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PROTON LABORATORIES INC
Form 10QSB
August 19, 2005

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

FORM 10-QSB

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

For the quarterly period ended June 30, 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 (I.R.S. Employer
incorporation or organization) 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 No

On August 17, 2005, the registrant had outstanding 14,270,100 shares of Common Stock, \$0.0001 par value per share, of which 147,500 shares have not been certificated yet.

Transitional Small Business Disclosure Format: Yes 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, 2005 | December 31 2004 |
|---|------------------|---------------------|
| <hr/> | | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 60,763 | \$ 14,41 |
| Accounts receivable, less allowance for doubtful accounts of \$16,522 | 11,865 | 10,63 |
| Inventory | 100,778 | 34,09 |
| <hr/> | | |
| TOTAL CURRENT ASSETS | 173,406 | 59,14 |
| <hr/> | | |
| PROPERTY AND EQUIPMENT | | |
| Furniture and fixtures | 18,438 | 18,43 |
| Equipment and machinery | 159,357 | 95,03 |
| Leasehold improvements | 11,323 | 10,99 |
| Deposit on equipment | - | 69,50 |
| Less: accumulated depreciation | (29,974) | (19,16) |
| NET PROPERTY AND EQUIPMENT | 159,144 | 174,81 |
| <hr/> | | |
| TOTAL ASSETS | \$ 332,550 | \$ 233,95 |
| <hr/> | | |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 110,593 | \$ 134,78 |
| Accrued expenses | 185,975 | 110,56 |
| Deferred revenue | 52,506 | |
| Preferred dividends payable | 6,400 | 3,20 |
| Note payable | 164,000 | |
| Stockholder loans, current portion | 249,000 | 84,00 |
| <hr/> | | |
| TOTAL CURRENT LIABILITIES | 768,474 | 332,54 |
| <hr/> | | |
| STOCKHOLDER LOANS, NET OF CURRENT PORTION | 53,000 | 178,00 |
| <hr/> | | |
| 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 | 80,00 |
| Undesignated preferred stock, 19,600,000 shares authorized with a | | |

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| | | |
|--|-------------|-----------|
| 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; 14,170,100 and 12,975,000 shares issued and outstanding, respectively | 1,419 | 1,29 |
| Additional paid in capital | 1,836,611 | 1,350,61 |
| Accumulated deficit | (2,406,954) | (1,708,50 |
| <hr style="border-top: 1px dashed black;"/> | | |
| TOTAL STOCKHOLDERS' DEFICIT | (488,924) | (276,58 |
| <hr style="border-top: 1px dashed black;"/> | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 332,550 | \$ 233,95 |
| <hr style="border-top: 1px dashed black;"/> | | |

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 JUNE 30, | | FOR THE SIX JUN |
|--|--|-------------|--------------------|
| | 2005 | 2004 | 2005 |
| <hr style="border-top: 1px dashed black;"/> | | | |
| SALES | \$ 63,521 | \$ 81,985 | \$ 157,710 |
| COST OF GOODS SOLD | 33,499 | 25,375 | 100,862 |
| <hr style="border-top: 1px dashed black;"/> | | | |
| GROSS PROFIT | 30,022 | 56,610 | 56,848 |
| <hr style="border-top: 1px dashed black;"/> | | | |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 563,886 | 97,115 | 679,380 |
| <hr style="border-top: 1px dashed black;"/> | | | |
| LOSS FROM OPERATIONS | (533,864) | (40,505) | (622,532) |
| <hr style="border-top: 1px dashed black;"/> | | | |
| OTHER INCOME AND (EXPENSE) | | | |
| Interest income | 41 | - | 100 |
| Interest expense | (49,235) | (3,636) | (72,819) |
| <hr style="border-top: 1px dashed black;"/> | | | |
| NET OTHER EXPENSE | (49,194) | (3,636) | (72,719) |
| <hr style="border-top: 1px dashed black;"/> | | | |
| NET LOSS | (583,058) | (44,141) | (695,251) |
| PREFERRED STOCK DIVIDEND | 1,600 | - | 3,200 |
| <hr style="border-top: 1px dashed black;"/> | | | |
| LOSS APPLICABLE TO COMMON SHAREHOLDERS | \$ (584,658) | \$ (44,141) | \$ (698,451) |
| <hr style="border-top: 1px dashed black;"/> | | | |
| BASIC AND DILUTED LOSS PER COMMON SHARE | \$ (0.04) | \$ (0.00) | \$ (0.05) |
| <hr style="border-top: 1px dashed black;"/> | | | |

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| | | | |
|------------------------------------|------------|------------|------------|
| BASIC AND DILUTED WEIGHTED AVERAGE | | | |
| SHARES OUTSTANDING | 13,362,997 | 11,250,000 | 13,176,132 |

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

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

| FOR THE SIX MONTHS ENDED JUNE 30, 2005 | 2005 | 2004 |
|---|--------------|-------------|
| <hr style="border-top: 1px dashed black;"/> | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (695,251) | \$ (83,194) |
| Shares issued for director services | 52,640 | - |
| Shares issued for consulting services | 406,400 | - |
| Adjustments to reconcile net loss to cash used in operating activities: | | |
| Depreciation | 10,814 | 5,249 |
| Amortization of loan costs | 27,075 | - |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (1,232) | (7,944) |
| Inventory | (66,681) | (66,065) |
| Deposits | 5,000 | - |
| Deferred revenue | 52,506 | - |
| Accounts payable | (24,187) | (29,921) |
| Accrued expenses | 75,413 | 35,471 |
| <hr style="border-top: 1px dashed black;"/> | | |
| NET CASH FROM OPERATING ACTIVITIES | (157,503) | (146,404) |
| <hr style="border-top: 1px dashed black;"/> | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (146) | (15,060) |
| <hr style="border-top: 1px dashed black;"/> | | |
| NET CASH FROM INVESTING ACTIVITIES | (146) | (15,060) |
| <hr style="border-top: 1px dashed black;"/> | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from notes payable | 164,000 | - |
| Proceeds from stockholder loans | 40,000 | 165,000 |
| <hr style="border-top: 1px dashed black;"/> | | |
| NET CASH FROM FINANCING ACTIVITIES | 204,000 | 165,000 |
| <hr style="border-top: 1px dashed black;"/> | | |
| NET INCREASE IN CASH | 46,351 | 3,536 |
| <hr style="border-top: 1px dashed black;"/> | | |
| CASH AT BEGINNING OF PERIOD | 14,412 | 4,423 |
| <hr style="border-top: 1px dashed black;"/> | | |
| CASH AT END OF PERIOD | \$ 60,763 | \$ 7,959 |
| <hr style="border-top: 1px dashed black;"/> | | |

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NON-CASH INVESTING AND FINANCING ACTIVITIES:

| | | |
|---|-----------|------|
| Issuance of common stock for loan costs | \$ 27,075 | \$ - |
| Accrual of preferred stock dividends | \$ 3,200 | \$ - |

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

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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 six months ended June 30, 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.

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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 \$698,451 for the six months ended June 30, 2005. The Company had a working capital deficit of \$595,068 and \$273,400 at June 30, 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. At June 30, 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 June 30, 2005 and December 31, 2004, the accrued interest was \$61,650 and \$15,946, respectively.

During the six months ended June 30, 2005, the Company accrued \$30,000 as salaries payable to the president resulting in \$124,325 of salaries payable at June 30, 2005.

NOTE 4 - NOTES PAYABLE

In March 2005 the Company issued a note payable in the amount of \$164,000, which is secured by inventory. The note was due in May 2005 and is currently in default. At June 30, 2005 \$28,500 of interest, and \$6,875 of penalty interest, had been accrued as it relates to the note payable. Until the loan is repaid, the note accrues interest at 30% per annum. In addition, the Company issued the lender 47,500 shares of common stock, which was recorded as a \$27,075 loan costs and is amortized over the term of the note. At June 30, 2005, the loan costs were fully amortized.

NOTE 5 - COMMON STOCK

During the six month ended June 30, 2005, the Company issued 131,600 shares of its common stock to a director for compensation of services. The shares were valued at \$52,640 based on the market value of the Company's stock on the date of issuance.

In June 2005, the Company issued 1,016,000 of its common stock to consultants for services. The shares were valued at \$406,400 based on the market value of the Company's stock on the date of issuance.

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NOTE 6 - COMMITMENTS

In June 2005, the Company entered into an agreement with Mitachi, a Japanese electronics component manufacturer, to aid in the production of enhanced drinking water generators. Pursuant to this agreement, Mitachi agreed to pay the Company 25,000,000 Yen for engineering design, molding, tooling and preparation costs, and the exclusive product distribution rights for China, Taiwan, and Japan. As of June 30, 2005, Mitachi had paid 6,000,000 Yen, or \$52,506 for the above mentioned distribution rights. Since the project is not yet completed and no units have been sold, this amount is classified as deferred revenue.

NOTE 7 - SUBSEQUENT EVENTS

During July 2005, the Company sold 100,000 shares of its common stock to an investor for \$0.20 per share.

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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

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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 incurred net losses applicable to common shareholders of \$698,451 for the six months ended June 30, 2005. We have incurred net losses of \$965,840 for the year ended December 31, 2004, and \$217,333 for the year ended December 31, 2003. We had a working capital deficit of \$595,068 at June 30, 2005 and \$273,400 at December 31, 2004. Loans were required to fund operations. This condition raises a substantial doubt about our ability to continue as a going concern.

We are working towards raising public 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. In addition, 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 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.

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

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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 SIX MONTHS ENDED JUNE 30, 2005 and 2004

We had revenue of \$157,710 for the six months ended June 30, 2005 compared to revenue of \$158,005 for the six months ended June 30, 2004.

We had a net loss of \$695,251 for the six months ended June 30, 2005 compared to a net loss of \$83,194 for the six months ended June 30, 2004. This increase in net loss was due primarily to: an increase in SG&A due to our compensating consultants with our common stock; an increase in cost of goods sold; and an increase in interest expense.

Net cash used by operating activities was \$157,503 for the six months ended June 30, 2005 compared to cash used by operating activities of \$146,404 for the Six months ended June 30, 2004.

LIQUIDITY

As of June 30, 2005, we had cash on hand of \$60,763. 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 January 2005, a shareholder advanced us \$40,000. The balance of the loans from two shareholders was

\$302,000 at June 30, 2005, and \$262,000 at December 31, 2004. Of these loans, \$262,000 is from our president. These advances bear interest at 7% with principal and accrued interest and are due between November 2005 and January 2007. The accrued interest was \$61,650 at June 30, 2005 and \$15,946 at December 31, 2004.

During the six months ended June 30, 2005, the Company accrued \$30,000 as salaries payable to the president resulting in \$124,325 of salaries payable at June 30, 2005.

In March 2005 we issued a note payable in the amount of \$164,000, which is secured by inventory. The note was due in May 2005 and is currently in default. At June 30, 2005 \$28,500 of interest, and \$6,875 of penalty interest, had been accrued as it relates to the note payable. Until the loan is repaid, the note accrues interest at 30% per annum. In addition, we issued the lender 47,500 shares of common stock, which was recorded as a \$27,075 loan costs and is amortized over the term of the note. At June 30, 2005, the loan costs were fully amortized.

During the six months ended June 30, 2005, we accrued \$30,000 as salaries

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payable to the president resulting in \$124,325 of salaries payable at June 30, 2005.

During the six month ended June 30, 2005, we issued 131,600 shares of common stock to a director for compensation of services. The shares were valued at \$52,640 based on the market value of the Company's stock on the date of issuance.

In June 2005, we issued 1,016,000 of its common stock to consultants for services. The shares were valued at \$406,400 based on the market value of our stock on the date of issuance.

During July 2005, we sold 100,000 shares of its common stock to an investor for \$0.20 per share.

In June 2005, we entered into an agreement with Mitachi, a Japanese electronics component manufacturer, to aid in the production of enhanced drinking water generators. Pursuant to this agreement, Mitachi agreed to pay us 25,000,000 Yen for engineering design, molding, tooling and preparation costs, and the exclusive product distribution rights for China, Taiwan, and Japan. As of June 30, 2005, Mitachi had paid to us 6,000,000 Yen, or \$52,506, in conjunction with the agreement. Since the project is not yet completed and no units have been sold, this amount is classified as deferred revenue.

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

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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.

The following transaction was made in reliance on exemptions from registration under Section 4(2) of the Securities Act. Each certificate issued for unregistered securities contained a legend stating that the securities have not been registered under the Securities Act and setting forth the restrictions on the transferability and the sale of the securities. No underwriter participated in, nor did we pay any commissions or fees to any underwriter in connection with any of these transactions.

In August 2005, we sold 100,000 shares of common stock to one investor at a price of \$0.20 per share. We issued these securities in reliance on Section 4(2) of the Securities Act. This transaction did not involve a public offering. The investor was knowledgeable about our operations and financial condition. The investor had knowledge and experience in financial and business matters that allowed him to evaluate the merits and risk of receipt of these securities.

In March 2005 we issued a note payable in the amount of \$164,000. As additional consideration for receiving this loan, we issued the lender 47,500 shares of common stock which was recorded as a \$27,075 loan costs and is amortized over the term of the note. At June 30, 2005, the loan costs were fully amortized. We issued these securities in reliance on Section 4(2) of the Securities Act. This transaction did not involve a public offering. The investor was knowledgeable about our operations and financial condition. The investor had knowledge and experience in financial and business matters that allowed him to evaluate the merits and risk of receipt of these securities.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

In March 2005, we issued a note payable in the amount of \$164,000, which is secured by inventory. The note was due in May 2005 and is currently in default. At June 30, 2005 \$28,500 of interest, and \$6,875 of penalty interest, had been accrued as it relates to the note payable. Until the loan is repaid, the note accrues interest at 30% per annum. In addition, we issued the lender 47,500 shares of common stock, which was recorded as a \$27,075 loan costs and is amortized over the term of the note. At June 30, 2005, the loan costs were fully amortized.

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

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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.

August 19, 2005

By: /s/ Edward Alexander
Edward Alexander
Director, Chief Executive Officer, 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 |