

PLANET TECHNOLOGIES, INC

Form 10QSB

May 16, 2005

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

FORM 10-QSB

(MARK ONE)

For Quarterly Period Ended March 31, 2005

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

Commission File Number: 0-26804

PLANET TECHNOLOGIES, INC. (Formerly Planet
Polymer Technologies, Inc.)

(Exact name of small business issuer as specified in its
character)

CALIFORNIA

33-0502606

(State or other jurisdiction of incorporation or
organization)

(I.R.S. Employer Identification
No.)

6835 Flanders Drive, Suite 100, San Diego,
California

92121

(Address of principal executive offices)

(Zip Code)

(858) 457-4742

(Issuer's telephone number, including area code)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 NO

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

Class	Outstanding at May 1, 2005
Common Stock, no par value	2,180,368

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PART 1 FINANCIAL INFORMATION
PLANET TECHNOLOGIES, INC.
CONDENSED BALANCE SHEET (UNAUDITED)

	March 31, 2005
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 128,806
Accounts receivable, less allowance for doubtful accounts of \$5,500	5,514
Inventory	19,798
Other current assets	34,822
 Total current assets	 188,940
Property and equipment, net	85,129
 Total	 \$ 274,069
LIABILITIES AND SHAREHOLDERS DEFICIENCY	
Current liabilities:	
Current portion of convertible notes payable to shareholder	\$ 136,332
Advance from related party	85,000
Accounts payable	71,898
Accrued expenses	361,024
Interest payable	1,749
 Total current liabilities	 656,003
Convertible notes payable to shareholder, net of current portion	83,495
 Total liabilities	 739,498
 Commitments and contingencies	
 Shareholders' deficiency:	
Preferred stock, no par value, 4,250,000 shares authorized, no shares issued or outstanding	
Series A convertible preferred stock, no par value, 750,000 shares authorized, no shares issued or outstanding	
Common stock, no par value, 20,000,000 shares authorized, 2,180,368 shares issued and outstanding	3,478,296
Accumulated deficit	(3,943,725)
 Total shareholders' deficiency	 (465,429)
 Total	 \$ 274,069

See notes to unaudited condensed financial statements

Table of Contents**PLANET TECHNOLOGIES, INC.****CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)**

	Three months ended March 31, 2005	Three months ended March 31, 2004
Net sales	\$ 221,526	\$ 381,262
Cost of sales	75,505	146,015
Gross profit	146,021	235,247
Operating expenses:		
Selling	161,194	171,759
General and administrative	218,985	248,471
Totals	380,179	420,230
Loss from operations	(234,158)	(184,983)
Other income (expense):		
Other expense	(1,949)	(5,342)
Interest expense	(4,922)	(51,786)
Totals	(6,871)	(57,128)
Net loss	\$ (241,029)	\$ (242,111)
Net loss per share, basic and diluted	\$ (0.11)	\$ (0.15)
Weighted average shares used in computing net loss per share basic and diluted	2,159,961	1,655,803

See notes to unaudited condensed financial statements

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PLANET TECHNOLOGIES, INC.

CONDENSED STATEMENT OF SHAREHOLDERS DEFICIENCY (UNAUDITED)

Three Months Ended March 31, 2005

	Common Stock		Accumulated	Total
	Shares	Amount	Deficit	
Beginning, January 1, 2005	2,068,361	\$ 3,198,296	\$ (3,702,696)	\$ (504,400)
Issuance of common stock for cash	112,007	280,000		280,000
Net loss			(241,029)	(241,029)
Balance at March 31, 2005	2,180,368	\$ 3,478,296	\$ (3,943,725)	\$ (465,429)

See notes to unaudited condensed financial statements

Table of Contents**PLANET TECHNOLOGIES, INC.****CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	Three months ended March 31, 2005	Three months ended March 31, 2004
Operating activities:		
Net loss	\$ (241,029)	\$ (242,111)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	15,941	23,308
Changes in operating assets and liabilities:		
Accounts receivable	(2,438)	1,990
Inventory	(786)	42,493
Other assets	(12,720)	(34,032)
Interest payable	(6,794)	47,073
Accounts payable	(152,622)	191,668
Accrued expenses	7,261	(75,922)
Net cash used in operating activities	(393,187)	(45,533)
Investing activities		
proceeds from sale of property and equipment		1,505
Financing activities:		
Advance from related party		20,000
Repayments of advances to related party	(100,000)	
Principal payments on notes payable		(90,778)
Principal payments on notes payable to shareholder	(32,930)	
Proceeds from issuance of investors' notes payable		25,000
Proceeds from issuance of common stock in a private placement	280,000	
Net cash provided by (used in) financing activities	147,070	(45,778)
Net decrease in cash and cash equivalents	(246,117)	(89,806)
Cash and cash equivalents, beginning of period	374,923	128,005
Cash and cash equivalents, end of period	\$ 128,806	\$ 38,199
Supplementary disclosure of cash flow data:		
Interest paid	\$ 11,947	\$ 4,714

See notes to unaudited condensed financial statements

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PLANET TECHNOLOGIES, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

1. Basis of Presentation

In management's opinion, the accompanying unaudited financial statements of Planet Technologies, Inc. (Planet or the Company) have been prepared in accordance with the interim reporting requirements of Form 10-QSB, pursuant to the rules and regulations of the Securities and Exchange Commission. However, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

In management's opinion, all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2005, are not necessarily indicative of results that may be expected for the year ending December 31, 2005. For additional information, refer to the Company's financial statements and notes thereto for the year ended December 31, 2004, contained in the Company's most recent annual report on Form 10-KSB for the fiscal year ended December 31, 2004.

2. Liquidity and Capital Resources

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of its liabilities in the normal course of business. Successful transition to profitable operations is dependent upon obtaining a level of sales adequate to support the Company's cost structure. The Company has suffered recurring losses resulting in an accumulated deficit of \$3,943,725, a shareholders' deficiency of \$465,429, and a working capital deficiency of \$467,063 as of March 31, 2005. Management intends to continue to finance operations primarily through its potential ability to generate cash flows from equity offerings, including restricted stock. However, there can be no assurance that the Company will be able to obtain such financing or internally generate cash flows, which may impact the Company's ability to continue as a going concern. The accompanying balance sheet does not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the potential inability of the Company to continue as a going concern.

On November 30, 2004, Planet acquired the business of Allergy Free, LLC (Allergy) for approximately 1.65 million shares of Planet stock (after giving effect to a 50:1 reverse stock split), a convertible note of \$274,300 bearing interest at 5.5% per annum and due and payable within three years, and assumption of debt. As a result, Allergy owned approximately 92.7% of the voting shares of Planet. Since the stockholders of Allergy received the majority of the voting shares of Planet, the former managing member of Allergy continued on as the president of the Company, and representatives of Allergy hold three of the five seats on the Company's Board of Directors, the merger was accounted for as a recapitalization of Allergy, whereby Allergy was the accounting acquirer (legal acquiree) and Planet was the accounting acquiree (legal acquirer). Since, at the closing, Planet was a non-operating shell corporation no longer meeting the definition of a business as defined in EITF Consensus 98-3, *Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business* , the transaction was equivalent to

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Allergy issuing stock for the net liabilities of Planet, accompanied by a recapitalization. The accounting was identical to that resulting from a reverse acquisition, except that there were no adjustments to the historic carrying values of the assets and liabilities. Accordingly, the accompanying statements of operations and cash flows are the historical financial statements of Allergy Free.

Immediately prior to the closing of the acquisition, Planet Polymer distributed to a trustee for the benefit of Planet Polymer shareholders of record as of September 30, 2004, the right to receive all royalties payable to Planet pursuant to those certain sale and licensing agreements between Planet and Agway, Inc., related to Planet's Fresh Seal® and Optigen® technology and that certain purchase, sale and license agreement between Planet and Ryer Enterprises, LLC, relating to Planet's AQUAMIM® technology.

Prior to acquiring Allergy, Planet Polymer was an advanced materials company that developed and licensed unique polymer materials. All operations related to Planet Polymer have been discontinued.

On March 7, 2005, Planet entered into a definitive agreement to acquire Allergy Control Products, Inc. (ACP). The merger transaction will be structured pursuant to an Agreement and Plan of Merger agreed upon by both parties, and is subject to approval by each party's respective shareholders and other contingencies. Pursuant to the terms of the merger transaction the shareholder of ACP will be issued 600,000 shares of Planet common stock. In addition, ACP debt to its shareholder in the approximate amount of \$1,500,000 will be paid in full by Planet, using anticipated proceeds from private placement offerings.

Investors are encouraged to review our report on Form 8-K filed with the Securities and Exchange Commission on March 10, 2005, which discusses more thoroughly the terms of the proposed merger and which is available through EDGAR at www.sec.gov, and when available, the Company's Proxy Statement which will also be available through EDGAR.

3. Earnings (Loss) Per Share

Net loss per share is computed using the weighted average number of shares of common stock outstanding and is presented for basic and diluted loss per share. Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted loss per share is computed by dividing net by the weighted average number of common shares outstanding during the period increased to include, if dilutive, the number of additional common shares what would have been outstanding if the potential common shares had been issued.

The Company has excluded all convertible notes payable and outstanding stock options and warrants from the calculation of diluted loss per share because all such securities are considered anti-dilutive. Accordingly, diluted loss per share equals basic loss per share. The total number of potential common shares excluded from the calculation of diluted loss per share for the three months ended March 31, 2005 and 2004 was 391,208 and 26,332, respectively.

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4. Income Taxes

As the ultimate realization of the potential benefits of the company's net operating loss carryforwards is considered unlikely by management, the Company has offset the deferred tax assets attributable to those potential benefits through valuation allowances and, accordingly, the Company did not recognize any benefit for income taxes in the accompanying condensed statements of operations of offset its pre-tax losses.

5. Stock-Based Compensation

As explained in Note 2 in the Form 10-KSB, the Statement of Financial Accounting Standards No. 123 (SFAS 123),

Accounting for Stock-Based Compensation , provides for the use of a fair value based method of accounting for stock-based compensation. However, SFAS 123 allows an entity to continue to measure compensation cost for stock options granted to employees using the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees , which only requires charges to compensation expense for the excess, if any, of the fair value of the underlying stock at the date a stock option is granted (or at an appropriate subsequent measurement date) over the amount the employee must pay to acquire the stock. The Company has elected to account for employee stock options using the intrinsic value method under APB 25. By making that election, it is required by SFAS 123 and Statement of Financial Accounting Standards No. 148,

Accounting for Stock-Based Compensation Transition and Disclosure to provide pro forma disclosures of net loss as if a fair value based method of accounting had been applied.

In January 2005, an individual became a member of the Company's board of directors and was granted an option to purchase 500 shares of common stock at an exercise price of \$3.00 per share. The options vest one year from the date of grant and expire on January 18, 2015. The estimated fair value of the options on the date of grant was \$1,499.

In January 2005, the members of the board of directors were granted options to purchase 40,000 shares of common stock at an exercise price of \$3.00 per share. Two Company officers were also granted options to purchase 30,000 shares of common stock each at an exercise price of \$3.00 per share. All of these options vest 25% one year from date of grant, and 1/36th each month thereafter, and expire on January 25, 2015. The estimated fair value of these options on the date of grant was \$299,845.

In January 2005, the Company's chairman of the board of directors was granted an option to purchase 25,000 shares of common stock at an exercise price of \$3.50 per share. The options vest 25% one year from date of grant and 1/36th each month thereafter, and expire on January 25, 2015. The estimated fair value of these options on the date of grant was \$74,958.

Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value method at the grant dates for awards under the Company's plans, the Company's net loss and net loss per share for the three months ended March 31, 2005 and 2004 would have been increased to the pro forma amounts indicated below.

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	2005		2004	
	Net Loss	Loss per Share Basic and Diluted	Net Loss	Loss per Share Basic and Diluted
As reported	\$ (241,029)	\$ (0.11)	\$ (242,111)	\$ (0.15)
Stock based compensation expense assuming a fair value based method had been used for all awards	(46,000)	(0.02)		
Pro forma	\$ (287,029)	\$ (0.13)	\$ (242,111)	\$ (0.15)

In accordance with the provisions of SFAS 123, all other issuances of common stock, warrants, stock options or other equity instruments to non-employees as the consideration for goods or services received by the Company are accounted for based on the fair value of the equity instruments issued (unless the fair value of the consideration received can be more reliably measured). Generally, the fair value of any options, warrants or similar equity investments will be estimated based on the Black-Scholes option-pricing model.

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PART 1 FINANCIAL INFORMATION

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

Planet Technologies, Inc.

Except for the historical information contained herein, the discussion in this report contains forward-looking statements that involve certain risks and uncertainties. The Company's actual results could differ materially from those discussed in this report. Factors that could cause or contribute to such differences include, but are not limited to those discussed below and in the Company's Form 10-KSB for the fiscal year ended December 31, 2004.

OVERVIEW

Planet Technologies, Inc. (Planet or the Company) formerly known as Planet Polymer Technologies, Inc. (Planet Polymer) was incorporated in August, 1991, in the State of California, and, since November 30, 2004, is engaged in the business of designing, manufacturing, selling and distributing common products for use by allergy sensitive persons, including, without limitation, air filters, bedding, room air cleaners, and related allergen avoidance products. The business strategy is primarily based upon promotion of products directly to the consumer by telemarketing to the Company's database of customers who have purchased the Allergy Free Electrostatic Filter.

Planet has an accumulated deficit as of March 31, 2005, of \$3,943,725.

RESULT OF OPERATIONS

The net loss for the three months ended March 31, 2005, was \$241,029 compared to a net loss of \$242,111 for the three-month period ended March 31, 2004. The Company's net sales decreased by \$159,736, from \$381,262 for the three months ended March 31, 2004, to \$221,526 for the same period in 2005. This decrease was due to several factors. First, in 2004, for a portion of the quarter, there were two active telemarketing sales locations, while in 2005, there is only one. Also, the Company continues to experience the effects of the Do Not Call legislation (DNC), which went into effect during the fourth quarter of 2003. Due to DNC requirements, the Company is unable to contact increasing numbers of its customers via outbound telemarketing.

Cost of sales decreased to \$75,505 for the three months ended March 31, 2005, from \$146,015 for the same period in 2004, as of a result of the decrease in net sales. Overall gross margin, as a percentage of net sales, increased positively period over period from 61.7% for the three months ended March 31, 2004 to 65.9% for the three months ended March 31, 2005. This positive increase in gross margin is due primarily to the Company's change in manufacturing strategy in the second quarter of 2004, when the manufacture of the Company's permanent filter was contracted out to a manufacturer near the Company headquarters in San Diego, California.

Total operating expenses decreased by \$40,051 to \$380,179 for the three months ended March 31, 2005. This decrease was due mainly to \$37,760 in moving expenses which were incurred in the first quarter of 2004, when the Company's Houston, Texas operations were moved to its San Diego location.

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PART 1 FINANCIAL INFORMATION

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

Planet Technologies, Inc.

Other expenses decreased \$50,257, from \$57,128 for the three months ended March 31, 2004, to \$6,871 for the same period in 2005. Of this decrease, \$46,864 is due to a reduction of interest expense related to former shareholder debt.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled \$128,806 at March 31, 2005. Although the Company used cash totaling \$393,187 for its operations during the quarter, the Company also repaid \$100,000 of advances from a related party and paid principal payments totaling \$32,930 on notes payable. During the quarter, shares were sold to investors through a private placement offering that was originally initiated during the fourth quarter of 2004. Proceeds related to restricted stock totaled \$280,000 for the quarter. The Company intends to continue its Private Placement Offering for another 60 days or more in an effort to provide more working capital and for acquisition opportunities.

Inventory levels remained relatively unchanged during the quarter, and the Company paid down routine accounts payable and accrued expenses.

The Company does not believe that its existing sources of liquidity and anticipated revenue will be adequate to satisfy the Company's projected working capital and other cash requirements through December 2005 to continue operations as a public reporting company without raising additional capital.

On March 7, 2005, Planet entered into a definitive agreement to acquire Allergy Control Products, Inc. (ACP). The merger transaction will be structured pursuant to an Agreement and Plan of Merger agreed upon by both parties, and is subject to approval by each party's respective shareholders and other contingencies. Pursuant to the terms of the merger transaction the shareholder of ACP will be issued 600,000 shares of Planet common stock. In addition, ACP debt to its shareholder in the approximate amount of \$1,500,000 will be paid in full by Planet. For us to complete this transaction, we will need to raise significant additional capital through our Private Placement Offering.

Investors are encouraged to review our report on Form 8-K filed with the Securities and Exchange Commission on March 10, 2005, which discusses more thoroughly the terms of the proposed merger and which is available through EDGAR at www.sec.gov, and when available, the Company's Proxy Statement which will also be available through EDGAR.

ITEM 3. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and the Company's Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2005. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective for gathering, analyzing and disclosing the information the Company is

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PART 1 FINANCIAL INFORMATION

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

Planet Technologies, Inc.

required to disclose in the reports it files under the Securities and Exchange Act of 1934, within the time periods specified in the Securities and Exchange Commission's rules and forms.

During the three months ended March 31, 2005, there were no significant changes in the Company's internal control over financial reporting that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1 Legal Proceedings:

None

Item 2 Changes in Securities:

None

Item 3 Defaults upon Senior Securities:

None

Item 4 Submission of Matters to a Vote of Security Holders:

None

Item 5 Other Information:

None

Item 6 Exhibits

(a) Exhibits

Exhibit 31.1 Certification of Principal Executive Officer and Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

Exhibit 32.1 Certification of Principal Executive Officer and Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

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PART 1 FINANCIAL INFORMATION

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

Planet Technologies, Inc.

SIGNATURES

In accordance with the requirements of Exchange Act, the Registrant has duly caused this report on Form 10-QSB to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 13, 2005

Planet Technologies, Inc.

/s/ Scott L. Glenn

Scott L. Glenn
Chief Executive Officer

/s/ Leslie White

Leslie White
Chief Financial Officer and
Chief Accounting Officer