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COMET TECHNOLOGIES INC  
Form 10KSB  
March 29, 2006

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2005.
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Commission File Number: 0-26059

COMET TECHNOLOGIES, INC.

-----  
(Exact name of Registrant as specified in its Charter)

Nevada

87-0430322

-----  
(State or other Jurisdiction of  
Incorporation or Organization)

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

8 East Broadway #428, Salt Lake City, Utah 84111

-----  
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number including Area Code: (801) 532-7851

Securities Registered Under Section 12(b) of the Exchange Act: None.  
Securities Registered Pursuant to Section 12(g) of the Act: Common Stock,  
Par Value \$0.001

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act

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.  
Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained 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.

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

State issuer's revenues (consisting only of interest income) for its most recent fiscal year. \$1,057.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.) On the basis of the last sale price on March 24, 2006, of \$3.00, the aggregate market value of the voting and non-voting

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common equity held by non-affiliates was \$1,235,535.

As of March 24, 2006, the registrant had outstanding 516,780 shares of its common stock.

Documents incorporated by reference: None.

Transitional Small Business Disclosure Format: Yes [ ] No [X]

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The information contained in this Form 10-KSB for the fiscal year ended December 31, 2005, is as of the latest practicable date except for financial information, which relates to the fiscal year.

### PART I

#### ITEM 1. DESCRIPTION OF BUSINESS

General

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Comet Technologies, Inc. (the "Company" or "Comet") is a "blank check" company which has been seeking to locate a business enterprise which it may acquire, merge or reorganize with, or become engaged in. Since the completion of the Company's public offering in August 1986, the Company has reviewed and evaluated numerous business ventures for possible acquisition or participation by the Company. Until January, 2004, the Company had not entered into any agreements with any companies. In January, 2004, the Company entered into an agreement for a "reverse merger" with Town House Land Limited ("Town House"), but this transaction was terminated in the beginning of 2005, because management concluded that this transaction was not in the best interests of the Company and its shareholders. To date, the Company has not acquired any business venture or engaged in any active business operations.

Comet is a public company whose securities are quoted on the over-the-counter Bulletin Board under the symbol "COMT."

To date, opportunities have been made available to the Company through its officers and directors and through professional advisors including securities broker-dealers and through members of the financial community. It is anticipated that business opportunities will continue to be available primarily from these sources.

To a large extent, a decision to participate in a specific business opportunity may be made upon management's analysis regarding the quality of the other firm's management and personnel, the asset base of such firm or enterprise, the anticipated acceptability of new products or marketing concepts, the merit of the firm's business plan, and numerous other factors which are difficult, if not impossible, to analyze through the application of any objective criteria.

Since its inception, the Company has had no active business operations, and has been seeking to acquire an interest in a business with long-term growth potential. The Company currently has no commitment or arrangement to participate in a business and cannot now predict what type of business it may enter into or acquire. It is emphasized that the business objectives discussed herein are extremely general and are not intended to be restrictive on the discretion of the Company's management.

There are no plans or arrangements proposed or under consideration for the issuance or sale of additional securities by the Company prior to the identification of an acquisition candidate. Consequently, management anticipates that it may be able to participate in only one potential business venture, due primarily to the Company's limited capital. This lack of diversification should be considered a substantial risk, because it will not permit the Company to offset potential losses from one venture against gains from another.

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### Selection of a Business

The Company anticipates that businesses for possible acquisition will be referred by various sources, including its officers and directors, professional advisors, securities broker-dealers, venture capitalists, members of the financial community, and others who may present unsolicited proposals. The Company will not engage in any general solicitation or advertising for a business opportunity, and will rely on personal contacts of its officers and directors and their affiliates, as well as indirect associations between them

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and other business and professional people. By relying on "word of mouth," the Company may be limited in the number of potential acquisitions it can identify. While it is not presently anticipated that the Company will engage unaffiliated professional firms specializing in business acquisitions or reorganizations, such firms may be retained if management deems it in the best interest of the Company.

Compensation to a finder or business acquisition firm may take various forms, including one-time cash payments, payments based on a percentage of revenues or product sales volume, payments involving issuance of securities (including those of the Company), or any combination of these or other compensation arrangements. Consequently, the Company is currently unable to predict the cost of utilizing such services.

The Company will not restrict its search to any particular business, industry, or geographical location, and management reserves the right to evaluate and enter into any type of business in any location. The Company may participate in a newly organized business venture or a more established company entering a new phase of growth or in need of additional capital to overcome existing financial problems. Participation in a new business venture entails greater risks since in many instances management of such a venture will not have proved its ability, the eventual market of such venture's product or services will likely not be established, and the profitability of the venture will be unproved and cannot be predicted accurately. If the Company participates in a more established firm with existing financial problems, it may be subjected to risk because the financial resources of the Company may not be adequate to eliminate or reverse the circumstances leading to such financial problems.

In seeking a business venture, the decision of management will not be controlled by an attempt to take advantage of any anticipated or perceived appeal of a specific industry, management group, product, or industry, but will be based on the business objective of seeking long-term capital appreciation in the real value of the Company. The Company will not acquire or merge with a business or corporation in which the Company's officers, directors, or promoters, or their affiliates or associates, have any direct or indirect ownership interest.

The analysis of new businesses will be undertaken by or under the supervision of the officers and directors. In analyzing prospective businesses, management will consider, to the extent applicable, the available technical, financial, and managerial resources; working capital and other prospects for the future; the nature of present and expected competition; the quality and experience of management services which may be available and the depth of that management; the potential for further research, development, or exploration; the potential for growth and expansion; the potential for profit; the perceived public recognition or acceptance of products, services, or trade or service marks; name identification; and other relevant factors.

The decision to participate in a specific business may be based on management's analysis of the quality of the other firm's management and personnel, the anticipated acceptability of new products or marketing concepts, the merit of technological changes, and other factors which are difficult, if not impossible, to analyze through any objective criteria. It is

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anticipated that the results of operations of a specific firm may not necessarily be indicative of the potential for the future because of the requirement to substantially shift marketing approaches, expand significantly, change product emphasis, change or substantially augment management, and other factors.

The Company will analyze all available factors and make a determination based on a composite of available facts, without reliance on any single factor. The period within which the Company may participate in a business cannot be predicted and will depend on circumstances beyond the Company's control, including the availability of businesses, the time required for the Company to complete its investigation and analysis of prospective businesses, the time required to prepare appropriate documents and agreements providing for the Company's participation, and other circumstances.

### Acquisition of a Business

In implementing a structure for a particular business acquisition, the Company may become a party to a merger, consolidation, or other reorganization with another corporation or entity; joint venture; license; purchase and sale of assets; or purchase and sale of stock, the exact nature of which cannot now be predicted. Notwithstanding the above, the Company does not intend to participate in a business through the purchase of minority stock positions. On the consummation of a transaction, it is likely that the present management and shareholders of the Company will not be in control of the Company. In addition, a majority or all of the Company's directors may, as part of the terms of the acquisition transaction, resign and be replaced by new directors without a vote of the Company's shareholders.

In connection with the Company's acquisition of a business, the present shareholders of the Company, including officers and directors, may, as a negotiated element of the acquisition, sell a portion or all of the Company's Common Stock held by them at a significant premium over their original investment in the Company. As a result of such sales, affiliates of the entity participating in the business reorganization with the Company would acquire a higher percentage of equity ownership in the Company. Management does not intend to actively negotiate for or otherwise require the purchase of all or any portion of its stock as a condition to or in connection with any proposed merger or acquisition. Although the Company's present shareholders did not acquire their shares of Common Stock with a view towards any subsequent sale in connection with a business reorganization, it is not unusual for affiliates of the entity participating in the reorganization to negotiate to purchase shares held by the present shareholders in order to reduce the amount of shares held by persons no longer affiliated with the Company and thereby reduce the potential adverse impact on the public market in the Company's common stock that could result from substantial sales of such shares after the business reorganization. Public investors will not receive any portion of the premium that may be paid in the foregoing circumstances. Furthermore, the Company's shareholders may not be afforded an opportunity to approve or consent to any particular stock buy-out transaction.

In the event sales of shares by present shareholders of the Company, including officers and directors, is a negotiated element of a future acquisition, a conflict of interest may arise because directors will be negotiating for the acquisition on behalf of the Company and for sale of their shares for their own respective accounts. Where a business opportunity is well suited for acquisition by the Company, but affiliates of the business opportunity impose a condition that management sell their shares at a price which is unacceptable to them, management may not sacrifice their financial interest for the Company to complete the transaction. Where the business opportunity is not well suited, but the price offered management for their shares is

high, Management will be tempted to effect the acquisition to realize a substantial gain on their shares in the Company. Management has not adopted any policy for resolving the foregoing potential conflicts, should they arise, and does not intend to obtain an independent appraisal to determine whether any price that may be offered for their shares is fair. Stockholders must rely, instead, on the obligation of management to fulfill its fiduciary duty under state law to act in the best interests of the Company and its stockholders.

It is anticipated that any securities issued in any such reorganization would be issued in reliance on exemptions from registration under applicable federal and state securities laws. In some circumstances, however, as a negotiated element of the transaction, the Company may agree to register such securities either at the time the transaction is consummated, under certain conditions, or at specified times thereafter. Although the terms of such registration rights and the number of securities, if any, which may be registered cannot be predicted, it may be expected that registration of securities by the Company in these circumstances would entail substantial expense to the Company. The issuance of substantial additional securities and their potential sale into any trading market which may develop in the Company's securities may have a depressive effect on such market.

While the actual terms of a transaction to which the Company may be a party cannot be predicted, it may be expected that the parties to the business transaction will find it desirable to structure the acquisition as a so-called "tax-free" event under sections 351 or 368(a) of the Internal Revenue Code of 1986, (the "Code"). In order to obtain tax-free treatment under section 351 of the Code, it would be necessary for the owners of the acquired business to own 80% or more of the voting stock of the surviving entity. In such event, the shareholders of the Company would retain less than 20% of the issued and outstanding shares of the surviving entity. Section 368(a)(1) of the Code provides for tax-free treatment of certain business reorganizations between corporate entities where one corporation is merged with or acquires the securities or assets of another corporation. Generally, the Company will be the acquiring corporation in such a business reorganization, and the tax-free status of the transaction will not depend on the issuance of any specific amount of the Company's voting securities. It is not uncommon, however, that as a negotiated element of a transaction completed in reliance on section 368, the acquiring corporation issue securities in such an amount that the shareholders of the acquired corporation will hold 50% or more of the voting stock of the surviving entity. Consequently, there is a substantial possibility that the shareholders of the Company immediately prior to the transaction would retain less than 50% of the issued and outstanding shares of the surviving entity. Therefore, regardless of the form of the business acquisition, it may be anticipated that stockholders immediately prior to the transaction will experience a significant reduction in their percentage of ownership in the Company.

Notwithstanding the fact that the Company is technically the acquiring entity in the foregoing circumstances, generally accepted accounting principles will ordinarily require that such transaction be accounted for as if the Company had been acquired by the other entity owning the business and, therefore, will not permit a write-up in the carrying value of the assets of the other company.

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The manner in which the Company participates in a business will depend on the nature of the business, the respective needs and desires of the Company and other parties, the management of the business, and the relative negotiating strength of the Company and such other management.

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The Company will participate in a business only after the negotiation and execution of appropriate written agreements. Although the terms of such agreements cannot be predicted, generally such agreements will require specific representations and warranties by all of the parties thereto, will specify certain events of default, will detail the terms of closing and the conditions which must be satisfied by each of the parties prior to such closing, will outline the manner of bearing costs if the transaction is not closed, will set forth remedies on default, and will include miscellaneous other terms.

### Operation of Business After Acquisition

The Company's operation following its acquisition of a business will be dependent on the nature of the business and the interest acquired. The Company is unable to predict whether the Company will be in control of the business or whether present management will be in control of the Company following the acquisition. It may be expected that the business will present various risks, which cannot be predicted at the present time.

### Governmental Regulation

It is impossible to predict the government regulation, if any, to which the Company may be subject until it has acquired an interest in a business. The use of assets and/or conduct of businesses that the Company may acquire could subject it to environmental, public health and safety, land use, trade, or other governmental regulations and state or local taxation. In selecting a business in which to acquire an interest, management will endeavor to ascertain, to the extent of the limited resources of the Company, the effects of such government regulation on the prospective business of the Company. In certain circumstances, however, such as the acquisition of an interest in a new or start-up business activity, it may not be possible to predict with any degree of accuracy the impact of government regulation. The inability to ascertain the effect of government regulation on a prospective business activity will make the acquisition of an interest in such business a higher risk.

### Competition

The Company will be involved in intense competition with other business entities, many of which will have a competitive edge over the Company by virtue of their stronger financial resources and prior experience in business. There is no assurance that the Company will be successful in obtaining suitable investments.

### Employees

The Company is a development stage company and currently has no employees. Its officers perform services on behalf of the Company on an hourly basis.

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Officers devote only such time to the affairs of the Company as they deem appropriate. Management of the Company expects to use consultants, attorneys, and accountants as necessary, and does not anticipate a need to engage any full-time employees so long as it is seeking and evaluating businesses. The need for employees and their availability will be addressed in connection with a decision whether or not to acquire or participate in a specific business industry.

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### ITEM 2. DESCRIPTION OF PROPERTY

The Company uses offices and related clerical services at 8 East Broadway #428, Salt Lake City, Utah 84111, provided by an officer and director of the Company at a monthly rental rate of \$200.

### ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any material pending legal proceedings, and to the best of its knowledge, no such proceedings by or against the Company have been threatened.

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

No matter was submitted to a vote of security holders in the fiscal year ended December 31, 2005. However, in January, 2006, holders of over 50% of the outstanding common stock approved a 1-for-8 reverse split ("Reverse Split") of the outstanding common stock of the Company, by a majority consent. The Reverse Split was effective as of March 9, 2006. On or about February 15, 2006, the Company sent to its shareholders an information statement filed with the U.S. Securities and Exchange Commission ("SEC"), reporting the Reverse Split.

## PART II

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

#### Market Information

Although quotations for the Company's common stock appear on the OTC Bulletin Board, there is no established trading market for the common stock. For the past two calendar years to the present, transactions in the common stock can only be described as sporadic. Consequently, the Company is of the opinion that any published prices cannot be attributed to a liquid and active trading market and, therefore, are not indicative of any meaningful market value.

The following table sets forth for the respective periods indicated the prices of the Company's Common Stock in the over-the-counter market ("COMT"), as reported and summarized by the OTC Bulletin Board. Such prices are based on inter-dealer bid and asked prices, without markup, markdown, commissions, or adjustments and may not represent actual transactions.

| Calendar Quarter Ended | High Bid (\$) | Low Bid (\$) |
|------------------------|---------------|--------------|
| March 31, 2004         | 2.4000        | 1.2000       |
| June 30, 2004          | 2.0000        | 1.9200       |
| September 30, 2004     | 2.3200        | 1.6000       |



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|                    |        |        |
|--------------------|--------|--------|
| December 31, 2004  | 2.3200 | 1.6800 |
| March 31, 2005     | 2.7200 | 1.2000 |
| June 30, 2005      | 1.6000 | 1.2800 |
| September 30, 2005 | 2.6400 | 1.6000 |
| December 31, 2005  | 2.5600 | 1.6000 |

\* All numbers give effect to a 1-for-8 reverse split effective as of March 9, 2006.

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As of March 24, 2006, the closing bid price for the Company's common stock was \$3.00. There are outstanding options to purchase 25,000 shares of common stock at an exercise price of \$1.50, which expire in March 2009. There is an outstanding warrant to purchase 6,250 shares of the Company's common stock at an exercise price of \$1.50, which expires in March 2009. All shares of common stock outstanding may be sold without restriction under Rule 144(k) promulgated under the Securities Act of 1933, except 104,935 shares, which are held by officers and directors ("Control Shares"). Control Shares may be sold subject to complying with all of the terms and conditions of Rule 144, except the one-year holding period, which has been satisfied.

Since its inception, no dividends have been paid on the Company's common stock. The Company intends to retain any earnings for use in its business activities, so it is not expected that any dividends on the common stock will be declared and paid in the foreseeable future.

At March 24, 2006, there were approximately 100 holders of record of the Company's common stock.

### Sales of Unregistered Securities

On January 28, 2006, Richard B. Stuart, an officer and director of the Company, exercised his remaining option to purchase a total of 9,490 shares of the Company's common stock at a price of \$1.50 per share, or a total purchase price of \$14,235. This was a private transaction and was entered into in reliance upon an exemption from the registration provisions of the Securities Act of 1933 (the "Act"), as amended, under Section 4(2) of the Act, as a transaction not involving a public offering. The transaction occurred without the use of an underwriter, and the certificates representing the shares of common stock bear a restrictive legend permitting transfer only upon registration or pursuant to an exemption from registration under the Act.

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

#### FORWARD-LOOKING INFORMATION AND CAUTIONARY STATEMENTS

When used in this report on Form 10-KSB, the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," and similar expressions are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 regarding events, conditions, and financial trends that may affect the Company's future plans of operations, business strategy, operating results, and financial position. Persons reviewing this report are cautioned that any forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties and that actual results may differ materially from those

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included within the forward-looking statements as a result of various factors. Such factors are discussed under the headings "Item 1. Description of Business," and "Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations," and also include general economic factors and conditions that may directly or indirectly impact the Company's financial condition or results of operations.

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### PLAN OF OPERATION

The Company had no revenue from continuing operations for the years ended December 31, 2005 and 2004. The Company's plan is to seek a business venture in which to participate. The selection of a business opportunity in which to participate is complex and extremely risky and will be made by management in the exercise of its business judgment. There is no assurance that the Company will be able to identify and acquire any business opportunity that will ultimately prove to be beneficial to the Company and its shareholders.

The Company anticipates that businesses for possible acquisition will be referred by various sources, including its officers and directors, professional advisors, securities broker-dealers, venture capitalists, members of the financial community, and others who may present unsolicited proposals. The Company will not engage in any general solicitation or advertising for a business opportunity, and will rely on personal contacts of its officers and directors and their affiliates, as well as indirect associations between them and other business and professional people. By relying on "word of mouth", the Company may be limited in the number of potential acquisitions it can identify. While it is not presently anticipated that the Company will engage unaffiliated professional firms specializing in business acquisitions or reorganizations, such firms may be retained if management deems it in the best interest of the Company.

Compensation to a finder or business acquisition firm may take various forms, including one-time cash payments, payments based on a percentage of revenues or product sales volume, payments involving issuance of securities (including those of the Company), or any combination of these or other compensation arrangements. Consequently, the Company is currently unable to predict the cost of utilizing such services.

The activities of the Company are subject to several significant risks that arise primarily as a result of the fact that the Company has no specific business and may acquire or participate in a business opportunity based on the decision of management which will, in all probability, act without the consent, vote, or approval of the Company's shareholders. A description of the manner in which the Company will pursue the search for and participation in a business venture is described under "Item 1. Business," above.

Although the Company has no operations, it does incur expenses in connection with complying with reporting requirements under the Securities Exchange Act of 1934. General and administrative expenses for the years ended December 31, 2005 and 2004, consisted of general corporate administration, officer compensation, legal and professional expenses, and accounting and auditing costs. In 2004, the Company incurred significant legal, accounting and other expenses in connection with a proposed business combination with Town House, which was terminated in the first quarter of 2005. Total general and administrative expenses were \$48,461, and \$94,101 for 2005 and 2004,

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respectively. The increased expenses in 2004 were due in large part to expenses incurred relating to the proposed transaction between the Company and Town House, which has been terminated.

The Company had no interest expense in 2005 or 2004. Interest income resulted from the investment of funds in short-term, liquid cash equivalents. Interest income was \$1,057 in 2005 and \$350 in 2004.

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During the 2004 and 2005 fiscal years, the Company accrued compensation to its officers in the amount of \$57,795 and \$30,000, respectively, for services performed by such individuals on behalf of the Company. Of such amounts, a total of \$69,795 were converted into common stock in 2005. A total of \$18,000 was still owing to the Company's officers as of December 31, 2005.

As a result of the foregoing factors, the Company realized a net loss of \$47,404 in 2005, as compared to a net loss of \$91,593 in 2004.

At December 31, 2005, the Company had working capital of \$77,395. Working capital consisted of cash and cash equivalents less current liabilities. Management believes that the Company has sufficient cash and short-term investments to meet the anticipated needs of the Company's operations through at least the next 12 months. However, there can be no assurances to that effect, as the Company has no significant revenues and the Company's need for capital may change dramatically if it acquires an interest in a business opportunity during that period. The Company's current operating plan is to handle the administrative and reporting requirements of a public company and search for potential businesses, products, technologies and companies for acquisition. At present, the Company has no understandings, commitments or agreements with respect to the acquisition of any business venture, and there can be no assurance that the Company will identify a business venture suitable for acquisition in the future. Further, there can be no assurance that the Company would be successful in consummating any acquisition on favorable terms, if at all, or that it will be able to profitably manage the business venture it acquires.

### ITEM 7. FINANCIAL STATEMENTS

The financial statements required by this Item 7 begin on Page 18 with the Index to the Financial Statements and are located following the signature page. All information that has been omitted is either inapplicable or not required.

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

There are no reportable changes in or disagreements with accountants.

### ITEM 8A. CONTROLS AND PROCEDURES

With the participation of management, the Company's chief executive officer and chief financial officer evaluated the Company's disclosure controls and procedures on December 31, 2005. Based on this evaluation, the chief executive officer and the chief financial officer concluded that the disclosure controls and procedures are effective in connection with the

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Company's filing of its annual report on Form 10-KSB for the year ended December 31, 2005.

During the fourth quarter of the year ended December 31, 2005, there were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls, and no significant deficiencies or material weaknesses of internal controls that would require corrective action were identified during that period.

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### ITEM 8B. OTHER INFORMATION

During the fiscal year ended December 31, 2005, the Company filed two reports on Form 8-K. On February 14, 2005, the Company filed a Current Report on Form 8-K, reporting the termination of the Exchange Agreement among the Company, Town House, and the shareholders of Town House. On September 28, 2005, the Company filed a Current Report on Form 8-K, reporting: (a) the exercise of options of the Company's current officers and directors to eliminate certain indebtedness owed to them; and (b) the sale by the Company on the same date, to an unrelated party, of a total of 12,500 shares of restricted common stock at a price of \$2.00 per share for total cash proceeds of \$25,000.

### PART III

#### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

##### DIRECTORS AND OFFICERS

##### Current Management of the Company

The following table sets forth the names, ages, and positions with the Company for each of the directors and officers of the Company.

| Name              | Age | Positions*                        | Since |
|-------------------|-----|-----------------------------------|-------|
| Richard B. Stuart | 72  | President and Director            | 1986  |
| Jack M. Gertino   | 67  | Secretary, Treasurer and Director | 1986  |

\*In August, 2003, Philip C. Gugel, Vice President and a director, passed away. Mr. Gugel has not been replaced.

All executive officers are elected by the Board and hold office until the next Annual Meeting of stockholders or until their successors are duly elected and qualified.

The following is information on the business experience of each director and officer.

Richard B. Stuart earned his BA at New York University in 1955 and masters and doctoral degrees at Columbia University in 1960 and 1965, respectively. He currently holds the following positions: President, Behavior Change Systems (Ann Arbor, MI), a firm offering business consulting and program development services; Clinical Professor Emeritus, Department of Psychiatry, University of Washington (Seattle, WA). Dr. Stuart also provides psychological services through a private practice in Seattle, WA. From 1972

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to 1983, he was Psychological Director of Weight Watchers International and President of its subsidiary, One-To-One Weight Control Clinics. Dr. Stuart has also been a consultant to companies involved in businesses ranging from wholesale groceries to auto parts production and human services. Dr. Stuart was an officer and director of Domino Investments (Salt Lake City, UT).

Jack M. Gertino has been a private investor and business consultant in Salt Lake City, Utah, for the past ten years. For the past ten years, he has also been engaged in the private development of, and investment in, commercial and residential real estate in Utah, Arizona and New Mexico. He currently provides consulting services for financial institutions. Mr. Gertino

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has been involved in private and public financings over the past twenty years. From February 1992 to August 2005, he served as a director of Red Horse Entertainment Corporation, a publicly held shell corporation seeking a business acquisition.

### Audit Committee Financial Expert

Because we have had minimal operations, we do not have an audit committee serving at this time. Accordingly, we do not have an audit committee financial expert serving on an audit committee or any other committee of the Board.

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

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers and persons who own more than ten percent of a registered class of our equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of our common stock. The Company believes all forms required to be filed under Section 16 of the Exchange Act have been filed. However, a review reveals that a Form 5 filed by Jack M. Gertino, Secretary, on March 24, 2006, was filed late, and a Form 4 filed on March 24, 2006, by Richard B. Stuart, President, was also filed late.

### Code of Ethics

Due to the fact that we have minimal operations, we have not adopted a code of ethics for our principal executive and financial officers. Our management intends to promote honest and ethical conduct, full and fair disclosure in our reports to the SEC, and compliance with applicable governmental laws and regulations.

### Other Shell Company Activities

Mr. Gertino was a director of Red Horse Entertainment Corporation ("Red Horse"), a publicly held shell corporation. In July, 2005, Red Horse completed the acquisition of Silverstrand International Holdings Limited under a Stock Exchange Agreement. Mr. Gertino resigned as a director on August 5, 2005. The possibility exists that one or more of the officers and directors of the Company could become officers and/or directors of other shell companies in the future, although they have no intention of doing so at the present time. Certain conflicts of interest are inherent in the participation of the

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Company's officers and directors as management in other shell companies, which may be difficult, if not impossible, to resolve in all cases in the best interests of the Company. Failure by management to conduct the Company's business in its best interests may result in liability of management of the Company to the shareholders.

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### ITEM 10. EXECUTIVE COMPENSATION

#### Summary of Cash and Certain Other Compensation

The following sets forth the compensation of Comet's executive officers for the three fiscal years ended December 31, 2005.

| Name and Principal Position                     | Fiscal Year Ended December 31 | Salary(\$) | Bonus(\$) | Options(#) | All Other Compensation(\$) |
|---|-------------------------------|------------|-----------|------------|----------------------------|
| Richard B. Stuart                               | 2005                          | 0          | 0         | 0 (4)      | 10,000 (1)                 |
| President and Chief Executive Officer           | 2004                          | 0          | 0         | 0          | 19,265 (2)                 |
|   | 2003                          | 0          | 0         | 0          | 10,000 (3)                 |
| Jack M. Gertino                                 | 2005                          | 0          | 0         | 0 (4)      | 20,000 (1)                 |
| Secretary/Treasurer and Chief Financial Officer | 2004                          | 0          | 0         | 0          | 38,530 (2)                 |
|   | 2003                          | 0          | 0         | 0          | 20,000 (3)                 |

(1) The Company recorded compensation expense for Richard B. Stuart and Jack M. Gertino, computed on an hourly basis, in the amounts indicated, for their efforts in reviewing specific business opportunities for a possible business combination during the fiscal year, participating in meetings and conference calls in connection with such opportunities, and undertaking related activities.

(2) The Company recorded compensation expense for Richard B. Stuart and Jack M. Gertino, computed on an hourly basis, in the amounts indicated, for their efforts in reviewing the business opportunity with Town House for a possible business combination during the fiscal year 2004, participating in meetings and conference calls in connection with such opportunity, assisting in the negotiation and preparation of agreements and in the preparation of disclosure documents, and undertaking related activities.

(3) The Company recorded compensation expense for Richard B. Stuart and Jack M. Gertino, computed on an hourly basis, in the amounts indicated, for their efforts in reviewing the business opportunity with Town House for a possible business combination during the fiscal year 2003, participating in meetings and conference calls in connection with such opportunity, and undertaking related activities.

(4) On March 11, 1999, the Company granted to Richard B. Stuart, Phillip C. Gugel (deceased) and Jack M. Gertino, officers and directors, options to purchase 25,000 shares of common stock each at an exercise price of \$1.50, which was the average of the bid and asked prices for the common stock on that date. The options were issued to compensate these persons for their services

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to the Company over the past 13 years, for which they had received no other compensation. On September 26, 2005, the Company's current officers and directors agreed to eliminate certain indebtedness owed to them through the exercise of certain stock options referenced above. Accordingly, Jack M. Gertino exercised his stock options in full, for the conversion of a total of \$37,500 in indebtedness to him, into a total of 25,000 shares of restricted common stock at a price of \$1.50 per share. Richard B. Stuart agreed to convert the entire obligation to him (\$23,265), into a total of 15,510 shares of common stock under his stock options at a price of \$1.50 per share. Because Dr. Stuart did not exercise all of his stock options, he was reissued stock options to purchase a total of 9,490 shares at \$1.50 per share.

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These options were exercised on January 28, 2006, for cash. Therefore, the options of Richard B. Stuart and Jack M. Gertino have now been fully exercised. The options of Mr. Gugel have now passed on to his estate.

The Company has no agreement or understanding, express or implied, with any officer, director, or principal stockholder, or their affiliates or associates, regarding employment with the Company or compensation for services. The Company has no plan, agreement, or understanding, express or implied, with any officer, director, or principal stockholder, or their affiliates or associates, regarding the issuance to such persons of any shares of the Company's authorized and unissued common stock. There is no understanding between the Company and any of its present stockholders regarding the sale of a portion or all of the common stock currently held by them in connection with any future participation by the Company in a business.

There are no other plans, understandings, or arrangements whereby any of the Company's officers, directors, or principal stockholders, or any of their affiliates or associates, would receive funds, stock, or other assets in connection with the Company's participation in a business. No advances have been made or contemplated by the Company to any of its officers, directors, or principal stockholders, or any of their affiliates or associates.

There is no policy that prevents management from adopting a plan or agreement in the future that would provide for cash or stock based compensation for services rendered to the Company.

On acquisition of a business, it is possible that current management will resign and be replaced by persons associated with the business acquired, particularly if the Company participates in a business by effecting a stock exchange, merger, or consolidation. In the event that any member of current management remains after effecting a business acquisition, that member's time commitment and compensation will likely be adjusted based on the nature and location of such business and the services required, which cannot now be foreseen.

The following table sets forth certain information with respect to unexercised options held by the executive officers as of December 31, 2005.

Number of Securities

Value of Unexercised

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| Name and Principal Position     | Underlying Unexercised Options at December 31, 2005 (#) (2) | In-the-Money Options at December 31, 2005 (\$) (1) |
|---------------------------------|---|--|
|                                 | -----<br>Exercisable/Unexercisable<br>-----                 | -----<br>Exercisable/Unexercisable<br>-----        |
| Richard B. Stuart,<br>President | 9,490/ -0-  | -0-/ -0-   |

- (1) This value is determined on the basis of the difference between the average of the high bid and asked prices on December 31, 2005, of the securities underlying the options, and the exercise price.
- (2) Dr. Stuart exercised all of this option on January 28, 2006, for \$14,235 in cash.

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### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth as of March 23, 2006, the number and percentage of the 516,780 outstanding shares of common stock which, according to the information supplied to the Company, were beneficially owned by (i) each person who is currently a director of the Company, (ii) each executive officer, (iii) all current directors and executive officers of the Company as a group and (iv) each person who, to the knowledge of the Company, is the beneficial owner of more than 5% of the outstanding common stock. Except as otherwise indicated, the persons named in the table have sole voting and dispositive power with respect to all shares beneficially owned, subject to community property laws where applicable.

| Name and Address  | Common Shares (1) | Percent of Class |
|---|-------------------|------------------|
| -----   | -----             | -----            |
| Richard B. Stuart (2) (3)<br>PO Box 236<br>Edmonds, Washington 98020                          | 50,960 (2)        | 9.86             |
| Jack M. Gertino (3)<br>8 East Broadway #428<br>Salt Lake City, Utah 84111                     | 53,975            | 10.44            |
| The Harker Group<br>Limited Partnership<br>1717 Monte Carlo Drive<br>Salt Lake City, UT 84121 | 51,944            | 10.05            |
| All Executive Officers and<br>Directors as a Group<br>(2 persons)                             | 104,935           | 20.30            |

(1) These individuals hold no options or warrants or other rights to purchase stock. All shares are held of record and beneficially, except as noted in (2) below.

(2) Ownership is held of record by Pershing, LLC ("Pershing"), a limited liability company of which Richard B. Stuart is the owner, of 25,960 shares. The remaining shares are held by Dr Stuart individually.



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- (3) Messrs. Stuart and Gertino are officers and directors of the Company.

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On September 26, 2005, Jack Gertino and Richard Stuart, M.D., officers and directors, exercised Options resulting in the issuance of 29,515 shares and 15,510 shares of restricted common stock, respectively, to Mr. Gertino and Dr. Stuart. Mr. Gertino and Dr. Stuart were owed \$46,530, and \$23,265, respectively, for services rendered to the Company, primarily in connection with a possible merger transaction that, after several months of efforts, was terminated. The options were issued in exchange for the cancellation of debt to Messrs. Gertino and Stuart. For additional information concerning these transactions, reference is made to a Current Report on Form 8-K filed on or about September 28, 2005, incorporated herein by reference. Following this transaction, Dr. Stuart's remaining option entitled him to purchase an additional 9,490 shares at \$1.50 per share, which he exercised for cash on January 28, 2006.

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Except as indicated above, there are no proposed transactions and no transactions during the past two years to which the Company was a party and in which any officer, director, or principal shareholder, or their affiliates or associates, was also a party.

Effective March 9, 2006, the Company completed a 1-for-8 reverse split of its outstanding common stock. All numbers in this report give effect to the reverse split.

### ITEM 13. EXHIBITS

- (a) Exhibits. Copies of the following documents are included as exhibits to this report pursuant to Item 601 of Regulation S-B.
- 3.1 Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).
  - 3.2 By-Laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).
  - 10.1 Option granted to Richard B. Stuart dated March 11, 1999 (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).
  - 10.2 Option granted to Philip C. Gugel dated March 11, 1999 (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).
  - 10.3 Option granted to Jack M. Gertino dated March 11, 1999 (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).

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- 10.4 Warrant granted to Mark E. Lehman dated March 11, 1999 (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).
- 31.1\* Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2\* Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1\* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Filed as exhibits to this annual report on Form 10-KSB.

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### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The aggregate fees billed by our principal accounting firm, for fees billed for fiscal years ended December 31, 2005 and 2004 are as follows:

#### Audit Fee -----

The aggregate fees billed for each of the last two fiscal years for professional services rendered by HJ & Associates, LLC, the Company's principal accountant, for the audit of the Company's annual financial statement and review of financial statements included in the Company's 10-QSB reports and services normally provided by the accountant in connection with statutory and regulatory filings or engagements were \$5,480 for fiscal year 2005 and \$3,410 for fiscal year 2004.

#### Audit-Related Fees -----

The aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit or review of the Company's financial statements that are not reported above were \$0 for fiscal year ended 2005 and \$0 for fiscal year ended 2004.

#### Tax Fees -----

The aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning were \$247 for fiscal year 2005 and \$396 for fiscal year 2004.

#### All Other Fees -----

The aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant, other than the services reported above were \$0 for fiscal year 2005 and \$0 for fiscal year ended 2004.

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The Company does not currently have an audit committee. As a result our board of directors performs the duties of an audit committee. The Company's board of directors will evaluate and approve in advance, the scope and cost of the engagement of an auditor before the auditor renders audit and non-audit services. We do not rely on pre-approval policies and procedures.

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### SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMET TECHNOLOGIES, INC.

Date: March 28, 2006

By: /s/ Richard B. Stuart  
Richard B. Stuart, President and CEO

In accordance with the Exchange Act, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 28, 2006

/s/ Richard B. Stuart  
Richard B. Stuart  
President, CEO and Director  
(Principal Executive Officer)

Date: March 28, 2006

/s/ Jack M. Gertino  
Jack M. Gertino  
Secretary, CFO and Director  
(Principal Accounting Officer)

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Report of Independent Registered Public Accounting Firm

Board of Directors  
Comet Technologies, Inc.  
(A Development Stage Company)  
Salt Lake City, Utah

We have audited the accompanying balance sheet of Comet Technologies, Inc. (a development stage company) as of December 31, 2005 and the related statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2005 and 2004 and from inception on February 7, 1986 through December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Comet Technologies, Inc. (a development stage company) as of December 31, 2005, and the results of its operations and its cash flows for the years ended December 31, 2005 and 2004 and from inception on February 7, 1986 through December 31, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ HJ & Associates, LLC

HJ & Associates, LLC  
Salt Lake City, Utah  
March 17, 2006

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COMET TECHNOLOGIES, INC.  
(A Development Stage Company)  
Balance Sheet

| ASSETS   |    | December 31,<br>2005 |
|--|----|----------------------|
|  |    | -----                |
| CURRENT ASSETS   |    |                      |
| Cash and cash equivalents  | \$ | 95,981               |
|  |    | -----                |
| Total Current Assets   |    | 95,981               |
|  |    | -----                |
| TOTAL ASSETS   | \$ | 95,981               |
|  |    | =====                |
| LIABILITIES AND STOCKHOLDERS' EQUITY   |    |                      |
| CURRENT LIABILITIES  |    |                      |
| Account payable  | \$ | 586                  |
| Payable - related parties  |    | 18,000               |
|  |    | -----                |
| Total Current Liabilities  |    | 18,586               |
|  |    | -----                |
| TOTAL LIABILITIES  |    | 18,586               |
|  |    | -----                |
| STOCKHOLDERS' EQUITY   |    |                      |
| Preferred stock, \$0.001 par value, 5,000,000<br>shares authorized; none issued or outstanding   |    | -                    |
| Common stock, \$0.001 par value, 20,000,000<br>shares authorized; 507,290 issued and outstanding |    | 507                  |
| Capital in excess of par value   |    | 336,447              |
| Deficit accumulated during the development stage   |    | (259,559)            |
|  |    | -----                |
| Total Stockholders' Equity   |    | 77,395               |
|  |    | -----                |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY   | \$ | 95,981               |
|  |    | =====                |

The accompanying notes are an integral part of these financial statements.

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|  | For the Years Ended<br>December 31, |             | Inception on<br>February 7,<br>1986 through<br>December 31,<br>2005 |
|--|-------------------------------------|-------------|---|
|  | 2005                                | 2004        | 2005  |
| REVENUES   | \$ -                                | \$ -        | \$ -  |
| EXPENSES   |                                     |             |   |
| General and administrative                       | 48,461                              | 94,101      | 409,078   |
| Total Expenses                                   | 48,461                              | 94,101      | 409,078   |
| LOSS FROM OPERATIONS                             | (48,461)                            | (94,101)    | (409,078)   |
| OTHER INCOME                                     |                                     |             |   |
| Dividend income                                  | -                                   | -           | 5,493   |
| Interest income                                  | 1,057                               | 350         | 148,518   |
| Reimbursement of fees                            | -                                   | 2,158       | 2,158   |
| Unrealized loss from<br>marketable securities    | -                                   | -           | (6,650)   |
| Total Other Income                               | 1,057                               | 2,508       | 149,519   |
| NET LOSS   | \$ (47,404)                         | \$ (91,593) | \$ (259,559)  |
| BASIC LOSS PER SHARE                             | \$ (0.10)                           | \$ (0.20)   |   |
| WEIGHTED AVERAGE NUMBER OF<br>SHARES OUTSTANDING | 465,038                             | 449,750     |   |

The accompanying notes are an integral part of these financial statements.

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COMET TECHNOLOGIES, INC.  
(A Development Stage Company)  
Statements of Stockholders' Equity  
From Inception on February 7, 1986 through December 31, 2005

|              |            |             |
|--------------|------------|-------------|
| Common Stock | Capital in | Deficit     |
| -----        | Excess of  | Accumulated |
|              |            | During      |
|              |            | Development |

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|  | Shares  | Amount | Par Value  | Stage       |
|--|---------|--------|------------|-------------|
| Balance at Inception on<br>February 7, 1986  | -       | \$ -   | \$ -       | \$ -        |
| Issuance of 137,250 shares<br>of common stock to<br>officers, directors and<br>other individuals for<br>\$0.182 per share on<br>February 7, 1986 | 137,250 | 137    | 24,863     | -           |
| Public offering of the<br>Company's common stock<br>(Note 2)   | 312,500 | 313    | 249,687    | -           |
| Deferred offering costs<br>offset against capital<br>in excess of par value  | -       | -      | (32,841)   | -           |
| Net loss from inception<br>on February 7, 1986<br>through December 31, 1997  | -       | -      | -          | (41,568)    |
| Balance, December 31, 1997   | 449,750 | 450    | 241,709    | (41,568)    |
| Net loss for the year<br>ended December 31, 1998   | -       | -      | -          | (1,761)     |
| Balance, December 31, 1998   | 449,750 | 450    | 241,709    | (43,329)    |
| Net income for the year<br>ended December 31, 1999   | -       | -      | -          | 145         |
| Balance, December 31, 1999   | 449,750 | 450    | 241,709    | (43,184)    |
| Net loss for the year<br>ended December 31, 2000   | -       | -      | -          | (1,803)     |
| Balance, December 31, 2000   | 449,750 | 450    | 241,709    | (44,987)    |
| Net loss for the year<br>ended December 31, 2001   | -       | -      | -          | (7,412)     |
| Balance, December 31, 2001   | 449,750 | 450    | 241,709    | (52,399)    |
| Net loss for the year<br>ended December 31, 2002   | -       | -      | -          | (28,074)    |
| Balance, December 31, 2002   | 449,750 | \$ 450 | \$ 241,709 | \$ (80,473) |

The accompanying notes are an integral part of these financial statements.

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COMET TECHNOLOGIES, INC.  
(A Development Stage Company)  
Statements of Stockholders' Equity (continued)  
From Inception on February 7, 1986 through December 31, 2005

|   | Common Stock |        | Capital in | Deficit      |
|---|--------------|--------|------------|--------------|
|   | Shares       | Amount | Excess of  | Accumulated  |
|   |              |        | Par Value  | During       |
|   |              |        |            | Development  |
|   |              |        |            | Stage        |
| Balance, December 31, 2002  | 449,750      | \$ 450 | \$ 241,709 | \$ (80,473)  |
| Net loss for the year<br>ended December 31, 2003  | -            | -      | -          | (40,089)     |
| Balance, December 31, 2003  | 449,750      | 450    | 241,709    | (120,562)    |
| Net loss for the year<br>ended December 31, 2004  | -            | -      | -          | (91,593)     |
| Balance, December 31, 2004  | 449,750      | 450    | 241,709    | (212,155)    |
| Issuance of 40,510 shares<br>of common stock to officers<br>and directors under option<br>for \$1.50 per share on<br>September 26, 2005 for<br>related party indebtedness | 40,510       | 40     | 60,725     | -            |
| Issuance of 4,515 shares of<br>common stock to an officer<br>and director for related<br>party indebtedness for<br>\$2.00 per share on<br>September 26, 2005              | 4,515        | 4      | 9,026      | -            |
| Issuance of 12,500 shares<br>of common stock for cash<br>for \$2.00 per share   | 12,500       | 13     | 24,987     | -            |
| Adjustment for fractional<br>shares in 1-for-8 reverse<br>split   | 15           | -      | -          | -            |
| Net loss for the year<br>ended December 31, 2005  | -            | -      | -          | (47,404)     |
| Balance, December 31, 2005  | 507,290      | \$ 507 | \$ 336,447 | \$ (259,559) |

The accompanying notes are an integral part of these financial statements.



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COMET TECHNOLOGIES, INC.  
(A Development Stage Company)  
Statements of Cash Flows

|  | For the Years Ended<br>December 31, |             | From<br>Inception on<br>February 7,<br>1986 through<br>December 31,<br>2005 |
|--|-------------------------------------|-------------|---|
|  | 2005                                | 2004        | 2005  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                    |                                     |             |   |
| Loss from operations   | \$ (47,404)                         | \$ (91,593) | \$ (259,559)  |
| Adjustments to reconcile net loss<br>to net cash used by operating activities: |                                     |             |   |
| Amortization   | -                                   | -           | 301   |
| Change in operating assets and liabilities:                                    |                                     |             |   |
| Increase in taxes payable  | -                                   | -           | 300   |
| Increase in accounts payable   | 27,521                              | 30,860      | 88,080  |
|  | -----                               | -----       | -----   |
| Net Cash used by Operating Activities  | (19,883)                            | (60,733)    | (170,878)   |
|  | -----                               | -----       | -----   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                    |                                     |             |   |
|  | -                                   | -           | -   |
|  | -----                               | -----       | -----   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                    |                                     |             |   |
| Organizational costs   | -                                   | -           | (300)   |
| Sale of stock  | 25,000                              | -           | 25,000  |
| Net stock offering proceeds  | -                                   | -           | 242,159   |
|  | -----                               | -----       | -----   |
| Net Cash Provided by Financing Activities                                      | -                                   | -           | 266,859   |
|  | -----                               | -----       | -----   |
| INCREASE (DECREASE) IN CASH AND<br>CASH EQUIVALENTS                            | 5,117                               | (60,733)    | 95,981  |
| CASH AND CASH EQUIVALENTS<br>AT BEGINNING OF PERIOD                            | 90,864                              | 151,597     | -   |
|  | -----                               | -----       | -----   |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD                                     | \$ 95,981                           | \$ 90,864   | \$ 95,981   |
|  | =====                               | =====       | =====   |
| <b>CASH PAID FOR:</b>  |                                     |             |   |
| Taxes  | \$ -                                | \$ -        | \$ -  |
| Interest   | \$ -                                | \$ -        | \$ -  |
| <b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>                            |                                     |             |   |
| Common stock issue for settlement<br>of related party indebtedness             | \$ 69,795                           | \$ -        | \$ 69,795   |

The accompanying notes are an integral part of these financial statements

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COMET TECHNOLOGIES, INC.  
 (A Development Stage Company)  
 Notes to the Financial Statements  
 December 31, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The financial statements presented are those of Comet Technologies, Inc. (the Company). The Company was incorporated in the State of Nevada on February 7, 1986. The Company was incorporated for the purpose of providing a vehicle which could be used to raise capital and seek business opportunities believed to hold a potential for profit. The Company has not presently identified a specific business area or direction that it will follow. Therefore, no principal operations have yet begun.

b. Accounting Method

The Company's financial statements are prepared using the accrual method of accounting. The Company has adopted a calendar year end.

c. Basic Loss Per Share

The computation of basic loss per share of common stock is based on the weighted average number of shares issued and outstanding during the period of the financial statements as follows:

|  | December 31, |             |
|--|--------------|-------------|
|  | 2005         | 2004        |
| Numerator - loss   | \$ (47,404)  | \$ (91,593) |
| Denominator - weighted average number of<br>shares outstanding | 465,038      | 449,750     |
|  | -----        | -----       |
| Loss per share   | \$ (0.10)    | \$ (0.20)   |
|  | =====        | =====       |

d. Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

e. Provision for Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax assets are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

COMET TECHNOLOGIES, INC.  
 (A Development Stage Company)  
 Notes to the Financial Statements  
 December 31, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Provision for Taxes (Continued)

Net deferred tax assets consist of the following components as of December 31, 2005 and 2004:

|                           | 2005      | 2004      |
|---------------------------|-----------|-----------|
|                           | -----     | -----     |
| Deferred tax assets:      |           |           |
| NOL Carryover             | \$ 58,694 | \$ 51,860 |
| Accrued Expenses          | 7,249     | 23,735    |
| Deferred tax liabilities: | -         | -         |
| Valuation allowance       | (65,943)  | (75,595)  |
|                           | -----     | -----     |
| Net deferred tax asset    | \$ -      | \$ -      |
|                           | =====     | =====     |

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rates of 39% to pretax income from continuing operations for the years ended December 31, 2005 and 2004 due to the following:

|                                      | 2005        | 2004        |
|--------------------------------------|-------------|-------------|
|                                      | -----       | -----       |
| Book income                          | \$ (18,488) | \$ (35,720) |
| Other                                | (39)        | (39)        |
| Stock for related party indebtedness | 11,700      | -           |
| Valuation allowance                  | 6,827       | 35,759      |
|                                      | -----       | -----       |
|                                      | \$ -        | \$ -        |
|                                      | =====       | =====       |

At December 31, 2005, the Company had net operating loss carryforwards of approximately \$147,500 that may be offset against future taxable income from the year 2005 through 2025. No tax benefit has been reported in the December 31, 2005 consolidated financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carryforwards for Federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carryforwards may be limited as to use in future years.

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COMET TECHNOLOGIES, INC.  
(A Development Stage Company)  
Notes to the Financial Statements  
December 31, 2005 and 2004

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### f. 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.

## NOTE 2 - PUBLIC OFFERING OF UNITS

In July of 1986, the Company completed a public offering of 312,500 shares of its previously authorized but unissued common stock to the public. An offering price of \$0.80 per share was arbitrarily determined by the Company. Offering costs totaled \$32,841 and were offset against capital in excess of par value. The net proceeds to the Company from the offering were \$217,159, which equals \$250,000 minus offering costs of \$32,841.

## NOTE 3 - PREFERRED STOCK

None of the Company's authorized 5,000,000 shares of preferred stock is issued and outstanding and the Company currently has no plans to issue any preferred stock. The Company's board of directors has authority, without action by the shareholders, to issue all or any portion of the authorized but unissued preferred stock in one or more series and to determine the voting rights, preferences as to dividends and liquidation, conversion rights and other rights of such series. The preferred stock, if and when issued, may carry rights superior to those of the common stock.

## NOTE 4 - NEWLY ISSUED ACCOUNTING PRONOUNCEMENTS

During the year ended December 31, 2005, the Company adopted the following accounting pronouncements which had no impact on the financial statements or results of operations:

- . SFAS No. 154, Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3; and
- . SFAS No. 155, Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140.

## NOTE 5 - RELATED PARTY TRANSACTION

As of December 31, 2005, the Company owed \$18,000 to related parties for unpaid services rendered to the Company.

## Edgar Filing: COMET TECHNOLOGIES INC - Form 10KSB

Notes to the Financial Statements  
December 31, 2005 and 2004

### NOTE 6 - STOCK OPTIONS AND WARRANTS AND SALE OF STOCK

On March 11, 1999, the Company granted to each of its three (3) directors, options to purchase 25,000 shares of common stock each at an exercise price of \$1.50, which was the average of the bid and asked prices for the common stock on that date. The options are vested and expire in March 2009. The options were issued to compensate these persons for their services to the Company over the past 13 years, for which they had received no other compensation. The options of one of the directors, now deceased, have passed on to his estate.

On September 26, 2005, the Company's current officers and directors agreed to eliminate certain indebtedness owed to them through the exercise of certain stock options referenced above. Accordingly, one of the officers and directors exercised his stock options in full, for the conversion of a total of \$37,500 in indebtedness to him, into a total of 25,000 shares of restricted common stock at a price of \$1.50 per share. The other officer and director agreed to convert the entire obligation to him (\$23,265), into a total of 15,510 shares of common stock under his stock options at a price of \$1.50 per share. Because he did not exercise all of his stock options, he was reissued stock options to purchase a total of 9,490 shares at \$1.50 per share. One of the officers and directors above who was owed an additional \$9,030 converted such debt on the same date to 4,515 shares of restricted common stock at a price of \$2.00 per share.

To provide the Company with additional capital, the Company sold on the same date, to an unrelated party, a total of 12,500 shares of restricted common stock at a price of \$2.00 per share for total cash proceeds of \$25,000.

There is an outstanding warrant to purchase 6,250 shares of the Company's common stock held by an unrelated third party at an exercise price of \$1.50, which expires in March 2009.

### NOTE 7 - SUBSEQUENT EVENT

On January 28, 2006, an officer and director of the Company exercised his remaining stock options to purchase a total of 9,490 shares at \$1.50 per share.

Effective March 9, 2006, the Company effected a 1-for-8 reverse split of its issued and outstanding shares of common stock, following approval of such stock split by holders of a majority of the outstanding common stock. All figures in these financial statements give retroactive effect to the reverse split.