PALIGENT INC
Form 10-Q
August 11, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2006

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: 0-21134

Paligent 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 No.)*
10 East 53rd Street, New York, New York *(Address of principal executive offices)*	**10022** *(zip code)*

(212) 755-5461

(Registrant s telephone number, including area code)

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 x 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.

Large accelerated filer o Accelerated filer o Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES x NO o

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

Class	**Outstanding as of August 4, 2006**
Common Stock, $0.01 par value	32,490,948

PALIGENT INC.

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PALIGENT INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,439	$ 51,681
Prepaid expenses and other current assets	10,097	
Total current assets	$ 19,536	$ 51,681
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	$ 69,350	$ 9,703
Accrued professional services	18,100	27,000
Due to related party	724,688	546,362
Total current liabilities	812,138	583,065
Stockholders deficit:		
Common stock, $.01 par value; 75,000,000 shares authorized; 32,490,948 shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively	324,910	324,910
Additional paid-in capital	154,634,974	154,634,974
Accumulated deficit	(155,752,486)	(155,491,268)
Total stockholders deficit	(792,602)	(531,384)
Total liabilities and stockholders deficit	$ 19,536	$ 51,681

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

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PALIGENT INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three months ended June 30, 2006	2005	Six months ended June 30, 2006	2005
General and administrative expenses	$ 147,245	$ 116,372	$ 261,218	$ 217,466
Loss from operations	(147,245)	(116,372)	(261,218)	(217,466)
Other income				141,250
Net loss	$ (147,245)	$ (116,372)	$ (261,218)	$ (76,216)
Basic and diluted net loss per common share	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.00)
Weighted average number of common shares outstanding Basic and diluted	32,490,948	32,490,948	32,490,948	32,490,948

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

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PALIGENT INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Six months ended June 30, 2006	2005
Cash flows from operating activities:		
Net loss	$ (261,218)	$ (76,216)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization		941
Changes in operating assets and liabilities:		
Note receivable		(75,000)
Prepaid expenses and other current assets	(10,097)	(11,509)
Subtenant receivable		30,000
Accounts payable and accrued expenses	50,747	3,300
Interest payable to related party	23,326	10,821
Net cash used in operating activities	(197,242)	(117,663)
Cash flows from financing activities:		
Proceeds from related party loan	155,000	115,000
Net cash provided by financing activities	155,000	115,000
Net decrease in cash and cash equivalents	(42,242)	(2,663)
Cash and cash equivalents at beginning of period	51,681	21,388
Cash and cash equivalents at end of period	$ 9,439	$ 18,725

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

PALIGENT INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1 BASIS OF PRESENTATION

Interim Financial Statements

The unaudited condensed consolidated interim financial statements included herein have been prepared by Paligent Inc. (Paligent or the Company) pursuant to accounting principles generally accepted in the United States of America and the rules and regulations of the United States Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial position of the Company at June 30, 2006 and the results of its operations and its cash flows for the interim periods ended June 30, 2006 and 2005. The condensed consolidated balance sheet as of December 31, 2005 was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting standards for interim financial statements and should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company s Form 10-K for the year ended December 31, 2005. 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 unaudited condensed consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the ordinary course of business. The Company has incurred losses from operations since inception, has working capital and stockholders deficits and has limited cash to fund operations in 2006. The Company is presently relying on borrowings from its principal stockholder to fund continuing operations. The principal stockholder has made no commitment to continue to make loans to the Company.

While the Company evaluates strategic alternatives, including potential business investments and related financing, the Company s rate of spending could vary from its current estimate. No assurance can be given that the Company will be able to complete a business investment or that such financing will be available to the Company. If the Company is unable to generate significant revenue from acquired operations, obtain financing from its principal stockholder or secure sufficient financing for operations resulting from acquisition or merger, the Company will experience a cash shortage in 2006, 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.

These circumstances raise substantial doubt about the Company s ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Reclassification

Certain prior period amounts have been reclassified to conform to the current period presentation.

NOTE 2 EARNINGS (LOSS) PER SHARE

The Company complies with the accounting and reporting requirements of Statement of Financial Accounting Standard 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.

For the three and six months ended June 30, 2006 and 2005, the Company had stock options and warrants outstanding that were anti-dilutive. These securities could potentially dilute basic EPS in the future but were not included in the computation of diluted EPS for the periods presented because to do so would have been anti-dilutive. Consequently, there were no differences between basic and diluted EPS for these periods.

NOTE 3 RELATED PARTY TRANSACTIONS

On October 8, 2003, in anticipation of completing a business combination with Digital Products of Delaware, Inc. (Digital) or another entity, the Company executed a promissory note (the Promissory Note) with Richard J. Kurtz, the principal stockholder of the Company and then the principal stockholder of Digital. Under the Promissory Note, the Company received, and expects to continue to receive, loans that will enable it to meet its anticipated cash operating needs. The Promissory Note bears interest at 8% per annum and was repayable upon the first anniversary of the making of the first loan. As the first anniversary of the Promissory Note has occurred, the amount due under the Promissory Note is payable on demand. As of June 30, 2006, the principal balance and accrued interest due under the Promissory Note are $670,000 and $54,688, respectively (see Note 5 for additional information).

NOTE 4 STOCK-BASED COMPENSATION

In December 2004, the Financial Accounting Standards Board issued FAS 123R, Share-Based Payment. FAS 123R is a revision of FAS 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion No. (APB) 25, Accounting for Stock Issued to Employees. Among other items, FAS 123R eliminates the use of APB 25 and the intrinsic value method of accounting, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments in the financial statements, based on the grant date fair value of those awards. The effective date of FAS 123R for the Company was January 1, 2006. FAS 123R permits companies to adopt its requirements using either a modified prospective method, or a modified retrospective method. Under the modified prospective method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of FAS 123R for all share-based payments granted after that date, and based on the requirements of FAS 123 for all unvested awards granted prior to the effective date of FAS 123R. Under the modified retrospective method, the requirements are the same as under the modified prospective method, but also permits entities to restate financial statements of previous periods, either for all prior periods presented or to the beginning of the fiscal year in which the statement is adopted, based on previous pro forma disclosures made in accordance with FAS 123. The Company has adopted the modified prospective method of recognition, and has recognized the cost, if any, in its financial statements for the interim periods ended June 30, 2006.

Prior to the adoption of FAS 123R, the Company had applied APB 25 and related interpretations in accounting for its stock-based compensation plans. Accordingly, no compensation cost had been recognized for its stock option plan. Rather, the Company complied with FAS 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of FAS 123, which provided alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. FAS 148 also amended the disclosure requirements of FAS 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. Since there were no unvested awards during the three and six months ended June 30, 2006 and 2005, the Company s net (loss) income would not have been adjusted for these periods for awards granted under the Company s stock-based compensation plans in accordance with FAS 123.

The Company had utilized the Black-Scholes option pricing model to measure the fair value of stock options granted to employees. While FAS 123R permits entities to continue to use such a model, it also permits the use of a lattice model. The Company expects to continue using the Black-Scholes option pricing model with its adoption of FAS 123R to measure the fair value of stock options.

NOTE 5 PROPOSED MERGER

On April 25, 2006, the Company entered into a Letter Agreement (the Agreement) with International Fight League, Inc. (IFL) and Richard J. Kurtz, the Company s principal stockholder. The Agreement sets forth the proposed terms of a transaction in which the Company would acquire 100% of the issued and outstanding common and preferred stock of IFL in exchange for shares of common stock of the Company which, upon their issuance, would be equal to 95% of the issued and outstanding shares of common stock of the Company. The Agreement further provides that Mr. Kurtz shall immediately purchase certain equity interests in IFL which would be converted into interests in the Company if the acquisition of IFL were consummated. If the proposed transaction is not consummated, Mr. Kurtz would receive additional equity interests in IFL. The Agreement also provides that, upon consummation of the transaction, Mr. Kurtz will convert the promissory note issued by the Company to him, under which principal and interest of $651,000 was outstanding at the time of the Agreement, into shares of common stock of the Company (see Note 3 Related Party Transactions). IFL has agreed not to solicit, initiate, discuss or negotiate any other acquisition proposal or offer during the period in which the Agreement is in effect. The Company may terminate the Agreement at any time in its sole discretion.

The transaction is characterized as a reverse merger for accounting purposes. Application of reverse merger accounting would result in IFL being deemed to be the acquirer and the continuing entity for accounting purposes.

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

Note Regarding Forward-Looking Statements

Statements in this Form 10-Q that are not statements or descriptions of historical facts are forward-looking statements under Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995 and are subject to numerous risks and uncertainties. These forward-looking statements can generally be identified by the use of such terms as anticipate, believe, continue, expect, may, should, or similar variations or the negative thereof. These forward looking statements involve risks and uncertainties, many of which are out of the Company s control and which may affect its future business plans. Factors that may affect the Company s future business plans include: (i) its ability to identify, complete and integrate an acquisition of an operating business, including the IFL acquisition; (ii) the viability of the Company s business strategy in connection with an acquisition and its ability to implement such strategy; and (iii) its ability to secure financing for its current costs and potential future operations. Such statements reflect the current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. In addition, the Company s business, operations and financial condition are subject to the risks, uncertainties and assumptions that are described in the Company s reports and statements filed from time to time with the Securities and Exchange Commission. Should one or more of those risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those discussed herein. The descriptions of the risks, uncertainties and assumptions to which the Company s business, operations and financial condition are subject are as of the date of this report. The Company assumes no obligation to update any such forward-looking statements.

Overview

Since 2001, Paligent Inc., together with its subsidiaries (collectively, the Company), has been engaged in seeking business opportunities to maximize value for its stockholders. The Company has evaluated various strategic alternatives, including acquisitions of new operating businesses and technologies as well as potential merger opportunities.

From its inception in 1985 through 1999, the Company operated 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, the Company s 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, the Company closed its research facilities and out-licensed PRO 2000 Gel and O6-BG. In September 2004, the Company transferred all of its rights, title and interest in PRO 2000 Gel pursuant to an option duly exercised by its sublicense and in March 2005, the Company assigned all of its rights, interests and obligations in O6-BG to an affiliate of its sublicensee.

On April 25, 2006, the Company entered into a Letter Agreement (the Agreement) with International Fight League, Inc. (IFL) and Richard J. Kurtz, the Company s principal stockholder. The Agreement sets forth the proposed terms of a transaction in which the Company would acquire 100% of the issued and outstanding common and preferred stock of IFL in exchange for shares of common stock of the Company which, upon their issuance, would be equal to 95% of the issued and outstanding shares of common stock of the Company. The Agreement further provides that Mr. Kurtz shall immediately purchase certain equity interests in IFL which would be converted into interests in the Company if the acquisition of IFL were consummated. If the proposed transaction is not consummated, Mr. Kurtz would receive additional equity interests in IFL. The Agreement also provides that, upon consummation of the transaction, Mr. Kurtz will convert the promissory note issued by the Company to him, under which principal and interest of $651,000 was outstanding at the time of the Agreement, into shares of common stock of the Company. IFL has agreed not to solicit, initiate, discuss or negotiate any other acquisition proposal or offer during the period in which the Agreement is in effect. The Company may terminate the Agreement at any time in its sole discretion. The Company and IFL are currently negotiating a definitive agreement with respect to the proposed transaction. The Company expects that the definitive agreement will be executed during the third quarter.

Results of Operations

From inception through June 30, 2006, the Company has generated no revenues from product sales or services and has not been profitable. As the Company evaluates various strategic alternatives in its quest for new growth areas that will maximize value to existing stockholders, the Company expects to incur additional losses.

Three and six months ended June 30, 2006 as compared to the three and six months ended June 30, 2005

The Company s total operating costs, consisting of general and administrative expenses, were $147,000 and $261,000, respectively, for the three and six month periods ended June 30, 2006 as compared to $116,000 and $217,000 for the comparable periods in 2005, reflecting increases of $31,000 and $44,000, respectively, for the three and six month periods. These increases are primarily attributable to supplemental costs incurred for professional fees in connection with the Company s contemplated business combination with IFL.

During the six months ended June 30, 2005, the Company assigned all of its rights, interest and obligations in O6-BG to its sublicensee for the contract amount of $158,750. In connection with the assignment, the Company paid a royalty in the amount of $17,500 to the United States Public Health Service. The net amount of these transactions is reflected as other income in the first quarter of 2005. There were no comparable transactions in 2006.

Liquidity and Capital Resources

At June 30, 2006, the Company s aggregate cash and cash equivalents were $9,000, a decrease of $42,000 from the end of the prior year. The combination of cash available at the beginning of the year and loan proceeds of $155,000 received from the Company s principal stockholder during the six month period ended June 30, 2006, was used for cash payments aggregating $197,000 for operating activities.

The Company has incurred losses since inception, has working capital and stockholders deficits and has limited cash to fund its operations. The Company is presently relying on borrowings from its principal stockholder to fund continuing operations. While the Company pursues strategic alternatives, including potential business combinations and related financing, the Company expects to finance its continuing operations through further borrowings from its principal stockholder. The stockholder has made no commitment to continue to make loans to the Company. No assurance can be given that the Company will be able to complete a business combination, including the IFL acquisition, or that such financing from its principal stockholder will continue to be available to the Company. If the Company is unable to generate significant revenue from acquired operations, obtain financing from its principal stockholder or secure sufficient financing for operations resulting from acquisition or merger, 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.

These circumstances raise substantial doubt about the Company s ability to continue as a going concern.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

In January 1997, the Securities and Exchange Commission issued Financial Reporting Release 48 (FRR 48), Disclosure of Accounting Policies for Derivative Financial Instruments and Derivative Commodity Instruments, and Disclosure of Quantitative and Qualitative Information About Market Risk Inherent in Derivative Financial Instruments, Other Financial Instruments and Derivative Commodity Instruments. FRR 48 required disclosure of qualitative and quantitative information about market risk inherent in derivative financial instruments, other financial instruments, and derivative commodity instruments beyond those already required under generally accepted accounting principles. The Company is not a party to any of the instruments discussed in FRR 48 and considers its market risk to be minimal.

Item 4. Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was performed under the supervision of the Company s Chief Executive Officer and Principal Financial Officer, of the effectiveness of the Company s disclosure controls and procedures. Based on that evaluation, the Company s Chief Executive Officer and Principal Financial Officer concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, there were no changes in the Company s internal control over financial reporting during the quarter ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

As reported in the Company s Annual Report in Form 10-K, the Company has been seeking a merger or sale to acquire other operating businesses which perceive value in becoming a publicly traded corporation. Certain factors may affect the Company s opportunities to merge or sell itself to other operating businesses. In addition to the other information in this Quarterly Report on Form 10-Q, the Risk Factors included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005 have not materially changed except as set forth below.

Future Mergers or Sales Will Cause Dilution or Adversely Affect Results

On April 25, 2006, the Company entered into a Letter Agreement (the Agreement) with International Fight League, Inc. and Richard J. Kurtz, the Company s principal stockholder. The Agreement sets forth the proposed terms of a transaction in which the Company would acquire 100% of the issued and outstanding common and preferred stock of IFL in exchange for shares of common stock of the Company which, upon their issuance, would be equal to 95% of the issued and outstanding shares of common stock of the Company. Upon the consummation of the proposed transaction, the Company will (i) issue equity securities that will substantially dilute current stockholders percentage ownership in the Company; (ii) possibly incur substantial debt; or (iii) possibly assume contingent liabilities. Such actions could cause the Company s operating results or the price of the Company s common stock to decline.

Item 6. Exhibits.

31.1 Certification of Chief Executive Officer and Principal Financial Officer Required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.

32.1 Certification of Chief Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.

SIGNATURES

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, thereunto duly authorized.

	PALIGENT INC. (Registrant)	
Date: August 11, 2006	by:	/s/ Salvatore A. Bucci Salvatore A. Bucci President and Chief Executive Officer

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EXHIBIT INDEX

31.1 Certification of Chief Executive Officer and Principal Financial Officer Required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.