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PROTON LABORATORIES INC
Form 10QSB
May 21, 2004

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

Form 10-QSB

(Mark One)

☒ Quarterly Report Under Section 13 or 15(d) Of The Securities Exchange Act
Of 1934 For The Quarter Ended March 31, 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
(State or Other Jurisdiction of
Incorporation or Organization)

91-2022700
(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 May 13, 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.
TABLE OF CONTENTS

	PAGE
Condensed Consolidated Balance Sheets - March 31, 2004 and December 31, 2003 (Unaudited).	F-1
Condensed Consolidated Statements of Operations for the three months ended March 31, 2004 and 2003 (Unaudited).	F-2
Condensed Consolidated Statements of Cash Flows for the three months	

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Ended March 31, 2004 and 2003 (Unaudited).

F-3

Notes to Condensed Consolidated Financial Statements

F-4

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

	MARCH 31, 2004	DECEMBER 31, 2003
=====		
ASSETS		
CURRENT ASSETS		
Cash	\$ 8,180	\$ 4,423
Accounts receivable, less allowance for doubtful accounts of \$10,092	46,004	24,583
Inventory	95,557	27,800

TOTAL CURRENT ASSETS	149,741	56,806

PROPERTY AND EQUIPMENT		
Furniture and fixtures	5,304	4,670
Equipment and machinery	48,901	43,724
Leasehold improvements	1,886	1,886
Less: accumulated depreciation	(14,065)	(11,672)

NET PROPERTY AND EQUIPMENT	42,026	38,608

TOTAL ASSETS	\$ 191,767	\$ 95,414
=====		
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	\$ 190,261	\$ 197,576
Accrued expenses	33,456	15,735

TOTAL CURRENT LIABILITIES	223,717	213,311

LONG TERM LIABILITIES- STOCKHOLDER LOAN	209,000	84,000

STOCKHOLDERS' DEFICIT		
Preferred stock, 20,000,000 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	(778,516)	(739,463)

TOTAL STOCKHOLDERS' DEFICIT	(240,950)	(201,897)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 191,767	\$ 95,414
=====		

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

F-1

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

FOR THE THREE MONTHS ENDED MARCH 31	2004	2003
=====	=====	=====
SALES	\$ 76,020	\$ 63,726
COST OF GOODS SOLD	47,595	35,928
-----	-----	-----
GROSS PROFIT	28,425	27,798
-----	-----	-----
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	65,643	67,889
-----	-----	-----
LOSS FROM OPERATIONS	(37,218)	(40,091)
-----	-----	-----
INTEREST EXPENSE	1,835	-
-----	-----	-----
NET LOSS	\$ (39,053)	\$ (40,091)
=====	=====	=====
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.00)	\$ (0.00)
=====	=====	=====
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	11,250,000	11,250,000
=====	=====	=====

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

F-2

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

FOR THE THREE MONTHS ENDED MARCH 31	2004	2003
=====	=====	=====
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (39,053)	\$ (40,091)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	2,393	1,878

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Fair value of officer services	-	15,000
Changes in operating assets and liabilities		
Accounts receivable	(21,421)	(939)
Inventory	(67,757)	3,327
Accounts payable	(7,315)	8,030
Accrued expenses	17,721	(183)
Deferred revenue	-	13,365

NET CASH FROM OPERATING ACTIVITIES	(115,432)	387

CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(5,811)	-

NET CASH FROM INVESTING ACTIVITIES	(5,811)	-

CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from stockholder loans	125,000	-
Capital contributions	-	2,891

NET CASH FROM FINANCING ACTIVITIES	125,000	2,891

NET INCREASE IN CASH	3,757	3,278

CASH AT BEGINNING OF PERIOD	4,423	1,385

CASH AT END OF PERIOD	\$ 8,180	\$ 4,663
=====		

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

F-3

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

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normal recurring adjustments. The results of operations presented in the accompanying condensed consolidated financial statements for the three months ended March 31, 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 in which uses for the product range from food processing to retail water sales. 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 \$39,053 and \$40,091 for the three months ended March 31, 2004 and 2003, respectively. The Company had a working capital deficit of \$73,976 and \$156,505 at March 31, 2004 and December 31, 2003, respectively. Loans from the Company's president 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

F-4

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

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 three months ended March 31, 2004, the Company's president and majority shareholder advanced the Company \$125,000. At March 31, 2004 and December 31, 2003, the balance in the shareholder loans was \$209,000 and \$84,000, respectively. These advances bear interest at 7% with principal and accrued interest due November 2005. At March 31, 2004 and December 31, 2003, the accrued interest was \$2,570 and \$735.

During the three months ended, the Company accrued \$15,000 as salaries payable to the president resulting in \$30,000 of salaries payable at March 31, 2004. During the three months ended March 31, 2003, the president did not receive any

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amounts related to his salary. The Company determined that the fair value of these services was \$15,000. Thus the Company recorded a salary expense and contributed capital for the fair value of the president's services.

F-5

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 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 March 31, 2004, our revenue increased compared to the quarter ended March 31, 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

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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 know as Water Science, Inc., our wholly-owned subsidiary. Since our acquisition of Proton Laboratories LLC in November 2002,

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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-Quarter ended March 31, 2004 and 2003.

We had revenue of \$76,020 for the quarter ended March 31, 2004, compared to revenue of \$63,726 for the quarter ended March 31, 2003.

We had a net loss of \$39,053 for the quarter ended March 31, 2004, compared to a net loss of \$40,091 for the quarter ended March 31, 2003.

Net cash used by operating activities was \$115,432 for the quarter ended March 31, 2004, compared to cash provided by operating activities of \$387 for the quarter ended March 31, 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 March 31, 2004, we had cash on hand of \$8,180. 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 year ended December 31, 2003, our president advanced to us the amount of \$84,000 in cash. This advance accrues interest at the rate of 7% per annum and is due in November 2005.

During the quarter ended March 31, 2004, our president advanced to us the amount of \$125,000 in cash. This advance accrues interest at the rate of 7% per annum and is due in November 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 following:

- The cost to acquire equipment to resell.

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- 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.

OUR CUSTOMERS AND VENDORS

Major Customer. During the quarter ended March 31, 2004, sales to our biggest customer accounted for 17% of our total sales during the quarter. As of March 31, 2004, this customer owed us \$9,698. While the loss of this customer might have an adverse impact on us, our next five biggest customers each represented between 5% and 14% of sales during the quarter.

Major Vendor. During the quarter ended March 31, 2004, our inventory purchases from our biggest vendor accounted for 91% of our total inventory purchases during the quarter. As of March 31, 2004, we did not owe any money to this vendor.

Related Party Transaction

During the three months ended March 31, 2004, Edward Alexander, our president and majority shareholder, advanced us the amount of \$125,000. At March 31, 2004 the balance of loans to us by Mr. Alexander was \$209,000. At December 31, 2003, the balance of loans to us by Mr. Alexander \$84,000. These advances bear interest at 7% with principal and accrued interest due November 2005. At March 31, 2004, , the accrued interest was \$2,570. At December 31, 2003, the accrued interest was \$735.

During the three months ended March 31, 2004, we accrued \$15,000 as salaries payable to Mr. Alexander resulting in an aggregate of \$30,000 of salaries payable to Mr. Alexander at March 31, 2004. During the three months ended March 31, 2003, Mr. Alexander did not receive or accrue any amounts related to his salary. The Company determined that the fair value of these services was \$15,000. Thus the Company recorded a salary expense and contributed capital for the fair value of the president's services.

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 annual 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 the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

On February 27, 2004, we had our annual meeting of shareholders. The following matters were voted on and all were approved by the shareholders:

The shareholders elected our directors:

Name	Votes For
Edward Alexander	9,120,000 shares
Dick Wullaert	9,120,000 shares
Michael Ledwith	9,120,000 shares

The shareholders voted to amend our Articles Of Incorporation to change our name to Proton Laboratories, Inc.:

Votes For	9,120,000 shares
Votes Against	-0- shares
Abstentions	2,000 shares

The shareholders approved the 2004 Stock And Stock Option Plan:

Votes For	9,120,000 shares
Votes Against	-0- shares
Abstentions	2,000 shares

The shareholders ratified the selection of Hansen, Barnett & Maxwell as our independent accountant for the year ending December 31, 2004.

Votes For	9,122,000 shares
Votes Against	-0- shares
Abstentions	-0- shares

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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.

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: May 19, 2004

(signed) _____

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