PROTON LABORATORIES INC
Form 10QSB
May 23, 2005

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

FORM 10-QSB

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2005

[_] Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ___ to ___

Commission file number: 000-31883

PROTON LABORATORIES, INC.
(Name of small business issuer in its charter)

Washington	91-2022700
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1135 Atlantic Avenue, Suite 101
Alameda, CA 94501
(Address of principal executive offices)

(510) 865-6412
Issuer's telephone number

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 [X] [ ] No

On May 9, 2005, the registrant had outstanding 13,022,500 shares of Common Stock, $0.0001 par value per share. However, 424,000 of those shares have not been certificated as of May 9, 2005.

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

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

PROTON LABORATORIES, INC.
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PROTON LABORATORIES, INC
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	MARCH 31, 2005	DECEMBER 2004
ASSETS		
CURRENT ASSETS		
Cash	$ 32,033	$ 14,
Accounts receivable, less allowance for doubtful accounts of $16,522	25,689	10,
Inventory	108,507	34,
Deposit	-	69,
Loan costs, net accumulated amortization of $9,025	18,050	
TOTAL CURRENT ASSETS	184,279	128,
PROPERTY AND EQUIPMENT		
Furniture and fixtures	18,438	18,
Equipment and machinery	159,357	95,
Leasehold improvements	11,323	10,
Less: accumulated depreciation	(24,559)	(19,
NET PROPERTY AND EQUIPMENT	164,559	105,
TOTAL ASSETS	$ 348,838	$ 233,
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$ 100,114	$ 134,
Accrued expenses	141,230	110,
Preferred dividends payable	4,800	3,
Note payable	164,000	
Stockholder loans, current portion	209,000	84,
TOTAL CURRENT LIABILITIES	619,144	332,
STOCKHOLDER LOANS, NET OF CURRENT PORTION	93,000	178,
STOCKHOLDERS' DEFICIT		
Series A convertible preferred stock, 400,000 shares authorized		

with a par value of $0.0001; 8,000 shares issued and outstanding; liquidation preference of $80,000	80,000	80,
Undesignated preferred stock, 19,600,000 shares authorized with a par value of $0.0001; no shares issued or outstanding	-	
Common stock, 100,000,000 common shares authorized with a par value of $0.0001; 13,022,500 and 12,975,000 shares issued and outstanding, respectively	1,304	1,
Additional paid in capital	1,377,686	1,350,
Accumulated deficit	(1,822,296)	(1,708,
TOTAL STOCKHOLDERS' DEFICIT	(363,306)	(276,
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 348,838	$ 233,

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

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PROTON LABORATORIES, INC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31,	2005	2004
SALES	$ 94,189	$ 76,020
COST OF GOODS SOLD	67,363	47,595
GROSS PROFIT	26,826	28,425
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	115,494	65,643
LOSS FROM OPERATIONS	(88,668)	(37,218)
OTHER INCOME AND (EXPENSE)		
Loss on disposal of property and equipment	-	-
Interest income	59	-
Interest expense	(23,584)	(1,835)
NET OTHER EXPENSE	(23,525)	(1,835)
NET LOSS	(112,193)	(39,053)
PREFERRED STOCK DIVIDEND	(1,600)	-
LOSS APPLICABLE TO COMMON SHAREHOLDERS	$ (113,793)	$ (39,053)
BASIC AND DILUTED LOSS PER		

COMMON SHARE	$ (0.01)	$ (0.00)
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	12,985,674	11,250,000

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

PROTON LABORATORIES, INC
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31,	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(112,193)	$ (39,053)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	5,399	2,393
Amortization of loan costs	9,025	-
Loss on disposal of property and equipment	181	-
Changes in operating assets and liabilities		
Accounts receivable	(15,056)	(21,421)
Inventory	(74,410)	(67,757)
Deposits	5,000	-
Accounts payable	(34,666)	(7,315)
Accrued expenses	30,668	17,721
NET CASH FROM OPERATING ACTIVITIES	(186,052)	(115,432)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(327)	(5,811)
NET CASH FROM INVESTING ACTIVITIES	(327)	(5,811)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	164,000	-
Proceeds from stockholder loans	40,000	125,000
Proceeds from sale of preferred stock	-	-
Proceeds from sale of common stock	-	-
NET CASH FROM FINANCING ACTIVITIES	204,000	125,000
NET INCREASE IN CASH	17,621	3,757
CASH AT BEGINNING OF PERIOD	14,412	4,423

CASH AT END OF PERIOD	$ 32,033	$ 8,180
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of deposit to property and equipment	$ 64,500	$ -
Issuance of common stock for loan costs	$ 27,075	$ -

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

PROTON LABORATORIES, INC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION AND NATURE OF OPERATIONS

BASIS OF PRESENTATION - The condensed consolidated financial statements include the accounts of Proton Laboratories, Inc., and its wholly owned subsidiary ("Proton" or the "Company"). All significant intercompany transactions and balances have been eliminated in consolidation.

In April 2004, the Company changed its name from BentleyCapitalCorp.com, Inc. to Proton Laboratories, Inc. The Company's subsidiary also changed its name from Proton Laboratorie-s, Inc. to Water Science, Inc.

CONDENSED FINANCIAL STATEMENTS - The accompanying unaudited condensed consolidated financial statements are condensed and, therefore, do not include all disclosures normally required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the Company's annual financial statements included in the Company's December 31, 2004 Annual Report on Form 10-KSB. In particular, the Company's significant accounting principles were presented as Note 1 to the consolidated financial statements in that report. In the opinion of management, all adjustments necessary for a fair presentation have been included in the accompanying condensed consolidated financial statements and consist of only normal recurring adjustments. The results of operations presented in the accompanying condensed consolidated financial statements for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2005.

NATURE OF OPERATIONS - The Company's operations are located in Alameda, California. The core business of the Company consists of the sales and marketing of the Company's industrial, environmental and residential systems throughout the United States of America which alter the properties of water to produce functional water. The Company acts as an exclusive importer and master distributor of these products to various companies. Additionally, the Company formulates intellectual properties under licensing agreements, supplies consumer products, consults on projects utilizing functional water, facilitates between manufacturer and industry and acts as educators on the benefits of functional water.

BASIC AND DILUTED LOSS PER COMMON SHARE - Basic loss per common share is calculated by dividing net loss by the weighted-average number of common shares outstanding. Diluted loss per common share is calculated by dividing net loss by the weighted-average number of Series A convertible preferred shares and common shares outstanding to give effect to potentially issuable common shares except during loss periods when those potentially issuable shares are anti-dilutive. Potential common shares from convertible preferred stock have not been included as they are anti-dilutive.

NOTE 2 - BUSINESS CONDITION

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The company has incurred losses applicable to common shareholders of $112,193 for the three months ended March 31, 2005. The Company had a working capital deficit of $434,865 and $203,900 at March 31, 2005 and December 31, 2004, respectively. Loans were required to fund operations.

The Company is working towards raising public funds to expand its marketing and revenues. The Company has spent considerable time in contracting with several major overseas corporations for the co-development of enhanced antioxidant beverages for distribution into the overseas markets. In addition, the Company is working with its Canadian business associates to identify institutional businesses to market various disinfection applications based upon functional water, pending government approval.

The Company's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flows to meet its obligations on a timely basis, to obtain additional financing as may be required, and ultimately to attain profitable operations. However, there is no assurance that profitable operations or sufficient cash flows will occur in the future.

NOTE 3 - RELATED PARTY TRANSACTIONS

During January 2005, a shareholder advanced the Company $40,000. This advance bears interest at 7% with principal and accrued interest due January 2007. At March 31, 2005 and December 31, 2004, the balance in the loans from two shareholders was $302,000 and $262,000, respectively. Of these loans, $262,000 is from the Company's president. These advances bear interest at 7% with principal and accrued interest due between November 2005 and January 2007. At March 31, 2005 and December 31, 2004, the accrued interest was $30,505 and $15,946, respectively.

During the three months ended March 31, 2005, the Company accrued $15,000 as salaries payable to the president resulting in $90,000 of salaries payable at March 31, 2005.

NOTE 4 - NOTES PAYABLE

In March 2005 the Company issued a note payable in the amount of $164,000. The note is due in May 2005 and is secured by inventory. The Company has also agreed to pay $28,500, or approximately 106% per annum in interest. At March 31, 2005 $9,500 of interest had been accrued. In addition, the Company issued the lender 47,500 shares of common stock, which was recorded as a $27,075 loan costs and is being amortized over the term of the note.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS.

FORWARD-LOOKING STATEMENT

Certain statements contained in this report, including, without limitation, statements containing the words, "believes," "anticipates," "expects," and other words of similar meaning, constitute "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. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. We disclaim any obligation to update any such factors or to announce publicly the results of any revision of the forward-looking statements contained or incorporated by reference herein to reflect future events or developments. In addition to the forward-looking statements contained in this Form 10-QSB, the following forward-looking factors could cause our future results to differ materially from our forward-looking statements: competition, funding, government compliance and market acceptance of our products.

INTRODUCTION

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the audited financial statements and accompanying notes and the other financial information appearing in our annual report on Form 10-KSB for the year ended December 31, 2004. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the U.S.A., which contemplate our continuation as a going concern.

Our independent auditors made a going concern qualification in their report dated March 7, 2005 (contained in our annual report on Form 10-KSB for the year ended December 31, 2004), which raises substantial doubt about our ability to continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should we be unable to continue in existence. Our ability to continue as a going concern is dependent upon our ability to generate sufficient cash flows to meet our obligations on a timely basis, to obtain additional financing as may be required, and ultimately to attain profitable operations. However, there is no assurance that profitable operations or sufficient cash flows will occur in the future.

We have incurred a net loss $112,193 during the three months ended March 31, 2005. We have incurred net losses of $965,840 in 2004 and $217,333 in 2003. We had an accumulated working capital deficit of $434,865 at March 31, 2005. This condition raises a substantial doubt about our ability to continue as a going concern.

Our operations are located in Alameda, California. Our business consists of the sales and marketing of the industrial, environmental and residential systems throughout the U.S.A. which alter the properties of water to produce functional water. We act as an exclusive importer and master distributor of these products to various companies in which uses for the product range from food processing to retail water sales.

We formulate intellectual properties under licensing agreements; supply consumer products; consult on projects utilizing functional water; facilitate usage, uses and users of functional water between manufacturer and industry; and act as educators on the benefits of functional water. Our business has been focused on marketing functional water equipment and systems.
Alkaline-concentrated functional water may have health-beneficial properties and

may be used for drinking and cooking purposes. Acidic-concentrated functional water may be used as a topical, astringent medium

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions provide a basis for us to make judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions, and these differences may be material.

We recognize revenue when all four of the following criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is both fixed and determinable and; (iv) collectibility is reasonably probable. Our revenues are derived from sales of our industrial, environmental and residential systems which alter the properties of water to produce functional water. We believe that this critical accounting policy affects our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Our fiscal year end is December 31.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2005 and 2004

We had revenue of $94,189 for the three months ended March 31, 2005 compared to revenue of $76,020 for the three months ended March 31, 2004. This increase in revenue was due primarily to our hiring a sales manager in 2004.

We had a net loss $112,193 for the three months ended March 31, 2005 compared to a net loss of $39,053 for the three months ended March 31, 2004. This increase in net loss was due primarily to our increase marketing and payroll costs.

Cash used by operating activities was $186,052 for the three months ended March 31, 2005 compared to cash used by operating activities of $115,432 for the three months ended March 31, 2004. This increase in cash used by operating activities was due primarily to increased marketing and payroll costs.

LIQUIDITY

As of March 31, 2005, we had cash on hand of $32,033. Our growth is dependent on attaining profit from our operations, or our raising additional capital either through the sale of stock or borrowing. There is no assurance that we will be able to raise any equity financing or sell any our products at a profit.

During the three months ended March 31, 2005, a shareholder advanced us $40,000. This advance bears interest at 7% with principal and accrued interest due January 2007. At March 31, 2005 and December 31, 2004, the balance in the shareholder loans was $302,000 and $262,000, respectively. These advances bear interest at 7% with principal and accrued interest due between November 2005 and

January 2007. At March 31, 2005 and December 31, 2004, the accrued interest was $30,505 and $15,946, respectively. These loans are due on dates November 2005 through January 2007.

During the three months ended March 31, 2005, we issued a note payable in the amount of $164,000. We use these loans to fund our operations. The note is due in May 2005 and is secured by inventory. We have also agreed to pay $28,500, or approximately 106% per annum in interest. At March 31, 2005, $9,500 of interest had been accrued. In addition, we issued the lender 47,500 shares of common stock, which was recorded as a $27,075 loan cost and is being amortized over the term of the note.

During the three months ended March 31, 2005, we accrued $15,000 as salaries payable to the president resulting in $90,000 of salaries payable at March 31, 2005.

FUTURE CAPITAL REQUIREMENTS

Our growth is dependent on attaining profit from our operations, or our raising additional capital either through the sale of stock or borrowing. There is no assurance that we will be able to raise any equity financing or sell any of our products at a profit.

Our future capital requirements will depend upon many factors, including:

- The cost to acquire equipment to resell.

- The cost of sales and marketing our products.

- The rate at which we expand our operations.

- The results of our consulting business.

- The response of competitors.

ITEM 3. CONTROLS AND PROCEDURES.

(a) Evaluation of disclosure controls and procedures.

Based on their evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")), our principal executive officer and principal financial officer have concluded that as of the end of the period covered by this quarterly report on Form 10-QSB such disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in internal control over financial reporting.

During the quarter under report, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The evaluation of our disclosure controls included a review of whether there were any significant deficiencies in the design or operation of such controls and procedures, material weaknesses in such controls and procedures, any corrective actions taken with regard to such deficiencies and weaknesses and any fraud involving management or other employees with a significant role in such controls and procedures.

There have been no changes in our internal control over financial reporting.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibit Number	Exhibit Name
31.1	Certification pursuant to Section 13a-14 of CEO
31.2	Certification pursuant to Section 13a-14 of CFO
32.1	Certification pursuant to Section 1350 of CEO
32.2	Certification pursuant to Section 1350 of CFO

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in Alameda, California.

PROTON LABORATORIES, INC.

May 23, 2005

By: /s/ Edward Alexander
Edward Alexander
Director, Chief Executive Officer, President and
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Exhibit Name
31.1	Certification pursuant to Section 13a-14 of CEO
31.2	Certification pursuant to Section 13a-14 of CFO
32.1	Certification pursuant to Section 1350 of CEO
32.2	Certification pursuant to Section 1350 of CFO