAS 153, paragraph 18 provides that in general accounting for nonmonetary transactions should be based upon the fair value of the assets (or services) involved which is the same basis as that used in monetary transactions. Under paragraph 20 of APB 29, a nonmonetary exchange should be measured based upon the recorded value of the nonmonetary asset transferred as part of the exchange and not the fair value if either the (a) the fair value of either the assets transferred or the fair value of the assets received cannot be determined within reasonable limits, or (b) the transaction facilitates a sale to customers, or (c) the exchange transaction lacks commercial substance. Upon further consideration of the tests in paragraph 20, the Company determined that it should record the barter transaction for its FSN arrangement at the recorded value of its television rights, not the fair value. Previously, the Company recorded the exchange at a fair value of $125,000 per one hour of the Company's show that was aired by FSN. Revenues, and an offsetting amount of distribution costs, were recorded for each show televised. Except as otherwise stated, all financial information contained in this Quarterly Report on Form 10-Q gives effect to these restatements. For information concerning the background of the restatements, the specific adjustments made, and management's discussion and analysis of our results of operations for fiscal quarter ended June 30, 2007 giving effect to the restated information, see "Critical Accounting Policy" at Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 to our financial statements.

This Form 10-Q/A amends and restates only certain information in the following sections as a result of the restatement described above:

Part I Item 1. Financial Statements

Part I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In addition, we are also including currently dated Sarbanes Oxley Act Section 302 and Section 906 certifications of the Chief Executive Officer and Chief Financial Officer that are attached to this Form 10-Q/A as Exhibits 31.1, 31.2, and 32.1.

For the convenience of the reader, this Form 10-Q/A sets forth the entire Form 10-Q which was prepared and relates to the Company as of June 30, 2007. However, this Form 10-Q/A only amends and restates the Items described above to reflect the effects of the restatement and no attempt has been made to modify or update other disclosures presented in our Form 10-Q for the fiscal quarter ended June 30, 2007. Accordingly, except for the foregoing amended information, this Form 10-Q/A continues to speak as of August 14, 2007 (the original filing date of the Form 10-Q for the fiscal quarter ended June 30, 2007), and does not reflect events occurring after the filing of our Form 10-Q for the fiscal quarter ended June 30, 2007, nor does it modify or update those disclosures affected by subsequent events. Furthermore, forward looking statements made in our Form 10-Q for the fiscal quarter ended June 30, 2007 have not been revised to reflect events, results or developments that have become known to us after the date of the original filing (other than the current restatements described herein), and such forward looking statements should be read in their historical context.

INTERNATIONAL FIGHT LEAGUE, INC.

INDEX

PART I.

FINANCIAL INFORMATION

Item 1. ***Financial Statements***

Certain information and footnote disclosures required under generally accepted accounting principles have been condensed or omitted from the following consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. International Fight League, Inc. (the "registrant", the "Company", "IFL", "we", "us", or "our") believes that the disclosures are adequate to assure that the information presented is not misleading in any material respect. The following condensed consolidated financial statements should be read in conjunction with the year-end consolidated financial statements and notes thereto included in our Annual Report on Form 10-K/A for the year ended December 31, 2006.

The results of operations for the interim periods presented herein are not necessarily indicative of the results to be expected for the entire fiscal year, or any other period.

When we refer to our fiscal year in this report, we are referring to the fiscal year ended on December 31 of that year. Thus, we are currently operating in our fiscal 2007 year, which commenced on January 1, 2007. Unless the context expressly indicates a contrary intention, all references to years in this filing are to our fiscal years.

"International Fight League," "IFL," "Bulldogs," "Condors," "Red Bears," "The Scorpions," "The Razorclaws," "Toronto Dragons," "The Tigersharks," "The Pitbulls," "The Silverbacks," "The Wolfpack," "The Sabres" and "The Anacondas" are trademarks of IFL. Each trademark, trade name or service mark of any other company appearing in this report belongs to its holder.

INTERNATIONAL FIGHT LEAGUE, INC.
and Subsidiary (formerly International Fight League, LLC)

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2007	December 31, 2006
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,526,465	$ 16,623,159
Accounts receivable, net of allowance for doubtful accounts	230,623	108,104
Merchandise inventory	96,979	25,843
Prepaid expenses	186,933	245,316
Total current assets	3,041,000	17,002,422
Property and equipment, net of accumulated depreciation and amortization	324,074	303,869
Other assets	113,295	121,346
Total assets	$ 3,478,369	$ 17,427,637
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,915,184	$ 1,036,444
Accrued commission on private placement		1,645,400
Accrued expenses and other current liabilities	692,915	1,110,341
Total current liabilities	2,608,099	3,792,185
Commitments		
Stockholders' equity:		
Common stock, $0.01 par value per share; 150,000,000 shares authorized; 53,549,614 and 53,500,448 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	535,496	535,004
Additional paid-in capital	23,820,185	23,996,851
Subscriptions receivable		(1,250,000)
Accumulated deficit	(23,485,411)	(9,646,403)
Total stockholders' equity	870,270	13,635,452
Total liabilities and stockholders' equity	$ 3,478,369	$ 17,427,637

The accompanying notes are an integral part of the condensed consolidated financial statements.

INTERNATIONAL FIGHT LEAGUE, INC.
and Subsidiary (formerly International Fight League, LLC)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2007 (Restated)	**2006 (Restated)**	**2007 (Restated)**	**2006 (Restated)**
Revenues:				
Live and television events:				
Advertising sponsorships	$ 74,178	$ 234,310	$ 141,224	$ 234,310
Live events box office receipts	891,721	127,142	1,405,563	127,142
Television rights	672,500		882,500	
Branded merchandise	34,831	1,342	54,302	1,342
Total revenues	1,673,230	362,794	2,483,589	362,794
Costs of revenues:				
Live and televised events:				
Advertising sponsorships	22,274	102,280	55,308	102,280
Live events costs	6,403,309	1,513,422	12,002,286	1,513,422
Branded merchandise	16,682	680	24,425	680
Total costs of revenues	6,442,265	1,616,382	12,082,019	1,616,382
Selling, general and administrative expenses	2,164,012	504,773	4,442,946	1,069,963
Stock-based compensation expense	14,469	15,546	29,677	25,128
Operating loss	(6,947,516)	(1,773,907)	(14,071,053)	(2,348,679)
Other income (expense):				
Dividend expense		(45,167)		(72,617)
Interest expense	(928)		(2,094)	
Interest income	71,644	11,248	234,139	22,771
Total other income (expense)	70,716	(33,919)	232,045	(49,846)
Net loss	$ (6,876,800)	$ (1,807,826)	$ (13,839,008)	$ (2,398,525)

	Three months ended June 30,		Six months ended June 30,	
Net loss per common share basic and diluted	$ (0.13)	$ (0.10)	$ (0.26)	$ (0.14)
Weighted average number of common shares outstanding basic and diluted	53,543,351	18,582,722	53,522,018	17,556,052

The accompanying notes are an integral part of the condensed consolidated financial statements.

INTERNATIONAL FIGHT LEAGUE, INC.
and Subsidiary (formerly International Fight League, LLC)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For the Six Months Ended	
	June 30, 2007	**June 30, 2006**
Cash flows from operating activities:		
Net loss	$ (13,839,008)	$ (2,398,525)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	53,838	4,991
Stock-based compensation expense	29,677	25,128
Changes in operating assets and liabilities:		
Accounts receivable	(122,519)	(203,459)
Merchandise inventory	(71,136)	
Prepaid expenses	58,383	(8,581)
Accounts payable	878,740	391,125
Accrued expenses and other current liabilities	(627,628)	185,579
Net cash used in operating activities	(13,639,653)	(2,003,742)
Cash flows from investing activities:		
Payment (repayment) of security deposits	8,051	(2,500)
Purchase of property and equipment	(74,043)	(41,190)
Net cash used in investing activities	(65,992)	(43,690)
Cash flows from financing activities:		
Receipt of subscription receivable	1,250,000	
Issuance of common stock from exercise of stock options	4,351	
Issuance of Series A preferred stock		2,525,000
Payment of accrued commission on private placement	(1,645,400)	
Conversion of investor advances to Series A preferred stock		(1,175,000)
Net cash (used in) provided by financing activities	(391,049)	1,350,000
Net decrease in cash and cash equivalents	(14,096,694)	(697,432)
Cash and cash equivalents at beginning of period	16,623,159	1,136,960
Cash and cash equivalents at end of period	$ 2,526,465	$ 439,528

The accompanying notes are an integral part of the condensed consolidated financial statements.

INTERNATIONAL FIGHT LEAGUE, INC.
and Subsidiary (formerly International Fight League, LLC)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BASIS OF PRESENTATION AND CONSOLIDATION AND BUSINESS DESCRIPTION

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 collectively, the "Company"), and Old IFL changed its name to IFL Corp. and continued to operate Old IFL's business of organizing and promoting a mixed martial arts ("MMA") sports league.

The accompanying unaudited condensed consolidated financial statements represent the accounts of IFL and IFL Corp. All intercompany accounts and transactions have been eliminated in consolidation. These unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) that are considered necessary for a fair presentation of consolidated financial position and results of operations as of and for the periods presented. We are required to make estimates and assumptions that affect the amounts reported in the unaudited financial statements and footnotes. Estimates and assumptions are periodically reviewed and the effects of any material revisions are reflected in the period that they are determined to be necessary.

We organize, host and promote a significantly greater number of live and televised MMA sporting events during the first half of our fiscal year than during the second half of our fiscal year. Since we generally incur most of our costs in connection with such events, our expenses generally increase during the first half of our fiscal year and decline in the second half. This seasonality is likely to cause fluctuations in our financial results. Therefore, the results of operations for the periods presented are not necessarily indicative of the results of operations for the full year and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006 in our Annual Report on Form 10-K.

NOTE 1A RESTATEMENT

The Company has restated its consolidated financial statements, as previously reported in its Form 10-Q for the three months ended June 30, 2007, for the error described below. In November 2007, management discovered a misstatement related to its treatment of television rights revenue and related direct costs for its arrangement with Fox Sports Net ("FSN"). The Company gave up its exclusive right to telecast in return for airtime to broadcast its mixed martial arts events. Since no cash changed hands, the Company accounted for the transaction as a barter transaction under APB 29 as amended by SFAS 153, and recorded the revenues and cost of revenues at an amount the Company estimated to be the fair value. The Company has decided to change its accounting treatment and will recognize revenue or offsetting distribution costs for its barter transaction with FSN based upon its recorded value of its television rights of $0, which will result in $0 revenue and $0 distribution fee expense for the FSN transaction. This annual report reflects this change, and the Company will be restating any prior financial statements that are affected by this change. The impact will not affect the Company's reported net loss, net loss per common share or cash flows. The amount of television revenue and distribution fees related to the FSN arrangement previously reported in the Company's financial statements are: $1,375,000 for the year ended December 31, 2006; $750,000 for the three-months ended March 31, 2007; $1,000,000 and $1,750,000 for the three and six month periods ended June 30, 2007; and $375,000 for the three and six month periods ended June 30, 2006.

The following is a reconciliation of the consolidated statements of operations as previously reported in the Company's Form 10-Q for the three months ended June 30, 2006, filed on August 14, 2007, to the consolidated statement of operations as reported in the accompanying consolidated financial statements included in the Company's Form 10-Q/A:

	"As Previously Reported" Three Months Ended June 30, 2007	Adjustments	"As Restated" Three Months Ended June 30, 2007
Television rights	$ 1,672,500	$ (1,000,000)	$ 672,500
Total revenues	$ 2,673,230	$ (1,000,000)	$ 1,673,230
Distribution fees	$ 1,000,000	$ (1,000,000)	$
Total cost of revenues	$ 7,442,265	$ (1,000,000)	$ 6,442,265
Selling, general and administrative expenses	$ 2,164,012	$	$ 2,164,012
Stock-based compensation expense	$ 14,439	$	$ 14,439
Operating loss	$ (6,947,516)	$	$ (6,947,516)
Other income (expense), net	$ 70,716	$	$ 70,716
Net loss	$ (6,876,800)	$	$ (6,876,800)

	"As Previously Reported" Six Months Ended June 30, 2007	Adjustments	"As Restated" Six Months Ended June 30, 2007
Television rights	$ 2,632,500	$ (1,750,000)	$ 882,500
Total revenues	$ 4,233,589	$ (1,750,000)	$ 2,483,589
Distribution fees	$ 1,750,000	$ (1,750,000)	$
Total cost of revenues	$ 13,832,019	$ (1,750,000)	$ 12,082,019
Selling, general and administrative expenses	$ 4,442,946	$	$ 4,442,946
Stock-based compensation expense	$ 29,677	$	$ 29,677
Operating loss	$ (14,071,053)	$	$ (14,071,053)
Other income (expense), net	$ 232,045	$	$ 232,045
Net loss	$ (13,839,008)	$	$ (13,839,008)

	"As Previously Reported" Three Months Ended June 30, 2006	Adjustments	"As Restated" Three Months Ended June 30, 2006
Television rights	$ 375,000	$ (375,000)	$
Total revenues	$ 737,794	$ (375,000)	$ 362,794
Distribution fees	$ 375,000	$ (375,000)	$
Total cost of revenues	$ 1,991,382	$ (375,000)	$ 1,616,382
Selling, general and administrative expenses	$ 504,773	$	$ 504,773
Stock-based compensation expense	$ 15,546	$	$ 15,546
Operating loss	$ (1,773,907)	$	$ (1,773,907)
Other income (expense), net	$ (33,919)	$	$ (33,919)
Net loss	$ (1,807,826)	$	$ (1,807,826)

	"As Previously Reported" Six Months Ended June 30, 2006	Adjustments	"As Restated" Six Months Ended June 30, 2006
Television rights	$ 375,000	$ (375,000)	$
Total revenues	$ 737,794	$ (375,000)	$ 362,794
Distribution fees	$ 375,000	$ (375,000)	$
Total cost of revenues	$ 1,991,382	$ (375,000)	$ 1,616,382
Selling, general and administrative expenses	$ 1,069,963	$	$ 1,069,963
Stock-based compensation expense	$ 25,128	$	$ 25,128
Operating loss	$ (2,348,679)	$	$ (2,348,679)
Other income (expense), net	$ (49,846)	$	$ (49,846)
Net loss	$ (2,398,525)	$	$ (2,398,525)

NOTE 2 LIQUIDITY

Since inception, the Company has incurred losses and has an accumulated deficit of $23.5 million at June 30, 2007. During 2006, the Company raised $2.5 million from the issuance of preferred stock (which was converted to common stock at the time of the Merger) and received $22.2 million in net proceeds from the sale of common stock in a private placement. At June 30, 2007, the Company's cash balance was $2.5 million. In August 2007, the Company completed another private placement from which the Company received $11.7 million in net proceeds (see Note 11 Subsequent Event).

Based upon management's current forecast of future revenues and expenses, the Company believes its cash resources will likely be sufficient to fund operations into the second quarter of 2008. This assumes that the Company's live event expenses continue to decrease as a result of the Company's increased production efficiencies and that the Company realizes additional cash from the following: (i) the distribution of IFL mixed martial arts content via DVD, electronic sell through and similar media pursuant to our letter of intent with Warner Home Video; (ii) the distribution of programming internationally pursuant to our exclusive relationship with Alfred Haber Distribution, Inc.; (iii) the continuation of television rights consistent with terms contemplated by the Letter of Intent with the Fox Entities (see Note 8); and (iv) an increase in sponsorship and licensing revenue. The Company is also evaluating the profitability of other revenue sources, such as franchise or team sales, digital rights and pay-per-view broadcasts. If the Company can successfully generate revenue from additional sources, the Company's cash resources could last beyond the second quarter of 2008. There can be no assurance, however, that the Company will generate sufficient cash from any of such sources or continue to realize decreases in its live event expenses. If the Company is not able to generate sufficient cash from operations or if the Company is unable to secure sufficient debt or equity financing for operations, the Company will experience a cash shortage, the effect of which could result in the discontinuance of operations. If additional funds are raised by issuing equity securities, further dilution to existing stockholders will result and future investors may be granted rights superior to those of existing stockholders.

NOTE 3 LOSS PER SHARE

The Company complies with the accounting and reporting requirements of Statement of Financial Accounting Standards No. ("FAS") 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. Common equivalent shares result from the assumed exercises of outstanding stock options and warrants, the proceeds of which are then assumed to have been used to repurchase outstanding shares of common stock (the "treasury stock method"). Common equivalent shares are not included in the per share calculations where the effect of their inclusion would be anti-dilutive. Inherently, stock options and warrants are deemed to be anti-dilutive when the average market price of the common stock during the period exceeds the exercise price of the stock options or warrants.

At June 30, 2007, the Company's common stock equivalents include stock options outstanding for 2,088,031 shares of our common stock and warrants exercisable for 1,288,987 shares of our common 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.

NOTE 4 INCOME TAXES

On January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes an interpretation of FAS 109" ("FIN 48"). As of January 1 and June 30, 2007, there were no unrecognized tax benefits. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at January 1, 2007. There was not change to this balance at June 30, 2007. Management is currently unaware of any issues under review that could result in significant payments, accruals or material deviations from its position. The adoption of the provisions of FIN 48 did not have a material impact on the Company's financial position, results of operations and cash flows.

NOTE 5 RELATED PARTY TRANSACTIONS

Transactions with Entities Controlled by Our Chief Executive Officer

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 June 30, 2007, approximately $58,000 was owed to these related companies, which is included in accounts payable, relating to transactions aggregating $230,000 and $580,000 for the three and six months ended June 30, 2007 and $123,000 and $162,000 for the three and six months ended June 30, 2006. As of December 31, 2006, approximately $166,000 was owed to these related companies, of which $119,000 is included in accounts payable and $47,000 is included in accrued expenses.

Lease and Other Guaranty Arrangements

In connection with Old IFL's lease of our New York City headquarters in August 2006, our Chief Executive Officer 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. In addition, our Chief Executive Officer has, on occasion, provided personal guarantees relating to performance bonds required by certain state athletic commissions.

On March 29, 2007, the Company's Board of Directors passed a resolution authorizing the Company to enter into an indemnification agreement with our Chief Executive Officer relating to these personal guarantees. On March 30, 2007, the Company executed an indemnity agreement with our Chief Executive Officer.

NOTE 6 STOCK OPTION PLAN

Accounting for stock options issued to employees follows the provisions of FAS 123(R), "Share-Based Payment" and the SEC's SAB 107, "Valuation of Share-Based Payment Arrangements for Public Companies." 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 award.

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

During the year ended December 31, 2006, the Company adopted the new 2006 Equity Incentive Plan (the "Plan"), which permits the grant of share options and other forms of share-based awards to its employees, directors and service providers for up to 5,000,000 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). As part of the Merger (see Note 1), 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 Plan which has substantially the same terms and conditions as the Old IFL options.

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.

	June 30, 2007
Expected volatility	33%
Expected dividends	0
Expected term (in years)	2-5
Risk-free rate	4.7%

A summary of option activity under the Plan for the six months ended June 30, 2007 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at January 1, 2007	1,925,376	$ 0.20	