PROTON LABORATORIES INC
Form 10QSB
August 21, 2006

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 June 30, 2006

[ ] 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

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

On August 18, 2006 the registrant had outstanding 18,759,261 shares of Common Stock, $0.0001 par value per share. Some of these shares have not been certificated yet.

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

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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PROTON LABORATORIES, INC
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	JUNE 30, 2006	DECEMBER 3 20
ASSETS		
CURRENT ASSETS		
Cash	$ 29,270	$ 1,38
Accounts receivable, less allowance for doubtful accounts of $16,522	15,021	21,92
Inventory	36,549	32,86
TOTAL CURRENT ASSETS	80,840	56,17
PROPERTY AND EQUIPMENT		
Furniture and fixtures	19,709	19,70
Equipment and machinery	161,833	161,83
Leasehold improvements	11,323	11,32
Less: accumulated depreciation	(61,423)	(45,82
NET PROPERTY AND EQUIPMENT	131,442	147,04
DEPOSITS	6,131	6,13
TOTAL ASSETS	$ 218,413	$ 209,34
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$ 94,701	$ 168,37
Accrued expenses	317,040	252,76
Deferred revenue	52,506	52,50
Preferred dividends payable	12,800	9,60
Stockholder loans, current portion	282,000	444,64
TOTAL CURRENT LIABILITIES	759,047	927,89
STOCKHOLDER LOANS, NET OF CURRENT PORTION	8,642	40,00
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 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; 16,632,550 and 14,270,100 shares issued and outstanding, respectively	1,665	1,42
Additional paid in capital	2,339,376	1,856,60
Accumulated deficit	(2,970,317)	(2,696,57
TOTAL STOCKHOLDERS' DEFICIT	(549,276)	(758,54
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 218,413	$ 209,34

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 M JUNE 3
	2006	2005	2006
SALES	$ 33,639	$ 63,521	$ 84,561 $
COST OF GOODS SOLD	26,187	33,499	70,479
GROSS PROFIT	7,452	30,022	14,082
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (INCLUDING EQUITY-BASED EXPENSE OF $0, 459,040, $40,526 AND $459,040)	124,011	563,886	252,041
LOSS FROM OPERATIONS	(116,559)	(533,864)	(237,959)
OTHER INCOME AND (EXPENSE)			
Interest income	175	41	200
Interest expense	(15,044)	(49,235)	(32,781)
NET OTHER EXPENSE	(14,869)	(49,194)	(32,581)
NET LOSS	(131,428)	(583,058)	(270,540)
PREFERRED STOCK DIVIDEND	1,600	1,600	3,200
LOSS APPLICABLE TO COMMON SHAREHOLDERS	$ (133,028)	$ (584,658)	$ (273,740) $

BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.01)	$ (0.04)	$ (0.02)	$
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	15,486,316	13,362,997	14,914,666	

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	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(270,540)	$(695,251)
Shares issued for services	40,526	459,040
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	15,603	10,814
Amortization of loan costs	-	27,075
Changes in operating assets and liabilities		
Accounts receivable	6,906	(1,232)
Inventory	(3,688)	(66,681)
Deposits	-	5,000
Deferred revenue	-	52,506
Accounts payable	(33,151)	(24,187)
Accrued expenses	64,271	75,413
NET CASH FROM OPERATING ACTIVITIES	(180,073)	(157,503)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	-	(146)
NET CASH FROM INVESTING ACTIVITIES	-	(146)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	401,959	-
Payments on notes payable	(267,852)	-
Proceeds from stockholder loans	73,852	204,000
NET CASH FROM FINANCING ACTIVITIES	207,959	204,000
NET INCREASE IN CASH	27,886	46,351

CASH AT BEGINNING OF PERIOD	1,384	14,412
CASH AT END OF PERIOD	$ 29,270	$ 60,763
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of common stock for accrued legal services	$ 40,526	$ -
Issuance of common stock for loan costs	$ -	$ 27,075
Accrual of preferred stock dividends	$ 3,200	$ 3,200

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

PROTON LABORATORIES, INC

1.1.1 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 Laboratories, 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, 2005 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, 2006 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2006.

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.

USE OF ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INVENTORY - Inventory consists of purchased finished goods and is stated at the lower of cost (using the first-in, first-out method) or market value.

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 $273,740 for the six months ended June 30, 2006. The Company had a working capital deficit of $678,207, and $871,723 at June 30, 2006 and December 31, 2005, respectively. Loans and equity funding were required to fund operations.

The Company is working towards raising additional 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

Stockholder loans as of June 30, 2006 and December 31, 2005 consist of the following:

	2006	2005
Note payable to President; principal and interest due May 2006; interest is accrued at 30% per annum; secured by inventory	$ -	$168,500
Note payable to President; principal and interest due June 2006; interest is accrued at 7% per annum; unsecured	20,000	-
Note payable to CEO and majority shareholder; principal and interest currently due; interest is accrued at 7% per annum; unsecured.	84,000	84,000

Note payable to CEO and majority shareholder; principal and interest currently due; interest is accrued at 7% per annum; unsecured.	125,000	125,000
Note payable to CEO and majority shareholder; principal and interest currently due; interest is accrued at 7% per annum; unsecured.	40,000	40,000
Note payable to CEO and majority shareholder; principal and interest due September 2006; interest is accrued at 7% per annum; unsecured.	13,000	13,000

Note payable to CEO and majority shareholder; principal and interest due September 2007; interest is accrued at 7% per annum; unsecured.	8,642	14,142
Note payable to shareholder; principal and interest due January 2007; interest is accrued at 7% per annum; unsecured.	-	40,000
Notes payable to President and CEO; principal and interest due March 2008; interest is accrued at 7% per annum; unsecured.	-	-
TOTAL STOCKHOLDER LOANS	290,642	484,642
Less: Current Portion	282,000	444,642
TOTAL STOCKHOLDER LOANS - LONG TERM	$ 8,642	$ 40,000

During the six months ended June 30, 2006, two shareholders advanced the Company $73,852. The Company made payments on these shareholder notes totaling $267,852 during the six months ended June 30, 2006.

At June 30, 2006, the Company had accrued interest relating to shareholder loans of $129,913.

During the six months ended June 30, 2006, the Company accrued $30,000 as salaries payable to the company's CEO, resulting in $185,987 of salaries payable at June 30, 2006.

NOTE 4 - COMMON STOCK

In March 2006 the Company issued 352,400 shares of common stock for payment of legal fees. The value of the shares issued was $81,052, based on a market price on date of issuance of $0.23. $40,526 of this amount is related to services rendered during the year ended December 31, 2005.

During May and June the Company issued 2,010,050 shares of common stock for cash proceeds of $401,959 or $0.20 per share.

NOTE 5 - COMMITMENTS

PRODUCTION AGREEMENT - 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, 2006, 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.

EQUITY LINE - In November 2005, the Company entered into an equity line agreement with a private investor (the "Equity Line Investor"). Under the equity line, the Company had the right to draw up to $10,000,000 from the Equity Line Investor. The Company was entitled to draw funds and to "put" to the Equity Line Investor shares of the Company's Class A common stock in lieu of repayment of the draw. As of June 30, 2006, the Company had not drawn funds under the equity line.

NOTE 6 - SUBSEQUENT EVENT

Subsequent to June 30, 2006 the Company issued 524,985 shares of common stock for cash proceeds of $104,985, or $0.20 from various investors.

Previously, the Company entered into an agreement whereby an investor agreed to purchase, up to $2,000,000 dollars worth of common shares of the Company at a per share purchase price equal to 40% of the previous day's last trade price. Subsequent to June 30, 2006, the Company issued 1,026,711 shares of common stock under this agreement for cash proceeds of $226,599 (net of $30,197 of issuance costs).

In July 2006, the Company issued 1,851,250 shares of common stock to various individuals for their services in raising equity funds and marketing upcoming Company products. The Company is currently evaluating the value of these shares.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS.

FORWARD-LOOKING STATEMENT

Certain statements contained herein, 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. In addition to the forward-looking statements contained herein, 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 our audited financial statements and the accompanying notes thereto for the year ended December 31, 2005 which appear in our Form 10-KSB for the year then ended, and our unaudited financial statements for the quarter ended June 30, 2006 and the accompanying notes thereto and the other financial information appearing elsewhere herein. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the USA, which contemplate our continuation as a going concern.

We had a stockholders deficit of $549,276 at June 30, 2006, and a stockholders deficit of $758,547 at June 30, 2005.

Loans from our CEO and our president have been necessary to fund our operations.

Stockholder loans as of June 30, 2006 and December 31, 2005 consist of the following:

	JUNE 30, 2006	DECEMBER 31, 2005
Note payable to President; principal and interest due May 2006; interest is accrued at 30% per annum; secured by inventory	$ -	$ 168,500
Note payable to President; principal and interest due June 2006; interest is accrued at 7% per annum; unsecured	20,000	-
Note payable to CEO and majority shareholder; principal and interest currently due; interest is accrued at 7% per annum; unsecured.	84,000	84,000
Note payable to CEO and majority shareholder; principal and interest currently due; interest is accrued at 7% per annum; unsecured.	125,000	125,000
Note payable to CEO and majority shareholder; principal and interest currently due; interest is accrued at 7% per annum; unsecured.	40,000	40,000

Note payable to CEO and majority shareholder; principal and interest due September 2006; interest is accrued at 7% per annum; unsecured.	13,000	13,000
Note payable to CEO and majority shareholder; principal and interest due September 2007; interest is accrued at 7% per annum; unsecured.	8,642	14,142
Note payable to shareholder; principal and interest due January 2007; interest is accrued at 7% per annum; unsecured.	-	40,000
Notes payable to President and CEO; principal and interest due March 2008; interest is accrued at 7% per annum; unsecured.	-	-
TOTAL STOCKHOLDER LOANS	290,642	484,642
Less: Current Portion	282,000	444,642

TOTAL STOCKHOLDER LOANS - LONG TERM	$ 8,642	$ 40,000

During the six months ended June 30, 2006, two shareholders advanced the Company $73,852. The Company made payments on these shareholder notes totaling $267,852 during the six months ended June 30, 2006.

At June 30, 2006, the Company had accrued interest relating to shareholder loans of $129,913.

During the six months ended June 30, 2006, the Company accrued $30,000 as salaries payable to the company's CEO, resulting in $185,987 of salaries payable at June 30, 2006.

Our independent auditors made a going concern qualification in their report dated March 29, 2006, which raises substantial doubt about our ability to continue as a going concern. The financial statements herein 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 the Company 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 located in Alameda, California. We are a biotechnology company that develops new, practical applications for electrolyzed water and the electrolysis process. Our processes and equipment alters the properties of water through electrolysis with electrolytic ion separation and through the conversion of existing properties found in water to achieve functional results. Our business consists of the salesand marketing of the industrial, environmental and residential systems throughout the U.S.A. which alter the properties of water to produce functional

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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 are working towards raising funds to expand our marketing and revenues. We have spent considerable time negotiating with several overseas corporations for the co-development of enhanced antioxidant beverages for distribution into the overseas markets. In addition, we are working with Canadian businesses to identify markets for various disinfection applications of functional water, pending government approval. We are working on agricultural applications of functional water. We are working on packaging for a spray-on application of function water for pathogen counter-measures.

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 is 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.

We have a joint research and development program with Weber Farms located in Washington State. Weber Farms is family-owned with a long history of raising and marketing quality potatoes, wheat and corn. In 1979, Weber Farms built a fresh pack potato warehouse to ensure better quality and more oversight of the marketing of open potatoes both to domestic and foreign markets. In 1997, a state-of- the-art potato storage facility capable of storing 50,000 tons was built. End uses of Weber Farm potatoes are generally in the areas of boxed and bagged potatoes for retail stores, hash browns, French fries and other retail-type products. We will work together in various areas where Proton's electrolyzed water, with its unique efficacies, can be integrated into potato production and post-harvesting processes. Understanding that Proton's water brings about certain potato maintenance efficacies, environmental and worker safety, on-site production abilities and cost efficiencies, both parties are looking forward to a mutually rewarding relationship.

We have also been experimenting with the uses of electrolysis to complement or bypass the conventional wine aging process by applying the process of electrolysis to young wine that has been fermented but not aged.

We have begun the design and engineering of three market-ready industrial electrolysis systems based on one standard platform. The strong advantage of designing these three systems utilizing a standard platform allows for cost efficiencies in assembly, ease of maintenance and the ability to have systems that will be able to produce all of

the required forms of electrolyzed water to meet most of the industrial applications for which electrolysis is beneficial. Market-ready units for industrial applications are scheduled delivery to us in late 2006.

We are preparing to submit its anti-microbial sprays for testing at an independent testing laboratory. The testing will determine the efficacy of our proprietary anti-microbial water in the elimination of germs. After testing is completed, we will plan for commercial production of the sprays. Upon the successful completion of the testing, our goal is to have market-ready sprays for germ elimination scheduled for delivery to us 90 days thereafter.

We are in the final phase of component sourcing and tool sourcing for our proprietary residential water-enhancing device. The home system utilizes an advanced form of electrolysis to enhance the beneficial properties of electrolytes found in tap water. This unit will allow for an individual to create an enhanced, drink similar to bottled water through a contemporary kitchen counter-top appliance which will retail at an attractive and affordable price. Upon the completion of component sourcing and tool sourcing, we can begin manufacturing. Our goal is to have market-ready residential units scheduled for delivery to us in early 207.

We recently hired Hiroshi Tanaka as its VP of Technology. Mr. Tanaka is an expert in the field of industrial and consumer uses of electrolyzed water.

RESULTS OF OPERATIONS-SIX MONTHS ENDED June 30, 2006 AND 2005.

We had revenue of $84,561 for the for the six months ended June 30, 2006 compared to revenue of $157,710 for the for the six months ended June 30, 2005. This was a revenue decrease of $73,149 attributable to management efforts being directed at fundraising and product development.

We incurred a net loss of $270,540 for the six months ended June 30, 2006 and a net loss of $695,251 for the six months ended June 30, 2005.

Cash used by operating activities was $180,073 for the for the six months ended June 30, 2006 compared to cash used by operating activities of $157,503 for the six months ended June 30, 2005.

LIQUIDITY

At June 30, 2006, we had cash on hand of $29,270. Our growth is dependent on our attaining profit from our operations and our raising of 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 to generate a profit.

At June 30, 2006, we owed stockholder loans of $290,642.

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. Through June 30, 2006, Mitachi had paid to us an aggregate of6,000,000 Yen (US $52,506in connection with this agreement. Since the project is not yet completed and no units have been sold, this amount is classified as deferred revenue.

We sometimes issue stock for in-kind payments of compensation to consultants. Subsequently, in July 2006, we issued an aggregate of 1,851,250 shares of common stock to five consultants as payment in-kind for services rendered.

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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 that we then would resell.
- The cost of sales and marketing.
- 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. Our principal executive and financial officer evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Based on this evaluation, our principal executive officer and principal financial officer concluded that these disclosure controls and procedures are effective and designed to ensure that the information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the requisite time periods.

In connection with its review of the Company's consolidated financial statements for the three and six months ended June 30, 2006, Hansen, Barnett & Maxwell ("HB&M"), the Company's registered public accounting firm, advised the Audit Committee and management of internal control matters with respect to certain financial reporting controls that they considered to be a material weakness, which is described below. A material weakness is a control deficiency, or a combination of control deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The material weakness identified at June 30, 2006 was as follows:

> A material weakness existed in our control environment relating to inadequate staffing of our technical accounting function, including a lack of sufficient personnel with skills, training and familiarity with certain complex technical accounting pronouncements that have or may affect our financial statements and disclosures.

The Company considered these matters in connection with the quarterly closing process and the preparation of the June 30, 2006 consolidated financial statements included in this Form 10-QSB and determined that no prior period financial statements were materially affected by such matters. In response to the observations made by HB&M, the Company will implement certain enhancements to its internal controls, accounting staff and procedures, which it believes address the matters raised by Hansen, Barnett & Maxwell.

(b) Changes in Internal Control Over Financial Reporting. There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) identified in connection with the evaluation of our internal control performed during the quarter ended June 30, 2006 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. 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.

In July 2006, Mr. Hiroshi Tanaka was appointed our Vice President of Technology. Mr. Tanaka resides in and is a citizen of Japan. From 1992 through 2004, Mr. Tanaka was the Chief Engineer at ARV. From 2004 through the present, Mr. Tanaka has been the president of Solution Technos. From 2005 through the present, Mr.

Tanaka has been the president of Innovative Design and Technology, the successor company to Solution Technos. We granted 100,000 shares of common stock to Mr. Tanaka as compensation. Innovative Design and Technology is one of our manufacturing vendors.

Payments to Innovative Design and Technology. In 2006 to date, we have paid Innovative Design and Technology the sum of $230,000 for product design and manufacturing services.

Proposed payments to Mt. Tanaka. In connection with wine enhancement technology that is the intellectual property and know-how of Mr., Tanaka, we are presently negotiating to acquire a USA license from Mr., Tanaka.

ITEM 6. EXHIBITS.

Exhibit Number	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 21, 2006

(signed)

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