PROTON LABORATORIES INC
Form 10QSB
August 20, 2004

United States
Securities and Exchange Commission
Washington, D. C. 20549

Form 10-QSB

(Mark One)

[X] Quarterly Report Under Section 13 or 15(d) Of The Securities Exchange Act of 1934 for the Quarter Ended June 30, 2004.

[_] Transition Report Under Section 13 or 15(d) off the Securities Exchange Act of 1934

For The Transition Period From _____ To ______

Commission File No. 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.)

1150 Marina Village Parkway, Suite 103
Alameda, Ca 94501
(510) 865-6412
(Address Of Principal Executive Offices, Telephone Number)

As of August 18, 2004, there were 11,250,000 shares of common stock outstanding.

Transitional Small Business Disclosure Format |_| Yes |X| No

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	JUNE 30, 2004	DECEMBER 31, 2003
ASSETS		
CURRENT ASSETS		
Cash	$ 7,959	$ 4,423
Accounts receivable, less allowance for doubtful accounts of $10,092	32,527	24,583
Inventory	93,865	27,800
TOTAL CURRENT ASSETS	134,351	56,806
PROPERTY AND EQUIPMENT		
Furniture and fixtures	5,304	4,670
Equipment and machinery	58,150	43,724
Leasehold improvements	1,886	1,886
Less: accumulated depreciation	(16,921)	(11,672)
NET PROPERTY AND EQUIPMENT	48,419	38,608
TOTAL ASSETS	$ 182,770	$ 95,414
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$ 167,655	$ 197,576
Accrued expenses	51,206	15,735
TOTAL CURRENT LIABILITIES	218,861	213,311
LONG TERM LIABILITIES - STOCKHOLDER LOAN	249,000	84,000
STOCKHOLDERS' DEFICIT		
Series A convertible preferred stock, 400,000 shares authorized with a par value of $0.0001; no shares issued or outstanding	-	-
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; 11,250,000 shares issued and outstanding	1,126	1,126
Additional paid-in capital	536,440	536,440
Accumulated deficit	(822,657)	(739,463)
TOTAL STOCKHOLDERS' DEFICIT	(285,091)	(201,897)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 182,770	$ 95,414

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

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MO[NTHS ENDED] JUNE 3[0,]
	2004	2003	2004
SALES	$ 81,985	$ 63,674	$ 158,005
COST OF GOODS SOLD	25,375	20,424	72,970
GROSS PROFIT	56,610	43,250	85,035
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	97,115	57,614	162,758
LOSS FROM OPERATIONS	(40,505)	(14,364)	(77,723)
INTEREST EXPENSE	3,636	-	5,471
NET LOSS	$ (44,141)	$ (14,364)	$ (83,194)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.00)	$ (0.00)	$ (0.01)
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	11,250,000	11,250,000	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 SIX MONTHS ENDED JUNE 30	2004	2003

CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (83,194)	$(54,455)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	5,249	3,756
Fair value of officer services	-	30,000
Changes in operating assets and liabilities		
Accounts receivable	(7,944)	4,954
Inventory	(66,065)	3,926
Accounts payable	(29,921)	17,671
Accrued expenses	35,471	(183)
Deferred revenue	-	-
NET CASH FROM OPERATING ACTIVITIES	(146,404)	5,669
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(15,060)	-
NET CASH FROM INVESTING ACTIVITIES	(15,060)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from stockholder loans	165,000	-
Capital contributions	-	-
NET CASH FROM FINANCING ACTIVITIES	165,000	-
NET INCREASE IN CASH	3,536	5,669
CASH AT BEGINNING OF PERIOD	4,423	1,385
CASH AT END OF PERIOD	$ 7,959	$ 7,054

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, 2003 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 six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2004.

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.

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 net losses of $44,141 and $83,194 for the three and six months ended June 30, 2004, respectively. The Company had a working capital deficit of $84,510 and $156,505 at June 30, 2004 and December 31, 2003, respectively. Loans from the Company's president were required to fund operations.

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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 the six months ended June 30, 2004, the Company's president and majority shareholder advanced the Company $165,000. At June 30, 2004 and December 31, 2003, the balance in the shareholder loans was $249,000 and $84,000, respectively. These advances bear interest at 7% with principal and accrued interest due November 2005. At June 30, 2004 and December 31, 2003, the accrued interest was $6,206 and $735.

During the six months ended June 30, 2004, the Company accrued $30,000 as salaries payable to the president resulting in $45,000 of salaries payable at June 30, 2004. During the six months ended June 30, 2003, the president did not receive any amounts related to his salary. The Company determined that the fair value of these services was $30,000. Thus the Company recorded a salary expense and contributed capital for the fair value of the president's services.

NOTE 4 - PREFERRED STOCK

During May 2004, the Company designated 400,000 shares of the preferred stock as Series A convertible preferred stock.

The holders of Series A convertible preferred stock are entitled to a cumulative dividend of 8% per year in cash payable in arrears.

The holders of Series A convertible preferred stock may convert any or all of their shares plus all accrued dividends on the preferred stock into common stock at any time. Each share of preferred stock may be converted into 5 shares of common stock. The holder will receive one share of common stock for $2 of accrued dividends.

Upon the liquidation, dissolution or winding up of the Company, holders of Series A convertible preferred stock, are entitled to receive, out of legally available assets, a liquidation preference of $10 per share, plus an amount equal to any unpaid dividends through the payment date, before any payment or distribution was made to holders of common stock. The holders of Series A convertible preferred stock are not entitled to vote.

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, of 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 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 unaudited financial statements and accompanying notes and the other financial information appearing elsewhere in this Form 10-QSB. The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate our continuation 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 United States of America 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 between manufacturer and industry and act as educators on the benefits of functional water.

Our independent auditors made a going concern qualification in their report dated March 12, 2004, which raises substantial doubt about our ability to continue as a going concern. Our revenue decreased during 2003. During the quarter ended June 30, 2004, our revenue increased compared to the quarter ended June 30, 2003. During 2003 our president contributed funds to us to fund operations. There is a 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 are working towards raising funds to expand our marketing and revenues. We have spent considerable time in contracting with several major overseas corporations for the co-development of enhanced antioxidant beverages for distribution into the overseas markets. We are working with our Canadian business associates to identify institutional businesses to market various disinfection applications based upon functional water, pending government approval.

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.

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.

During the period from March 14, 2000 through November 15, 2002, prior to our acquisition of Proton Laboratories LLC in November 2002, we did not engage in significant operations other than organizational activities, acquisition of the rights to market the products of Vitamineralherb.com, the preparation for registration of our securities under the Securities Act and capital raising. No revenues were received by us during that period. However, Vitamineralherb.com has ceased operating a Web site which makes it unlikely that we will ever do any business with Vitamineralherb.com.

We operate through our own name, Proton Laboratories, Inc. and through the name of our wholly-owned subsidiary Water Science, Inc. In November 2002, we acquired Proton Laboratories, LLC, which is active in the functional water business. This acquisition was reported in detail on our Form 8-K for the event dated November 15, 2002 as filed with the Commission on November 25, 2002. Proton Laboratories, LLC is now known as Water Science, Inc., our wholly-owned subsidiary. Since our acquisition of Proton Laboratories LLC in November 2002, 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.

Our fiscal year end is December 31.

RESULTS OF OPERATIONS--Quarters ended June 30, 2004 and 2003.

We had revenue of $81,985 for the quarter ended June 30, 2004, compared to revenue of $63,674 for the quarter ended June 30, 2003.

We had a net loss of $44,141 for the quarter ended June 30, 2004, compared to a net loss of $14,364 for the quarter ended June 30, 2003.

Our SG&A expenses were $97,115 for the quarter ended June 30, 2004, compared to $57,614 for the quarter ended June 30, 2003.

RESULTS OF OPERATIONS--Six months ended June 30, 2004 and 2003.

We had revenue of $158,005 for the six months ended June 30, 2004, compared to revenue of $127,400 for the quarter ended June 30, 2003.

We had a net loss of $83,194 for the six months ended June 30, 2004, compared to a net loss of $54,455 for the quarter ended June 30, 2003.

Net cash used by operating activities was $146,404 for the six months ended June 30, 2004, compared to cash provided by operating activities of $5,669 for the six months ended June 30, 2003.

Our SG&A expenses were $162,758 for the six months ended June 30, 2004, compared to $125,503 for the six months ended June 30, 2003.

We are currently seeking funds to expand our marketing and revenues. We have spent considerable time in contracting with several major overseas corporations for the co-development of enhanced antioxidant beverages for distribution into the overseas markets. We are working with Canadian business associates to identify institutional businesses to market various disinfection applications based upon functional water, pending government approval. Our business is 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.

LIQUIDITY

As of June 30, 2004, we had cash on hand of $7,959. 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 six months ended June 30, 2004, our president advanced to us the amount of $165,000 in cash. This advance accrues interest at the rate of 7% per annum and is due in November 2005. At June 30, 2004, the aggregate balance we owe on loans from shareholders is $ 249,000. These loans accrues interest at the rate of 7% per annum and are due in November 2005.

During the six months ended June 30, 2004, we accrued $30,000 as salaries payable to Mr. Alexander resulting in an aggregate of $45,000 of salaries payable to Mr. Alexander at June 30, 2004. During the six months ended June 30, 2003, Mr. Alexander did not receive or accrue any amounts related to his salary. We determined that the fair value of these services was $30,000. Thus we recorded a salary expense and contributed capital for the fair value of the president's services.

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 following:

- 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 the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")), the Company's 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 the Company in reports that it files or submits 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.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities.

On May 19, 2004, our Board of Directors approved an amendment to our articles of incorporation that created our new Series A Preferred Stock. Shareholder action was not required. This amendment was then filed with the Secretary of State of Washington on May 28, 2004. We received a file-stamped copy of the amendment later in June 2004. We previously reported the details of our Series A Preferred Stock in our Form 8-K file July 09, 2004 and dated May 28, 2004. As of the date of filing this Form 10-QSB, we have not sold or issued any Series A Preferred Stock. We may sell shares of our Series A Preferred Stock in the future.

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 and Reports on Form 8-K.

(a) Exhibits.

Exhibit 31.1 Certification.

Exhibit 31.2 Certification.

Exhibit 32.1 Certification.

Exhibit 32.2 Certification.

(b) Reports on Form 8-K.

On April 14, 2004 we filed a Form 8-K dated March 16, 2004 reporting Item 5. Other Events and Item 6. Financial Statements and Exhibits.

On April 15, 2004 we filed a Form 8-K dated April 15, 2004 reporting Item 5. Other Events and Item 7. Financial Statements and Exhibits.

On July 9, 2004 we filed a Form 8-K dated May 28, 2004 reporting Item 3.03. Material Modification to Rights of Security Holders, Item 5.03. Amendments to Articles of Incorporation or Bylaws and Item 7.01. Financial Statements And Exhibits.

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.

Proton Laboratories, Inc.

Date August 18, 2004 (signed) ____________________________

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