

Industry Report -
Investing in Mixed
Martial Arts:

The Fight Zone (TFZI):

Current Price - \$0.45

Target Price - \$1.25

ProElite, Inc. (PELE):

Current Price - \$0.70

Target Price - \$0.25

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Analyst Certification

I, Joseph Noel, hereby certify (1) that the views expressed in this research company report accurately reflect my personal views about any or all of the subject securities or issues reflected in this company report, and (2) no part of my compensation was, is, or will be directly or indirectly related to specific recommendations or views expressed in this company report.

October 27, 2008

The Business of Mixed Marital Arts

Investing in the World's Fastest Growing Sport

- Mixed martial arts, known as MMA, is a full contact combat sport, in which the participants draw from a variety of martial arts, boxing and wrestling styles in order to dominate their opponent. MMA is easily the fastest growing sport in the United States, Japan and several other Asian countries and the sport is growing quickly in both Western and Eastern Europe.
- MMA is big business. The dominant industry player, Ultimate Fighting Championship (UFC) will likely exceed \$250 million in revenue in 2008. Several other promotional companies have sprung up in order to compete against the UFC realizing mixed levels of success.
- The recent growth in MMA has placed the sport close to becoming the fourth most popular major American sport, likely replacing hockey sometime before mid-2009. MMA fans are clearly younger and often more affluent than those who follow other major American sports.
- There are only a few publically traded companies within the world of MMA. It appears Pro-Elite, Inc. (PELE) will be disappearing with likely CBS or Showtime taking over fighter contracts. Considering the uncertain status of the company we certainly would not be buyers of the shares and have established a price target of \$0.25.
- Our favorite publically traded name in the MMA business is the The Fight Zone, Inc. (TFZI). The company has an aggressive plan to grow its MMA business over the coming years. We believe the company strategy of working to cross promote events will ultimately prove successful as will its unique, team-oriented sponsorship program designed to place promotions and licensed goods not only one fighter or in one venue, but on all fighters, regardless of where they fight and on all the venues where fighters compete. With only 30 million shares outstanding, the total market capitalization of TFZI is only, \$13.5 million, possibly making TFZI shares one of the best bargains in MMA investing and a low cost way for small cap investors to play the dynamic growth of this booming sport and industry. We are establishing a price target for shares of The Fight Zone (TFZI) at \$1.25.

Please see important disclosures, including analyst certification

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THE BUSINESS OF MMA

M M A B U S I N E S S R E P O R T Executive Summary

Mixed martial arts, known as MMA, is a full contact combat sport, in which the participants draw from a variety of martial arts, boxing and wrestling styles in order to dominate their opponent. The sport is clearly controversial, due to the violence involved, but nevertheless is becoming increasingly popular especially among, young, relatively affluent, suburban men in the 18 to 35-year-old demographic. MMA is easily the fastest growing sport in the United States, Japan and several other Asian countries and the sport is growing quickly in both Western and Eastern Europe.

MMA is big business. The dominant industry player, Ultimate Fighting Championship (UFC) will likely exceed \$250 million in revenue in 2008. Several other promotional companies have sprung up in order to compete against the UFC realizing mixed levels of success.

MMA fights are typically held in indoor sports facilities that seat between 2,500 and 25,000 people. While meaningful revenues are generated through ticket sales, it is the pay-per-view television revenues that really drive the industry. The smaller MMA promoters often see pay-per-buys of between 10,000 and 50,000, with the larger promotion companies, such as the UFC and Affliction Entertainment often drawing buys of hundreds of thousands. With pay-per-view prices ranging from \$20-\$75, substantial revenues are being generated. Additionally, the promotional companies also generate revenues through sales of MMA-oriented clothing, which is very popular among many fans.

Within the United States, MMA is coming very close to displacing hockey as the fourth most watched major sport. MMA is clearly placing

significant pressure on boxing and “professional” wrestling. In many parts of the United States, Japan, Europe, Brazil, and in some parts of Southern Asia, mixed martial arts oriented training facilities are springing up. Many youths who would have likely followed a path of boxing training are now instead turning toward MMA. Because of the many tens of thousands of young men and women who are now pursuing MMA training and due to the development of advanced training techniques and professional MMA leagues, the quality of MMA athletes has skyrocketed over the past few years. This trend is expected to continue for the foreseeable future. We believe it is accurate to state that MMA has become firmly ingrained in American and Japanese pop culture, although less so in other parts of the world.

The demographics of MMA fans are extremely compelling to advertisers. While the vast majority of fans are in the coveted 18-34 male demographic, there are additional characteristics that are particularly interesting. For example, where NBA dominates urban youth culture, MMA is beginning to dominate suburban youth culture. Purchasing power among American suburban youth outpaces that of their urban counterparts to a significant degree. An additional factor relative to this demographic is that MMA is grabbing the attention of young male teenagers before they are able to develop an interest in traditional “stick and ball” sports. These trends have advertisers and clothing companies especially excited.

Advertisers are clearly interested in this wealthier subcategory of the 18-34 male demographic and are beginning to respond by increasing support for MMA. Both Harley Davidson and Anheuser-Busch’s Bud Light brand have recently become major sponsors. Donald Trump is now partially backing Affliction Entertainment and billionaire owner of the Dallas Mavericks and the HDNet television network, Mark Cuban, has recently

bought into MMA via an investment in one of the failed MMA promotion companies.

MMA as it known today began in 1993. The first organized fights were brutal affairs where there were very few rules, time limits or regard for fighter safety. While the brutality of early MMA events served the purpose of generating significant attention to the sport, it also caused a great deal of controversy. In 1997, the sport went virtually underground after being banned in most of the United States. Several years later, after strict rules were imposed and a successful public-relations effort was launched by UFC and Zuffa, LLC, the company that purchased the UFC, MMA began to be sanctioned by various boxing and other sports commissions. This rehabilitation ultimately proved successful and in 2001 the UFC returned to pay-per-view television. The rules that were implemented within MMA have significantly reduced fighter injury. Today, MMA fighters suffer injury at a rate that is similar to other contact sports. Recent research indicates that participating in an MMA bout is actually safer than engaging in a boxing. This is mainly due to the fact that the main emphasis in boxing to knock the opponent down by hitting him in the head. While MMA fighters also strike to the head, there are many other ways to dominate the opponent.

MMA in the United States is dominated by the UFC, which is primarily owned by a holding company called Zuffa, LLC. It is estimated the UFC commands at least 80%, and possibly up to 90%, of the entire mixed martial arts market and would command a price in excess of \$1 billion if sold today. While there is no indication the UFC's dominance will wane anytime soon, there are some who follow the industry that suggest that there are some cracks in the organization's foundation. Some of the star fighters, on which the company has built its brand, are aging or retiring. Some of the top UFC fighters have recently defected to other promotion companies over pay disputes. While the UFC has some issues, we strongly believe it will maintain its dominant position for the foreseeable future. Clearly, in our opinion, the UFC has no match in the industry relative to overall management capabilities, promotion and public relations savvy.

The UFC's success and extreme popularity of MMA has attracted considerable competition. Publicly traded, Pro-Elite, Inc (Stock Symbol:PELE) had seen some success with its EliteXC events, which were carried on CBS as "The CBS Saturday Night Fights." The most recent event pulled in 4.1 million viewers and CBS is expected to broadcast at least one more event. EliteXC has been criticized within MMA circles, however, due to the relatively low quality fighters it has promoted at some of its events. While the company's events have been viewed as moderate successes, the company's financial prowess, due to the \$56 million in losses racked up over the past two years, is certainly questionable.

Affliction, a leading clothing brand, and Donald Trump have partnered to form Affliction Entertainment in order to promote MMA events and the Affliction clothing brand name. Affliction Entertainment has also seen some successes, with its first event generating over \$2 million in gate receipts and nearly 100,000 pay-per-view buys. The UFC, however, has not made it easy for Affliction to penetrate the MMA market. The UFC has been very aggressive in hosting major events on days when Affliction had also planned events. Thus far, Affliction has chosen not to compete directly against the UFC and has instead decided to change the dates for its events. Affliction is partnering with Golden Boy Promotions, the powerful boxing promotional company led by boxing superstar Oscar De La Hoya, in order to offer a show in January of 2009 featuring a combination of MMA and boxing. We believe the success, or failure of this event, will determine much about how boxing and MMA will coexist in the future.

Strikeforce, which is an MMA promotions company run by a long time martial arts promoter, Scott Coker, and Silicon Valley Sports and Entertainment, which is the operator of the HP Pavilion and the San Jose Shark's NHL club, has also seen success in MMA. Thus far Strikeforce has posted 14 events and has implemented a successful strategy of cross

promotion with other MMA promotion companies. Many involved in MMA consider Strikeforce to be well-financed and well-run.

DREAM is a collaborative effort between a leading combat sports promoter in Japan and Dream Station Entertainment, which is the parent company of the now defunct PRIDE MMA organization. DREAM has seen some success, but its television ratings have been disappointing. The company has much riding on its December 31, 2008 show, which is expected to feature one of MMA's biggest stars. World Victory Road is another Japanese promotion company. While the company has hosted some well attended events, significant revenue generation was hampered by lack of television coverage. In late September 2008, the organization signed a partnership with a Japanese broadcaster, which is likely to boost its operating revenues.

The Fight Zone, Inc., which trades under the symbol "TFZI," is a Colorado, USA based, diverse mixed martial arts management, development and marketing company. The main focus of the company is to develop its stable of fighters to a pay-per-view level by providing a full range of services including, discipline training, strength and conditioning training, management and promotion.

The company operates out of Las Vegas, Nevada, which is clearly the MMA capital of the world. The company plans to begin offering its own promoted fights over the next few quarters and will likely select a major hotel venue in Las Vegas for its first event. Whereas many promotional companies develop their own fighters and seek to host events featuring just these fighters, The Fight Zone management team is seeking a different approach.

The management team believes a partnering approach is needed relative to successful MMA promotion. Rather than simply hosting their own fighters, the company will actively seek to partner with the larger organizations, such as the UFC, in order to allow fighters from competing promotional organizations to fight on a Fight Zone card. This strategy could ultimately pay off, in our opinion, as there is developing discontent among the fighter ranks within some of the larger organizations. Many such fighters are forced to wait long periods before the

promoters allow them to fight, which causes significant frustration. The Fight Zone is seeking to partner with the organizations that control such fighters in order to allow fighters additional bouts. Over the past few months the management team has been in discussions with several other MMA organizations that also wish to co-sponsor events. While no deals have yet been formalized, it appears that several organizations have expressed a strong desire to work within this framework.

There are only a few publically traded companies within the world of MMA. It appears Pro-Elite, Inc. (PELE) will be disappearing with likely CBS or Showtime taking over fighter contracts. Considering the uncertain status of the company we certainly would not be buyers of the shares and have established a price target of \$0.25.

The Fight Zone, Inc. (TFZI) has an aggressive plan to grow its MMA business over the coming years. We believe the company strategy of working to cross promote events will ultimately prove successful as will its unique, team-oriented sponsorship program designed to place promotions and licensed goods not only one fighter or in one venue, but on all fighters, regardless of where they fight and on all the venues where fighters compete. We believe TFZI shares may be one of the best bargains in MMA investing and a low cost way for small cap investors to play the dynamic growth of this booming sport and industry. We are establishing a price target for shares of The Fight Zone (TFZI) at \$1.25.

The Business of Mixed Martial Arts

Introduction and History

The sport called, Mixed Martial Arts (MMA), is enjoyed by millions of people throughout North America and in many other parts of the world. Often referred to as the fastest growing sport in the Western world, MMA is a full contact combat sport in which the participants draw from a variety of martial arts, boxing, and wrestling styles in order to dominate their opponent. The sport is clearly controversial, due to the violence involved, but nevertheless is becoming increasingly popular, especially with the important advertising demographic of the 18 to 34-year-old male.

While MMA in its current form is a relatively new sport, similar versions have been around for thousands of years. The ancient Greeks organized a form MMA in some of the early Olympic Games. The sport was called pankration, meaning “all powers” and combined certain elements of both wrestling and boxing. Such matches often lasted for hours and only ended when one of the participants was knocked out, killed or “tapped out” indicating he had been pinned down or placed in a hold that could possibly result in significant injury. Historians draw close parallels between this early Greek sport and the current version, which we call mixed martial arts.

Since ancient Greek times, various cultures, including Etruscan and Roman, organized similar versions of unarmed combat sports where there were very minimal rules. Similar competitions have survived for centuries in various forms within virtually every culture since the ancient Greeks.

The current of form mixed combat sport, which we today referred to as mixed martial arts, can be traced to the mixed style events that were held in Japan and other Pacific Rim countries in the early 1990s. Elements of these Asian fighting styles have been combined with fighting styles developed by practitioners of vale tudo martial arts, which originated in Brazil in the early 1920s. While a form of mixed martial arts was widely practiced in Brazil in the 1920s and 1930s, today's MMA events more closely resemble the mixed martial arts matches that took place in Japan during the early 1970s. Various forms of MMA survived throughout the late 70s and through the 1980s. It was in 1993, however, when MMA really got noticed by the fighting communities throughout the world. During that year, Brazilian jujitsu fighter Royce Gracie propelled mixed martial arts forward by submitting three challengers in just five minutes during the first

Ultimate Fighting Championship (UFC) tournament. His performance sparked a revolution in the martial arts world, which has forever changed the world of unarmed, full contact combat sports.

While Royce Gracie was the first fighter to gain significant notoriety through victories achieved using a mixed style that integrated the best of various martial arts styles, it was Bruce Lee in the late 1960s and early 1970s that first popularized the concept. Bruce Lee's strongly advocated that the best overall fighter is not a karate, judo or boxing specialist, but is rather someone who can adapt to any style. Clearly, it is Bruce Lee who is the true father of modern day mixed martial arts.

MMA Fighters are Among the Best in the World

Over the decades there has been considerable discussion among combat sports fans as to which style of fighter could dominate fighters who practice other styles. For years, many believed that kick boxers would easily be able to beat a straight up boxer or wrestler, although there was little real-world evidence supporting this belief. Others believed that the strict practitioners of various Asian styles of contact sports, such as Kung Fu, jujitsu, or karate would be able to beat fighters practicing any other style. Over the past few years, however, these controversies have all but been resolved. Because mixed martial arts enables the fighter to use the most potent aspects of all of the various combat fighting sports, even a journeyman MMA fighter will generally be able to successfully dominate fighters using traditional martial arts disciplines. Simply put - MMA fighters are some of the most dangerous fighters on earth and few masters of single form mixed martial arts would dare challenge them in a real bout.

Establishment of the UFC

In 1993, three partners established the "Ultimate Fighting Championship" which is today is known as the UFC. The UFC was modeled after underground mixed martial arts events that were held in southern Asia, mainly Thailand, but with a twist. While a live audience would be present and admission would be charged, the event would also be broadcast to a television audience who would pay to view the event. This pay-per-view model continues today and is the dominant revenue producer for the mixed martial arts industry and the UFC. The first major PPV event, held in 1993, was a huge success capturing 86,000 pay-per-view buys. The UFC's third event was an even bigger success generating more than 300,000 pay-per-view buys. The success of these events attracted a significant amount of money and attention to mixed martial arts.

Establishment of Rules in MMA

Much of this attention was negative, however. Early MMA events were rather brutal affairs being dubbed “no holds barred fighting.” At the time there were no weight classes, no time limits or rounds, and no safety equipment. The only rules were that fighters could not bite or eye gouge and the fighter could win when referee stopped the fight, one fighter was knocked out, or by submission. Submission is a very important component in MMA involving one fighter signifying verbally or by a “tap out,” where the fighter that is giving up must tap the mat, or his opponent three times with his hand or foot to signify that he submits, or gives up.

Early UFC events were free-for-alls and several problems immediately surfaced. Because there were no weight classes fighters that were as light as 200 pounds were allowed to fight fighters that weighed more than twice as much. Additionally, some of the fights were rather boring because many fighters used advanced wrestling oriented techniques in an attempt to submit their opponent. Some of these matches lasted a very long time. As result it was clear that rules and time limits needed to be implemented. Ultimately time limits, in the form of either three or five rounds, were implemented as was a panel of judges who would be responsible for determining the winner of the bout.

In 1997, MMA turned very controversial when Arizona Senator John McCain launched a campaign against the UFC, calling it “human cockfighting”. The resulting political pressure forced many pay-per-view carriers to drop MMA from their line ups. While the positioning of the UFC as a “no holds barred” fight served the purpose of generating early interest, it was ultimately this lack of rules that created the controversy in 1997. As a result, MMA in the United States went virtually “underground” for several years after being banned in all but a handful of states.

Several years later, MMA in the United States received a major public relations upgrade. The Ultimate Fighting Championship was purchased by Zuffa, LLC, a Las Vegas-based media and casino management company owned by Lorenzo and Frank Fertitta. The Fertitta’s and Zuffa president, Dana White, planned to turn the Ultimate Fighting Championship into a sport with firm rules, which would allow the sport to be sanctioned by various boxing and other sports commission's in various states.

Rehabilitation of MMA - Moving Toward the Main Stream

This rehabilitation of the UFC was very successful and in 2001 the UFC returned to pay-per-view being warmly received by fans. While the establishment of rules, such as time limits rounds, five weight classes, a list of more than 30 fouls, and multiple possible ways to win the bout certainly improved the image of MMA in North America, it was the popularity of the fighters that was primarily responsible for the booming popularity. When MMA reemerged in 2001, the UFC presented audiences with some of the best conditioned fighters the world had ever seen. These were clearly professionals who trained every bit as hard as boxers and other professional athletes. Fans appreciated the athletic talents of these fighters and responded positively.

While MMA and UFC fighters in the early 90s used a variety of styles, or in some cases no style at all, today's modern mixed martial artist must master many techniques that are taken from many different fighting disciplines. Fighters who are unable to master these combined disciplines are at a distinct disadvantage.

The establishment of rules has significantly increased the safety of the fighters involved in the sport, but this increased safety factor settled only some of the controversy that swirls around the sport. MMA events can be brutal affairs with fighters striking each other with vicious punches and kicks, often to the head. Were boxers wear thickly padded gloves, MMA fighters use fingerless thinly padded gloves, which offer little protection to the hands. Fighters, both the winners and especially the losers, are often bloodied and bruised by the end of the fight and blood is often dripped onto mat. Recent rule implementations, which prohibit strikes to the back of the head, head butts, and knee and elbow strikes to down opponents, have done much to reduce injury, improve the overall image of the sport and to further reduce controversy.

The Safety of MMA vs. Other Sports

Despite the apparent brutality of an MMA event, there is compelling evidence to show that risk of injury for boxers exceeds that of MMA fighters. There are several reasons for this. In MMA there are many ways to win a fight other than hitting the opponent in the head and knocking him out, which is the primary objective of boxing. Additionally, science has clearly shown substantial injury occurs to fighters who received multiple concussions, as opposed to a single blow that can knock a fighter down. In MMA, it is quite common for one fighter to hit another fighter in the head and for that fighter to fall to the mat. The fighters then continue to fight by implementing wrestling-oriented techniques seeking to submit the opponent and win the fight. This differs significantly from boxing where a fighter who is hit in the head and falls to the mat is forced to get back up in order to continue the fight. The practice of allowing a dazed and confused boxer to stand back up and subject himself to another potential blow to the head is very dangerous, as is well known among physicians that it is the second, third, or additional concussion that causes significant harm. Because there is often no second concussion in MMA, fewer head injuries result.

MMA Fan Demographics – MMA Challenges Boxing

Those who follow the sport of boxing often state that boxing has been a dying sport for more than 200 years. It seems that every time boxing is on the verge of falling out of the mainstream, a boxing star has emerged to rejuvenate interest in the sport - Sugar Ray Leonard, Mohamed Ali, Mike Tyson, and Oscar De La Hoya have all been viewed as saviors of boxing. While boxing has certainly been resilient, it appears that the increased popularity of MMA spells significant trouble for boxing, relegating it to a niche sport and away from the mainstream.

The recent growth in MMA has placed the sport close to becoming the fourth most popular major American sport, likely replacement hockey sometime before mid-2009. MMA fans are clearly younger than those who follow any of the other major American sport. Major league baseball fans are actually older than the average adult, whereas fans of the NBA are younger than average. Of all the major American sports, MMA has the youngest fan base at an average age of 31. While the fan base of 18 to 31 year old men continues to grow, the fastest growing segment of the MMA fan base are fans that are between the ages of 31 and 39 years old.

MMA is also capturing the fan base that is not loyal to any other sport. Interest in MMA is growing rapidly among young males who do not follow other sports. Instead of these boys becoming interested in baseball or football, as many fans their ages did in the past, these boys are increasingly turning toward MMA at the expense of these other sports.

There is also a compelling evidence to show that MMA fans are more affluent than those who follow other sports, especially basketball. While basketball still commands more interest among urban youths, MMA is significantly more popular among suburban teens and young adults, who have substantially more purchasing power. In fact, the NBA's fan base is only growing due to its success in targeting foreign markets, but domestically, MMA is clearly taking share.

While the fan base for an MMA is clearly growing, it is also growing as a percentage of the overall fan base relative to all sports. Much of this is simply the age related demographics of the US, Western European, and Japanese populations. As a higher percentage of younger people turned toward MMA and older fans, who are more interested in baseball and horse racing, die off, MMA will hold a larger percentage share of the overall sports market.

An example of MMA's popularity among the coveted 18 to 34-year-old male demographic recently occurred. Spike TV, which broadcasts *UFC Fight Night*, recently drew more male viewers within this demographic than did ESPN's broadcast of a major league baseball game in the heat of a pennant race and ESPN2's broadcast of college football, combined, with a total of 2.3 million young men tuning into the UFC event.

The real question, in our opinion, will be MMA's ability to retain this audience as the audience ages. While we believe MMA will always have a loyal fan base simply due to the excitement of the sport, we also believe it will clearly be a challenge to maintain the current level of popularity as the casual fan matures. We compare the situation in a similar manner relative to "professional" wrestling, such as the WWE (World Wrestling Entertainment). It is not particularly socially acceptable to be a WWE fan past a certain age. While an 18-year-old man may willingly to admit he enjoys watching a fixed "bout" of professional wrestling, few American forty -year-old men will readily admit the same. While we believe this is somewhat different relative to MMA, we still believe a certain aspect of social acceptability, or social

unacceptability, exists relative to being a fan of MMA.

Over the past few months there has been considerable press about MMA overtaking boxing in popularity. Many believe MMA is simply more exciting than is boxing, especially to the younger demographics. MMA action is faster paced, more diverse and compelling in the eyes of his younger audience. Additionally, boxing has suffered from continual scandal, which has further damaged the credibility of not only the sport, but also boxing's image within the business community.

During 2007 boxing had its biggest year ever on pay-per-view television. Of the 15 biggest pay-per-view events on television during 2007 broadcast in the United States and Canada, the UFC had 10, boxing had three and World Wrestling Entertainment had two. The biggest, however, was the Oscar De La Hoya versus Floyd Meriwether boxing match on May 5th that drew 2.4 million pay-per-view buys. MMA's biggest pay-per-view event occurred during December of 2007 with just over one million pay-per-view buys. We believe, however, that the May 5th boxing event was a one-off case and will likely not be repeated anytime soon. It is widely predicted that in 2008, MMA will easily surpass boxing in both gate receipts and pay-per-view buys.

The Current State of MMA Business – Industry Players

Intimate Fighting Championship (UFC)

Mixed martial arts in the United States is dominated by the UFC, which is operated through a holding company called Zuffa, LLC. In Italian, “Zuffa” means fight. It is estimated that during 2008 the UFC will generate over \$250 million in revenue, commanding at least 80% and possibly up to 90% of the entire mixed martial arts market. Clearly, the majority of the company's revenues are derived through pay-per-view events that are held at least monthly. Additionally, the UFC charges admission to fights that generates hundreds of thousands of additional dollars per event. The firm also has a lucrative licensing business, which includes the use of the UFC name on apparel and licensing fees generated from its Spike TV shows, *The Ultimate Fighter* and *UFC Fight Night*. The *Ultimate Fighter* TV program, where up and coming fighters compete in a reality TV show setting for a UFC contract, has been a huge success yielding strong revenues and additional fans for the UFC.

It is widely estimated that Zuffa has been offered in excess of \$1 billion for the UFC brand, a value that almost approaches that of publicly traded World Wrestling Entertainment (NYSE:WWE) even though WWE produces almost double the revenue and yielded similar overall pay-per-view buys in 2007. The UFC has recently signed both Harley-Davidson and the Anheuser-Busch, Bud Lite brand as corporate sponsors.

Over the past two quarters the rate of growth of the UFC has flattened and some have argued that the company has plateaued. We believe, however, significant growth will continue to be seen within the UFC. MMA fights are currently only sanctioned in certain states. Expansion into other major media markets in states such as New York, Massachusetts, and Pennsylvania will likely further expand interest in the sport. Additionally, while the UFC has seen considerable success on cable television's Spike TV network, it has yet to sign a deal with a major network. We believe such a deal is a distinct possibility over the coming year. CBS has already taken the first step in putting MMA on prime time television through its affiliation with EliteXC, which jointly host the “*CBS Saturday Night Fights*.”

Clearly, the UFC is the number one brand in mixed martial arts and we believe this situation is not likely to change anytime soon. While in the dominant position, not all is perfect at the UFC. Several of its star fighters, on which the UFC brand was built, clearly have their best days behind them and the league will need to develop new stars in order to maintain fan interest and growth. Several fighters show strong promise, but few of these are likely to develop into the superstars that have helped the UFC get to where they are today.

There's also been considerable talk within the MMA world about the amount of money the UFC pays its fighters. Several have defected to other leagues in protest and it is yet to be seen if this trend will continue. An additional factor working against the UFC is simply that it is the company to beat and all efforts among competitors are targeted at the UFC and not particularly at each other.

While there are some issues and growth pains with which the management of the UFC must contend, we do not believe any of these are insurmountable. We fully expect the UFC to maintain its dominant position in the world of mixed martial arts. While we believe the management of the UFC is strong, particularly relating to branding the product and in managing the public relations process, we do not believe it is the strength of its management team alone that is likely to be the single biggest factor in success, although this is certainly important. Rather, we believe it is the general ineptitude of the management teams at the competing organizations that likely insures the UFC's dominant position in the fast growing industry.

EliteXC (Pro-Elite, Inc. - PELE.PK)

New Jersey-based Pro-Elite, Inc, which trades under the stock symbol, PELE.PK, operates EliteXC, which has recently signed some of MMA's top fighters. Thus far, EliteXC has aired three major events in conjunction with CBS. The most recent of which was on October 4, 2008. The program, called "*CBS Saturday Night Fights*" has been a moderate success. The first show on May 31, 2008 pulled in 4.8 million viewers making it the most widely viewed MMA show ever in North America. Ratings fell considerably for the July 26 show drawing only 2.57 million viewers. Although a drop from the first show was expected, such a severe drop was not. The recent October 4th show pulled in 4.1 million viewers, but was second to shows aired on the Fox Network.

EliteXC's ratings on CBS, we believe, clearly shows that MMA is

viable during prime time. Many MMA fans criticize EliteXC's efforts in prime time, especially its choice of fighters who most knowledgeable MMA's fans consider to be sub-par compared to the top fighters in the UFC. While Elite's shows on CBS will likely be considered moderately successful, we believe CBS is likely to seriously consider other partners moving forward.

In EliteXC's favor, however, at least initially, was a growing dissatisfaction among fighters with the UFC, mainly concerning low pay and the inability to compete outside of the UFC. Additionally, several top fighters had expressed significant personal dislike for UFC President Dana White.

In the first two years of business, ProElite, Inc. has lost more than \$56 million and has publicly stated it is in negotiations for a sale to Showtime. It appears Pro-Elite, Inc. (PELE) will be disappearing with likely CBS or Showtime taking over fighter contracts. Considering the uncertain status of the company we certainly would not be buyers of the shares and have established a price target of \$0.25.

Affliction Entertainment (Privately Held)

Affliction, Inc. is a leading clothing brand targeting elite athletes and the fashion conscious consumer. Affliction Entertainment is collaboration between Affliction, Inc. and Donald Trump organized to promote MMA events and to enhance the Affliction clothing brand name. The management of Affliction Entertainment believes it can offer an attractive alternative to the dominant UFC.

Affliction's first fight card was held on July 19, 2008 at the Honda Center in Anaheim, California. The event showcased several top MMA talents, including Fedor Emelianenko, who reportedly earned over \$2 million for his bout. The event, called "Affliction Banded," which is a tongue-in-cheek reference to the UFC banning their fighters from wearing Affliction's clothing, was a moderate success generating \$2.1 million in gate receipts and nearly 100,000 pay-per-view purchases, which likely added additional revenue of approximately \$3.5 million. Fighter payroll is estimated at approximately \$3.3 million. The actual level of gate receipts is questionable, however, as it is widely believed that Affliction purchased approximately \$500,000 worth of tickets on their own. Regardless, it is almost certain that the company turned a profit for the event.

On the heels of its July success, Affliction announced that its next event will be held on October 11, 2008. The company recently canceled this event partially due to light ticket sales and due to the location in Las

Vegas being suboptimal. Affliction changed the date to January 17, 2009 and selected Anaheim, California as the location. Several top fighters were signed for the event. On October 1, 2008 the UFC announced that it is widely anticipated event, UFC 93, would take place on the same day in Dublin Ireland. This action by the UFC apparently has caused Affliction to change its plans and cancel its second event scheduled for the same day. It is unclear at this time when Affliction will reschedule the event.

The October 11 and January 17 events were believed to be shows featuring a combination of MMA and boxing. Earlier in 2008, Affliction and Golden Boy Promotions, the powerful boxing promotional company led by boxing superstar Oscar De La Hoya, agreed to partner on at least four pay-per-view shows over a 12-month period that would include both boxing and MMA fights on the same card. While several smaller promoters had mixed the sports at the same events, it had never been tried at the top levels. While boxing has long been aired on HBO, events hosted by the two companies would instead air on normal pay-per-view television.

We believe when this event is ultimately held, it is likely to produce significant revenues for both Affliction and Golden Boy. The overall success of this event will likely determine the viability of MMA and boxing co-existing on the same fight card.

It was recently reported that Donald Trump and Affliction Entertainment will begin filming in April for a reality mixed martial arts series called 'Fighting Fedor'. The series, to be filmed in Russia, will feature 16 MMA fighters who will compete in a tournament that will ultimately pit the winner against heavyweight Fedor Emelianenko, considered by some as the best pound-for-pound MMA fighter in the world. Thus far, there is not commitment for any television network to air the show, which could be ready during the summer of 2009.

We expect the battle between the UFC and Affliction to continue throughout 2008 and well into 2009. We believe there is additional room in the growing field of MMA for a viable competitor to the UFC and it is clear that Affliction seeks this spot.

International Fight League (IFLI.OB))

After going public via a reverse merger in November of 2006 and promoting 23 events and landing broadcast deals with MyNetworkTV and the Fox Sports Network, the IFL recently filed bankruptcy. Mark Cuban's HDNet has entered into an agreement to purchase all of the IFL's assets, which include its video library and the remaining

international television rights, for \$650,000 in cash and the assumption of certain liabilities.

Several of the IFL's best fighters recently signed deals with the UFC, EliteXC and Affliction Entertainment. According to the recent company SEC filing on August 27, the company was down to approximately \$1 million in cash with debt of almost \$36 million. The company's bankruptcy petition was filed on September 15.

Many who follow the business of MMA cite the company's inability to manage its rapid growth as the main reason for its demise. Additionally, the company never launched into the potentially lucrative pay-per-view market. Reportedly, the UFC, ProElite, and Strikeforce promoter, Scott Coker, all expressed interest in buying the IFL's assets, but ultimately it was Mark Cuban who was successful.

Strikeforce

Strikeforce is an MMA promotion company and the exclusive provider of mixed martial arts programming for ESPN and NBC. The organization started as a kickboxing promotions organization, moving to MMA in early 2006 through a successful, sold out, promotion of the "Shamrock vs. Gracie" event, which was the first sanctioned mixed martial arts fight card in California state history.

The company has also hosted successful events, which have been broadcast on HDNet and recently held a second successful event at the Playboy Mansion. Strikeforce has also recently signed a Canadian television deal with Score Media, Inc. (TSX:SCR). Strikeforce has also struck a deal with NBC where Strikeforce events are broadcast between 1 a.m. and 4 a.m. on Sunday mornings (Saturday night). While these events are the first nationwide broadcasts on a major network, the timeslots given by NBC show that the event is not ready for the mainstream viewership. Additionally, the 30 minutes slot given for each program is usually not sufficient to broadcast two full fights.

Strikeforce appears to have strong financial backing and management. Strikeforce is a collaboration between long time K-1 fight promoter Scott Coker and Silicon Valley Sports and Entertainment, which is the operator of the HP Pavilion and the San Jose Sharks, National Hockey League club. K-1 is a combat sport, similar to MMA, that combines stand up techniques from Muay Thai, Karate, Taekwondo, Savate, San shou, Kickboxing, traditional Boxing, and other martial arts. The biggest difference between K-1 and MMA, is that K-1 is strictly a stand up contact sport where MMA involves both stand up and ground-based

fighting.

Thus far, the company has promoted approximately 14 events, far more than the vast majority of the smaller MMA promotion organizations. An additional factor contributing to the success of Strikeforce is its willingness to co-promote with other MMA organizations in order to put on the best fight cards possible. Many who follow the business of mixed martial arts consider Strikeforce to be one of the best managed and financially backed organizations in the industry. We believe it likely that Strikeforce has staying power within the mixed martial arts business environment.

DREAM

DREAM is a collaborative effort between Fighting Entertainment Group, which is the leading combat sports promoter in Japan and Dream Station Entertainment, which was the parent company of the now defunct PRIDE organization. Both organizations have considerable experience in mixed martial arts promotion.

While DREAM has a high-quality stable of fighters, nine of the top 25 lightweights for example, the company has had a difficult time attracting significant crowds to live events and meaningful television viewership. The organization's first event, held in Japan in March of 2008, drew approximately 15,000 fans and 8.9 rating on the TBS network, a number that is considered very disappointing in the Japanese television market. The most recent event, DREAM 6, which was held on September 23, 2008 and also was a disappointment receiving only a 9.0 rating overall and a disappointing 13.4 rating for the headlining fight.

For DREAM, much is riding on its scheduled New Year's Eve show, which is expected to feature, Fedor Emelianenko, who is regarded by many as one of the best heavyweight fighters. Without a highly successful New Year's Eve event, we believe the future of DREAM could be in jeopardy.

World Victory Road (WVR)

World Victory Road, is a privately held, Japanese MMA promotion company formed following the purchase of PRIDE FC by Zuffa, LLC, the owners of the Ultimate Fighting Championship. In conjunction with the also newly-formed Japan Mixed Martial Arts Federation (JMM), World Victory Road held its first show, "Sengoku", on March 5, 2008. The promotion has signed many famous mixed martial artists, including former PRIDE lightweight champion, Takanori Gomi and

former UFC heavyweight champion, Josh Barnett. Late in September 2008, WVR formally announced its partnership with Japanese terrestrial broadcaster TV Tokyo, one of the smallest of the six major Japanese terrestrial broadcasters.

The Fight Zone, Inc. (TFZI)

The Fight Zone, Inc., which trades under the symbol “TFZI.PK,” is a Colorado, USA based, diverse mixed martial arts management, development and marketing company. The main focus of the company is to develop its stable of fighters to a pay-per-view level by providing a full range of services including discipline training, strength and conditioning training, management and promotion.

The company operates out of Las Vegas, Nevada, which is clearly the MMA capital of the world. The company plans to begin offering its own promoted fights over the next few quarters and will likely select a major hotel venue in Las Vegas for its first event. Whereas many promotional companies develop their own fighters and seek to host events featuring only these fighters, The Fight Zone management team is seeking a different approach.

The management team believes a partnering approach is needed relative to promotion in MMA. Rather than simply hosting their own fighters, the company will actively seek to partner with the larger organizations, such as the UFC, in order to allow fighters from competing promotional organizations to fight on a Fight Zone card. This strategy could ultimately pay off, in our opinion, as there is developing discontent among the fighter ranks within some of the larger organizations. Many such fighters are forced to wait long periods before the promoters allow them to fight, which causes significant frustration. The Fight Zone is seeking to partner with the organizations that control such fighters in order to allow fighters additional bouts.

The Fight Zone will also actively seek corporate sponsorship for the Fight Zone brand and the company's fighters. The management team believes it has a unique approach to corporate sponsorship programs through the integration complex sports marketing and brand solutions into all levels of the company's products and services. Rather than taking an approach of sponsors getting placed only on one fighter or in one venue, the Fight Zone seeks sponsorship relationships that will cover all of its fighters and the entire venue that will host Fight Zone events. This is a unique marketing sponsorship approach that we

believe may ultimately prove to be very successful.

The company plans to make extensive use of the contacts and track records of the two main company principals, Skipper Kelp and Lloyd Vickers, to create a successful MMA organization. The company is currently in process of hiring and retaining a management team that will help manage fighters and seek corporate partnership opportunities.

The signing and retention of top fighting talent across all weight classes is a primary objective of the management team. The company has already retained several talented fighters and the team is working diligently to train these fighters to be able to compete at the top levels of the sport. The training staff at Fight Zone has extensive experience in both selecting talent and in training talented individuals in order to fully develop fighting skills. Thus far, the company has seven fighters, including several of whom appear to be very promising. Fighters that are signed by the Fight Zone receive a complete package of services which includes management, coaching, training, use of facilities and promotional services, which allow the fighter to concentrate on developing his skills and not on management.

The contracts Fight Zone is signing with fighters call for the company to receive 20% to 30% of all winnings and bonuses received while under contract with the company. Management at the company will handle all of the marketing of the fighters and flight bookings. All retained fighters are required to wear Fight Zone or Fight Zone corporate sponsors apparel at all fights and public relations events.

Fight Zone management estimates in its initial corporate sponsorships will range from \$20,000-\$400,000 per sponsor. The Company's management team is currently working to sign several such contracts. An additional revenue stream planned by the company is related to Internet and merchandising sales.

The management team of the Fight Zone is very well-connected having strong relationships in the Las Vegas area fighting-related community. The company has already established offices and training facilities in Las Vegas. The management team believes the company can proceed with very low overhead, paying very reasonable salaries to the fighters it retains. The Fight Zone plans to place a strong emphasis on selecting up and coming fighters that show significant promise to reach the top tiers within the sport of MMA. This contrasts sharply to the strategy invoked by several unsuccessful MMA promotion companies that have instead initially sought top fighting talent, paying large sums, which reduced the company's flexibility placing significant financial strains

on the company.

The company also firmly believes in a co-promotional strategy. Unlike some of the larger MMA organizations, the company is willing to work other promotional companies to co-sponsor events. This co-sponsorship tactic should allow the risks inherent to MMA promotions to be spread among several parties and will allow The Fight Zone to limit its working capital requirements. Over the past few months the management team has been in discussions with several other MMA organizations who also wish to cosponsor events. While new deals have yet been formalized, it appears that several organizations have expressed strong desires to work within this framework.

Analyst and Other Important Disclosures

Analyst Certification - I, Joseph Noel, hereby certify

(1) that the views expressed in this research company report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this company report and

(2) no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this company report.

Analyst:

Joseph Noel is a veteran of the small capitalization stock research and investment industries. Joe was recently a senior analyst at Pacific Growth Equities, LLC, where he tracked emerging growth companies in several market sectors. Prior to Pacific Growth, he covered both the telecommunications equipment and services industries at Hambrecht & Quist and was employed by Gartner/Dataquest as an industry analyst. Before becoming an analyst, Mr. Noel received solid industry experience at a number of major corporations, including MCI, where he was responsible for the frame relay product marketing launch; and British Telecom, where he was involved in strategic planning for the company's Internet access service. Mr. Noel received his MBA in finance from Wake Forest University, and holds a BS in business and economics. A four-time Wall Street Journal All-Star Analyst and a first place Bloomberg winner in stock picking, Joe specializes in emerging growth companies in the Internet, communications and health care sectors.

The coverage analyst uses a relative rating system in which stocks are rated as: BUY, SELL, or HOLD.

Stock Ratings:

BUY - the stock is expected to outperform the unweighted expected total return of the sector over a 12-month investment horizon.

SELL - the stock is expected to under perform the unweighted expected total return of the sector over a-12 month time horizon

HOLD - the stock is expected to perform in line with the unweighted expected total return of the sector over a 12-month investment horizon.

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