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PROTON LABORATORIES INC
Form SB-2/A
December 29, 2005

As filed with the Securities and Exchange Commission on December 29, 2005
Registration No. 333-130460

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

Form SB-2
Amendment Number 1
Registration Statement
Under The Securities Act of 1933

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

Washington	3590	91-2022700
(State or other jurisdiction of incorporation or organization)	(Primary standard industrial code)	(I.R.S. Employer Identification Number)

PROTON LABORATORIES, INC.
1135 Atlantic Avenue, Suite 101
Alameda, CA 94501
voice: (510) 865-6412
fax: (510) 865-9385
(Address and telephone number of principal executive offices and principal place
of business)

Edward Alexander, Chief Executive Officer
1135 Atlantic Avenue, Suite 101
Alameda, CA 94501
voice: (510) 865-6412
fax: (510) 865-9385
(Name, address, including zip code, and telephone number, including area code,
of agent for service)

With a Copy to:
Joel Seidner, Esq.
1240 Blalock, Suite 250
Houston, Texas 77055
voice: (713) 461-2627 ext. 210
fax: (713) 461-2633

Approximate date of commencement of proposed sale to the public: As soon as
practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of
1933 check the following box. [X]

If this Form is filed to register additional securities for an offering
pursuant to Rule 462(b) under the Securities Act, check the following box and
list the Securities Act Registration Statement number of the earlier effective
Registration Statement for the same offering. []

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

CALCULATION OF REGISTRATION FEE

Title Of Each Class Of Securities To Be Registered	Amount To Be Registered (2)	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock	50,000,000 shares	\$0.24 per share	12,000,000.00	\$ 1,300.00 (1)

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(1) Previously Paid. The Proposed Maximum Offering Price Per Share was computed pursuant to Rule 457. This fee is calculated based on the closing price of our common stock under the trading symbol PLBI on the OTCBB on December 12, 2005.

(2) In accordance with Rule 416 promulgated under the Securities Act of 1933, this Registration Statement also covers an indeterminate number of additional shares of common stock as may be issuable upon pursuant to terms which provide for a change in the amount of securities being offered or issued to prevent dilution resulting from stock splits, stock dividends, or similar transactions

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

THE INFORMATION IN THIS PROSPECTUS IS SUBJECT TO COMPLETION OR AMENDMENT. THE SECURITIES COVERED BY THIS PROSPECTUS CANNOT BE SOLD UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH AN OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF THAT STATE.

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PART I

INFORMATION REQUIRED IN A PROSPECTUS

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WE HAVE FILED A REGISTRATION STATEMENT RELATING TO THESE SECURITIES WITH THE SECURITIES AND EXCHANGE COMMISSION. WE WILL AMEND AND COMPLETE THE INFORMATION IN THIS PROSPECTUS. THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND WE ARE NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION DECEMBER 29, 2005

PROSPECTUS

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PROTON LABORATORIES, INC.
1135 Atlantic Avenue, Suite 101
Alameda, CA 94501
voice: (510) 865-6412
fax: (510) 865-9385

50,000,000 Shares of Common Stock

This prospectus relates to the sale of up to 50,000,000 shares of our common stock by Selling Stockholders. We will not receive proceeds from the sale of our shares by the Selling Stockholders. However, we will receive proceeds from our sale of the common stock to the Selling Stockholder (also called the "Investor"). The Investor will purchase the common stock from us at a purchase price of 95% of the lowest closing best bid price of the common stock during each pricing period.

Our common stock is traded on the OTCBB under the trading symbol "PLBI."

We have engaged the services of US EURO Securities, Inc. to be our placement agent in connection with the equity line of credit. US EURO Securities, Inc. is a member of the NASD.

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CONSIDER CAREFULLY THE RISK FACTORS BEGINNING ON PAGE 8 OF THIS PROSPECTUS BEFORE MAKING A DECISION TO PURCHASE OUR STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is _____, 2006

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AVAILABLE INFORMATION

We are currently subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We file periodic reports, proxy materials and other information with the Securities and Exchange Commission (the "Commission"). In addition, we will furnish stockholders with annual reports containing audited financial statements certified by our independent accountants and interim reports containing unaudited financial information as it may be necessary or desirable. We will provide without charge to each person who receives a copy of this prospectus, upon written or oral request, a copy of any information that is incorporated by reference in this prospectus (not including exhibits to the information that is incorporated by reference unless the exhibits are themselves specifically incorporated by reference). Such request should be directed to: Edward Alexander, Chief Executive Officer, PROTON LABORATORIES, INC., 1135 Atlantic Avenue, Suite 101, Alameda, CA 94501, voice: (510) 865-6412, fax: (510) 865-9385. Our Web site is www.protonlabs.com.

We have filed with the Securities and Exchange Commission a Registration Statement under the Securities Act of 1933, as amended (the "Securities Act") with respect to the securities offered by this prospectus. This prospectus does not contain all of the information set forth in the Registration Statement, parts of which are omitted in accordance with the rules and regulations of the Commission. For further information with respect to us and this offering, reference is made to the Registration Statement, including the exhibits filed

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therewith, that may be inspected without charge at the public reference room maintained by the Commission at 100 F Street N.E., Washington , D.C. 20549, tel. 1-800-SEC-0330, , or through SEC's e-mail address: publicinfo@sec.gov. Copies of such material may also be obtained from the Public Reference Section of the Commission at 100 F Street N.E., Washington , D.C. 20549, at prescribed rates.

The Web site of the Commission is www.sec.gov which contains reports, proxy and information statements and other information regarding issuers that file electronically with the Commission. Visitors to the Commission's Web site may access such information by searching the EDGAR database.

PROSPECTUS SUMMARY

Effective November 28, 2005, we entered into an Investment Agreement, as amended on December 19, 2005, which is an equity line of credit ("ELOC"), with Dutchess Private Equities Fund, LP ("Dutchess"). The ELOC terminates 36 months after the registration statement is effective. The maximum amount of money that the ELOC may provide to us over the 36 month period of time is \$10,000,000. During this 36 months, commencing at such time as the registration statement is effective, we may periodically deliver new issue registered shares of our common stock to Dutchess who then delivers cash to us based on a fluctuating price per share of our common stock. We are not obligated to request the entire \$10,000,000. The actual aggregate number of shares that we may issue pursuant to the Investment Agreement is not determinable as it is based on the market price of our common stock from time to time and how much funding we desire from time to time. We have reserved 50 million shares for the ELOC which we are registering in the registration statement pursuant to the Investment Agreement's Registration Rights Agreement. The 50 million shares of stock represents the number of shares at a price of \$0.20 per share needed to fund the entire \$10 million of the ELOC.

We can commence drawing down on the ELOC at such time as the registration statement is effective. Since only the Commission can order a registration statement effective, we do not know when or if the registration statement will become effective. For an equal amount of dollars of funding from time to time pursuant to the ELOC, the number of shares we would issue to Dutchess would be greater during times of our stock price being low, and conversely so during times when our stock price is high. Pursuant to the ELOC, we are subject to penalties if we fail to deliver stock to Dutchess after we request a draw down from the ELOC.

Upon the effectiveness of the registration statement, and pursuant to the ELOC, we may issue and sell to the Investor, and the Investor will purchase from us, up to that number of shares pf common stock having an aggregate value of \$10,000,000. From time to time, we may, in our sole discretion, deliver a put notice to the Investor which states the dollar amount which we intend to sell to the Investor which will be, at our choice, either: (A) 200% of the average daily volume (U.S. market only) of our common stock for the 20 trading days prior to the applicable put notice date, multiplied by the average of the 3 daily closing bid prices immediately preceding the put date, or, (B) \$100,000. The purchase price for the common stock identified in the put notice will be equal to 95% of the lowest closing bid price of the common stock during the pricing period. The pricing period is the period beginning on a put notice date and ending on and including the date that is 5 trading days after the put notice date. The Investor is required to purchase from us during the related pricing period that number of shares having an aggregate purchase price equal to the Put Amount set forth in the Put Notice.

Pursuant to the ELOC, we are subject to a penalty if we fail to deliver stock to Dutchess after requesting a draw down from the ELOC. The penalty varies based on the number of undelivered shares, if any. The penalty is as follows:

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NO. OF DAYS LATE	Per \$10,000 OF COMMON STOCK
1	\$ 100
2	\$ 200
3	\$ 300
4	\$ 400
5	\$ 500
6	\$ 600
7	\$ 700
8	\$ 800
9	\$ 900
10	\$1,000
Over 10	\$1,000 + \$200 for each Business Day late beyond 10 days.

As we draw down on the equity line of credit, more shares will be sold into the market by Dutchess. This new supply of shares may cause our stock price to drop. In turn, as the stock price drops and as we make more draw downs on the ELOC, even more stock will come into the market which may cause yet a further drop in stock price. You should be aware that there is an inverse relationship between our stock price and the number of shares to be issued pursuant to the ELOC. If our stock price declines, we will be required to issue a greater number of shares under the ELOC. We are not required to draw down or use the full amount available of the ELOC.

Examples of share issuances under the equity line of credit if the full \$10 million of the ELOC is funded:

Purchase Price:	(1)	\$0.30	\$0.20	\$0.15	\$0.10
Shares Purchased:	(2)	33,333,333	50,000,000	66,666,666 (3)	100,000,000

- (1) Represents recent market prices or lower than recent market prices that may apply to the equity line of credit.
- (2) Represents the number of shares of common stock to be issued at the prices set forth in the table to generate \$10 million in gross proceeds from the equity line of credit.
- (3) Would require that we register additional shares.

We have engaged the services of US EURO Securities, Inc. to be our placement agent in connection with the equity line of credit. US EURO Securities, Inc. is a member of the NASD. Pursuant to the terms of the Placement Agent Agreement, US EURO will render consulting services to us with respect to the Investment Agreement and will be available for consultation in connection with ELOC funding.

THE OFFERING

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Outstanding
Common Stock
Before This
Offering

14,270,100 shares outstanding as of December 12, 2005
(includes 47,500 shares that have not been certificated yet).

Common Stock
Offered

Up to 50,000,000 shares of common stock underlying the equity line credit

Outstanding
Common Stock
After This
Offering

64,270,100 shares if all offered shares are sold.

Offering Price

Determined at the time of sale by the Selling Stockholders.

Proceeds

We will not receive proceeds from the sale of our shares by the Selling S
However, we will receive proceeds from our sale of the common stock to th
Stockholder (also called the "Investor"). The Investor will purchase the
at a purchase price of 95% of the lowest closing best bid price of th
each pricing period. The pricing period is the period beginning on a put
on and including the date that is 5 trading days after the put notice
is the date that we request a draw down of the ELOC.

Risk Factors

The securities offered hereby involve a high degree of risk. See "Risk Fa

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RISK FACTORS

You should carefully consider the following risk factors before purchasing our common stock. The risks and uncertainties described below are not the only ones we face. There may be additional risks and uncertainties that are not known to us or that we do not consider to be material at this time. If the events described in these risks occur, our business, financial condition and results of operations would likely suffer. This prospectus contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements.

IF WE ISSUE SECURITIES PURSUANT TO THE EQUITY LINE OF CREDIT, THEN EXISTING STOCKHOLDERS MAY EXPERIENCE SIGNIFICANT DILUTION.

The sale of shares pursuant to equity line of credit will have a dilutive impact on our stockholders. As a result, our net income per share could decrease in future periods, and the market price of our common stock could decline. The lower our stock price at the time we exercise draw down on the equity line of credit, then the more shares we will have to issue to Dutchess. If our stock price decreases, then our existing stockholders would experience greater dilution.

DUTCHESS WILL EFFECTIVELY PAY LESS THAN THE THEN PREVAILING MARKET PRICE OF OUR COMMON STOCK, WHICH COULD CAUSE THE PRICE OF OUR COMMON STOCK TO DECLINE.

As we draw down the equity line of credit and we issue common stock to Dutchess, such common stock will be purchased by Dutchess at less than the then market price. At such times, Dutchess will have a financial incentive to sell our common stock immediately upon receiving the shares. When Dutchess sells shares of our common stock, the price of our stock could decrease. If our stock price decreases, Dutchess may have a further incentive to sell the shares of our common stock that it holds. Such sales of common stock by Dutchess could cause

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the market price of our common stock to decline.

OUR STOCK PRICE IS HIGHLY VOLATILE AND YOU MAY LOSE SOME OR ALL OF YOUR INVESTMENT.

Trading prices of our common stock may fluctuate in response to a number of events and factors, such as:

- general economic conditions changes in interest rates;
- fluctuations in the stock market in general ;
- quarterly variations in our operating results;
- new products, services, innovations, and strategic developments by our competitors , or business combinations and investments by our competitors;
- changes in our capital structure, including issuance of additional debt or equity to the public;
- additions or departures of our key personnel;
- corporate restructurings, including layoffs or closures of facilities;
- certain analyst reports, news and speculation.

OUR PAST LOSSES RAISE DOUBTS ABOUT OUR ABILITY TO OPERATE PROFITABLY OR CONTINUE AS A GOING CONCERN.

We have experienced substantial operating losses. For the year ended December 31, 2004, we had a net loss of \$965,840. For the nine months ended September 30, 2005 we had a net loss of \$824,231. For the quarter ended September 30, 2005 we had a net loss of \$128,979. Our stockholders deficit as of December 31, 2004 was \$276,588. Our stockholders deficit at September 30, 2005 was \$599,504. We expect to incur significant operating losses until product sales increase. We will also need to raise sufficient funds to finance our activities. We may not be able to achieve or sustain profitability. Our independent auditors made a going concern qualification in their report dated March 7, 2005, which raises substantial doubt about our ability to continue as a going concern. These factors raise substantial doubt about our ability to continue as a going concern.

WE MUST RAISE CAPITAL TO BE SUCCESSFUL

We will require additional funds to conduct our operations. We may not be able to raise funds. To raise additional capital, we may sell additional equity securities, or accept debt financing or obtaining financing through a bank or other entity. There is no limit as to the amount of debt we may incur. Additional financing may not be available to us or may not be available on terms additional stock, there may be a significant dilution in the value of our outstanding common stock.

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LACK OF INDUSTRIAL AND CONSUMER ACCEPTANCE OF FUNCTIONAL WATER WOULD IMPAIR OUR BUSINESS.

We sell equipment that makes functional water. The current market for industrial and consumer functional water equipment is small in the USA. We must increase market acceptance of functional water in order to be successful. We do

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not know if the products we sell will receive market acceptance at a level that would allow us to operate profitably.

IF WE DO NOT KEEP PACE WITH OUR COMPETITORS AND WITH TECHNOLOGICAL AND MARKET CHANGES, OUR PRODUCTS MAY BECOME OBSOLETE AND OUR BUSINESS MAY SUFFER.

The market for our products is competitive and could be subject to rapid technological changes. We believe that there are potentially many competitive approaches being pursued, including some by private companies for which information is difficult to obtain. Many of our competitors have significantly greater resources, more product candidates and have developed product candidates and processes that directly compete with our products. Our competitors may have developed, or could in the future develop, new technologies that compete with our products or even render our products obsolete. To the extent that others develop new technologies that address the applications for functional water, our business will suffer.

THE SHARES AVAILABLE FOR SALE BY THE SELLING STOCKHOLDERS COULD SIGNIFICANTLY REDUCE THE MARKET PRICE OF OUR COMMON STOCK.

A total of 50,000,000 shares of our common stock are being registered for Resale. The market price of our common stock could drop if a substantial amount of these shares are sold in the public market. A drop in the market price will reduce the value of your investment.

SELLING STOCKHOLDERS MAY SELL SECURITIES AT ANY PRICE OR TIME WHICH COULD REDUCE THE MARKET PRICE OF OUR COMMON STOCK.

After effectiveness of this prospectus, the Selling Stockholders may offer and sell their shares at a price and time determined by them. The timing of sales and the price at which the shares are sold by the Selling Stockholders could have an adverse effect upon the public for our common stock.

SINCE WE HAVE NOT PAID ANY DIVIDENDS ON OUR COMMON STOCK AND DO NOT INTEND TO DO SO IN THE FUTURE, A PURCHASER OF OUR STOCK WILL ONLY REALIZE A GAIN ON HIS INVESTMENT IF THE MARKET PRICE OF OUR COMMON STOCK INCREASES.

We have never paid, and do not intend, to pay any cash dividends on our common stock. Therefore an investor in this offering, in all likelihood, will only realize a profit on his investment if the market price of our common stock increases in value.

BECAUSE SHARES OF OUR COMMON STOCK WILL MOST LIKELY CONTINUE TO TRADE UNDER \$5.00 PER SHARE, THE APPLICATION OF THE PENNY STOCK REGULATION COULD ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK AND MAY AFFECT THE ABILITY OF HOLDERS OF OUR COMMON STOCK TO SELL THEIR SHARES.

Our securities may be considered a penny stock. Penny stocks generally are securities with a price of less than \$5.00 per share other than securities registered on national securities exchanges or quoted on the Nasdaq stock market, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. Our securities may be subject to penny stock rules that impose additional sales practice requirements on broker-dealers who sell penny stock securities to persons other than established customers and accredited investors. For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of penny stock securities and have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the penny stock rules require the delivery, prior to the transaction, of a disclosure schedule prescribed by the Commission relating to the penny stock market. The broker-dealer also must disclose the sales commissions payable to

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both the broker-dealer and the registered representative and current quotations for the securities. Monthly statements must be sent by the broker-dealer disclosing recent price information on the limited market in penny stocks. The penny stock rules may restrict the ability of broker-dealers to sell our securities and may have the effect of reducing the level of trading activity of our common stock in the public market, if any.

EDWARD ALEXANDER OWNS 58% OF OUR COMMON STOCK AND HE CONTROL US.

Edward Alexander is our CEO. Mr. Alexander has the ability to control substantially all matters submitted to our stockholders for approval, including the election and removal of directors and any merger, consolidation, takeover or other business combination involving us, and to control our management and affairs. This may discourage a potential acquirer from making a

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tender offer or otherwise attempting to obtain control in an acquisition or takeover.

OUR OFFICERS AND DIRECTORS HAVE LIMITED LIABILITY AND HAVE INDEMNITY RIGHTS.

The State of Washington law, our Article of Incorporation and our By-Laws provide that we may indemnify our officers and directors against losses or liabilities which arise in their corporate capacity. The effect of these provisions could be to dissuade lawsuits against our officers and directors. The cost of indemnification could be high.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, we have been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this prospectus, including, without limitation, statements containing the words "believes," "anticipates," "expects," and other words of similar import, are "forward-looking statements." 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 forward-looking statements. Given these uncertainties, readers are cautioned not to place undue reliance on forward-looking statements. In addition to the forward-looking statements contained in this prospectus, the following forward-looking factors could cause our future results to differ materially from our forward-looking statements: market acceptance of our products and our functional water technology, competition, funding and government compliance.

USE OF PROCEEDS

We will not receive proceeds from the sale of our shares by the Selling Stockholders. However, we will receive proceeds from our sale of the common stock to the Selling Stockholder (also called the "Investor"). The Investor will purchase the common stock from us at a purchase price of 95% of the lowest closing best bid price of the common stock during each pricing period. The pricing period is the period beginning on a put notice date and ending on and including the date that is 5 trading days after the put notice date. The put notice date is the date that we request a draw down of the ELOC.

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We will pay for the cost of registering the shares of common stock in this offering. We will not receive any proceeds from the sale of the common stock by the Selling Stockholders. However, we will receive proceeds from our sale of the common stock to the Selling Stockholder (also called the "Investor"). The Investor will purchase the common stock from us at a purchase price of 95% of the lowest closing best bid price of the common stock during each pricing period.

We may receive up to the gross amount of \$10,000,000 if we draw down on the entire ELOC. However, we are not required to use the entire ELOC.

Example of Funds Raised Using the ELOC:

Number of Shares Sold:	5,000,000	12,500,000	25,000,000	50,000,000
Funds provided by the ELOC:	\$ 1,000,000	\$ 2,500,000	\$ 5,000,000	\$10,000,000
Use of Funds:	General corporate purposes and working capital			

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Dilution

Our net tangible book value, based on our unaudited financial statements for the fiscal quarter ended September 30, 2005, was \$(599,504) or, \$(0.042) per share of common stock (unaudited).

Net tangible book value per share is determined by dividing our tangible book value (total tangible assets less total liabilities) by the number of outstanding shares of our common stock which was 14,270,100 shares outstanding as of December 12, 2005.

Since this offering is being made solely by the selling securities holders and none of the proceeds will be paid to us, our net tangible book value will be unaffected by this offering. Our net tangible book value, however, will be impacted by the common stock that we will sell to Dutchess under the Investment Agreement. The amount of dilution resulting from share issuances to Dutchess will be determined by our stock price at or near the time of the put of shares to Dutchess by us.

The following example shows the dilution to new investors assuming the issuance of 100%, 50%, 25% and 10% of the 50,000,000 shares of common stock to Dutchess at an assumed offering price of \$0.20 per share which is based on the closing price of our common stock on December 9, 2005 (\$0.24) that has been adjusted for the 5% discount at which we will issue shares under our agreement with Dutchess and a 15% downward fluctuation in share price (total of a 20% decrease in price from the actual closing price of \$0.24 per share on December 12, 2005). The Dutchess discount is defined as 95% of the lowest closing bid price of our common stock during the pricing period.

Our pro forma net tangible book value as of September 30, 2005 (unaudited) would have been as follows:

Pro Forma Effects of Dilution from Dutchess Offering:

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Assumed percentage of Shares issued:	100%	50%	25%	10%
Number of shares issued:	50,000,000	25,000,000	12,500,000	5,000,000
Assumed public offering price:	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20
Net tangible book value Per share before this Offering:	\$ (0.042)	\$ (0.042)	\$ (0.042)	\$ (0.042)
Net tangible book value after this offering	\$ 9,449,023	\$ 4,449,003	\$ 2,444,903	\$ 449,003
Net tangible book value per share after this Offering:	\$ 0.147	\$ 0.112	\$ 0.071	\$ 0.021
Dilution of net tangible Book value per share To new investors:	\$ 0.053	\$ 0.088	\$ 0.129	\$ 0.179
Increase in net tangible Book value per share To existing shareholders	\$ 0.188	\$ 0.154	\$ 0.113	\$ 0.063

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DESCRIPTION OF BUSINESS

INTRODUCTION

Our executive offices are located at: Proton Laboratories, Inc., 1135 Atlantic Avenue, Suite 101, Alameda, CA 94501, tel. (510) 865-6412, fax: (510) 865-9385. Our Web site is www.protonlabs.com.

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

Our stock is traded on the OTCBB. Our trading symbol is "PLBI."

OUR BUSINESS--THE BACKGROUND OF FUNCTIONAL WATER

Our business is the marketing of residential and commercial "functional water systems." "Functional water" is water that has been processed through an electrolytic ion separation process or electrolysis process and has a wide array of functional properties due to its unique characteristics. Our functional water systems restructure tap water into one type of water that is alkaline in concentration and one type of water that is acidic in concentration. We believe that the functional water systems that we market will have applications in a large variety of industries, such as corporate agriculture, organic agriculture, food processing, medicine and dentistry, dermatology, heavy industry, mining, environmental clean-up, product formulations and beverages.

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We are an exclusive importer and master distributor of functional water systems that are manufactured by Matsushita Electric Corporation of America. We utilize functional water intellectual property under licensing agreements. We supply consumer products related to functional water. We consult on projects utilizing functional water. We facilitate knowledge about functional water between the manufacturer and industry, and we act as educators about the benefits of functional water. We are a provider of systems that produce functional water, also called "electrolyzed water" or "functional electrolyzed water." Functional water is water that has been restructured through the process of electrolysis. Electrolysis forces a separation to occur in the electrolytes that are present in the water molecules. Through the process of creating functional water, regular tap water can be restructured into two separate types of water. For instance, tap water can be restructured into one type of water that is alkaline in concentration and one type of water that is acidic in concentration.

We believe that water with these unique functional properties is desirable for a number of reasons. Water with smaller clusters of molecules has a lower surface tension. With a lower surface tension, water may have improved hydrating, permeating and solubility properties. These properties may enhance the overall functional effectiveness of water. The separation of the alkaline and acidic properties found in water provides the water with functional abilities. For example, functional acidic water has disinfecting abilities to meet a wide array of disinfecting requirements in food processing procedures. Functional alkaline water makes an excellent drinking water due to improved hydration.

OUR BUSINESS--SYSTEMS AND MARKETS

We market functional water systems to the residential and commercial markets. For the residential market, we market functional water systems that are used to produce a health-beneficial, alkaline-concentrated drinking water. For the commercial market, we market commercial-grade functional water systems that are used in applications ranging from food preparation to hospital disinfection. Our goal is to take our functional water technology and market it throughout North America.

Our business model envisions us as: a supplier of technology for functional water applications; a supplier of hardware for functional water systems; a provider of intellectual property for functional water systems under licensing agreements; a supplier of consumer functional water products; consultants to industries requiring functional water; facilitators between Japanese functional water manufacturers and industrial users in the U.S.A.; and educators of academia, government and industry on the benefits of functional water.

OUR BUSINESS--SCIENCE

"Functional water" is a term that has been assigned to a new category of water. Functional water has a wide array of functional properties due to its

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unique characteristics. We believe the uses for this type of water are far reaching, since we are identifying new applications and uses for functional water on an ongoing basis. Functional water systems are capable of producing the following types of functional water:

Ionic-Structured Water. Ionic-structured water is electrolyzed drinking water that is alkaline-concentrated and utilizes smaller molecular clusters than regular water for improved hydration and solubility. Ionic structured water is smooth to the palate.

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Electro-Structured Water. Electro-structured water is water that is anti-microbial in nature and may be effective against virus, bacteria, fungus, mildew and spores. This water may have a wide array of disinfectant uses.

Derma-Structured Water. Derma-structured water is electrolyzed low pH water that has astringent and disinfecting properties and may have a wide array of cosmetic, dermatological and post-plastic surgery applications that may minimize infections and scarring and expedite healing.

FUNCTIONAL WATER RESEARCH IN ACADEMIA

The process to produce functional water was developed by Scottish inventor Michael Faraday in Boston, Massachusetts in 1834. In 1929, the value of electrolytic water separation to produce water with functional properties was realized in Japan. Japanese researchers have since taken this process, created a wide array of functional waters and have introduced this technology to food processing, hospital disinfection, wound care, agriculture, organic agriculture and food safety in Japan. During recent years, functional water applications have been studied by universities in the U.S.A. and Canada. For example, in a University of Georgia study published in the Journal of Food Protection in 1999 entitled "Inactivation of Escherichia coli O157:H7 and Listeria monocytogenes on Plastic Kitchen Cutting Boards by Electrolyzed Oxidizing Water," the immersion of plastic kitchen cutting boards in electrolyzed oxidizing water was found to be an effective method for inactivating food-borne pathogens such as E. coli. Other studies at the University of Georgia have looked at the efficacy of electrolyzed oxidizing water for inactivating E. coli, Salmonella and Listeria and have determined that such water may be a useful disinfectant. A University of Georgia study entitled "Antimicrobial effect of electrolyzed water for inactivating Campylobacter jejuni during poultry washing" demonstrated that electrolyzed water is not only effective in reducing the populations of C. jejuni on chicken, but also may be effective in the prevention of cross-contamination of processing environments.

OUR BUSINESS--FUNCTIONAL WATER SYSTEMS

Residential Systems. The residential countertop, functional water systems produce water that scientists believe contains more wellness and health-beneficial properties than regular tap water (see, "Electrolyzed-Reduced Water Scavenges Active Oxygen Species and Protects DNA from Oxidative Damage," Biochemical and Biophysical Research Communications, Vol. 234, No. 1, pp. 269-274 (1997); and, Hanaoka, K., "Antioxidant Effects Of Reduced Water Produced By Electrolysis Of Sodium Chloride Solutions," 31 Journal of Applied Electrochemistry 1307-1313 (2001)). Generally, the residential countertop system sits next to the kitchen faucet, and through the use of a diverter, allows tap water to be routed through the system. The water is then processed through a charcoal filter where chlorine and sediments are removed. The filtered water then proceeds to the electrolysis chamber that is made up of electrodes and membranes. A positive and negative electrical charge is passed through the electrodes. The minerals that are found in the filtered water are attracted to opposite electrodes. For example, the alkaline minerals (minerals with positive(+) properties that include calcium, magnesium, sodium, manganese, iron and potassium) are attracted to the negatively charged (-) electrode. The acidic minerals (minerals with negative (-) properties include nitric acid, sulfuric acid and chlorine) are attracted to the positively-charged (+) electrode. Through this mineral separation process, two separate types of water are formed, which are water with alkaline-concentrated minerals, and water with acidic-concentrated minerals. Each type of water is held in a separate chamber in the residential countertop system. The alkaline-concentrated water may be consumed for drinking and cooking purposes, while the acidic-concentrated water may be used in a topical, astringent medium.

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Commercial Systems. We are in preparation to market commercial functional water systems to the food processing, medical and agricultural industries. The system for the food processing industry includes: (1) a hand disinfectant system for proper hand washing, and (2) an anti-microbial water production system for general sterilization and disinfectant needs. We also intend to market similar systems to the medical industry. For the agricultural industry, we intend to sell functional water systems to organic food growers who desire to use functional water to replace the use of pesticides, fungicides, herbicides and chemical fertilizers. Our commercial functional water systems produce

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approximately one gallon per minute of electrolyzed alkaline and acidic waters. For the food processing industry, the alkaline water may be used as an effective medium for removing pesticides from agricultural products, while the acidic water may be used as anti-microbial water. For the hospital industry, the alkaline water may be used as an effective medium in removing protein buildup from surfaces, while the acidic water may be used as anti-microbial water. For the organic agricultural industry, the alkaline water may be used for plant growth and as a solid nutrient, while the acidic water may be used as a substitute for fungicides, pesticides, herbicides and sporicides.

OUR BUSINESS--MARKETING STRATEGY

Our objectives are:

- To create a revenue stream through our marketing of residential systems. These sales may be made through independent distributors, network marketing, infomercials, mail order, retail sales and direct sales generated through word-of-mouth referrals.
- To create a revenue stream through the sale of disinfectant systems to the food processing industry.
- To create a revenue stream through licensing agreements based upon a wide array of applications for functional water that will be targeted to specific industries. For example, electrolyzed water may be used in the beverage industry to extract flavors from their natural sources, such as extracting tea from tea leaves for use in bottled iced tea. Electrolyzed water may also be used in the formulation of nutraceutical-type dietary supplement products in the health-food and dietary supplement industries.

To continue the development of functional water applications for industries that are currently dependent upon chemicals as a processing medium. In addition to the food processing, medical and agricultural markets, we intend to develop market-driven applications for functional water, provide the science to these applications, publish the developments in scientific and industrial circulars and perform consulting functions to industries that can benefit from functional water. We intend to hire engineers from Japan to design, engineer and assemble prototypes of functional water systems that are built for specific industrial needs. We believe that by performing these functions ourselves, we will have all of the necessary tools to become a leading provider of functional water technology.

OUR BUSINESS--GOVERNMENT REGULATIONS

Our functional water systems are, or may be, subject to regulation by a variety of federal, state and local agencies, including the Consumer Product Safety Commission (CPSC) and the Food and Drug Administration ("FDA").

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Our hand disinfectant functional water system may be subject to pre-market approval by the FDA under Title 21 of the Code of Federal Regulations. We would expect such an approval process to take approximately 90 days after filing with the FDA, although there is no assurance that we will be able to obtain pre-market approval from the FDA. We have not made any applications to the FDA yet. We have engaged the consulting services of Environ Health Associates Inc. to assist us with our FDA application for the hand disinfectant. We anticipate filing the FDA application in the near future. Environ Health Associates Inc. is familiar with a modern food safety procedure known as Hazard Analysis and Critical Control Point ("HACCP"). HACCP is a food safety procedure that focuses on identifying and preventing hazards that could cause food-borne illnesses. We believe that complying with the HACCP procedure may assist us in getting FDA approval, since the FDA generally encourages retailers to apply HACCP-based food safety principles, along with other recommended practices.

At such time as we may obtain FDA approval for the hand disinfectant, we then would request that the system be tested by Underwriter's Laboratories and the National Sanitation Foundation.

OUR BUSINESS--MARKETING AND DISTRIBUTION

We intend to develop systems for the following markets:

- Hand disinfection for the food processing, fast food, medical, dental, personal care and general health care industries.
- Residential, countertop drinking water electrolysis systems.
- Commercial functional water systems, such as metal mining and refining, wine grape mildew treatment, wine aging control, potato maintenance

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treatment, and the formulation of dietary supplement products.

Hand Disinfection. After we obtain FDA approvals for the hand disinfection system, we plan to introduce the device and what we believe to be its operational simplicity, user-friendliness, high efficacy and affordability, through industrial circulars where hand disinfection is of a primary concern. We also intend to arrange with a leasing company to lease the hand disinfectant system to the fast food industry. A large part of our marketing efforts will be directed to educating our target markets about functional water. We plan to write and publish articles through industrial media, disinfection forums, trade shows and documentary-type films that may be aired through CNN, PBS and Voice of America introducing a new and novel method for hand disinfection. We intend to handle all inquiries through a toll-free number.

We plan to hire a public relations company that provides the news media with documentary videos for the purpose of educating the public on the technology, processes and applications that we market. The videos will cover the following subjects:

- The use of functional electrolyzed water for food safety.
- The use of functional electrolyzed water for effective disinfection in hospitals and clinical settings.
- The use of functional electrolyzed water for agriculture and organic agriculture.

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- The use of functional electrolyzed water as a wellness medium.

Residential Countertop Units. The first step towards the marketing and distribution of residential countertop units is to develop a national product distribution program through network marketing, mail order catalogs sales, infomercials, independent distributor channels and word of mouth sales. Since we understand that the demographics in these sales channels is predominately composed of females in the age groups of 35-60, we intend to concentrate on this market segment. The second step in the marketing and distribution of residential countertop units is to introduce a simplified, lower price-point system that will be introduced through retail outlets under a series of private labels.

Commercial Functional Water Systems. In addition to marketing the residential countertop systems, we plan to develop marketing plans for commercial systems. We may enter into agreements with companies to act as distributors of our functional water systems. We may also grant exclusive rights to companies to use our systems in specific industries for specific applications in exchange for royalties.

We presently have 12 product distributors. We are presently seeking 108 additional product distributors. In 2004 we had a radio advertising campaign to advertise our residential consumer products.

OUR BUSINESS--COMPETITION

Our competitors include several entry-level importers of systems from Japan and Korea. We believe that we have several distinctive advantages over entry-level distributors:

We and our consultants, who are scientists, business people and advisers, are individuals who have helped pioneer the understanding, documentation, representation and structuring of the technology and its relevance to the U.S.A. during the past nine-year period through various companies and organizations. These consultants are the leaders in the U.S.A. in the knowledge and representation of functional water.

We have been able to create a strong platform of specialists to advance functional water technology in the U.S.A., which would be difficult for others to replicate due to our high level of focused commitment and dedication.

We have close working relationships with our Japanese counterparts which have been developed and nurtured over the past ten-year period. These members are highly respected within the Japanese electrolysis community and attend annual conferences as invited speakers.

We have excellent working relationships with the Japanese manufacturers and we are often relied upon to provide international perspectives to be used in the refinement of their scientific, design and engineering thought processes to create products that will be accepted on a global basis.

With our knowledge, experience and foresight into the electrolyzed water

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industry, we are well-positioned to branch out on our own without reliance on Japanese manufacturing, if necessary.

We have strategically positioned ourselves as the "go to" organization for technology, hardware and informational support for the public.

Although the majority of competitors are small resellers, the one

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significant competitor that we have is named Hoshizaki U.S.A., which is an established U.S.A.-based Japanese company that has a substantial market presence in refrigeration and icemakers. We expect that we may face additional competition from new market entrants and current competitors as they expand their business models, but we do not believe that any real strong competitors are imminent for the foreseeable 3 to 4 year period, other than Hoshizaki U.S.A.

To be competitive, we must assemble a strategic marketing and sales infrastructure. Our success will be dependent on our ability to become a formidable marketing and sales entity based upon the technology we have and our ability to aggressively introduce this technology and its far-reaching benefits through documentary videos and other methods of public relations.

EMPLOYEES

We currently have 3 full-time employees all of whom are in management positions. None of our employees is subject to a collective bargaining agreement. We believe that our employee relations are good.

OTHER DEVELOPMENTS

We have done preliminary field testing in the wine industry with respect to the control of mildew on wine grapes in vineyards. Mildew on wine grapes is a serious grapevine fungal disease. The tendency for mildew to grow on wine grapes occurs, for example, in areas of Napa Valley where foggy conditions prevail. If mildew is found on the wine grapes, then spraying with dusty sulfur is done. Spraying with dusty sulfur will generally eliminate and control the mildew on grapes. If this fungus is ignored, the wine grapes may spoil. However, the long-term effects of sulfur exposure is unknown. The use of low pH functional water may remove mildew

We have done preliminary field testing in the potato growing industry with respect to potato maintenance during storage. Our preliminary review of this use of functional water indicates better potato maintenance during storage. We plan to continue this preliminary test using an automated functional water sprayer.

We have done preliminary testing in the mining and refining industry with respect to the effect of the use of functional water on heap leaching and refining of precious metals.

We obtained, through a sublicense from Edward Alexander at no cost to us, the North American rights to manufacture and distribute an electrolyzed water-based antioxidant dietary supplement developed by MIZ Corporation, a Japanese company specializing in advanced uses of electrolyzed water. We plan to sell this product to the fitness, sports and wellness markets.

We have been developing a proprietary process allowing for electrolysis to be applied to wine. The primary objective for this application is to allow for a wine maker to have direct control over the aging process of wine such that it allows a wine maker to shorten, complement or, if desired, bypass the wine aging process. The test results that were achieved showed promise in creating the "optimal" wine through a controlled process which provides a smooth texture to the wine along with an enhancement to the various active properties of the wine.

We plan to file an FDA application for our hand disinfectant system and our surface disinfectant system.

In February 2005, MIZ Company, a Japanese company that owns four U.S. patents whose subject matter is the electrolysis of water, assigned a 50% ownership interest in those four patents to Mr. Alexander in consideration of consulting services provided to MIZ Company by Mr. Alexander. Mr. Alexander has agreed to allow us to exploit the four patents on a royalty-free basis. Since

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MIZ Company and Mr. Alexander each has an ownership interest in the four patents, either Mr. Alexander or the Japanese company could grant licenses to others to use the four patents, and the Japanese company could exploit the four patents by itself.

Our functional currency is the U.S. dollar.

Our independent auditors made a going concern qualification in their report dated March 7, 2005 which raises substantial doubt about our ability to

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continue as a going concern.

DESCRIPTION OF PROPERTY

We lease approximately 4,000 square feet of office and storage space located at 1135 Atlantic Avenue, Suite 101, Alameda, CA 94501, for a lease payment of approximately \$6,000 per month. Under this lease, we are required to pay a percentage of the property taxes, insurance and maintenance. The lease expires in July 2006 and we anticipate renewing the lease at that time. We believe this space is adequate for our current needs, and that additional space is available to us at a reasonable cost, if needed.

FINANCIAL INFORMATION

Our financial statements begin on page F-1.

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 the audited financial statements and accompanying notes 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.

Our independent auditors made a going concern qualification in their report dated March 7, 2005, which raises substantial doubt about our ability to continue as a going concern. We incurred net losses applicable to common shareholders of \$829,031 for the nine months ended September 30, 2005. We have

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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 \$713,997 at September 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.

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 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 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 functional water for pathogen counter-measures.

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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

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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 began 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.

RESULTS OF OPERATIONS-YEARS ENDED DECEMBER 31, 2004 AND 2003.

We had revenue of \$379,989 for the year ended December 31, 2004 compared to revenue of \$238,805 for the year ended December 31, 2003. This increase is a 59% increase in revenue. This increase in revenue was due primarily to our hiring a sales manager in 2004.

We had a net loss \$965,840 for the year ended December 31, 2004 compared to a net loss of \$217,333 for the year ended December 31, 2003. This increase in net loss was due primarily to our increase in equity-based compensation for sales, general and administrative expenses.

Cash used by operating activities was \$323,722 for the year ended December 31, 2004 compared to cash used by operating activities of \$80,587 for the year ended December 31, 2003. This increase in cash used by operating activities was due primarily to the issuance of common stock used as in-kind compensation to pay for legal services and consulting services.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

We had revenue of \$274,501 for the nine months ended September 30, 2005 compared to revenue of \$278,907 for the nine months ended September 30, 2004.

We had Selling, General and Administrative Expenses of \$793,599 for the nine months ended September 30, 2005 compared to Selling, General and Administrative Expenses of \$341,119 for the nine months ended September 30, 2004. This increase in Selling, General and Administrative Expenses was due

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primarily to stock compensation we paid to a consultant that we valued at \$459,040 during the second quarter

We had a net loss of \$824,231 for the nine months ended September 30, 2005 compared to a net loss of \$246,114 for the nine months ended September 30, 2004. This increase in net loss was due primarily to the increase in expenses for Selling, General and Administrative Expenses.

Net cash used by operating activities was \$231,096 for the nine months Ended September 30, 2005 compared to cash used by operating activities of

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\$230,446 for the none months ended September 30, 2004.

LIQUIDITY

As of September 30, 2005, we had cash on hand of \$12,396. Our growth is dependent on 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.

During 2005 to date, two of our shareholders advanced us an aggregate of \$48,642. These advances bear interest at 7% with principal and accrued interest due between November 2005 and January 2007. At September 30, 2005 we owed the two shareholders an aggregate of \$310,642 and at December 31, 2004, we owed the two shareholders an aggregate of \$262,000. These amounts include loans made to us by them prior to 2005. At September 30, 2005 and December 31, 2004, the accrued interest was \$31,604 and \$15,946, respectively.

During the nine months ended September 30, 2005, we accrued \$45,000 as salaries payable to our majority shareholders resulting in \$139,890 of salaries payable at September 30, 2005. This accrual includes salary accruals that we made prior to 2005.

In March 2005, we issued a note payable in the amount of \$164,000. The note was originally due in May 2005 and has been extended to December 2005 secured by inventory. The original terms of the loan provided for an interest payment of \$28,500 or 106% per annum; when the note was extended in May 2005, the interest rate was amended to 30% on the original principal balance. At September 30, 2005 \$47,776 of interest had been accrued. In addition, the Company issued the lender 47,500 shares of common stock, which was recorded as a \$27,075 loan cost and was amortized over the original term of the note. The lender is Gary Taylor who is our President. These shares have not been issued yet.

During July 2005, we sold 100,000 shares of our common stock to one investor at \$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. Thought September 30, 2005, Mitachi had paid to us 6,000,000 Yen (US \$52,506) in connection with this 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 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.

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- The response of competitors.

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MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES.

Our stock is traded on the OTCBB under the trading symbol "PLBI." Our stock was added to the OTCBB in late December 2003. The first reported trade in our stock on the OTCBB occurred in January 2004. We are not aware of any trading market for our stock prior to January 2004. The following table sets forth the quarterly high and low bid price per share for our common stock. These bid and asked price quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual prices. There were no trades in our common stock until January 2004. Our fiscal year ends December 31.

COMMON STOCK PRICE RANGE

YEAR AND QUARTER	HIGH	LOW

2003:		
First Quarter	(*)	(*)
Second Quarter	(*)	(*)
Third Quarter	(*)	(*)
Fourth Quarter	(*)	(*)
2004: (**)		
First Quarter	\$ 2.45	\$ 0.60
Second Quarter	\$ 2.30	\$ 0.90
Third Quarter	\$ 1.15	\$ 0.30
Fourth Quarter	\$ 2.90	\$ 0.35
2005 (**)		
First Quarter	\$ 1.55	\$ 0.38
Second Quarter	\$ 0.48	\$ 0.32
Third Quarter	\$ 0.40	\$ 0.20
Fourth Quarter (through December 9, 2005)	\$ 0.29	\$ 0.14

(*) There was no trading market for our stock until January 2004.

(**) As set forth on www.yahoo.com

On December 9, 2005, the closing price of our stock was \$0.24.

On December 12, 2005, we had outstanding 14,270,100 shares of common stock (includes 47,500 shares that have not been certificated yet).

On December 12, 2005, we had approximately 86 shareholders of record which includes shares held directly by shareholders and shares beneficially owned by shareholders who have deposited their shares into an account at a broker-dealer.

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Such deposited shares into a brokerage account are accumulated in a nominee account in the name of Cede, Inc. Cede, Inc. is the nominee account that most broker-dealers use to deposit shares held in the name of the broker-dealer. Cede, Inc. is counted as one record shareholder, even though it could represent many beneficial shareholders who have deposited their shares into an account at a broker-dealer.

Our transfer agent is Holladay Stock Transfer, Inc., 2939 North 67th Place, Scottsdale, Arizona 85251, tel. (480) 481 3940.

We have not paid any cash dividends on our common stock and we do not expect to declare or pay any cash dividends on our common stock in the foreseeable future. Payment of any cash dividends will depend upon our future earnings, if any, our financial condition, and other factors as deemed relevant by the Board of Directors.

We have outstanding 8,000 shares of Series A Preferred Stock. We have no outstanding options, warrants, convertible debt. Our Series A Preferred Stock pays dividends.

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SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
PLAN CATEGORY:			
Equity compensation plans approved by security holders	-0-	n/a	-0- (1)
Equity compensation plans not approved by security holders (2)	-0-	n/a	352,400
Total	-0-	n/a	352,400

Directors, Executive Officers, Promoters and Control Persons

EXECUTIVE OFFICERS AND DIRECTORS

NAME	AGE	POSITION

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Edward Alexander	54	Director, Chief Executive Officer, Chief Financial Officer, and Secretary
Michael Fintan Ledwith	63	Director, Member of the Audit Committee
Gary Taylor	56	Director and President

Edward Alexander has been our Chairman, a Director, Chief Executive Officer, Chief Financial Officer, and Secretary since 2002. He had been the owner and president of Proton Laboratories, LLC from January, 2001 until its merger with us. Proton Laboratories, LLC introduced an electrolytic water separation technology that has many uses in industry, product formulations and consumer products. From January 1997 to July 1998, Mr. Alexander served as owner and president of Advanced H2O, LLC. In July 1998, Mr. Alexander formed Advanced H2O, Inc. to specialize in bottled water production. Mr. Alexander continues to serve as a consultant to Advanced H2O, Inc. Prior to 1997, Mr. Alexander served as General Manager for Tomoe Incorporated and held various positions with various divisions of the U.S. Navy Resale System. In February 2002, the Securities and Exchange Commission accepted a settlement offer from Mr. Alexander and imposed a cease and desist order against Mr. Alexander from committing or causing any violation or future violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. This order was imposed in connection with a press release that Mr. Alexander was persuaded to release about Proton Laboratories, LLC by a business associate whom Mr. Alexander trusted at the time.

Michael Ledwith has been our Director since 2002. He has been a member of the Audit Committee since June 2004. He has been semi-retired from daily business activities since 1998. He was Professor of Systematic Theology at the Pontifical University of Maynooth in Ireland from 1976 to 1994. He was later Dean of the Faculty, Head of Department and Editor of "The Irish Theological Quarterly." He was later appointed as a Consulting Editor of the renowned international review "Communio" and still serves in that capacity. He was appointed Vice-President of the University in 1980, re-appointed in 1983, and was appointed President in 1985. He served as Chairman of the Committee of Heads of the Irish Universities and was a Member of the Governing Bureau of the European University Presidents' Federation (CRE). He retired from his Professorship on September 30, 1996 and has since continued to pursue his interest in research, writing, and lecturing in the field of actualizing human potential. Since November 2001 he has been a partner in World of Star Stuff, which markets whole food

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products.

On June 3, 2005, Gary Taylor was appointed as a Director and President. We granted 131,600 shares of common stock to Mr. Taylor in connection with this appointment. Since 1998, Mr. Taylor has been the CEO of The Moore Company which provides consulting for product distribution and third party logistical services.

COMMITTEES OF THE BOARD OF DIRECTORS

We do not have any nominating, or compensation committees of the Board, or committees performing similar functions.

In December 2003, our Board adopted our Audit Committee Charter (the "Charter") which established our Audit Committee. The Board of Directors has

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selected Michael Ledwith, our only independent Director, to be on the Audit Committee. Mr. Ledwith is not a financial expert. We have determined Mr. Ledwith's independence using the definition of independence set forth in NASD Rule 4200-(14). We have not yet been able to recruit an independent director who is also a financial expert.

The primary purpose of the Audit Committee is to oversee our financial reporting process on behalf of the Board of Directors. The Audit Committee will meet privately with our Chief Accounting Officer and with our independent public accountants and evaluate the responses by the Chief Accounting Officer both to the facts presented and to the judgments made by our independent accountants. The Charter establishes the independence of our Audit Committee and sets forth the scope of the Audit Committee's duties. The Purpose of the Audit Committee is to conduct continuing oversight of our financial affairs. The Audit Committee conducts an ongoing review of our financial reports and other financial information prior to filing them with the Securities and Exchange Commission, or otherwise providing them to the public. The Audit Committee also reviews our systems, methods and procedures of internal controls in the areas of: financial reporting, audits, treasury operations, corporate finance, managerial, financial and SEC accounting, compliance with law, and ethical conduct. A majority of the members of the Audit Committee will be independent directors. The Audit Committee is objective, and reviews and assesses the work of our independent accountants and our internal audit department. The Audit Committee will review and discuss the matters required by SAS 61 and our audited financial statements for the year ended December 31, 2004 with our management and our independent auditors. The Audit Committee will receive the written disclosures and the letter from our independent accountants required by Independence Standards Board No. 1, and the Audit Committee will discuss with the independent accountant the independent accountant's independence.

MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors did not hold meetings during the year ended December 31, 2004, but did act by consent on four occasions. There is no family relationship between or among any of our directors and executive officers.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our officers, directors and persons who beneficially own more than 10% of our common stock to file reports of ownership and changes in ownership with the SEC. These reporting persons also are required to furnish us with copies of all Section 16(a) forms they file. To the best of our knowledge, all persons required to file reports under Section 16(a) of the Exchange Act have done so in a timely manner.

CODE OF ETHICS

We have a Code of Ethics that applies to our principal executive officer and our principal financial officer. We undertake to provide to any person, without charge, upon request, a copy of our Code of Ethics. You may request a copy of our Code of Ethics by mailing your written request to us. Your written request must contain the phrase "Request for a Copy of the Code of Ethics of Proton Laboratories, Inc." Our address is: Proton Laboratories, Inc., 1135 Atlantic Avenue, Suite 101, Alameda, CA 94501.

Executive Compensation

The following table sets forth certain information as to our highest paid officers and directors for our fiscal year ended December 31, 2004. No other compensation was paid to any such officers or directors other than the

compensation set forth below.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards			Pay-Outs LTIP Payouts \$	O Comp
		Salary \$	Bonus \$	Annual Compensation \$	Other Restricted Stock Award(s) \$	Securities Under- lying Options/ SARs #			
	2004	(1)	62,400	-0-	-0-	-0-	-0-	-0-	
Edward	2003	(2)	62,400	-0-	-0-	-0-	-0-	-0-	
Alexander CEO, CFO	2002	(3)	60,000	-0-	-0-	-0-	-0-	-0-	

-
- (1) Mr. Alexander received \$2,400 as cash compensation. We determined that the value of his services was \$62,400, of which \$60,000 was recorded as accrued wages.
- (2) Mr. Alexander received \$2,400 as cash compensation. We determined that the value of his services was \$62,400, of which \$45,000 was recorded as additional paid-in capital and \$15,000 was recorded as accrued wages.
- (3) Mr. Alexander did not receive any cash compensation. This amount was determined to be the value of his services and was recorded as additional paid in capital.

OUTSTANDING STOCK OPTIONS

We have not granted any options to purchase common stock and we do not have any outstanding options to purchase common stock.

COMPENSATION OF DIRECTORS

Our directors do not receive cash compensation for their services as directors or members of committees of the Board of Directors.

EMPLOYEE STOCK OPTION PLANS

We believe that our future success will depend in part on our continued ability to attract and retain highly qualified personnel. We pay wages and salaries that we believe are competitive. We also believe that equity ownership is an important factor in our ability to attract and retain skilled personnel. Our Board of Directors has adopted the 2005 Stock and Stock Option Plan (the "Plan"). It has not yet been approved by shareholders. The purpose of the Plan is to further our interests, our subsidiaries and our stockholders by providing incentives in the form of stock and stock options to our officers, directors, employees, vendors, consultants, attorneys and subcontractors. There are a total of 352,400 shares remaining available for issuance in the Plan.

NO EMPLOYMENT AGREEMENT

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We do not have any employment agreements with any employees.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
PLAN CATEGORY:			
Equity compensation plans approved by security holders	-0-	n/a	-0- (1)
Equity compensation plans not approved by security holders (2)	-0-	n/a	352,400
Total	-0-	n/a	352,400

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The following table sets forth certain information concerning the number of shares of common stock owned beneficially as of December 12, 2005 by: (i) each person (including any group) known by us to own more than five percent (5%) of any class of our voting securities, (ii) each of our directors and executive officers, and (iii) our officers and directors as a group. Unless otherwise indicated, the shareholders listed possess sole voting and investment power with respect to the shares shown. As of December 12, 2005 we had 14,270,100 shares of common stock outstanding (includes 47,500 shares that have not been certificated yet).

Name and Address	Amount of Shares Beneficially Owned	Class of Securities	Percentage of Class
Edward Alexander 1135 Atlantic Avenue, Suite 101 Alameda, CA 94501	8,224,000	Common Stock	58%
Gary Taylor 333 S.E. 2ND AVE. PORTLAND OR 97214	156,400	Common Stock	1%

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Michael Fintan Ledwith
6610 Churchill Rd. SE
Tenino, WA 98589

-0- Common Stock -0-%

Executive Officers
As A Group(3 Persons)

8,380,400 Common Stock 59%

We are not aware of any arrangements that could result in a change of control.

Certain Relationships and Related Transactions

We have a policy that our business affairs will be conducted in all respects by standards applicable to publicly held corporations and that we will not enter into any future transactions and/or loans between us and our officers, directors and 5% shareholders unless the terms are: (a) no less favorable than could be obtained from independent third parties, and (b) will be approved by a majority of our independent and disinterested directors. In our view, all of the transactions described below meet this standard.

In March 2005, Gary Taylor loaned us \$164,000 and we issued to him a note payable in the amount of \$164,000. The note was originally due in May 2005 and has since been extended to mature on December 31, 2005. The note is secured by inventory. The original terms of the loan provided for an interest payment of \$28,500 or 106% per annum. When the note's maturity was extended in May 2005, the interest rate was amended to 30% on the original principal balance. At September 30, 2005 \$47,776 of interest had been accrued. In addition, the Company issued the lender 47,500 shares of common stock, which was recorded as a \$27,075 loan cost and was amortized over the original term of the note. These shares have not been issued yet.

During the year ended December 31, 2004, Edward Alexander advanced to us the amount of \$178,000 in cash. This advance accrues interest at the rate of 7% per annum and is due on dates ranging from March through

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September 2006. At December 31, 2004, the aggregate balance we owe on loans from shareholders is \$262,000 which includes \$84,000 in loans from prior periods. All of these loans accrues interest at the rate of 7% per annum and are due on dates ranging from November 2005 through September 2006. At December 31, 2004, the aggregate accrued interest on these loans was \$16,681.

During 2004, we obtained, through a sublicense from Edward Alexander, at no cost to us, the North American rights to manufacture and distribute an electrolyzed water-based antioxidant dietary supplement developed by MIZ Corporation, a Japanese company specializing in advanced uses of electrolyzed water. We plan to sell this product to the fitness, sports and wellness markets.

In January 2005, a shareholder advanced \$40,000 to us. This advance bears interest at 7% with principal and accrued interest due January 2007.

DESCRIPTION OF SECURITIES

CAPITAL STOCK

The following description of our capital stock is a summary of the material terms of our capital stock. Our authorized capital stock consists of 120,000,000

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shares of which there are 100,000,000 shares of common stock having a par value of \$0.0001 per share and 20,000,000 shares of preferred stock having a par value of \$0.0001 per share. As of December 12, 2005, there are 14,270,100 shares of common stock outstanding (includes 47,500 shares that have not been certificated yet), and 8,000 shares of Series A Preferred Stock outstanding. The outstanding shares of common stock are validly issued, fully paid and non-assessable.

Of our 14,270,100 shares of common stock outstanding, 5,571,600 shares are free trading shares and 8,698,500 shares are restricted shares.

Our Articles of Incorporation do not permit cumulative voting for the election of directors, nor do stockholders have any preemptive rights, subscription or conversion rights to purchase shares in any future issuance of our common stock.

The holders of common stock have the sole right to vote, except as otherwise provided by law or by the Articles, including provisions governing any preferred stock. Election of directors and other general stockholder action requires the affirmative vote of a majority of shares represented at a meeting in which a quorum is represented. The holders of more than 50% of such outstanding shares common stock, voting for the election of directors, can elect all of the directors to be elected, if they so choose, and, in such event, the holders of the remaining shares will not be able to elect any other directors.

Subject to the rights, if any, of any outstanding shares of preferred stock, if any, the holders of shares of common stock are entitled to dividends, out of funds legally available therefore, when, if and as declared by the Board of Directors. The Board of Directors has never declared a dividend and does not anticipate declaring a dividend in the future. Each outstanding share of common stock entitles the holder thereof to one vote per share on all matters required by law to be submitted to a vote of stockholders.

In the event of liquidation, dissolution or winding up of our affairs, holders of common stock are entitled to receive, ratably, our net assets of available after payment of all creditors and any preferential liquidation rights, if any, of any preferred stock, if any, then outstanding.

All of the issued and outstanding shares of common stock are duly authorized, validly issued, fully paid, and non-assessable. To the extent that additional shares of our common stock are issued, the relative interests of existing stockholders may be diluted.

THE PENNY STOCK RULES

Our securities may be considered a penny stock. Penny stocks are securities with a price of less than \$5.00 per share other than securities registered on national securities exchanges or quoted on the Nasdaq stock market, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. Our securities may be subject to "penny stock rules" that impose additional sales practice requirements on broker-dealers who sell penny stock securities to persons other than established customers and accredited investors. For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of penny stock securities and have received the purchaser's written consent to the transaction prior to the

purchase. Additionally, for any transaction involving a penny stock, unless exempt, the "penny stock rules" require the delivery, prior to the transaction, of a disclosure schedule prescribed by the Commission relating to the penny

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stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Monthly statements must be sent disclosing recent price information on the limited market in penny stocks. The "penny stock rules" may restrict the ability of broker-dealers to sell our securities and may have the effect of reducing the level of trading activity of our common stock in the secondary market. The penny stock restrictions will not apply to our securities when our market price is \$5.00 or greater. The price of our securities may not reach or maintain a \$5.00 price level.

SELLING STOCKHOLDERS

The following table sets forth the name of each Selling Stockholder, the number of shares of common stock offered by each Selling Stockholder, the number of shares of common stock to be owned by each Selling Stockholder if all shares were to be sold in this offering and the percentage of our common stock that will be owned by each Selling Stockholder if all shares are sold in this the offering. The shares of common stock being offered hereby are being registered to permit public secondary trading and the Selling Stockholders may offer all, none or a portion of the shares for resale from time to time.

Name Of Selling Stockholder Sold	Shares Owned Before Offering	Shares Offered For Sale	Shares Owned After Offering If All Shares Are Sold	Percentage Owned After Offering If All Shares Are
	(1)		(2)	(2)

Dutchess Private Equities Fund, LP(4)	-0-	50,000,000 (3)	-0-	-0-
---------------------------------------	-----	----------------	-----	-----

- (1) To the best of our knowledge, no Selling Stockholder has a short position in our common stock. To the best of our knowledge, no Selling Stockholder that is a beneficial owner of any of these shares is a broker-dealer or an affiliate of a broker-dealer (a broker-dealer may be a record holder). No Selling Stockholder has held any position or office, or has had any material relationship with us or any of our affiliates within the past three years. The Selling Stockholders, Dutchess Private Equities Fund, II, LP, and any broker-dealers or agents that are involved in selling the shares are underwriters within the meaning of the Securities Act for such sales. An underwriter is a person who has purchased shares from an issuer with a view towards distributing the shares to the public. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be considered to be underwriting commissions or discounts under the Securities Act.
- (2) Assumes no sales or purchases are transacted by the Selling Stockholder during the offering period other than in this offering.
- (3) Includes 50,000,000 shares not yet beneficially owned that are the subject of our equity line of credit agreement with Dutchess
- (4) Douglas Leighton and Michael Novielli are managing members of Dutchess Capital Management, LLC which is the general partner of Dutchess Private

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Equities Fund, LP.

PLAN OF DISTRIBUTION

The Selling Stockholders (of record ownership and of beneficial ownership) and any of their pledgees, assignees, and successors-in-interest may, from time to time, sell any or all of their shares of common stock on any stock exchange, market, or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. There is no assurance that the Selling Stockholders will sell any or all of the common stock in this offering. The Selling Stockholders may use any one or more of the following methods when selling shares:

- Ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers.
- Block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction.

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- Purchases by a broker-dealer as principal and resale by the broker-dealer for its own account.
- An exchange distribution following the rules of the applicable exchange.
- Privately negotiated transactions.
- Short sales or sales of shares not previously owned by the seller.
- An agreement between a broker-dealer and a Selling Stockholder to sell a specified number of such shares at a stipulated price per share.
- A combination of any such methods of sale.
- Any other lawful method.

The Selling Stockholder may also engage in:

- Short selling against the box, which is making a short sale when the seller already owns the shares.
- Buying puts, which is a contract whereby the person buying the contract may sell shares at a specified price by a specified date.
- Selling calls, which is a contract giving the person buying the contract the right to buy shares at a specified price by a specified date.
- Selling under Rule 144 under the Securities Act, if available, rather than under this prospectus.
- Other transactions in our securities or in derivatives of our securities and the subsequent sale or delivery of shares by the stock holder.
- Pledging shares to their brokers under the margin provisions of customer agreements. If a Selling Stockholder defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares.

Broker-dealers engaged by the Selling Stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions

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or discounts from the Selling Stockholder in amounts to be negotiated. If any broker-dealer acts as agent for the purchaser of shares, the broker-dealer may receive commission from the purchaser in amounts to be negotiated. We do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

We are required to pay all fees and expenses incident to the registration of the shares in this offering. However, we will not pay any commissions or any other fees in connection with the resale of the common stock in this offering.

If we are notified by a Selling Stockholder that they have a material arrangement with a broker-dealer for the resale of the common stock, then we would be required to amend the Registration Statement of which this prospectus is a part, and file a prospectus supplement to describe the agreements between the Selling Stockholder and the broker-dealer.

The Selling Stockholders, Dutchess Private Equities Fund, II, LP, and any broker-dealers or agents that are involved in selling the shares are underwriters within the meaning of the Securities Act for such sales. An underwriter is a person who has purchased shares from an issuer with a view towards distributing the shares to the public. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be considered to be underwriting commissions or discounts under the Securities Act.

We have engaged the services of US EURO Securities, Inc. to be our placement agent in connection with the equity line of credit. US EURO Securities, Inc. is a member of the NASD. We will pay \$10,000 to US EURO Securities, Inc. for this service. The placement agent provides consulting services to us with respect to the Dutchess Investment Agreement. The placement agent is available to us for consultation in connection with financings to be requested by us pursuant to the Dutchess Investment Agreement.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

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LEGAL PROCEEDINGS

We are not a plaintiff or defendant in any litigation, nor is any litigation threatened against us.

INTEREST OF NAMED EXPERTS AND COUNSEL

Joel Seidner, Esq., Attorney At Law, 1240 Blalock Road, Suite 250, Houston, Texas 77055, tel. (713) 461-2627 ext. 210, has acted as our legal counsel for this offering. The validity of the shares offered by this prospectus has been passed upon for Proton Laboratories, Inc. by Mr. Seidner. As of the date of this prospectus, Mr. Seidner owns 86,000 shares of our common stock.

Our consolidated balance sheets as of December 31, 2004 and 2003, and the consolidated statements of operations, stockholders' deficit, and cashflows, for the years then ended, have been included in the registration statement on Form SB-2 of which this prospectus forms a part, in reliance on the report of Hansen, Barnett & Maxwell, an independent registered public accounting firm, given on the authority of that firm as experts in auditing and accounting.

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DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

The Washington Business Corporation Act at Title 23 RCW provides that we shall indemnify our officers and directors and hold harmless each person who was, is or is threatened to be made a party to or is otherwise involved in any threatened proceedings by reason of the fact that he or she is or was our director or officer, against losses, claims, damages, liabilities and expenses actually and reasonably incurred or suffered in connection with such proceeding.

However, the statutory indemnity does not apply to: (a) acts or omissions of the director finally adjudged to be intentional misconduct or a knowing violation of law; (b) unlawful distributions; or (c) any transaction with respect to which it was finally adjudged that such director personally received a benefit in money, property, or services to which the director was not legally entitled.

Our Articles of Incorporation and By-Laws also state that we indemnify our officers and directors and hold harmless each person who was, is or is threatened to be made a party to or is otherwise involved in any threatened proceedings by reason of the fact that he or she is or was our director or officer, against losses, claims, damages, liabilities and expenses actually and reasonably incurred or suffered in connection with such proceeding.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers and controlling persons pursuant to the forgoing provisions or otherwise, we have been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in that Act and is, therefore, unenforceable.

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PROTON LABORATORIES, INC.

FINANCIAL STATEMENTS

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Condensed Consolidated Statements of Operations for the three
and nine months ended September 30, 2005 and 2004 (Unaudited) FF-2

Condensed Consolidated Statements of Cash Flows for the nine months ended
September 30, 2005 and 2004 (Unaudited) FF-3

Notes to Condensed Consolidated Financial Statements (Unaudited) FF-4

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HANSEN, BARNETT & MAXWELL
A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS
5 Triad Center, Suite 750
Salt Lake City, UT 84180-1128
Phone: (801) 532-2200
Fax: (801) 532-7944
www.hbmcpas.com

REGISTERED WITH THE PUBLIC COMPANY
ACCOUNTING OVERSIGHT BOARD

[GRAPHIC OMITTED]
in independent member of
BAKER TILLY
INTERNATIONAL

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Stockholders
Proton Laboratories, Inc. and subsidiaries

We have audited the consolidated balance sheets of Proton Laboratories, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' deficit and cash flows for the years ended December 31, 2004 and 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Proton Laboratories as of December 31, 2004 and 2003, and the results of their consolidated operations and their cash flows for the years ended December 31, 2004 and 2003, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has an accumulated deficit, has suffered reoccurring losses from operations, has negative working capital, and has required loans from the Company's majority shareholder to fund operations. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
March 7, 2005

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PROTON LABORATORIES, INC
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

	2004	2003
=====		
ASSETS		
CURRENT ASSETS		
Cash	\$ 14,412	\$ 4,423
Accounts receivable, less allowance for doubtful accounts of \$16,522 and \$10,092, respectively	10,633	24,583
Inventory	34,097	27,800

TOTAL CURRENT ASSETS	59,142	56,806

PROPERTY AND EQUIPMENT		
Furniture and fixtures	18,438	4,670
Equipment and machinery	95,039	43,724
Leasehold improvements	10,995	1,886
Deposit on equipment	69,500	-
Less: accumulated depreciation	(19,160)	(11,672)

NET PROPERTY AND EQUIPMENT	174,812	38,608

TOTAL ASSETS	\$ 233,954	\$ 95,414
=====		
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	\$ 134,780	\$ 197,576
Accrued expenses	110,562	15,735
Preferred dividends payable	3,200	-
Stockholder loan, current portion	84,000	-

TOTAL CURRENT LIABILITIES	332,542	213,311

STOCKHOLDER LOAN, NET OF CURRENT PORTION	178,000	84,000

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STOCKHOLDERS' DEFICIT

Series A convertible preferred stock, 400,000 shares authorized with a par value of \$0.0001; 8,000 and no shares issued and outstanding, respectively; liquidation preference of \$80,000 and \$0, respectively	80,000	-
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; 12,975,000 and 11,250,000 shares issued and outstanding, respectively	1,299	1,126
Additional paid in capital	1,350,616	536,440
Accumulated deficit	(1,708,503)	(739,463)

TOTAL STOCKHOLDERS' DEFICIT	(276,588)	(201,897)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 233,954	\$ 95,414
=====		

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

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PROTON LABORATORIES, INC
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
=====		
SALES	\$ 379,989	\$ 238,805
COST OF GOODS SOLD	263,395	175,505

GROSS PROFIT	116,594	63,300

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (including equity-based expenses of \$663,349 and \$45,000, respectively)	1,065,595	270,420

LOSS FROM OPERATIONS	(949,001)	(207,120)

OTHER INCOME AND (EXPENSE)		
Loss on disposal of property and equipment	(1,648)	(9,483)
Interest income	20	5
Interest expense	(15,211)	(735)

NET OTHER EXPENSE	(16,839)	(10,213)

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NET LOSS	(965,840)	(217,333)
PREFERRED STOCK DIVIDEND	(3,200)	-

LOSS APPLICABLE TO COMMON SHAREHOLDERS	\$ (969,040)	\$ (217,333)
=====		
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.08)	\$ (0.02)
=====		
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	11,525,510	11,250,000
=====		

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

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PROTON LABORATORIES, INC
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004

	PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID IN CAPITAL	ACC D
	SHARES	AMOUNT	SHARES	AMOUNT		

BALANCE - DECEMBER 31, 2002	-	\$ -	11,250,000	1,126	491,440	
Fair value of officer services, no additional shares issued	-	-	-	-	45,000	
Net loss for the period	-	-	-	-	-	

BALANCE - DECEMBER 31, 2003	-	-	11,250,000	1,126	536,440	
Sale of preferred stock	8,000	80,000	-	-	-	
Issuance of shares for legal services	-	-	100,000	10	39,990	
Issuance of shares for consulting services	-	-	1,345,000	135	578,214	
Issuance of common stock for cash	-	-	280,000	28	195,972	
Dividends accrued	-	-	-	-	-	
Net loss for the period	-	-	-	-	-	

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BALANCE - DECEMBER 31, 2004 8,000 \$ 80,000 12,975,000 \$ 1,299 \$ 1,350,616 \$ (1)

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

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PROTON LABORATORIES, INC
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
<hr/>		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (965,840)	\$ (217,333)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	9,814	7,480
Bad debt expense	6,430	-
Loss on disposal of property and equipment	1,648	9,483
Fair value of officer services	-	45,000
Common stock issued for legal services and consulting services	618,349	-
Changes in operating assets and liabilities		
Accounts receivable	7,520	8,172
Inventory	(33,674)	(18,879)
Accounts payable	(62,796)	69,938
Accrued expenses	94,827	15,552
<hr/>		
NET CASH FROM OPERATING ACTIVITIES	(323,722)	(80,587)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(120,289)	(375)
<hr/>		
NET CASH FROM INVESTING ACTIVITIES	(120,289)	(375)
<hr/>		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from stockholder loans	178,000	84,000
Proceeds from sale of preferred stock	80,000	-
Proceeds from sale of common stock	196,000	-
<hr/>		
NET CASH FROM FINANCING ACTIVITIES	454,000	84,000
<hr/>		
NET INCREASE IN CASH	9,989	3,038
CASH AT BEGINNING OF PERIOD	4,423	1,385
<hr/>		
CASH AT END OF PERIOD	\$ 14,412	\$ 4,423

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=====

NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of inventory to equipment	\$ 27,377	\$ 11,740

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

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PROTON LABORATORIES, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATIONS

ORGANIZATION- Proton Laboratories, LLC. (Proton) was incorporated on February 16, 2000 in the State of California. Proton did not begin its operations until January 1, 2001. On January 1, 2001, Proton's sole owner contributed inventory and property and equipment to the Company.

BentleyCapitalCorp.com Inc. (Bentley) was incorporated in the State of Washington, U.S.A. on March 14, 2000. On November 15, 2002, Proton entered into an Agreement and Plan of Reorganization with Bentley whereby the Company merged with and into VWO I Inc. (VWO), a wholly owned subsidiary of Bentley (the "Merger"). In April 2004 the subsidiary changed its name to Water Science, Inc.

For financial statement purposes Proton is considered the parent corporation and originally elected to maintain BentleyCapitalCorp.com, Inc as its business name. In December 2003 the Company's board elected to change its name to Proton Laboratories, Inc., and hereafter collectively referred to as the "Company".

CONSOLIDATION POLICY - The ac-->

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PLAN OF DISTRIBUTION

The selling stockholders, or their pledgees, donees, transferees, or any of their successors in interest selling shares received from a named selling stockholder as a gift, partnership distribution or other non-sale-related transfer after the date of this prospectus (all of whom may be selling stockholders), may sell the securities from time to time on any stock exchange or automated interdealer quotation system on which the securities are listed, in the over-the-counter market, in privately negotiated transactions or otherwise, at fixed prices that may be changed, at market prices prevailing at the time of sale, at prices related to prevailing market prices or at prices otherwise negotiated. The selling stockholders may sell the securities by one or more of the following methods, without limitation:

- (a) block trades in which the broker or dealer so engaged will attempt to sell the securities as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- (b) purchases by a broker or dealer as principal and resale by the broker or dealer for its own account pursuant to this prospectus;
- (c) on any national securities exchange or quotation service on which the securities are listed or quoted at the time of sale;
- (d) in the over-the-counter market;
- (e) otherwise than on such exchanges or services or in the over-the-counter market;
- (f) ordinary brokerage transactions and transactions in which the broker solicits purchases;
- (g) privately negotiated transactions;
- (h) short sales;
- (i) through the writing of options on the securities, whether or not the options are listed on an options exchange;
- (j) through the distribution of the securities by any selling securityholder to its partners, members or stockholders;
- (k) one or more underwritten offerings on a firm commitment or best efforts basis;
- (l) transactions which may involve crosses or block transactions;
- (m) to cover hedging transactions (other than short sales as defined in Rule 3b-3 under the Exchange Act) made pursuant to this prospectus;
- (n) by pledge to secure debts or other obligations;
- (o) any combination of any of these methods of sale; and
- (p) any other manner permitted pursuant to applicable law.

The selling stockholders may also transfer the securities by gift. We do not know of any arrangements by the selling stockholders for the sale of any of the securities.

The selling stockholders may engage brokers and dealers, and any brokers or dealers may arrange for other brokers or dealers to participate in effecting sales of the securities. These brokers, dealers or underwriters may act as principals, or as an agent of a selling securityholder. Broker-dealers may agree with a selling stockholder to sell a specified number of the securities at a stipulated price per security. If the broker-dealer is unable to sell securities acting as agent for a selling stockholder, it may purchase as principal any unsold securities at the stipulated price. Broker-dealers who acquire securities as principals may thereafter resell the securities from time to time in transactions in any stock exchange or automated interdealer quotation system on which the securities are then listed, at prices and on terms then prevailing at the time of sale, at prices related to the then-current market price or in negotiated transactions. Broker-dealers may use block transactions and sales to and through broker-dealers, including transactions of the nature described above. The selling stockholders may also sell the securities in

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accordance with Rule 144 under the Securities Act of 1933, as amended, rather than pursuant to this prospectus, regardless of whether the securities are covered by this prospectus.

From time to time, one or more of the selling stockholders may pledge, hypothecate or grant a security interest in some or all of the securities owned by them. The pledgees, secured parties or persons to whom the securities have been hypothecated will, upon foreclosure in the event of default, be deemed to be selling stockholders. As and when a selling stockholder takes such actions, the number of securities offered under this prospectus on behalf of such selling stockholder will decrease. The plan of distribution for that selling stockholder's securities will otherwise remain unchanged. In addition, a selling stockholder may, from time to time, sell the securities short, and, in those instances, this prospectus may be delivered in connection with the short sales and the securities offered under this prospectus may be used to cover short sales.

To the extent required under the Securities Act of 1933, the aggregate amount of selling stockholders' securities being offered and the terms of the offering, the names of any agents, brokers, dealers or underwriters and any applicable commission with respect to a particular offer will be set forth in an accompanying prospectus supplement. Any underwriters, dealers, brokers or agents participating in the distribution of the securities may receive compensation in the form of underwriting discounts, concessions, commissions or fees from a selling stockholder and/or purchasers of selling stockholders' securities, for whom they may act (which compensation as to a particular broker-dealer might be in excess of customary commissions).

The selling stockholders and any underwriters, brokers, dealers or agents that participate in the distribution of the securities may be deemed to be underwriters within the meaning of the Securities Act of 1933, and any discounts, concessions, commissions or fees received by them and any profit on the resale of the securities sold by them may be deemed to be underwriting discounts and commissions.

A selling stockholder may enter into hedging transactions with broker-dealers and the broker-dealers may engage in short sales of the securities in the course of hedging the positions they assume with that selling securityholder, including, without limitation, in connection with distributions of the securities by those broker-dealers. A selling stockholder may enter into option or other transactions with broker-dealers that involve the delivery of the securities offered hereby to the broker-dealers, who may then resell or otherwise transfer those securities. A selling stockholder may also loan or pledge the securities offered hereby to a broker-dealer and the broker-dealer may sell the securities offered hereby so loaned or upon a default may sell or otherwise transfer the pledged securities offered hereby.

The selling stockholders and other persons participating in the sale or distribution of the securities will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including Regulation M. This regulation may limit the timing of purchases and sales of any of the securities by the selling stockholders and any other person. The anti-manipulation rules under the Securities Exchange Act of 1934 may apply to sales of securities in the market and to the activities of the selling stockholders and their affiliates. Furthermore, Regulation M may restrict the ability of any person engaged in the distribution of the securities to engage in market-making activities with respect to the particular securities being distributed for a period of up to five business days before the distribution. These restrictions may affect the marketability of the securities and the ability of any person or entity to engage in market-making activities with respect to the securities.

We have agreed to indemnify in certain circumstances the selling stockholders and any brokers, dealers and agents who may be deemed to be underwriters, if any, of the securities covered by the registration statement, against certain liabilities, including liabilities under the Securities Act of 1933. The selling stockholders have agreed to indemnify us in certain circumstances against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

Certain of the securities offered hereby have been issued to the selling stockholders in transactions exempt from the registration requirements of the Securities Act of 1933, as amended. We agreed pursuant to a registration rights agreement we entered into with the selling stockholders to register such securities and all other shares of common stock owned by them under the Securities Act of 1933, and to keep the registration statement of which this prospectus is a part effective until the date on which the selling stockholders have sold all of the securities. We have agreed to pay all expenses in connection with this offering, including the fees and expenses of counsel or other

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advisors to the selling stockholders, but not including underwriting discounts, concessions or commissions of the selling stockholders.

We will not receive any proceeds from sales of any securities by the selling stockholders.

We cannot assure you that the selling stockholders will sell all or any portion of the securities offered hereby.

LEGAL MATTERS

Certain legal matters have been passed upon for us by Kirkland & Ellis LLP, Chicago, Illinois (a limited liability partnership that includes professional corporations).

EXPERTS

The financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control Over Financial Reporting) incorporated in this prospectus by reference to the Annual Report on Form 10-K for the year ended March 31, 2006 have been so incorporated in reliance on the report (which contains an explanatory paragraph relating to our ability to continue as a going concern as described in Note 1 to our financial statements and an adverse opinion on the effectiveness of internal control over financial reporting) of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

INCORPORATION BY REFERENCE

We disclose important information to you by referring you to documents that we have previously filed with the SEC or documents that we will file with the SEC in the future. The information incorporated by reference is considered to be part of this prospectus, and information in documents that we file later with the SEC will automatically update and supersede information in this prospectus. We incorporate by reference the documents listed below into this prospectus, and any future filings made by us with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act until we close this offering, including all filings made after the date of the initial registration statement and prior to the effectiveness of the registration statement. We hereby incorporate by reference the following documents:

our Annual Report on Form 10-K for the fiscal year ended March 31, 2006, filed with the SEC on June 29, 2006 and the portions of the Proxy Statement dated July 28, 2006 that are incorporated by reference into the Form 10-K;

our Quarterly Reports on Form 10-Q for the fiscal quarters ended June 30, 2006, filed with the SEC on August 8, 2006, and September 30, 2006, filed with the SEC on November 9, 2006;

our Current Report on Form 8-K, filed with the SEC on June 29, 2006;

our Current Report on Form 8-K, filed with the SEC on July 6, 2006;

our Current Report on Form 8-K, filed with the SEC on August 4, 2006;

our Current Report on Form 8-K, filed with the SEC on August 23, 2006;

our Current Report on Form 8-K/A, filed with the SEC on August 24, 2006;

our Current Report on Form 8-K filed with the SEC on August 28, 2006;

our Current Report on Form 8-K filed with the SEC on September 19, 2006;

our Current Report on Form 8-K filed with the SEC on September 26, 2006;

our Current Report on Form 8-K filed with the SEC on October 20, 2006;

our Current Report on Form 8-K filed with the SEC on November 6, 2006;

our Current Report on Form 8-K filed with the SEC on November 9, 2006; and

our Current Report on Form 8-K filed with the SEC on November 30, 2006.

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Any statement contained in a document incorporated or deemed to be incorporated by reference in this prospectus is modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded does not, except as so modified or superseded, constitute a part of this prospectus.

You may request a copy of these filings, at no cost, by written or oral request made to us at the following address or telephone number:

Exide Technologies
13000 Deerfield Parkway
Building 200
Alpharetta, GA 30004
(678) 566-9000
Attention: Corporate Secretary

AVAILABLE INFORMATION

We file annual, quarterly and current reports, prospectus and other information with the SEC. You may read and copy any materials that we file with the SEC at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. Please call the SEC at 1-800-SEC-0330 for more information about the operation of the public reference rooms. The SEC also maintains an internet website, at <http://www.sec.gov>, that contains our filed reports, proxy and information statements and other information that we file electronically with the SEC. Additionally, we make these filings available, free of charge, on our website at www.exide.com as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC. The information on our website, other than these filings, is not, and should not be, considered part of this prospectus and is not incorporated by reference into this document.