

PLANET POLYMER TECHNOLOGIES INC

Form 10KSB/A

August 13, 2004

**Table of Contents**

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

**FORM 10-KSB/A**

**ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2003  
Commission File No. 0-26804**

**PLANET POLYMER TECHNOLOGIES, INC.  
(Name of small business issuer in its charter)**

**CALIFORNIA  
(State or other jurisdiction of  
incorporation of organization)**

**33-0502606  
(IRS Employer identification No.)**

**6835 Flanders Drive, Suite 100 San Diego,  
California  
(Address of principal executive offices)**

**92121  
(Zip Code)**

**Issuer's telephone number (619) 291-5694**

**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 p 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/A or any amendment to this Form 10-KSB/A. o

The issuer's revenues for the year ending December 31, 2003 were \$175,082.

The aggregate market value of the voting stock held by non-affiliates of the Issuer as of March 22, 2004 was \$372,473, based on the average of the 4:00 p.m. closing bid and ask prices of \$0.06 as reported on the Over-the-Counter Bulletin Board.

As of March 22, 2004, 6,207,884 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)  yes  no

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**Table of Contents**

**PLANET POLYMER TECHNOLOGIES, INC.**

**FORM-10KSB/A  
Year Ended December 31, 2003**

**TABLE OF CONTENTS**

<b><u>Item Number</u></b>		<b><u>Page</u></b>
	<b><u>PART I.</u></b>	
1.	<u>Description of Business</u>	3
2.	<u>Description of Property</u>	10
3.	<u>Legal Proceedings</u>	10
4.	<u>Submission of Matters to a Vote of Security Holders</u>	10
	<b><u>PART II.</u></b>	
5.	<u>Market for Common Equity and Related Stockholders Matters</u>	10
6.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
7.	<u>Financial Statements</u>	14
8.	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosures</u>	14
8A.	<u>Controls and Procedures</u>	15
	<b><u>PART III.</u></b>	
9.	<u>Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act</u>	15
10.	<u>Executive Compensation</u>	17
11.	<u>Security Ownership of Certain Beneficial Owners and Management</u>	19
12.	<u>Certain Relationships and Related Transactions</u>	22
13.	<u>Exhibits and Reports on Form 8-K</u>	23
14.	<u>Principal Accountant Fees and Services</u>	28
	<u>Signatures</u>	29
	<u>Power of Attorney</u>	29
	<u>EXHIBIT 10.45</u>	
	<u>EXHIBIT 23.2</u>	
	<u>EXHIBIT 31.1</u>	
	<u>EXHIBIT 32.1</u>	

**Table of Contents**

*The letter to Shareholders and this Annual Report on Form 10-KSB/A contain 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 those discussed in this section as well as those sections entitled Risk Factors, and in Item 6 Management's Discussion and Analysis of Financial Condition and Results of Operations.*

**PART I.**

**ITEM 1. DESCRIPTION OF BUSINESS**

**Planet Polymer Technologies, Inc.**

Planet Polymer Technologies, Inc. is an advanced materials company that developed and licensed unique hydro-soluble polymer and biodegradable materials. In April 2003 the Company recovered in lieu of foreclosure the AQUAMIM® Metal Injection Molding technology and manufacturing assets previously sold to Ryer Industries, LLC, and by agreement dated May 1, 2003, resold the assets to Ryer Enterprises, LLC, a newly formed entity which intends to continue the commercial employment of the AQUAMIM® products. In addition, the Company has licensed to Ryer Enterprises, LLC, the patent rights relating to the AQUAMIM® products for royalties which will be payable monthly forty-five (45) days after the close of each month for eight (8) years after which the Company has agreed to transfer the patents to Ryer Enterprises, LLC, provided it is not in default.

Effective January 15, 2004 BASF acquired CPG Technologies, the Fresh Seal® post harvest treatment business from Agway. Also, in January 2004 Agway sold its rights to the agricultural feed products marketed under the trademark Optigen® 1200 to Alltech. Management is hopeful that BASF and Alltech, which have greater financial resources than Agway, will be better able to successfully commercialize the FreshSeal® and Optigen® technologies in the commercialization of the Company's EnviroPlastic CRT controlled-release technologies developed by Planet for Agway. During 2003, Planet's activities were limited as the Company awaited and monitored the progress of Agway, Inc.

Planet's patented development technologies are listed below:

EnviroPlastic CRT controlled-release technology    Polymer coating technologies for use other than agriculture and produce products

EnviroPlastic Z    Biodegradable and compostable polymers

Aquadro    Hydrodegradable (water dispersible) polyvinyl alcohol resin

AQUAMIM® Metal Injection Molding    Moldable metal filled polymers

Planet is currently not developing any new products. However, on March 18, 2004, Planet entered into an Asset Purchase Agreement with Allergy Free, LLC, pursuant to which Planet has agreed to acquire substantially all of the assets of Allergy Free, LLC. Allergy Free is engaged in the business of designing, manufacturing, selling and distributing consumer products for use by allergy sensitive persons. If the acquisition is approved by Planet's shareholders and completed as contemplated by the Agreement, Planet, through personnel and facilities acquired from Allergy Free will continue Allergy Free's business activities and seek to incorporate Planet's polymer technologies and

know-how into developing new products for the Allergy Free business. Investors are encouraged to review our report on Form 8K filed with the Securities and Exchange Commission on March 23, 2004, which discusses more thoroughly the terms of the proposed acquisition and which is available through EDGAR at [www.sec.gov](http://www.sec.gov), and when available, the Company's Proxy Statement which will also be available through EDGAR.

Planet was incorporated under the laws of California in August 1991. Planet's principal executive offices are located at 6835 Flanders Drive, Suite 100, San Diego, California 92121, and its telephone number is (619) 291-5694.

## **Table of Contents**

### **Products and Technologies**

Planet used its polymer chemistry expertise to provide water soluble and degradable technology-based solutions to the current and emerging needs of the agricultural market principally through its arrangement with Agway.

*EnviroPlastic® Controlled-Release Technology.* Planet's patented EnviroPlastic controlled-release technology is a proprietary polymer coating product line with broad application. One use application of this technology allows fertilizer to be controlled for release over 120 days. The Company has sought to develop strategic alliances with potential partners and customers and since 1995 Planet has had a license relationship with Agrium Inc. ( Agrium ) to conduct development work in the use of coatings of fertilizer products. In June 1999, the Company entered into an Amending Agreement with Agrium to allow Planet and Agway to pursue the development of certain technologies involving controlled-released coatings.

This coating technology is also utilized to control the release and transfer rates of nitrogen and oxygen, to assist in controlling the ripening of fruits and vegetables. Planet entered into a licensing agreement with Agway in 1999 to develop commercial coatings for use on fruits, vegetables, floral and nursery applications that has resulted in the launch, in October 2000, of FreshSeal® coating for use on fruits and vegetables. Agway is in the early stages of the extended multi-year commercial rollout of this product family. Agway's product reception and success to date in the marketplace has been encouraging and resulted in a very modest royalty-generating license in 2001. Effective January 15, 2004, Agway sold its rights to FreshSeal® to BASF AG.

The Company has also been highly engaged in development work with Agway since 1999 on the use of its controlled-release technology for animal feed. It is being evaluated as a specialty coating for urea to allow for more efficient, controlled release of nitrogen for dairy cows. The product named Optigen®1200 by Agway's Country Products Group, was in field testing while it petitioned the FDA for product approval as a feed additive. Effective January 2004, Agway sold its rights to Optigen® to Alltech.

*EnviroPlastic® Z Biodegradable and Compostable Plastics.* The Company's patented EnviroPlastic Z materials are biodegradable and compostable polymers based on the polymer cellulose acetate. Product features include transparency, fast molding cycles, outstanding processability and controlled degradation rates from 3 months to 3 years. EnviroPlastic Z materials have been successfully injection molded and extruded into sheet film. EnviroPlastic Z materials are targeted for use in products in the packaging and the industrial markets.

*Aquadro® Water Soluble Plastics.* The Company's patented Aquadro materials are a polyvinyl alcohol based compound family developed by Planet to provide cost effective product solutions for the medical disposable, industrial manufacturing and specialty packaging films markets. Aquadro can be manufactured into blown film, extrusion cast film, and injection molded products. Aquadro resins are highly versatile and can be engineered for flexible or rigid applications. Aquadro can also be designed to dissolve in hot or cold water environments. The development of Aquadro is an advancement of Planet's patented EnviroPlastic H technology. No applications have been commercialized to date.

*AQUAMIM® Metal Injection Molding.* AQUAMIM® is designed for the production of precision metal components utilizing a water debinding process, which eliminates the need for hazardous solvents or acids. AQUAMIM® feedstock is a mixture of metal powders and the Company's proprietary water soluble polymer binder. Various industrial and consumer products can be manufactured by the AQUAMIM® technology. The Company currently offers stainless steel compounds, 316L, 17-4PH, and 420; iron-nickel; tool steels M2, and M4; and heavy metal alloys, tungsten copper and tungsten carbide cobalt. The patents for AQUAMIM® are No. 5,977,230 and No. 6,008,281. Although the AQUAMIM® technologies were sold to Ryer Industries in 2001, in April 2003, Planet recovered these assets as a result of Ryer Industries default under a Forbearance Agreement and subsequently, on

May 1, 2003, resold the AQUAMIM® technology to Ryer Enterprises, LLC.

### **Markets and Applications**

*Agricultural Feed & Fruit/Vegetable Initiatives.* On March 25, 2003, the U.S. Bankruptcy Court gave its approval to Agway to enter into the two Sale and Licensing Agreements with the Company with respect to the Company's agricultural feed and fruit/produce technologies. Under the agricultural feed agreement, Agway's Country Products Group continued to market and develop the Company's controlled-release technology for animal feed under the tradename Optigen 1200. The technology was being utilized in a product under field testing by Agway as a concentrated source of controlled release nitrogen for dairy cows while it petitions the FDA for product approval. In January 2004, Alltech purchased the rights to Optigen® from Agway. The global feed additive market is larger and Alltech has a significant presence in the market. Under the fruit/product agreement, Agway marketed FreshSeal in a niche



## **Table of Contents**

of the global market for fruit and vegetable coatings. In January 2004, Agway transferred FreshSeal to BASF, who is already active in this market.

*Metal Injection Molded (MIM) Feedstocks.* The Company's AQUAMIM® technology had been offered to the metals design and molded products communities by Ryer Industries, LLC, with whom the Company had a royalty agreement for technology sold to Ryer Industries in 2001. In April 2003, the Company recovered the technologies from Ryer Industries and on May 1, 2004 entered into a royalty agreement with Ryer Enterprises, LLC. AQUAMIM® technology offers both product enhancements and environmental benefits to alternative MIM formulations and traditional machining techniques of manufacturing metal products. Primary markets pursued include metal forming, die cutting tools, medical devices and recreational sports equipment.

## **Strategic Alliances**

To facilitate the development and commercialization of Planet's products, Planet has pursued a strategy of aligning itself with a number of companies in the areas of product development and marketing.

*Agrium Technology Development and License Agreement.* In January 1995, Planet entered into a ten year technology and license agreement with Cominco Fertilizers Ltd., now named Agrium Inc., pursuant to which Agrium desired to have Planet conduct further development work on the use of coatings to control release of fertilizers and to protect products containing biological inoculants. Planet's controlled-release technology polymer for fertilizer was developed for Agrium under this agreement. Under the terms of the agreement, Agrium owns all technology developed under the agreement, including, among other things, compositions of matter, new chemical complexes, association compounds, blends, mixtures or compositions of coating materials, or new products, or new processes relating thereto developed by Planet or by Agrium. In addition, Agrium has the exclusive right to grant licenses and sublicenses on the technology developed under the agreement to other parties. In return for the rights granted to Agrium, Agrium is required to pay royalties to Planet determined in accordance with the terms of the agreement. On June 23, 1999, Planet entered into an Amending Agreement with Agrium, Inc. to amend the Technology Development and License Agreement dated as of January 30, 1995. The Amending Agreement allows Planet to enter into an arrangement or agreement with Agway with respect to the development of technologies involving controlled-released fertilizer coatings. If Planet enters into such arrangements or agreements with Agway, then Planet will grant Agrium, among other items, an option to acquire a license and a right to produce, market and distribute such technologies on the same terms and conditions as those offered to Agway.

*Agway (BASF and Alltech) Strategic Alliance.* In November 1998, Planet entered into a strategic investment agreement with Agway Inc. to assist in the funding of Planet Polymer Technologies, Inc. Through stock purchases and warrant exercises, Agway had accumulated more than 10% of the Company's Common Stock. In May 2003, Agway assigned and transferred to the Company all of Agway's shares of Planet Common Stock and no longer holds any stock in the Company.

Contemporaneously with Agway's investment, Planet and Agway entered into an agreement relating to the funding by Agway of a feasibility study of Planet's polymer technology for use in agricultural products, other than fertilizers and other biological products, and food products. Under the terms of the feasibility study agreement, Planet was reimbursed for qualifying research and development costs related to staffing, materials, equipment, equipment time, outside testing and travel from Agway.

Also in November 1998, Planet granted Agway an exclusive worldwide license to all current and future products that utilize Planet's polymer technology for agricultural and food related purposes, other than products already covered by existing agreements. Agway's field of business is broadly related to agricultural products and food products, but does not include fertilizers for purposes of the license. In March 2000, Planet and Agway entered into a sub-agreement

with respect to animal feed products incorporating Planet's patented/patent pending coatings and/or polymer systems. Also in March 2000, Planet and Agway entered into another sub-agreement with respect to Planet's patented/patent pending coatings and/or polymer systems sold for use on fruits, vegetables, floral and nursery items.

In a letter agreement dated November 14, 2000 Planet agreed to sell, assign and transfer to Agway the patent rights related to controlled release technology for animal feed and fruit/produce initiatives, involving four (4) patents and/or applications, for cash and the royalty payments equal to the payments Planet would otherwise be entitled to receive pursuant to its existing license agreements dated November 12, 1998 and Sub-Agreements dated March 1, 2000. Concurrently, Agway agreed to grant Planet an irrevocable, exclusive, worldwide, royalty-free license to use and commercially exploit all rights related to the patents for all uses other than food and agricultural initiatives. The License term was to be for the life of the patents and any patents derived from the patents.

## Table of Contents

On October 1, 2002, Agway, Inc. filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The Sub Agreement covering the FreshSeal technology and license provided for a minimum royalty of \$300,000 on or before October 31, 2002 to maintain exclusivity. This payment was not received or accrued by Planet. Pursuant to the Sub-Agreement, Planet notified Agway that the payment was not received. Under the terms of the Sub-Agreement, Agway had sixty (60) days during which Agway could make the necessary payment and retain market exclusivity for this technology. Agway did not make payment of the minimum royalty as of December 31, 2002. As a result of this failure by Agway to make payment, Planet had the right to issue additional non-exclusive licenses for this technology to other interested parties in the fruit, vegetable, nuts and flowers segments of the agricultural products industry.

To consummate the sale and assignment contemplated by the letter agreement dated November 14, 2000, the Company and Agway agreed on the form of two separate Sale and Licensing Agreements with respect to the agricultural feed technologies and the fruit/produce technologies. On March 25, 2003 the U.S. Bankruptcy Court gave its approval to Agway to enter into the two separate Sale and Licensing Agreements with the Company. Under the Sale and Licensing Agreements, the Company confirmed (i) the assignment of its agricultural feed related patent rights and fruit/produce related patent rights and (ii) the license of its technology related to the agricultural feed products and fruit/produce products, to Agway. In return, the Company received an up-front payment of \$30,000 for its execution of the agricultural feed agreement and a payment of \$100,000 for its execution of the fruit/produce agreement. The amended agreements also call for the Company to receive future royalty payments based on varying percentages of future revenues generated by Agway from sales of related products. During the year ended December 31, 2003, the Company received royalties in the amount of approximately \$1,400 from the sales of the underlying products. Agway granted the Company exclusive, irrevocable, worldwide, royalty-free limited licenses to use the assigned patents rights for uses other than food and agricultural initiatives. In connection with the agricultural feed agreement, Agway also agreed to assign and transfer to the Company all of Agway's shares of Planet capital stock (3,000,000 shares). Effective January 15, 2004, Agway entered into an agreement to sell all of the assets of its FreshSeal business, which include the fruit/produce patent rights assigned by the Company, to BASF. Also, in January 2004, Agway sold all of its right and interest to Optigen® to Alltech. Management cannot assure that the Company will receive significant, if any, royalties and monies under these Sale and Licensing Agreements.

*Ryer Industries LLC Strategic Alliance.* On December 28, 2001, the Company sold certain assets of the Company relating to its Metal Injection Molding ( MIM ) business, including intellectual property, technology, manufacturing equipment and raw material and finished goods to Ryer Industries LLC ( Ryer Industries ). In consideration of these assets, Ryer Industries agreed to pay to the Company cash in the amount of \$328,157, plus a royalty of 6% on sales of custom feedstocks sold during the period January 1, 2002 and December 31, 2009. Additionally, Ryer Industries had agreed to pay the Company a royalty on all tungsten carbide feedstock sales in the amount of \$2.50 per net pound during the period July 1, 2002 and June 30, 2010. Ryer Industries and the Company also entered into a Consulting Agreement for consulting services related to the business and technology sold to Ryer Industries.

In August 2002, Ryer Industries defaulted on its required payments. In October 2002, the Company and Ryer Industries entered into a Forbearance Agreement which modified the payment schedule for the remaining obligations to the Company with payments beginning in December 2002 and continuing through April 2003. Royalty payments associated with sales from these technologies were deferred and were scheduled to resume in December 2002. The Forbearance Agreement provided that if Ryer Industries defaulted, the Company would be allowed to enforce the Confession Judgment given by Ryer Industries to the Company in connection with the Forbearance Agreement, which provided among other things, for turnover to the Company of the assets sold by the Company to Ryer Industries. In January 2003, Ryer Industries again requested a refinancing of the monies due Planet under the Forbearance Agreement. Planet accommodated Ryer Industries in this request by amending the Forbearance Agreement and structuring a payment schedule beginning in February 2003 and continuing through July 2003. After making the required payment in February 2003, Ryer Industries failed to make requisite payment for March 2003. Pursuant to the

Forbearance Agreement, Planet in April 2003, recovered all of the assets previously sold to Ryer Industries under the December 28, 2001 agreement.

*Ryer Enterprises, LLC Strategic Alliance.* By agreement dated May 1, 2003, the Company resold certain assets relating to its MIM business to Ryer Enterprises, LLC, a newly formed entity which intends to continue the commercial employment of the AQUAMIM® products. In addition, the Company has licensed to Ryer Enterprises, LLC, the patent rights relating to the AQUAMIM® products for royalties which will be payable monthly forty-five (45) days after the close of each month for eight (8) years after which the Company has agreed to transfer the patents to Ryer Enterprises, LLC, provided it is not in default. Subsequent to December 31, 2003, the Company agreed to forbear the February and March royalty payment from Ryer Enterprises in exchange for a two (2) month extension to the eight (8) year royalty stream plus a royalty payment equal to a one-half (1/2) month payment.

## **Table of Contents**

Planet will continue to investigate and entertain developing other strategic relationships that may help it promote its products or that might extend the range of product solutions provided by Planet's technologies. There can be no assurance that any such agreements will result in any development and license agreements or commercial relationships. There can be no assurance that Planet will be able to negotiate acceptable customer relationships in the future, or that its existing joint development and licensing agreements will be successful. There can also be no assurance that Planet and its potential strategic partners will be able to develop any products or that the new products, if developed, and their pricing will be acceptable to customers.

## **Sales and Marketing**

Planet now relies entirely on BASF and Alltech to market Planet's products and technologies with respect to the Company's EnviroPlastic CRT controlled-release technologies for agricultural feed and produce, and upon the strategic marketing alliance it has with Ryer Enterprises, LLC to market the Company's products and technologies with respect to the Company's AQUAMIM® technologies.

## **Competition**

The amounts of royalties and monies Planet receives from its strategic partners may depend on the competition faced by those strategic partners. In the manufacture and marketing of controlled-release coatings there are a variety of competitors and products. Planet believes that its EnviroPlastic controlled-release technology marketed by its strategic partners can be a lower cost and more effective alternative that can be targeted towards a broad agricultural market.

There are also numerous competitors and products in the market for feedstocks for Metal Injection Molded products which compete with the AQUAMIM® technology.

There can be no assurance that the potentially competitive technologies will not obtain a significant market share prior to the commercialization of Planet's products by Planet's strategic partners. The development of a competing or superior technology or the commercialization of such technology by any one of the potential competitors of Planet's strategic partners could have a material adverse effect on the amount of royalties or monies, if any, Planet receives.

## **Manufacturing and Suppliers**

Planet has no in-house manufacturing activities.

## **Research and Development**

The Company incurred no research and development expenses for the year ended December 31, 2003. Unless and until the Allergy Free acquisition is completed, the Company anticipates limited or no further research and development activities on new products.

## **Intellectual Property and Proprietary Technologies**

Planet believes that the Company has created an attractive portfolio of unique, patented and potentially patentable intellectual property in the area of environmentally sensitive polymers and advanced materials. Planet maintains either ownership, licensing or strategic alliance relationships with various partnering companies to commercialize and protect these valued intellectual assets. Planet will continue to maintain patent and trademark protection for such inventions, improvements and enhancements as appropriate.

As previously discussed in this report, Planet has transferred the rights to commercially exploit and market and sell products and intellectual property rights to its principal technologies to third parties. In general, these third parties own, or subject to certain conditions has the right to acquire ownership of, the patents protecting Planet's proprietary technologies and so long as these third parties perform their obligations with their respective agreements, Planet's interest in the technologies is limited to the right to receive certain royalty payments.

There can be no assurance that Planet's pending patent applications will be approved, that Planet will develop additional proprietary materials or processes that are patentable, that any patents issued to Planet or any of its licenses will provide Planet with competitive advantages or will not be successfully challenged by third parties or that the patents of others will not have an adverse effect on the ability of Planet to conduct its business. Furthermore, there can be no assurance that others will not independently develop similar or superior technologies, duplicate any of Planet's processes or design around the patented materials developed by

## **Table of Contents**

Planet. Planet believes that its products, patents, trademarks and other proprietary rights do not infringe the property rights of third parties. There can be no assurance, however, that third parties will not assert infringement claims in the future. It is possible that Planet may need to acquire licenses to, or to contest the validity of, issued or pending patents of third parties relating to Planet's technology. There can be no assurance that licenses under such patents would be made available to Planet on acceptable terms, if at all, or that Planet would prevail in any such contest. In addition, Planet could incur substantial costs defending itself in suits brought against the Company with respect to patents or in bringing suits against other parties.

## **Government Regulation**

Some end products into which Planet's products are incorporated may be subject to significant regulation and approval by federal, state and local entities such as the Food and Drug Administration and the Environmental Protection Agency. Similar regulatory agencies exist worldwide. Planet may be required to provide its strategic partners with technical information on its products to be used by their customers in the regulatory process. Planet's strategic partners and their customers will have primary responsibility for obtaining any required governmental approvals. The approval process could be costly and lengthy and potential sales of Planet's products could be significantly delayed and/or eliminated as to end products subject to such regulatory approval.

## **Employees**

During the year ended December 31, 2003, the Company had no employees. Since January 1, 2003, four persons have provided consulting services to Planet, one engaged in as-required research and development activities and three in limited or part time administrative activities.

## **Risk Factors**

*History of Operating Losses.* The year ended December 31, 2003 is the first annual period in which the Company has shown net income. For the year ended December 31, 2002, the Company had net losses of approximately \$667,000. For the year ended December 31, 2003, the Company had net income of approximately \$71,000 as a result of a gain from the sale of technology and fixed assets. As of December 31, 2003, we had an accumulated deficit of approximately \$14.3 million. Since inception, Planet has generated minimal revenues from product sales.

*Future Capital Needs; Uncertainty of Additional Funding.* The Company's future capital requirements will depend on when and if the Allergy Free acquisition is completed and on many other factors, including

the timing of market acceptance of Company products, including products acquired from Allergy Free;

competing technological and market developments;

the costs involved in filing, prosecuting and enforcing patent claims, and

the receipt of note payments and earned royalties.

We anticipate that our existing resources will be sufficient to maintain our scaled back operations through at least May 31, 2004. We cannot guarantee that changes in our plans or other events affecting our projected expenses will not result in the expenditure of such resources before such time.

We intend to seek additional funding through a private equity offering in connection with the Allergy Free acquisition and may explore funding through other public or private equity or debt financing. We cannot guarantee that additional financing will be available on acceptable terms, or at all. Insufficient funds may require the Company

to file for bankruptcy protection under Chapter 11 or Chapter 7 of the Bankruptcy laws.

*Allergy Free Acquisition Might Not be Completed.* There are many conditions to the completion of the Allergy Free acquisition, including, without limitations, approval of the Company shareholders. If the transaction is not completed, the costs and expenses incurred by Planet in connection with pursuing the transaction will exceed Planet's currently available funds to pay such expenses, which will heighten the Company's need for additional funding.



**Table of Contents**

*Continued Quotation On Over-the-Counter Bulletin Board.* Planet stock was delisted from the Nasdaq SmallCap Market effective July 19, 2001, and became traded on the Over-the-Counter Bulletin Board on September 7, 2001, trading under the symbol (POLY.OB).

*Penny Stock Regulations.* With the delisting from Planet's Common Stock from the Nasdaq SmallCap Market and subsequent listing on Over-the-Counter Bulletin Board, trading in our Common Stock is subject to the requirements of Rule 15c-9 promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Under such rule, broker/dealers who recommend such low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements, including a requirement that they make an individualized written suitability determination for the purchaser and receive the purchaser's written consent prior to the transaction. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990 also requires additional disclosure in connection with any trades involving a stock defined as a penny stock (generally, according to recent regulations adopted by the Commission, any equity security not traded on an exchange or quoted on Nasdaq that has a market price of less than \$5.00 per share, subject to certain exceptions), including delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith. Such requirements could severely limit the market liquidity of our Common Stock and the ability purchasers of our Common Stock to sell such shares in the secondary market.

*Uncertainty of Market Acceptance.* Our success prior to the Allergy Free acquisition and thereafter if the acquisition is not completed will be largely dependent upon the royalties and monies we receive from licensing agreements as a result of the commercial acceptance of our technologies by the various industries targeted by our products. There can be no certainty as to the amount of time required to achieve full-scale commercialization, and the commercialization process of any new product could take several years. We cannot guarantee that our products will receive broad market acceptance as an economically acceptable alternative. Broad market acceptance of our products will depend upon the ability of our strategic partners to demonstrate to potential customers that our products can compete favorably with alternative solutions. As in 2002, in 2003 the Company focused on research and development and commercial support for Agway's FreshSeal commercial program and Agway's Optigen 1200 development activities. The Company no longer has a relationship with Agway. In 2004, the Company will be focused on working with BASF to promote Fresh Seal® and Alltech to promote Optigen®. In addition, beginning in 2003, the Company focused on research and development, and commercial support for Ryer Enterprises AQUAMIM® Metal Injection Molding commercialization. If the Allergy Free acquisition is completed rights of the Company to receive royalties from existing technology will be transferred to a trust for the benefit of Planet shareholders prior to the acquisition and no longer available to Planet.

*Reliance on Strategic Relationships.* Our technologies are designed to serve multiple industries. An important part of our strategy is to promote acceptance of our products through technology and product alliances with certain strategic partners and their customers. Our dependence on these customers raises certain risks with respect to the future success of our business. Our success is dependent on the successful completion and commercial deployment of our products and on the future commitment of these customers to our products and technology. We cannot guarantee that our collaboration with these partners and their customers will result in products that are accepted by the customers or widely accepted in the marketplace.

*Uncertainty of Protection of Patents and Proprietary Rights.* Planet relies on a combination of patent and trade secret protection, non-disclosure agreements and licensing arrangements to establish and protect our proprietary rights. We have filed and intend to file applications as appropriate for patents covering our products. We cannot guarantee that patents will issue from any of the pending applications or, if patents do issue, that claims allowed will be sufficiently broad to protect our technology. In addition, we cannot guarantee that any issued patents will not be challenged, invalidated or circumvented, or that the rights granted thereunder will provide proprietary protection to us. Since U.S. patent applications are maintained in secrecy until patents issue, and since publication of inventions in the

technical or patent literature tend to lag behind such inventions by several months, we cannot be certain that we were the first creator of inventions covered by our issued patents or pending patent applications, that we were the first to file patent applications for such inventions, or that we are not infringing on the patents of others, which may subject us to claims of patent infringement. Despite our efforts to safeguard and maintain our proprietary rights, we cannot guarantee that we will be successful in doing so or that our competitors will not independently develop or patent technologies that are substantially equivalent or superior to our technologies.

*Shares Eligible for Future Sale.* Sales of substantial amounts of our Common Stock in the public market or the prospect of such sales by existing shareholders could materially adversely affect the market price of our Common Stock. As of December 31, 2003, we had outstanding 6,207,884 shares of Common Stock. Virtually all of our outstanding shares of Common Stock are either registered and therefore freely tradable or may be transferred pursuant to Rule 144(k) under the Securities Act, unless held by our affiliates as that term is defined in Rule 144 under the Securities Act.

**Table of Contents**

*Government Regulation.* Certain end products into which our products are expected to be incorporated are subject to extensive government regulation in the United States by federal, state and local agencies including the EPA and FDA. Similar regulatory agencies exist worldwide. Our customers who incorporate our products into consumer products will bear primary responsibility for obtaining any required regulatory approvals. The process of obtaining and maintaining FDA and any other required regulatory approvals for products is lengthy, expensive and uncertain, and regulatory authorities may delay or prevent product introductions or require additional tests prior to introduction. We cannot guarantee that changes in existing regulations or the adoption of new regulations will not occur, which could prevent us or our customers from obtaining approval or delay the approval of various products or could adversely affect market demand for our products.

*Product Liability.* Product liability claims may be asserted against us in the event that the use of our products or products which incorporate our products are alleged to have caused injury or other adverse effects, and such claims may involve large amounts of alleged damages and significant defense costs. We do not maintain product liability insurance. If we obtain product liability insurance in the future, we cannot guarantee that the liability limits or the scope of our insurance policy would be adequate to protect against such potential claims. Additionally, we may not be able to obtain product liability insurance. Whether or not we obtain such insurance, a successful claim against us could have a material adverse effect on us. In addition, our business reputation could be adversely affected by product liability claims, regardless of their merit or eventual outcome.

*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**

Our executive offices are located in approximately 5,000 square feet of leased office space located at 635 Flanders Drive, Suite 100, San Diego, California, 92121, subject to a month-to-month sublease.

**ITEM 3. LEGAL PROCEEDINGS**

None

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

None.

**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 POLY.OB. The following table sets forth the high and low sales prices of the Company's Common Stock for the period from January 1, 2002 through December 31, 2003 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:

	<b>Trade Prices</b>	
	<b>High</b>	<b>Low</b>
Fiscal year ended December 31, 2002		
First Quarter	0.350	0.110
Second Quarter	0.250	0.130
Third Quarter	0.150	0.130
Fourth Quarter	0.170	0.030
Fiscal year ended December 31, 2003		
First Quarter	0.080	0.010
Second Quarter	0.100	0.050
Third Quarter	0.060	0.050
Fourth Quarter	0.070	0.030

## **Table of Contents**

On March 22, 2004, the last reported sale price of the Company's Common Stock on the Over-the-Counter Bulletin Board was \$0.06. As of March 22, 2004, there were approximately 177 holders of record of the Company's Common Stock with 6,207,884 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.

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.

However, in connection with the Allergy Free acquisition, if it is consummated, the Company intends to distribute to holders of record of the Company's common stock as of the record date for the meeting called to vote on approval of the acquisition, the right to receive royalties under the agreements relating to the Company's AQUAMIM, Optigen, and FreshSeal product technologies investors should read the Proxy Statement to be filed and distributed in connection with soliciting proxies for approval of the acquisition for a discussion of the tax consequences of this distribution.

In May 2003, in connection with the agricultural feed agreement, Agway assigned and transferred to the Company all of Agway's shares of Planet Common Stock, reducing the current outstanding Common Stock from 9,207,884 to 6,207,884 outstanding.

## **Recent Sales of Unregistered Securities**

No shares were issued or sold by the Company during 2003.

## **ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Overview**

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 in Item 1 - Description of Business, including the section therein entitled Risk Factors, this Item 6, and those discussed in any documents incorporated herein by reference.

Since the Company was founded in 1991, with the exception of resources expended in connection with the purchase and ongoing operation of Deltco, substantially all of the Company's resources have been devoted to the development and commercialization of its technologies and products. This has included the expenditure of funds to develop the Company's corporate infrastructure, support the Company's marketing efforts and establish a pilot production facility, in addition to research and development. In January 2000, Planet sold its wholly-owned subsidiary, Deltco, a manufacturer and reprocessor of plastic resins located in Ashland, Wisconsin. Planet incurred operating losses since inception through December 31, 2002. For the year ended December 31, 2003, Planet showed a net income of approximately \$71,000 and reduced its accumulated deficit from approximately \$14.4 million to approximately \$14.3 million.

On March 18, 2004, the Company and Allergy Free, LLC, a California limited liability company ( Allergy Free ), entered into an Asset Purchase Agreement ( Agreement ) in which the Company will acquire substantially all of the assets of Allergy Free and assume certain of its liabilities for which the Company will provide the following consideration; a subordinated note in the principal amount not to exceed approximately \$2.8 million for a term of 3 years and not less than 28,193,900 shares of Common Stock in Planet. At March 18, 2004, the market value of the Company s common stock was \$.06 per share.

Immediately prior to the Closing, the Company will distribute to a trustee for the benefit of Company Shareholders of record as of April 15, 2004 (the Trust ), the right to receive all royalties payable to the Company pursuant to those certain Sale and Licensing Agreements between the Company and Agway, Inc., relating to Planet s FreshSeal® and Optigen® technology and that certain Purchase, Sale and License Agreement between the Company and Ryer Enterprises, LLC, relating to Planet s AQUAMIM® technology.

## **Table of Contents**

The Agreement is subject to a number of conditions including without limitation, approval of Planet shareholders, approval of Allergy Free members, a 50 to 1 reverse stock split, the receipt of a No Action Letter from the SEC relating to the distribution of the right to receive royalty payments to the Trust, the hiring of Scott L. Glenn as President and Chief Executive Officer of the Company, and an executed consulting agreement with Dr. Robert Petcavich.

## **The Application of Critical Accounting Policies**

**Use of Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition** Product sales revenue is recognized when all of the following conditions are met: the product is shipped, Planet has the right to invoice the customer at a fixed price, the collection of the receivable is probable and there are no significant obligations remaining. Research and development revenues from customers other than Agway and reimbursement of research and development costs by Agway are not refundable if the research is unsuccessful. The research and development revenues from customers other than Agway are recognized when services have been rendered and any related products have been shipped, at which time the customer is obligated to pay for those services. The revenues for reimbursed research and development costs for Agway are recognized when costs related to services performed and any related products have been shipped, at which time Agway is obligated to reimburse these costs. Royalties are recognized when the amounts are determinable and collectibility is reasonably assured.

**Research and Development** Company sponsored research and development costs related to future products and redesign of present products are expensed as incurred.

**Patents, Trademarks and License Agreements** Costs incurred to obtain patents, trademarks, and license agreements, principally legal fees, are capitalized. The Company amortizes these costs on a straight-line basis over fifteen years.

**Long-Lived Assets** Long-lived assets, such as property and equipment and patents, trademarks, and license agreements, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment losses are recognized when events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by such assets are less than their carrying value and, accordingly, all or a portion of such carrying value may not be recoverable. Impairment losses for assets to be held and used are then measured based on the excess, if any, of the carrying amounts of the assets over their fair values. Long-lived assets to be disposed of in a manner that meets certain criteria are stated at the lower of their carrying amounts or fair values less costs to sell and are no longer depreciated.

## **Related Party Transactions**

On January 11, 1999, Agway became a beneficial owner of more than 10% of the Company's Common Stock. Agway retained this interest until December 2003, when, Agway assigned and transferred to the Company all of Agway's shares of Planet Common Stock. Currently, Agway holds no equity interest in the Company.

In November 1998, the Company and Agway entered into an agreement relating to the funding by Agway of a feasibility study (the Feasibility Agreement) of the Company's polymer technology for use in agricultural products

(other than fertilizers and certain biological products) and food products. Under the terms of the Feasibility Agreement, Planet will be reimbursed for certain qualifying research and development costs relating to such applications. During 2002, the Company recorded revenues for reimbursed research and development costs of \$102,839 from Agway under the Feasibility Agreement.

Also in November 1998, the Company granted Agway an exclusive worldwide license in connection with the Company's technology for time-release coatings for a variety of agricultural and food products (the License Agreement). The License Agreement outlines the general terms and conditions for the rights granted Agway thereunder. The Company and Agway agreed to execute further sub-agreements specifying the royalties to be paid to the Company for Agway's use of the Company's technology with certain products. In March 2000, the Company and Agway entered into a Sub-Agreement with respect to animal feed products incorporating Planet's patented/patent pending coatings and/or polymer systems. Also in March 2000, the Company and Agway entered into another Sub-Agreement with respect to Planet's patented/patent pending coatings and/or polymer systems sold for use on fruits, vegetables, floral and nursery items. During 2001, the Company received a \$100,000 royalty payment from Agway. After receiving proceeds from Agway, pursuant to its royalty payment in October 2001, the Company was required to pay a \$6,000 cash



## **Table of Contents**

transaction fee to an advisor. This payment was made on January 24, 2002 and shown in accounts payable at December 31, 2001. No royalties were received or accrued by the Company under the agreement with Agway in 2002.

On October 1, 2002, Agway, Inc. filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The Sub Agreement covering the FreshSeal® technology and license provided for a minimum royalty of \$300,000 on or before October 31, 2002 to maintain exclusivity. This payment was not received or accrued by Planet. Pursuant to the Sub-Agreement, Planet notified Agway that the payment was not received. Under the terms of the Sub-Agreement, Agway had sixty (60) days during which Agway could make the necessary payment and retain market exclusivity for this technology. Agway did not make payment of the minimum royalty as of December 31, 2002. As a result of this failure by Agway to make payment, Planet had the right to issue additional non-exclusive licenses for this technology to other interested parties in the fruit, vegetable, nuts and flowers segments of the agricultural products industry.

To consummate the sale and assignment contemplated by the letter agreement dated November 14, 2000, the Company and Agway agreed on the form of two separate Sale and Licensing Agreements with respect to the agricultural feed technologies and the fruit/produce technologies. On March 25, 2003, with the approval of the U.S. Bankruptcy Court, the Company and Agway entered into the two separate Sale and Licensing Agreements. Under the Sale and Licensing Agreements, the Company confirmed (i) the assignment of its agricultural feed related patent rights and fruit/produce related patent rights and (ii) the license of its technology related to the agricultural feed products and fruit/produce products, to Agway. In return, the Company will received an up-front payment of \$30,000 for its execution of the agricultural feed agreement and a payment of \$100,000 for its execution of the fruit/produce agreement, and will also receive a sales royalty based on net revenues generated from product sales. Agway also granted the Company exclusive, irrevocable, worldwide, royalty-free limited licenses to use the assigned patents rights for uses other than food and agricultural initiatives. In connection with the agricultural feed agreement, Agway also agreed to assign and transfer to the Company all of Agway's shares of Planet common stock. Under the fruit/produce agreement, Agway entered into an agreement to sell all of the assets of its FreshSeal® business, which include the fruit/produce patent rights assigned by the Company, to BASF. In January 2004, Agway also sold all of its right and interest in Optigen® to Alltech. Management cannot assure that the Company will receive significant, if any, royalties and monies under these Sale and Licensing Agreements.

## **New Accounting Pronouncements**

*Recent Accounting Pronouncements.* Statement of Financial Accounting Standards SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, and SFAS No. 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity Interpretation No. 46 (FIN46), Consolidation of Variable Interest Entities and Interpretation of ARB No. 51, and FIN46® which revised certain provisions of FIN46, were recently issued. SFAS No.146, 149 and 150, FIN 45, 46 and FIN46® have no current applicability to us or their effect on the financial statements would not have been significant.

The adoption of these new pronouncements did not have or is not expected to have a material effect on the Company's financial position or results of operations.

## **Results of Operations**

The Company's revenues increased approximately \$13,000 to approximately \$175,000 for the year ended December 31, 2003, from approximately \$162,000 for the year ended December 31, 2002. This increase is primarily due to the restructuring of the Company's agreements with Agway, Inc., pursuant to which Agway paid the Company certain royalty and other payments for 2003.

Cost of revenues decreased approximately \$105,000 to approximately \$5,000 for the year ended December 31, 2003, from approximately \$110,000 for the year ended December 31, 2002. This decrease was primarily due to the fact the Company no longer directly sells any products.

General and administrative expenses decreased \$78,000 to approximately \$390,000 for the year ended December 31, 2003, from approximately \$468,000 for the year ended December 31, 2002. This decrease was primarily attributable to the reduction of all remaining staff which was offset in part by increased legal expenses related to the restructuring of the agreements with Agway and the recovery and sale of the AQUAMIM technology and assets.

## **Table of Contents**

The Company incurred no marketing expenses for the year ended December 31, 2003, resulting in a decrease of approximately \$100,000 for the same period ended December 31, 2002. The Company anticipates limited or no further marketing activities, until the Allergy Free acquisition is completed.

The Company incurred no research and development expenses for the period ended December 31, 2003, compared to approximately \$118,000 for the year ended December 31, 2002. The Company anticipates limited or no further research and development activities on new products.

Other income, net, increased approximately \$262,000 to approximately \$291,000 for the year ended December 31, 2003, from approximately \$29,000 for the year ended December 31, 2002. This increase was primarily attributable to the gain on sale of technology and fixed assets to Ryer Enterprises.

The Company's net income increased to approximately \$71,000 for the year ended December 31, 2003, compared to a net loss of approximately \$667,000 during the year ended December 31, 2002.

As of December 31, 2003, the Company had net operating loss carryforwards for federal income tax purposes of approximately \$12,600,000 and for California state tax purposes of approximately \$3,500,000. During the period from 1998 through 2000, certain ownership changes occurred. As a result, the Company's annual utilization of net operating loss and tax credit carryforwards may be limited as defined by Sections 382 and 383 of the Internal Revenue Code. Due to the possible limitation under Sections 382 and 383 of the Internal Revenue Code and Planet's lack of historical taxable income, the Company has recorded a full valuation allowance for deferred tax assets. Utilization of loss carryforwards will be further limited by the change of control that will occur assuming the completion of the Allergy Free acquisition.

## **Liquidity and Capital Resources**

The Company used approximately \$140,000 for continuing operations for the year ended December 31, 2003; approximately \$51,000 in accounting fees, approximately \$61,000 in in-house consulting fees and approximately \$33,000 in rent.

Net cash provided by investing activities of approximately \$138,000 for the year ended December 31, 2003 primarily resulted from payments on notes receivable and the sale of assets relating to the Purchase Sale and License Agreement dated May 1, 2003, with Ryer Enterprises, LLC.

The Company incurred no expenses related to financing activities for the year ended December 31, 2003.

The Company does not believe that its existing sources of liquidity and anticipated revenue will satisfy the Company's projected working capital and other cash requirements through December 31, 2004. In connection with the Allergy Free acquisition, the Company plans to raise approximately \$2.0 million in a private equity placement. The ability of the Company to raise this additional capital will be dependent on many factors, including how investors in the private equity markets evaluate the combination of the Company with Allergy Free and the combined companies prospects going forward. Therefore the Company's ability to raise \$2.0 million of additional capital is uncertain and the Company and Allergy Free may proceed with the acquisition whether or not such additional capital is raised. If the Company is unable to complete the Allergy Free acquisition and raise additional capital, legal and accounting expenses incurred by the Company in connection with the transaction will exceed the liquid assets of the Company to pay such expenses and the Company will need to raise additional capital, explore alternative transactions, or reach agreements with the service providers to provide for the payment of these expenses. Management cannot provide any assurance that the Company will be successful in satisfying future working capital and other cash requirements past May 31, 2004. If it cannot, the Company may have to cease operations and liquidate its assets and liabilities and

prepare its financial statements on a liquidation basis instead of a going concern basis.

**ITEM 7. FINANCIAL STATEMENTS**

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

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

None

**Table of Contents****ITEM 8A. CONTROLS AND PROCEDURES****EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in the reports we file with the SEC is recorded, processed, summarized and reported within the time periods specified in the rules of the SEC. As of December 31, 2003, we carried out an evaluation, under the supervision and the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the design and operation of these disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting him to material information relating to the Company required to be included in our periodic SEC filings.

**CHANGES IN INTERNAL CONTROLS**

There were no significant changes in internal controls or other factors that could significantly affect our internal controls subsequent to the date of our evaluation.

**PART III****ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The names of the directors and certain information about each director is set forth below:

<b>Name</b>	<b>Age</b>	<b>Principal Occupation</b>
Robert J. Petcavich, Ph.D.(1) (2)	48	Chairman of the Board of Directors and Chief Technical Officer
H. M. Busby	64	Director, President, Chief Financial Officer and Secretary
Ronald B. Sunderland (1)(2)	66	Business Executive and Attorney

Robert J. Petcavich is currently CTO of Lumera Corporation of Seattle Washington. Dr Petcavich was founder, Chairman and/or CEO of the Company from 1992 until 2003. He was also founder, Chairman and/or CEO from 1996 until 2001 of Alife Medical, Inc., a natural language processing software services provider for the medical billing industry now majority owned by Medquist (NASDAQ:MEDQ) a subsidiary of Philips Electronics. Dr Petcavich has a Ph.D. degree in Polymer Science, a Master of Science Degree in Solid State Science, and a B.S. degree in Chemistry from the Pennsylvania State University, and completed the PMD executive management degree program at Harvard University. He is also a director of Molecular Reflections Inc.

H. M. Mac Busby has been a director of the Company since August 1997 when he was elected by the members of the Board of Directors to fill a vacancy on the Board. Mr. Busby became President and Chief Executive Officer and Chief Financial Officer of the Company on February 1, 2003. In May 2003, Mr. Busby was appointed Secretary of the Company. Mr. Busby began his career in 1966 at Wisconsin Centrifugal, Inc. which included the position of Manager of Industrial and Public Relations. Mr. Busby has also served as Vice President of Human Relations and Administration for MCA Financial, Inc., a subsidiary of MCA, Inc. Mr. Busby was Chairman of Sun Protective

International and Sun-Gard USA. Mr. Busby earned his B.S. in Business Administration from Indiana University.

Ronald B. Sunderland has been a director since May 2000. He is currently Sr. Vice President Business / Legal Affairs of Warner Bros. Domestic Cable Distribution where he has been since 1999. From 1997 to 1999, Mr. Sunderland was the Senior Vice President of Aaron Spelling Television, Inc. During the years 1978 to 1996 he was with the American Broadcasting Company, Inc. where he eventually became Executive Vice-President, Business Affairs and Contracts. Mr. Sunderland received a Bachelor's degree in Political Science from the University of California at Los Angeles and a Juris Doctor from Loyola University School of Law.

### **Board Committees and Meetings**

## **Table of Contents**

During 2003, the Board of Directors held three (3) meetings. The Board of Directors has an Audit Committee and a Compensation Committee. In addition, in 2004 the Company's entire current Board acted as the Nominating Committee and nominated Scott Glenn, Michael Trinkle and Ellen Preston to serve as directors with Robert Petcavich and H. Mac Busby in compliance with the Asset Purchase Agreement dated March 18, 2004, and entered into by and between the Company and Allergy Free, LLC. The shareholders of the Company have the right to vote whether to accept the Asset Purchase Agreement and the Acquisition contemplated therein. The newly elected Board will consider establishing a charter for the Nominating Committee, which provides guidelines for the selection of future directors.

The Audit Committee is responsible for the engagement of the Company's independent auditors, consulting with independent auditors concerning the audit plan and reviewing the comments and recommendations resulting from the auditor's report. During 2003, the Audit Committee was composed of non-employee directors including Messrs. Dr. Petcavich and Ronald B. Sunderland and met four (4) times during 2003. The Audit Committee Charter was adopted on May 22, 1997 and was subsequently amended in 2001. The Audit Committee does not currently have an audit committee financial expert serving on the audit committee. The Board believed that the Company's limited activities made it impractical to recruit a financial expert following the resignation of Peter O'Neill, the chief financial officer of Agway, Inc., who had formerly been the chairman of the audit committee. After the Closing, the Board intends to consider recruiting a financial expert to serve on the Board and audit committee.

The Audit Committee has reviewed and discussed the audited financial statements with management and it has discussed with the independent auditors the matters required to be discussed by SAS 61. Furthermore, the Audit Committee has received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1 and has discussed with the independent accountant the independent accountant's independence and based on the review of the financial statements and discussions with management and the auditors, it recommended to the Board of Directors that the audited financial statements be included in this annual report.

The Compensation Committee is responsible for reviewing the compensation and benefits of the Company's executive officers, making recommendations to the Board of Directors concerning the compensation and benefits of the Company's executive officers and administering the Company's Stock Incentive Plans. The Compensation Committee in 2003 was composed of two non-employee directors including Messrs. H. M. Busby, and Ronald B. Sunderland. The Compensation Committee did not meet during 2003 since there were no employees of the Company.

The Nominating Committee will be responsible for identifying, evaluating, and recommending candidates to serve as directors of the Company and to serve as a focal point for communication between such candidates, the Board, and the Company's management and will be recommendations to the Board of Directors concerning the nomination of candidates to be elected by the Company's shareholders as a director of the Company.

The Company has not yet adopted a code of ethics for its officers and other key personnel involved in the Company's operations. However, upon the election of the new board, the Company plans to adopt such an ethics code and will promptly disclose such adoption to its shareholders and other interested parties.

During 2003, each Board member attended 75% or more of the aggregate of the meetings of the Board, and of the committees on which he served, held during the period for which he was a director or committee member, respectively.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act ( Section 16(a) ) requires the Company s directors and executive officers, and persons who own more than ten percent (10%) of a registered class of the Company s equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors, and greater than ten percent (10%) shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company s knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended December 31, 2003, all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent (10%) beneficial owners were complied with except for the late filing of Form 5 for current directors Busby, Sunderland, and Petcavich relating to options granted during 2003.



**Table of Contents****Management**

Set forth below is information regarding management of the Company.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Robert J. Petcavich, Ph.D.	49	Chairman of the Board and Chief Technical Officer
H. M. Busby	65	CEO & President, Chief Financial Officer, and Secretary

For biographical information of Dr. Petcavich and Mr. Busby please refer to the section of this annual report listing the board of directors of the Company.

**ITEM 10. EXECUTIVE COMPENSATION****Compensation of Directors**

Directors may be granted options to purchase Common Stock under the Company's 1995 Stock Option Plan (the 1995 Option Plan) and the 2000 Stock Incentive Plan (2000 Incentive Plan). During 2003, options to purchase shares of the Company's Common Stock were granted to the Company's directors as follows: (i) in May 2003, the Board of Directors of the Company approved and granted non-statutory stock option grants to Mr. Busby, Dr. Petcavich and Mr. Sunderland to purchase 50,000 shares of the Company's Common Stock at an exercise price of \$0.06 per share, vesting fully at the date of grant, and (ii) the Board of Directors granted non-statutory stock option grants to Dr. Petcavich to purchase an additional 12,500 shares of the Company's Stock at an exercise price of \$0.14 per share, vesting fully at the date of the grant.

Directors are reimbursed for reasonable travel expenses incurred in connection with attendance at Board meetings, or any committee meetings, or otherwise in connection with their service as a director.

**Compensation of Executive Officers**

The following table sets forth, for the fiscal years ended December 31, 2003, 2002, and 2001 certain compensation awarded or paid to, or earned by the Company's Executive Officers.

**Summary Compensation Table**

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary(\$)</b>	<b>Bonus(\$)</b>	<b>Shares Underlying Options(#)</b>	<b>All Other Compensation(\$)</b>
Robert J. Petcavich	2003	\$	\$		\$
Chairman of the Board	2002	\$170,038	\$		\$ 3,241(2)
and Chief Technical Officer	2001	\$210,000	\$15,000(3)		\$ 6,139(1)
H.M. Busby	2003	\$	\$		\$31,677(7)
Chief Executive Officer,	2002	\$	\$		\$
President and Chief Financial Officer	2001	\$	\$		\$

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Richard C. Bernier (6)	2003	\$	\$		\$
Chief Executive Officer	2002	\$117,713	\$		\$
and President	2001	\$205,000	\$	100,000(4)	\$37,471(5)

- (1) Represents insurance premiums paid by the Company under a term life insurance policy insuring Dr. Petcavich and auto expense reimbursement.
- (2) Represents auto expense reimbursement paid by the Company.
- (3) Includes \$15,000 accrued as a bonus pursuant to an incentive agreement effective January 1, 2000, but paid in 2001.

**Table of Contents**

- (4) Represents an option granted on November 4, 2001 with an exercise price of \$0.06. Options vested April 15, 2002.
- (5) Temporary living and moving expenses, including tax gross-up as allowed per employment agreement.
- (6) Mr. Bernier served as CEO & President and Acting Chief Financial Officer until his resignation January 31, 2003.
- (7) Represents a consulting fee Mr. Busby was paid for his services to the Company in 2003.

**Stock Option Grants and Exercises**

The Company's Executive Officers are eligible for grants of options under the Company's 1995 Stock Option Plan (the 1995 Option Plan) and the 2000 Stock Incentive Plan (the 2000 Incentive Plan). As of December 31, 2003, there were remaining approximately 447,300 shares available for grant under the Option Plans.

The following table sets forth information with respect to the number of securities underlying unexercised options held by the Executive Officers as of December 31, 2003 and the value of unexercised in-the-money options (i.e., options for which the current fair market value of the Common Stock underlying such options exceeds the exercise price):

**Aggregated Option Exercises Last Fiscal Year and Fiscal Year End Option Values**

Name	Shares Acquired on Exercise(#)	Value Realized	Number of Securities		Value of	
			Underlying Unexercised		Unexercised	
			Options at Fiscal Year End		In-the-Money	
			(2)		(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Robert J. Petcavich	-0-	-0-	227,182	0	\$ 0	\$ 0
H. M. Busby	-0-	-0-	163,000	0	\$ 0	\$ 0
Richard C. Bernier	-0-	-0-	25,000	0	\$ 0	\$ 0

(1) Calculated based on the estimated fair market value of the Company's Common Stock as of December 31, 2003, less the exercise price payable upon the exercise of such options. Such estimated fair market value as of December 31, 2003 was \$.04, the last price posted at the close of trading on December 31, 2003.

(2) The three current directors of Planet, H.M. Busby (100,000), Dr. Robert J. Petcavich (50,000), and Ronald B. Sunderland (50,000) each exercised stock options in March and/ or April 2004 thus reducing the number of options held in a corresponding amount. Additionally, the three current directors surrendered Out of the Money stock options in the following amounts: Robert J. Petcavich, 164,182; H.M. Busby 48,200; Ronald B. Sunderland, 18,000.

**Table of Contents**

**Equity Compensation Plan Information**

	<u>(a)</u>	<u>(b)</u>	<u>(c)</u>
	<b>Number of</b>		<b>Number of securities remaining available for future issuance</b>
&			