PLANET TECHNOLOGIES, INC
Form 10KSB
March 23, 2007

Table of Contents

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

FORM 10-KSB
ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006
Commission File No. 0-26804

PLANET TECHNOLOGIES, INC.

CALIFORNIA	**33-0502606**
(State or other jurisdiction of incorporation of organization)	**(IRS Employer identification No.)**

96 Danbury Road Ridgefield, CT	**06877**
(Address of principal executive offices)	**(Zip Code)**

Issuer s telephone number (800)-255-3749
Securities registered under Section 12(b) of the Exchange Act:
None
Securities registered under Section 12(g) of the Exchange Act:
Common Stock, No Par Value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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. o Yes þ No

Check if there is no disclosure of delinquent filers in response to Items 405 of Regulation S-B in this form, and no disclosure will be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. o

The issuer s revenues for the year ended December 31, 2006 were $8,036,449.

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

The aggregate market value of the voting stock held by non-affiliates of the Issuer as of February 28, 2007, was $8,371,373, based on the average of the 4:00 p.m. closing bid and ask prices of $2.10 as reported on the Over-the-Counter Bulletin Board.

As of February 28, 2007, 3,986,368 shares of the Company s Common Stock were outstanding and no shares of the Company s Series A Preferred Stock were outstanding.

Transitional Small Business Disclosure Format (check one) o Yes þ No

---

PLANET TECHNOLOGIES, INC.
FORM-10KSB
Year Ended December 31, 2006
TABLE OF CONTENTS

Item Number	Page
PART I.	
1. Description of Business	3
2. Description of Property	11
3. Legal Proceedings	11
4. Submission of Matters to a Vote of Security Holders	11
PART II.	
5. Market for Common Equity, Related Stockholders Matters and Small Business Issuer Purchases of Equity Securities	11
6. Management s Discussion and Analysis or Plan of Operation	12
7. Financial Statements	17
8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosures	17
8A. Controls and Procedures	17
8B. Other Information	18
PART III.	
9. Directors, and Executive Officers of the Registrant	18
10. Executive Compensation	21
11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	25
12. Certain Relationships and Related Transactions	27
13. Exhibits	27
14. Principal Accountant Fees and Services	30
Signatures	31

EXHIBIT 31.1
EXHIBIT 31.2
EXHIBIT 32.1
EXHIBIT 32.2

This Annual Report on Form 10-KSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends that such statements shall be protected by the safe harbors provided for in such sections. Such statements are subject to risks and uncertainties that could cause the Company s actual results to vary materially from those projected in such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to: our need for additional capital, fluctuations in operating results, continued new product introductions, market acceptance of our new product introductions, new product introductions by competitors, technological changes in the industry and those factors discussed in this section as well as those sections entitled Risk Factors, and in Item 6 Management s Discussion and Analysis or Plan of Operations.

Table of Contents

PART I.

Planet Technologies, Inc. (Planet or the Company) is a California Corporation incorporated on August 23, 1991.

ITEM 1. DESCRIPTION OF BUSINESS

General

On November 30, 2004, Planet acquired the business of Allergy Free, LLC, a company engaged in the business of designing, selling and distributing products for use by allergy sensitive persons, including, without limitation, air filters, room air cleaners, and related allergen avoidance products. Allergy Free acquired its business on or about November 3, 2000, when it acquired substantially all of the assets and business of Allergy Free, L.P., a Delaware limited partnership. The business strategy of Allergy Free has been primarily based upon the marketing and selling of products directly to the consumer by telemarketing to its database of customers, who have purchased Allergy Free s electrostatic filters. Promotion has been supplemented with direct mail, radio, and Internet advertising. The Company s proprietary air filters have been marketed under the Allergy Free® trade name.

On August 11, 2005, Planet completed a merger with Allergy Control Products, Inc. (ACP). ACP merged into a wholly owned subsidiary of Planet (New ACP). Effective August 11, 2005, Planet assigned all of the Allergy Free assets to its wholly owned subsidiary New ACP. The subsidiary was renamed and its ongoing name is Allergy Control Products (the Subsidiary). References to us , we , Planet and Company refer to the consolidated operations of Pl and its Subsidiary.

With the Merger, Planet has added to its stable of allergen control products, and has incorporated ACP s core business strategy. This core strategy is to supply a complete range of high quality, branded products to physicians patients who are allergy sufferers, as well as to previous customers. Promotion is executed through (a) distribution of catalogs to physicians offices for subsequent re-distribution to patients, (b) distribution of catalogs directly to previous customers and (c) selective e-commerce marketing initiatives. Customer transactions are primarily handled through our in-bound call center and website. In addition to this core business strategy, we also sell selective products on a wholesale basis to domestic retailers as well as to international distributors.

The allergen avoidance product industry provides products and information that help people suffering from allergies or asthma to reduce the level of exposure to allergens in their environment. Market distribution channels within the industry include catalog direct mail to consumers and through physician offices, the Internet, and traditional retail. Catalog direct mail competitors offering a range of products include National Allergy Supply, Mission Allergy, Allergy Buyers Club, Asthma and Allergies Technology, and Allergy Solutions.

Products

Our proprietary products now include Allergy Control® branded bedding products and Allergy FreeÒ branded air filters. We also market a complete range of bedding products, carpet cleaning and laundry products, vacuums, air cleaners and air filters, sinus and breathing aids, respiratory products, dehumidifiers, mold prevention and house cleaning products, pet allergy products and certain allergy-related skin and hair care products.

Allergen Barrier Bedding: Microscopic dust mites, as well as pet dander produce potent allergens that thrive in places such as beds, upholstered furniture, and carpets. We provide a complete line of products that substantially reduce the allergy sufferers exposure to these allergens. Bedding products include:

Table of Contents

Encasings: We offer three encasing product lines, each with distinct levels of allergen barrier effectiveness, comfort, durability and price. Our Allergy ControlÒ, Pristine® Complete and Allergy Control Pristine® Relief encasings use micro-fiber fabrics. Allergy ControlÒ Economy encasings use laminated fabrics.
Blankets: We offer Snuggable® blankets, which are made from a top quality 300-weight Polartec® fleece, which has a high level of softness and warmth without extra weight. Allergy sufferers benefit from their use specifically because the blankets hold up exceptionally well through repeated hot water washing, which is the recommended process to eliminate allergens.
Comforters**:** As with our encasings, our comforters are manufactured with the most advanced Pristine® encasing fabric. They deliver complete dust mite and pet allergen protection, are luxuriously soft and breathable similar to fine cotton linens and also includes an anti-microbial treatment. The comforters are available in both light and heavier weights.
Pillows**:** We offer two Allergy Control® Pristine® Deluxe pillow styles a contour neck style and a gusseted style. As in the case of our branded comforters, allergy sufferers who use these branded pillows do not require encasings, since the product itself is manufactured with highly effective and comfortable allergen barrier fabric.
Air Filters: Allergy FreeÒ air filters substantially reduce the amount of airborne contaminants, including allergen particles. We currently market three types of filters for forced heating and cooling systems along with vent filtration kits:
Permanent Filters**:** We offer the Allergy FreeÒ Aller-Pure® Gold Filter, a permanent electrostatic washable filter. The filter is highly efficient in removing airborne particles at the 1-10 micron level. The filter is pleated and offers 2.5 times the filtering surface area of a flat filter, while providing a low resistance that optimizes airflow. We sell all standard filter sizes and also provide custom filters to meet almost any customer need.
Disposable Filters: The Allergy FreeÒ Aller-Pure® MAX (micro allergen extractor) is rated at the highest level for residential filters. It is a pleated filter with actively electrostatic charged media. The disposable filter s life is 2-3 months and is sold in packages of 4 filters. We offer this filter in all standard sizes.
Flexible filters**:** We offer the Allergy FreeÒ Aller-Pure® Flex filters for free-standing air conditioning units and other types of heating and cooling systems. The flex filter is comprised of 3 layers and sewn with a trim.
In addition to Allergy Control® branded bedding products and Allergy FreeÒ branded air filters, we offer a comprehensive line of other third party products for allergy sufferers. The following includes some of the important brand offerings per category in our current product mix:

Bedding: Comforel® mattress cushions, Wamsutta® sheets and pillowcases.

Carpets and Laundry: Allersearch®, Capture®, DustMite®, Bissell® and De-mite®.

Vacuums: A variety of Miele® vacuums, at differing price points.

Air Cleaners: Austin Air®, Blueair®, Honeywell® and Whirlpool®.

Respiratory (Nebulizers and Compressors): Omron® and Pari® brands.

Table of Contents

Product Registrations

We do not directly manufacture any product requiring EPA or FDA registration. We sell products that are registered, where required, by their manufacturers.

Environmental Law

The Company primarily sells goods. The Company does not manufacture any products at this time. Therefore, environmental laws have not materially affected the Company.

Licensed Technology and Intellectual Property

Since January 1, 1997, the Company has licensed technology associated with the production of its Aller-PureÒ Gold Permanent Electrostatic Filter under Patent number 6,056,809, Permanent Air Filter and Method of Manufacture. The licensing agreement is for a term of 10 years, the life of the patent or for the period of time in which Planet actively sells the Aller-Pure Gold Permanent filter. The agreement provides a royalty of 1.65% based on net filter sales and is paid monthly. The sales of products under this licensing agreement have been declining at a rapid rate over the last several years due to competitive products being introduced into the market.

Research and Development

We are not actively developing new products, although the Company has historically worked with consultants, filter-testing labs, media manufacturers and filter manufacturers to develop new enhanced filters, and various third parties to develop new bedding products and product line extensions. The Company did not spend any money on research and development for the years ended December 31, 2006 and December 31, 2005 respectively.

Government Requirements

Our outbound telemarketing sales practices are regulated at both the federal and state level. The Telephone Consumer Protection Act (the TCPA), which was enacted in 1991, authorized and directed the Federal Communications Commission (the FCC) to enact rules to regulate the telemarketing industry. In December 1992, the FCC enacted rules, which place restrictions on the methods and timing of telemarketing sales calls. On July 3, 2003, the FCC issued a Report and Order setting forth amended rules and regulations implementing the TCPA. The rules, with a few exceptions, became effective August 25, 2003. These rules included: (1) restrictions on calls made by automatic dialing and announcing devices; (2) limitations on the use of predictive dialers for outbound calls; (3) institution of a national do-not-call registry in conjunction with the Federal Trade Commission (the FTC); (4) guidelines on maintaining an internal do-not-call list and honoring do-not-call requests; and (5) requirements for transmitting caller identification information. The do-not-call restrictions took effect October 1, 2003. The caller identification requirements became effective January 29, 2004. The FCC also included rules restricting facsimile advertisements. These rules became effective January 1, 2005.

The Federal Telemarketing Consumer Fraud and Abuse Act of 1994 authorizes the FTC to issue regulations designed to prevent deceptive and abusive telemarketing acts and practices. The FTC issued its Telemarketing Sales Rule (the TSR), which went into effect in January 1996. The TSR applies to most direct teleservices telemarketing calls and certain operator teleservices telemarketing calls and generally prohibits a variety of deceptive, unfair or abusive practices in telemarketing sales.

The FTC amended the TSR in January 2003. The majority of the amendments became effective March 31, 2003. The changes that were adopted that could adversely affect us include, but are not limited to: (1) subjecting a portion of our calls to additional disclosure requirements from which such calls were

previously exempt; (2) prohibiting the disclosure or receipt, for consideration, of unencrypted consumer account numbers for use in telemarketing; (3) additional disclosure statements relating to certain products and services; (4) additional authorization requirements for payment methods that do not have consumer protections comparable to those available under the Electronic Funds Transfer Act (EFTA) or the Truth in Lending Act; and (5) institution of a national do-not-call registry.

In addition to the federal legislation and regulations, there are numerous state statutes and regulations governing telemarketing activities, which do or may apply to us. For example, some states also place restrictions on the methods and timing of telemarketing calls and require that certain mandatory disclosures be made during the course of a telemarketing call. Some states also require that telemarketers register in the state before conducting telemarketing business in the state (see Risk Factors).

Customers of Planet

Our typical customer is an individual allergy sufferer. In addition, a limited number of domestic retailers purchase products for resale to the public. A limited number of international distributors also purchase certain products for resale to various parties located within their respective countries and/or market territories.

Physician offices are an important intermediary between the Company and its customers. The Company receives customer orders from patients of more than 4,000 identified physicians. The Company has no distribution agreements with its referring physicians. The Company is not dependent on any one customer.

Suppliers of Planet

We acquire our raw materials for contract manufactured finished products from a variety of manufacturers. The primary raw material suppliers include: Precision Fabrics Group (Micro-Woven Allergen Barrier Fabric) and Shawmut Mills (Laminated Allergen Barrier Fabric).

Sales and Marketing

We employ staff to perform and manage sales and marketing functions. Outside resources are hired on an as-needed basis to augment the internal effort.

Competition

The Company s competitors include National Allergy Supply, Mission Allergy, Allergy Buyers Club, Asthma and Allergies Technology, and Allergy Solutions.

Employees

As of December 31, 2006, the Company had 25 full-time and 4 part-time employees, all of whom are located at our Connecticut facility.

Properties

The Company maintains executive offices and warehouse space located in approximately 13,317 square feet of leased space at 96 Danbury Road, Ridgefield, CT 06877, subject to a lease, which terminates September 30, 2007, at a monthly rental amount of $14,288. We lease additional warehouse space in Connecticut as needed from time to time.

Table of Contents

Risk Factors

We have experienced losses, we expect future losses and we may not become profitable. For the years ended December 31, 2006 and 2005, we had net losses of $1,202,242 and $1,508,195, respectively. As of December 31, 2006, we had an accumulated deficit of $6,413,133. Since we have historically incurred net losses, we expect this trend will continue until some indefinite date in the future. We may not be able to sustain or increase profitability on a quarterly or annual basis.

We will require additional capital, which may not be available. Our capital requirements will depend on many factors, including:

the cost of information technology upgrades and enhancements;

The cost of developing existing and new markets for our products; and

Regulatory and associated costs of being a public entity.

At December 31, 2006, current liabilities exceeded current assets by $865,720. We anticipate that our planned operational improvements and existing resources combined with future revenues will enable us to maintain our current and planned operations through December 31, 2007. However, changes in our plans or other events affecting our operating expenses, such as acquisition opportunities, may cause us to expend our existing resources sooner than expected.

We may seek additional funding through private placements of stock or strategic relationships. However, the uncertainty as to our future profitability may make it difficult for us to secure additional financing on acceptable terms, if we are able to secure additional financing at all. Insufficient funds may require us to delay, scale back or eliminate some or all of our activities.

Our independent registered public accounting firm has raised substantial doubt about our ability to continue as a going concern. The accompanying consolidated 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 $6,413,133 as of December 31, 2006. Management intends to continue to finance operations partially through its potential ability to generate cash flows from debt and equity offerings. However, there can be no assurance that the Company will be able to obtain additional financing or internally generate cash flows, which may impact the Company s ability to continue as a going concern. Our independent registered public accounting firm has included an explanatory paragraph in their opinion dated March 13, 2007, that there is substantial doubt about Planet s ability to continue as a going concern. The accompanying consolidated financial statements do 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.

We will be required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act. Failure to timely comply with the requirements of Section 404 or any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on the trading price of our debt securities.

We are not currently an accelerated filer as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended. Beginning with our Annual Report for the year ending December 31, 2007, Section 404 of the Sarbanes-Oxley Act of 2002 will require us to include an internal control report with our Annual Report on Form 10-KSB. That report must include management s assessment of the effectiveness of our internal control over financial reporting as of the end of the fiscal year. This report must also include

Table of Contents

disclosure of any material weaknesses in internal control over financial reporting that we have identified. Additionally, for the fiscal year ended December 31, 2008 our independent registered public accounting firm will be required to issue reports on management s assessment of our internal control over financial reporting and their evaluation of the operating effectiveness of our internal control over financial reporting. Our assessment requires us to make subjective judgments and our independent registered public accounting firm may not agree with our assessment. Achieving compliance with Section 404 within the prescribed period may require us to incur significant costs and expend significant time and management resources. If we are not able to complete the assessment under Section 404 in a timely manner, we and our independent registered public accounting firm would be unable to conclude that our internal control over financial reporting is effective as of December 31, 2007. As a result, investors could lose confidence in our reported financial information, which could have an adverse effect on the trading price of our debt securities. In addition, our independent registered public accounting firm may not agree with our management s assessment or conclude that our internal control over financial reporting is operating effectively. We will continue to consistently improve our internal control over the financial reporting with our best efforts and we plan to engage assistance from outside experts in doing so.

Internet Sales Risk: Web sales represent approximately 35% of the Company s sales. There are certain risks associated with the Company s web based sales, including without limitation, risk that hackers may breach the Company s security systems, resulting in system failures and theft of confidential information. On October 11, 2006, the Company determined that there had been a breach of the system hosting the Company s web based sales and that as a result of such breach, customer information may have been compromised. For the period October 12, 2006 through October 26, 2006, the customers of the Company were unable to order through the internet. Since that time, the Company has taken certain steps to improve website security, including without limitation, the Company has moved its website to a dedicated server and the Company has contracted with Verisign to scan for security breaches. As a result of the breach, the Company was charged $30,000 by its credit card processing company. Should the Company s website and internet order system be the victim of a subsequent breach and loss of customer confidential information, the Company could be subject to greater penalties, including monetary penalties and refusal of credit card companies to process the Company s web based orders. While the Company has taken steps to improve the security of its website and internet order system, inherent risk associated with such internet based systems as with all internet based orders, remains.

Amendments to the Telemarketing Sales Rule (the TSR). Telemarketing sales rules have had and may continue to have a material impact on both Planet s revenue and profitability. The addition of a national do-not-call list to the growing number of states that already have do-not-call lists has reduced the number of households that we may call. Over 50% of the our historical customers have placed their names on the national do-not-call list.

In addition to the federal legislation and regulations, there are numerous state statutes and regulations governing telemarketing activities, which do or may apply to our business. For example, some states also place restrictions on the methods and timing of telemarketing calls and require that certain mandatory disclosures be made during the course of a telemarketing call. Some states also require that telemarketers register in the state before conducting telemarketing business in the state.

We are training our telemarketing representatives to handle calls in an approved manner and believe we comply in all material respects with all federal and state telemarketing regulations. There can be no assurance, however, that the Company will not be subject to regulatory challenge and or civil liability for violations of federal or state law.

We are subject to penny stock regulations. Our common stock is not listed or qualified for listing on NASDAQ or any national securities exchange but is only sporadically traded in the over-the-counter market in the so-called OTC Bulletin Board. As a result, an investor will find it difficult to dispose of, and to obtain accurate quotations as to the value of, our common stock.

Our common stock is classified as a penny stock by the Securities and Exchange Commission. The classification severely and adversely affects the market liquidity for our common stock. The Commission has adopted Rule 15g-9, which establishes the definition of a penny stock for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require: (i) that a broker or dealer approve a person s account for transactions in penny stocks; and (ii) the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased. In order to approve a person s account for transactions in penny stocks, the broker or dealer must (i) obtain financial information and investment experience objectives of the person; and (ii) make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks. The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prepared by the Commission relating to the penny stock market, which, in highlight form, sets forth (i) the basis on which the broker or dealer made the suitability determination and (ii) that the broker or dealer received a signed, written agreement from the investor prior to the transaction. Disclosure also has to be made about the risks of investing in penny stocks in public offerings and secondary trading and about the commissions payable to the broker-dealer and registered representative, current quotations for the securities and the rights and remedies available to an investor in case of fraud in penny stock transaction. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Any inability to adequately retain or protect our employees, customer relationships and proprietary brands competitive positioning could harm our ability to compete. Our future success and ability to compete depends in part upon our employees, customer relationships, proprietary brands and trademarks, which we attempt to protect with a combination of trademark and trade secret claims. These legal protections afford only limited protection. Further, despite our efforts, we may be unable to prevent third parties from soliciting our employees or customers or infringing upon or misappropriating our intellectual property. Our employees, customer relationships and intellectual property may not be adequate to provide us with a competitive advantage or to prevent competitors from entering the markets for our product and services. Additionally, our competitors could independently develop non-infringing technologies that are competitive with, and equivalent or superior to, our products. We will monitor infringement and/or misappropriation of our proprietary rights. However, even if we do detect infringement or misappropriation of our proprietary rights, litigation to enforce these rights could cause us to divert financial and other resources away from our business operations.

The departure of certain key personnel could harm the financial condition of the Company. Several of our employees are intimately involved in our business and have day-to-day relationships with critical customers. We are not able to afford additional staff to supplement these key personnel. Competition for highly skilled business, product development, marketing and other personnel is intense, and there can be no assurance that we will be successful in recruiting new personnel or in retaining our existing personnel. A failure on our part to retain the services of these key personnel could have a material adverse effect on our operating results and financial condition. We do not maintain key man life insurance on any of our employees.

We face various competitors. We have competitors with comparable characteristics and capabilities that compete for the same group of customers. Our competitors are competent and experienced and are continuously working to take market share away from us. Our competitors may have greater financial, technical, marketing and other resources than we do. Our ability to compete effectively may be adversely affected by the ability of these competitors to devote greater resources to the sales and marketing of their products and services than are available to us.

Table of Contents

There are risks associated with our planned growth. We plan to grow our revenues and profits by adding to our existing customer base through internal growth and by the acquisition of other companies.

Management believes that Planet can grow through the acquisitions of other allergy-related companies as part of a roll-up strategy. The acquisition of other companies is uncertain and contains a variety of business risks, including: cultural differences, the retention of key personnel, competition, protection of intellectual property, profitability, industry changes and others.

Although we do not have an agreement to acquire any specific company at this time, we intend to attempt to expand our operations through the acquisition of other companies. Acquisitions and attempted acquisitions may place a strain on our limited personnel, financial and other resources. Our ability to manage this growth, should it occur, will require expansion of our capabilities and personnel. We may not be able to find qualified personnel to fill additional positions or be able to successfully manage a larger organization.

We have very limited assets upon which to rely for adjusting to business variations and for growing new businesses. While we are likely to look for new funding to assist in the acquisition of other profitable businesses, it is uncertain whether such funds will be available. There can be no assurance that we will be successful in raising a sufficient amount of additional capital, or if we are successful, that we will be able to raise capital on reasonable terms. If we do raise additional capital, our existing shareholders may incur substantial and immediate dilution.

Future sales of our common stock by existing shareholders under Rule 144 could decrease the trading price of our common stock. As of December 31, 2006, a total of approximately 3,872,900 shares of outstanding common stock were restricted securities and could be sold in the public markets only in compliance with rule 144 adopted under the Securities Act of 1933 or other applicable exemptions from registration. Rule 144 provides that a person holding restricted securities for a period of one year may thereafter sell, in brokerage transactions, an amount not exceeding in any three-month period the greater of either (i) 1% of the issuer s outstanding common stock or (ii) the average weekly trading volume in the securities during a period of four calendar weeks immediately preceding the sale. Persons who are not affiliated with the issuer and who have held their restricted securities for at least two years are not subject to the volume limitation. Possible or actual sales of our common stock by present shareholders under Rule 144 could have a depressive effect on the price of our common stock. As of August 2007, of the approximately 3,872,900 restricted shares, approximately 3,808,500 of those shares will have been held for two (2) years, and could be subject to the restrictions being lifted pursuant to Rule 144(k).

Our directors and executive officers beneficially own approximately 50.3% of our stock, including stock options and warrants exercisable within 60 days of January 1, 2007; their interests could conflict with yours; significant sales of stock held by them could have a negative effect on our stock price; shareholders may be unable to exercise control. As a result, our executive officers, directors and affiliate persons will have significant ability to:

- elect or defeat the election of our directors;
- amend or prevent amendment of our articles of incorporation or bylaws;
- effect or prevent a merger, sale of assets or other corporate transaction; and
- control the outcome of any other matter submitted to the shareholders for vote.

Table of Contents

As a result of their ownership and positions, our directors and executive officers collectively, are able to significantly influence all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. In addition, sales of significant amounts of shares held by our directors and executive officers, or the prospect of these sales, could adversely affect the market price of our common stock. Management s stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could reduce our stock price or prevent our shareholders from realizing a premium over our stock price.

Absence of Dividends. We have not paid any cash dividends on our Common Stock since our inception and do not anticipate paying cash dividends in the foreseeable future.

ITEM 2. DESCRIPTION OF PROPERTY

The Company maintains executive offices and warehouse space located in approximately 13,317 square feet of leased space at 96 Danbury Road, Ridgefield, CT 06877, subject to a lease, which terminates September 30, 2007, at a monthly rental amount of $14,288. The Company leases additional warehouse space in Connecticut as needed from time to time.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Previously reported on Form 10QSB.

PART II.

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company s Common Stock trades on the OTC.BB under the symbol PLNT.OB. The following table sets forth the high and low sales prices of the Company s Common Stock for the period from January 1, 2005 through December 31, 2006 as furnished by the OTC.BB. These prices reflect prices between dealers without retail markups, markdowns or commissions, and may not necessarily represent actual transactions.

	Trade Prices	
	High	**Low**
Fiscal year ended December 31, 2005		
First Quarter	$3.00	$0.70
Second Quarter	4.25	1.25
Third Quarter	5.00	2.70
Fourth Quarter	5.00	1.25
Fiscal year ended December 31, 2006		
First Quarter	4.00	1.55
Second Quarter	3.50	1.32
Third Quarter	2.50	1.00
Fourth Quarter	4.40	1.01

On February 28, 2007, the last reported sale price of the Company s Common Stock on the Over-the-Counter Bulletin Board was $2.10 per share. As of February 28, 2007, there were 196 holders of record of the Company s Common Stock with 3,986,368 shares outstanding. The market price of shares of common stock, like that of the common stock of many other emerging growth companies, has been and is likely to continue to be highly volatile.

Table of Contents

The Company has never declared or paid a cash dividend. The Company has not paid and does not intend to pay any Common Stock dividends to Common Stock shareholders in the foreseeable future and intends to retain any future earnings to fund the Company s operations. Any payment of dividends in the future will depend upon the Company s earnings, capital requirements, financial condition and such other factors as the Board of Directors may deem relevant.

Recent Sales of Unregistered Securities

None.

ITEM 6. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Overview

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes. Planet evaluates its estimates and judgments on an ongoing basis. Planet bases its estimates on historical experience and on assumptions that it believes to be reasonable under the circumstances. Planet s experience and assumptions form the basis for its judgments about the carrying value of its assets and liabilities that are not readily apparent from other sources. Actual results may vary from what Planet anticipates and different assumptions or estimates about the future could change Planet s reported results. Planet believes the following accounting policies are the most critical to Planet, in that they are important to the portrayal of its financial statements and they require Planet s most difficult, subjective or complex judgments in the preparation of its financial statements:

Revenue Recognition

The Company recognizes revenues in accordance with SEC Staff Accounting Bulletin 101, Revenue Recognition in Financial Statements (SAB 101) as amended by SEC Staff Accounting Bulletin 104, Revenue Recognition, revised and updated (SAB 104), which stipulates that revenue generally is realized or realizable and earned, once persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable and collectibility is reasonably assured. The Company recognizes revenue from product sales upon shipment of goods. A provision for potential warranty claims is provided for at the time of sale, based upon warranty terms and the Company s prior experience.

Allowances for Doubtful Accounts

Allowances for doubtful accounts receivable are maintained based on historical payment patterns, aging of accounts receivable, and actual write-off history.

Impairment of Long-Lived Assets

In assessing the recoverability of its long-lived assets, Planet must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, Planet may be required to record impairment charges for these assets.

Table of Contents

Statements of Operations Data

The following tables set forth certain items in Planet s Statements of Operations for the periods indicated.

Years Ended December 31, 2006 and 2005

	2006	2005	Favorable (Unfavorable) Change	%
Net sales	$ 8,036,449	$ 3,903,970	$ 4,132,479	106
Cost of sales	4,720,893	2,185,551	2,535,342	116
Gross profit	3,315,556	1,718,419	1,597,137	93
Operating expenses	4,625,754	3,083,036	(1,542,718)	50
Loss from operations	(1,310,198)	(1,364,617)	54,419	(4)
Other income (expense)	107,956	(143,578)	251,534	(175)
Net loss	$ (1,202,242)	$ (1,508,195)	$ 305,953	(20)

The inclusion of the Subsidiary s financial results for the full year ended December 31, 2006 compared to a partial year from its acquisition on August 11 through December 31 for 2005 resulted in material year over year increases in sales, cost of sales and operating expenses. These increases are not necessarily indicative of future year over year comparisons.

The net loss for the year ended December 31, 2006, was $1,202,242 compared to a net loss of $1,508,195 for the year ended December 31, 2005. The Company s net sales were $8,036,449 for the year ended December 31, 2006 compared with $3,903,970 for the year ended December 31, 2005. This increase of $4,132,479 reflects the Subsidiary s sales for a full year in 2006 compared to a partial year for 2005. The net loss improvement in 2006 reflects the cost savings associated with the integration of operations to one location offset by higher amortization of intangibles and the initial recording of stock-based compensation in 2006 of $307,150 as required under SFAS 123R, Share-Based Payment (SFAS 123R).

Overall gross profit, as a percentage of sales, was 41.3% for the year ended December 31, 2006 compared to 44.0% for the same period in 2005. This decrease in gross profit is due to the inclusion of the Subsidiary s sales for the entire year in 2006 compared to a partial year in 2005, which are broadly based and emphasize bedding products, that have a higher cost of sales than Planet s sales, and are more narrowly focused on higher margin filter product sales.

Total operating expenses increased to $4,625,754 for the year ended December 31, 2006 from $3,083,036 for the year ended December 31, 2005. The increase of $1,542,718 largely reflects the higher level of general and administrative expenses associated with the larger Subsidiary operation for a full year in 2006 compared to a partial year in 2005, offset by the cost reductions resulting from the integration of operations to one location. In addition, the increase includes amortization of intangibles of $265,000 for 2006 compared to $103,096 for 2005 and stock option compensation of $307,150 for 2006.

Other income was $107,956 for the year ended December 31, 2006 compared to other expense of $143,578 for the same period in 2005. The $251,534 change includes the addition of $157,806 in advertising revenue and the elimination of amortization for the derivative liability in 2006, which was $81,606 in 2005. Interest expense was minimally higher in 2006, increasing to $20,064 in 2006 from $14,558 in 2005, reflecting the accrued interest on new borrowings which were offset by the reduced interest on a prior note to a shareholder which was paid off during year.

13

Years Ended December 31, 2005 and 2004

	2005	2004	Favorable (Unfavorable) Change	%
Net sales	$ 3,903,970	$ 1,180,382	$ 2,723,588	231
Cost of sales	2,185,551	407,811	(1,777,740)	436
Gross profit	1,718,419	772,571	945,848	122
Operating expenses	3,083,036	1,298,812	(1,784,224)	137
Loss from operations	(1,364,617)	(526,241)	(838,376)	159
Other income (expense)	(143,578)	(247,317)	103,739	(42)
Net loss	$ (1,508,195)	$ (773,558)	$ (734,637)	95

The inclusion of the Subsidiary s financial results from its acquisition on August 11, 2005 through December 31, 2005 resulted in material year over year increases in sales, cost of sales and operating expenses. These increases are not necessarily indicative of future year over year comparisons.

We expect that future gross margins could be somewhat lower than that experienced in the year ended December 31, 2005, as a result of the Subsidiary s lower margin financial results being included for only a portion of the reporting period.

The net loss for the year ended December 31, 2005, was $1,508,195, compared to a net loss of $773,558 for the year ended December 31, 2004. The Company s net sales increased by $2,723,558 to $3,903,970 for the year ended December 31, 2005, from $1,180,382 for the same period in 2004. The net loss for the 2005 includes costs related to the integration of the entities after the merger as well as amortization of intangibles of $103,096. The year over year increase in net sales is due to the addition of sales from the Subsidiary from August 12, 2005 through December 31, 2005. This factor also accounts for the year over year decrease in net loss as a percentage of net sales, as the addition of the Subsidiary s larger and broader base of sales improves Planet s relative cost efficiency.

Overall gross profit, as a percentage of sales, decreased to 44.0% for the year ended December 31, 2005 from 65.5% for the same period in 2004. This decrease in gross profit is due to the inclusion of the Subsidiary s sales, which are broadly based and emphasize bedding products, that have a higher cost of sales than Planet s sales, and are more narrowly focused on higher margin filter product sales.

For the year ended December 31, 2005, total operating expenses increased by $1,784,224 over the operating expenses for the same period in 2004. This increase largely reflects the higher level of sales, as well as general and administrative expenses associated with the larger Subsidiary operation.

Other expenses decreased to $143,578 for the year ended December 31, 2005, from $247,317 for the same period in 2004. The $103,739 decrease in other expenses includes a $185,177 reduction of interest expense related to former shareholder debt that was converted to stock when the Company was purchased in November 2004. This reduction was offset by increases in interest expense related to the amortization of the derivative liability of $81,606.

Table of Contents

Proforma Statements of Operations Data

The following table sets forth certain items in Planet s Proforma Statements of Operations for the periods indicated, which combine the operations of Planet and ACP as if the merger had been completed on January 1, 2005.

Years Ended December 31, 2006 and 2005

	Actual	Proforma	Favorable (Unfavorable)	
	2006	2005	Change	%
Net sales	$ 8,036,449	$ 8,689,314	$ (652,865)	(8))
Cost of sales	4,720,893	4,989,547	268,654	(5)
Gross profit	3,315,556	3,699,767	(384,211)	(10)
Operating expenses	(4,625,754)	(5,804,194)	1,178,440	(20)
Loss from operations	(1,310,198)	(2,104,427)	794,229	(38)
Other income (expense)	107,956	(206,929)	314,885	(152)
Net loss	$ (1,202,242)	$ (2,311,356)	$ 1,109,114	(48)

The net loss for the year ended December 31, 2006 was $1,202,242 compared to a proforma loss of $2,311,356 for the year ended December 31, 2005. The Company s net sales were $8,036,449 for the year ended December 31, 2006 compared to proforma sales of $8,689,314 for the year ended December 31, 2005. The $652,865 sales decrease was primarily due to a reduction in sales of filter products which the Company has been experiencing due to increased competition.

The gross profit, as a percentage of sales, was 41.3% for the year ended December 31, 2006 compared to a proforma 42.6% for the year ended December 31, 2005. This decrease is primarily due to decreases in sales of filter products which have a higher margin than other products sold.

Operating expenses for the year ended December 31, 2006 totaled $4,625,754 compared to a proforma of $5,804,194 for the year ended December 31, 2005. This $1,178,440 decrease reflects cost savings from the integration of operations from California to Connecticut after the merger of approximately $950,000 and the elimination of non-recurring merger-related expenses for the Subsidiary during 2005 of approximately $700,000. These reductions were offset by increases to amortization from $103,096 in 2005 to $265,000 for 2006 as well as the inclusion of stock-based compensation in 2006 in the amount of $307,150.

Other income/expenses increased to income of $107,956 for the year ended December 31, 2006, from a proforma expense of $206,929 for the same period in 2005. The $314,885 change is due to the addition of advertising revenue of $157,806 in 2006, a reduction in charge for change in derivative liability of $79,718 and the gain on the disposal of assets of $2,102 in 2006 compared to an expense of $110,218 in 2005 associated with the disposal of assets related to the merger. Interest expense was minimally higher in 2006, increasing to $20,064 in 2006 from $14,558 in 2005, reflecting the accrued interest on new borrowings which were offset by the payoff of a prior note payable to a shareholder.

Off Balance Sheet Arrangements

None.

Table of Contents

Liquidity And Capital Resources

The accompanying consolidated 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 $6,413,133 and a working capital deficiency of $865,720 as of December 31, 2006. Management intends to continue to finance operations partially through its potential ability to generate cash flows from debt and equity offerings. However, there can be no assurance that the Company will be able to obtain additional financing or internally generate cash flows, which may impact the Company s ability to continue as a going concern. Our independent registered public accounting firm has included an explanatory paragraph in their opinion dated March 13, 2007, that there is substantial doubt about Planet s ability to continue as a going concern. The accompanying consolidated financial statements do 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.

Cash and cash equivalents totaled $162,160 at December 31, 2006. The Company used cash totaling $650,606 for its operations during the year ended December 31, 2006 compared to $1,303,443 for the year ended December 31, 2005. This improvement was achieved through consolidation of operations to one location and various cost reduction initiatives. During 2007, management plans to implement additional initiatives to enhance revenue and reduce expenses. Potential revenue enhancement initiatives include upgrading and augmenting the Company s physician office brochure presence and expanding its commitment to paid search marketing for increased internet sales. Potential expense reduction initiatives include improving gross margin by reducing costs associated with the manufacture of its encasing products, as well as improving efficiency by maintaining lower staffing levels initially achieved during the final quarter of 2006. These combined initiatives should allow the Company to generate positive cash flow from operations in 2007.

During 2006, the Company repaid a note payable to a shareholder in the amount of $118,282 and obtained $500,000 of financing in the form of two notes payable from a shareholder.

Inventory levels decreased $90,523 from $577,332 at December 31, 2005 to $486,809 at December 31, 2006, reflecting the elimination of contract sewer and related inventory. Accounts payable and accrued expenses decreased by $255,490, from $1,503,175 at December 31, 2005 to $1,247,685 at December 31, 2006, reflecting the payments of liabilities assumed from the Merger.

On August 11, 2005, Planet completed a merger with Allergy Control Products, Inc. (ACP). ACP merged into a wholly owned subsidiary of Planet (New ACP). Effective August 11, 2005, Planet assigned all of the Allergy Free assets to its wholly owned subsidiary New ACP. The subsidiary was renamed and its ongoing name is Allergy Control Products (the Subsidiary). References to us , we , Planet and Company refer to the consolidated operations of Pl and its Subsidiary.

Investors are encouraged to review our report on Form 8-K filed with the Securities and Exchange Commission on August 12, 2005 and our Registration Statement on Form SB-2 filed on October 12, 2005, which discuss more thoroughly the terms of the merger and which is available through EDGAR at www.sec.gov, and the Company s Proxy Statement which also is available through EDGAR.

Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation 48, Accounting for Uncertainty in Income Taxes (as amended) an interpretation of Statement of Financial Accounting Standards 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS 109, Accounting for Income Taxes, and prescribes a recognition threshold and

measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company expects to implement FIN 48 beginning in 2007 and will evaluate the impact that adopting FIN 48 will have on its consolidated statement of financial position and results of operations.

In September 2006, the FASB issued SFAS 157, Fair-Value Measurements (SFAS 157), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Management is evaluating the impact of SFAS 157, effective January 1, 2008, but does not currently expect the adoption of SFAS 157 to have a material impact on its consolidated financial condition and results of operations.

ITEM 7. FINANCIAL STATEMENTS

The information required by this item is included in the Appendix attached hereto.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 8A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company s management, with the participation of the Company s chief executive officer and chief financial officer, evaluated the effectiveness of the Company s disclosure controls and procedures as of December 31, 2006. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company s disclosure controls and procedures as of December 31, 2006, the Company s chief executive officer and chief financial officer concluded that, as of such date, the Company s disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

As part of the communications by J.H. Cohn LLP (JHC), our registered public accounting firm, with our audit committee with respect to JHC s audit for the year ended December 31, 2005, JHC informed the Audit Committee that there were deficiencies in the Company s internal control procedures which constituted a material weakness under standards established by the Public Company Accounting Oversight

Table of Contents

Board, or PCAOB. During 2006, the Company made the necessary changes and improvements required to correct these deficiencies.

Other than implementing the corrections to the 2005 deficiencies, there have been no other changes in the Company s internal control over financial reporting during the annual period ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

ITEM 8B. OTHER INFORMATION

None.

PART III.

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

Directors and Executive Officers.

The names of directors and executive officers and certain information about each person is set forth below:

Name	Age	Principal Occupation
Scott L. Glenn	57	Chairman of the Board of Directors, President and Chief Executive Officer and Business Executive
Eric B. Freedus	57	Director, Attorney
H.M. Busby	68	Director, Private Investor
Michael Trinkle	54	Director, Business Executive
Ellen M. Preston	52	Director, Business Consultant
Edward J. Steube	63	Director, President of Allergy Control Products, Inc.
Michael Walsh	47	Director, Business Executive
Francesca DiNota	44	Chief Financial Officer, Chief Accounting Officer, Secretary
Bret Megargel	37	Vice President